



SINO BIOPHARMACEUTICAL LIMITED
中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)



LISTING ON THE GROWTH ENTERPRISE MARKET
OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Placing

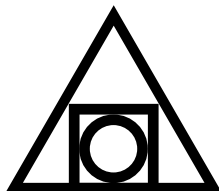
Sponsor and Lead Manager



DBS ASIA CAPITAL LIMITED

IMPORTANT

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



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BY WAY OF PLACING

**Number of Placing Shares : 60,000,000 Shares (subject to
Over-allotment Option)**

Issue Price : HK\$1.20 per Placing Share

Nominal value : HK\$0.10 each

GEM stock code : 8027

Sponsor and Lead Manager



DBS ASIA CAPITAL LIMITED

Co-Managers

JS Cresvale International Limited

First Shanghai Capital Limited

Celestial Securities Limited

The Stock Exchange of Hong Kong Limited and the Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, 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 prospectus.

A copy of this prospectus, together with the documents specified under "Documents delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

22 September, 2000

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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 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.

EXPECTED TIMETABLE

Allocation to placees on.	27 September, 2000
Announcement of the results of the Placing to be published on the GEM Website on or before	28 September, 2000
Share certificates available on or before (<i>Note 2</i>)	28 September, 2000
Dealings in the Shares on GEM to commence on	29 September, 2000

Notes:—

1. All times refer to Hong Kong local times.
2. The Share certificate(s) is/are expected to be issued in the name of HKSCC Nominees Limited and deposited into CCASS on 28 September, 2000 for credit to the respective CCASS participants' accounts of the placees. No temporary document of title will be issued.

Particulars of the Placing, including the conditions thereto, are set forth in the section headed "Structure and conditions of the Placing" in this prospectus.

If there is any change in the above timetable, the Company will issue an announcement separately.

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You should rely only on the information contained in this prospectus to make your investment decision.

Sino Biopharmaceutical Limited has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by Sino Biopharmaceutical Limited, DBS Asia, other Underwriters, the directors of any of them, or any other parties involved in the Placing.

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Champion First”	Champion First Investments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“China Qingchunbao”	China (Hangzhou) Qingchunbao Group Co. (中國(杭州)青春寶集團公司), a state-owned enterprise established under the laws of the PRC
“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
“Companies Law”	the Companies Law (2000 Revision) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“CTF”	Shandong Chia Tai Freda Pharmaceutical Co., Ltd. (山東正大福瑞達製藥有限公司), a sino-foreign equity joint venture company incorporated in the PRC, the registered capital of which is held as to 55 per cent. by Sino Technology, 40 per cent. by Shandong Biopharmaceutical and 5 per cent. by FII
“CTH”	Chia Tai Health Products Company Limited (正大健康產品有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of Golden News
“CTL”	Chia Tai Pharmaceutical (Lianyungang) Company Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“CTPM”	Chia Tai Pharmaceutical & Medicines Limited, a company incorporated in the British Virgin Islands and previously the holding company of certain companies in the Group
“CTQ”	Chia Tai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司), a sino-foreign equity joint venture company incorporated in the PRC, the registered capital of which is held as to 60 per cent. by CTH, 20 per cent. by China Qingchunbao and 20 per cent. by Hangzhou City Chia Tai Qingchunbao Staff Stock Fund (杭州市正大青春寶職工持股協會)

DEFINITIONS

“CTT”	Lianyungang Chiatai-Tianqing Pharmaceutical Co., Ltd. (連雲港正大天晴製藥有限公司), a sino-foreign equity joint venture company incorporated in the PRC, the registered capital of which is held as to 60 per cent. by CTL and 40 per cent. by Jiangsu Tianqing
“DBS Asia”	DBS Asia Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and a GEM approved sponsor
“Directors”	the directors of the Company
“FDA”	the Food and Drug Administration of the U.S.
“FII”	Freda International Inc. of America (美國福瑞達國際公司), a company incorporated in the U.S.
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“GEM Website”	the website operated by GEM with the domain name of www.hkgem.com
“GMP”	Good Manufacturing Practice, the practices and regulations issued by SDA in respect of quality of the pharmaceutical production industry
“Golden News”	Golden News Enterprises Limited, a company incorporated in the British Virgin Islands and owned as to 91.67 per cent. by a wholly-owned subsidiary of SIIC Medical and 8.33 per cent. by Champion First
“Group”	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the companies which are the present subsidiaries of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“IMS”	International Marketing Services Inc., a U.S. based information provider for various industries
“Initial Management Shareholders”	the initial management shareholders of the Company as described in the section headed “Substantial shareholders, Initial Management Shareholders and significant shareholders” in this prospectus

DEFINITIONS

“Issue Price”	the price of HK\$1.20 per Placing Share
“Jiangsu Tianqing”	Jiangsu Tianqing Pharmaceutical Company (Lianyungang) (江蘇天晴製藥總廠 (連雲港)), a state-owned enterprise established in the PRC and a PRC joint venture partner in CTT
“Latest Practicable Date”	15 September, 2000, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“MPH”	the Ministry of Public Health of the PRC (中華人民共和國衛生部)
“Over-allotment Option”	the option granted by the Company to the Underwriters pursuant to the Underwriting Agreement exercisable by DBS Asia (on behalf of the Underwriters), pursuant to which the Company may be required to issue up to an aggregate of 9,000,000 additional new Shares at the Issue Price to cover over-allocation in the Placing, if any
“Placing”	the conditional placing of the Placing Shares for cash at the Issue Price with professional, institutional and individual investors by the Underwriters on behalf of the Company on and subject to the terms and conditions contained in the Underwriting Agreement, as described in the sections headed “Underwriting” and “Structure and conditions of the Placing” in this prospectus
“Placing Shares”	60,000,000 new Shares initially being offered by the Company for subscription under the Placing, together with, if the Over-allotment Option is exercised, up to 9,000,000 additional new Shares which may be issued pursuant to the exercise of the Over-allotment Option
“PRC”	the People’s Republic of China, which, for the purpose of this prospectus and for geographical reference only, does not include Hong Kong, the Macau Special Administrative Region of the People’s Republic of China or Taiwan
“Reorganisation”	the corporate reorganisation undergone by the Group shortly prior to the date of this prospectus, particulars of which are set forth under “Corporate reorganisation” in Appendix V to this prospectus
“SATCM”	the State Administration of Traditional Chinese Medicine of the PRC (中國國家中醫藥管理局)
“SDA”	the State Drug Administration of the PRC (中國國家藥品監督管理局)

DEFINITIONS

“SETC”	the State Economic and Trade Commission of the PRC (中國國家經濟貿易委員會)
“SFC”	the Securities and Futures Commission in Hong Kong
“Shandong Biopharmaceutical”	Shandong Biochemical Pharmaceutical Co. (山東省生化藥品公司), a state-owned enterprise established in the PRC and a PRC joint venture partner in CTF
“Shandong Research Institute”	Shandong Biopharmaceutical Research Institute (山東省生物藥物研究所), a biopharmaceutical research laboratory in the Shandong Province, the PRC
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 19 September, 2000, the principal terms of which are summarised under “Share Option Scheme” in Appendix V to this prospectus
“Shares”	shares of HK\$0.10 each in the share capital of the Company
“SIIC Medical”	SIIC Medical Science and Technology (Group) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM
“Sino Technology”	Sino Concept Technology Limited (中外科技有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the two years ended 31 December, 1999 and the five months ended 31 May, 2000
“Underwriters”	DBS Asia Capital Limited, JS Cresvale International Limited, First Shanghai Capital Limited and Celestial Securities Limited
“Underwriting Agreement”	the underwriting agreement dated 21 September, 2000 entered into between, among others, the Company and the Underwriters in respect of the underwriting for the Placing Shares
“WTO”	World Trade Organisation
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“U.S.” or “United States”	the United States of America

DEFINITIONS

“US\$”	U.S. dollars, the lawful currency of the U.S.
“sq.ft.”	square feet
“sq.m.”	square metres
“m ³ ”	cubic metres

Unless otherwise specified in this prospectus, amounts denominated in US\$ and RMB have been translated, for the purpose of illustration only, into Hong Kong dollars as follows:—

HK\$1 = RMB1.06

US\$1 = HK\$7.78

No representation is made that any amounts in RMB, US\$ or HK\$ could have been or could be converted at the above rates or at any other rates or at all.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. The terminology and their meanings may not correspond to standard industry meanings or usage of those terms:—

“biopharmaceutical(s)”	pharmaceutical(s) produced by biotechnological processes, including biochemical medicines and biological products
“biotechnology”	application of organisms, biological systems or biological processes to the production and service industries, including genetic engineering, cell engineering, enzymatic engineering and fermentation engineering
“B2B”	an e-commerce model whereby businesses transact with other businesses on-line
“B2C”	an e-commerce model whereby businesses transact with consumers on-line
“e-commerce”	electronic commerce utilising the Internet
“elastoviscosity”	the rheological (physical) property of a solution which indicates the degree of viscosity, but also, depending on the nature of the mechanical stress to which it is exposed, the elastic property exhibited by a solution
“genetic engineering”	a general term covering the use of molecular genetic techniques to produce novel DNA molecules by reorganising combinations of genes, usually for insertion into a host cell for cloning
“hyaluronan” or “HA”	also called hyaluronic acid or hyaluronate, is a polysaccharide made up of two repeating monosaccharide units (N-acetylglucosamine and N-glucuronate) present in the intercellular matrix of nearly all connective tissues. Its large molecular mass, volume and configuration provide solutions with extremely high elastoviscous properties. An important biological function of hyaluronan is its elastoviscosity as it relates to its lubrication, separation and stabilisation of the intercellular matrix, and the elastic properties it provides to some tissues
“Internet”	the world’s largest network of connected computers
“low molecular heparin”	sodium heparin with low molecular weight having the biological functions of anti-coagulation, anti-thrombus and anti-inflammation
“modernised Chinese medicine”	various dosage forms (injections, capsules, tablets and oral liquids, etc.) of medicine produced by modern technologies and chemical medicine dosage methods based on prescriptions of Chinese medicine
“non-prescription drugs”	drugs which can be safely consumed by users in accordance with the drugs’ labels and instructions, the purchase of which does not require any doctor’s prescription

GLOSSARY OF TECHNICAL TERMS

- “prescription drugs” drugs which are normally available for purchase and consumption only on a doctor’s prescription
- “TCM” acronym for “traditional Chinese medicine”, a term used to describe traditional preparations of Chinese medicine, such as pill, powder, extract and ointment, *dan* (丹), etc., which are produced according to Chinese medicine prescriptions
- “website” a group of files identified by their addresses on the Internet capable of being downloaded by a browser

SUMMARY

This summary aims to provide you an overview of the information contained in this prospectus. As a summary, it may not contain all information that may be regarded as important by you. You should read the whole document prior to making a decision to invest in the Placing Shares.

There are risks associated with investment in companies listed on GEM. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors". You should read that section carefully prior to making a decision to invest in the Company.

BUSINESS

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 through CTF and (ii) a series of modernised Chinese medicines and chemical medicines for the medical treatment of hepatitis through CTT. CTF and CTT are sino-foreign equity joint venture companies, of which the Company holds 55 per cent. and 60 per cent. equity interests, respectively. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, approximately 36 per cent., approximately 40 per cent. and approximately 43 per cent., respectively, of the Group's total sales were derived from the biopharmaceutical business of CTF, whereas approximately 64 per cent., approximately 60 per cent. and approximately 57 per cent. of the Group's total sales were derived from the modernised Chinese medicine and chemical medicine businesses of CTT.

The principal business of CTF

CTF is principally engaged in the research and development, production and sale of biopharmaceutical products for the medical treatment of ophthalmia. According to the PRC Biopharmaceutical Economy Statistics Report of 1999, CTF was one of the largest biopharmaceutical producers in the PRC by production volume, the third largest by total sales and the second most profitable biopharmaceuticals company in the PRC.

With its production facilities in Jinan, Shandong Province, the PRC, CTF currently produces 10 different biopharmaceutical products, all of which use hyaluronan (透明質酸) as substrates. Hyaluronan, consisting of big polysaccharide molecule (黏多糖類大分子), is a natural moisturising agent with a high degree of adhesion. Eye drops and injections using hyaluronan as substrates have a higher degree of adhesion and slower dilution than traditional eye drops and injections.

CTF was the first enterprise to be given approval to research and produce ophthalmic medicine using hyaluronan in the PRC. The Directors believe that CTF has expertise in researching and developing the medical applications of hyaluronan in the PRC.

One of the principal products of CTF is Moisten eyedrops (潤舒滴眼液), which is used primarily for treating eye diseases such as xerophthalmia (乾眼症), trachomatous conjunctivitis (結膜炎), trachoma (沙眼) and keratitis (角膜炎). According to the "PRC Non-prescription drugs Survey — 1999", Moisten eyedrops was ranked one of the top ten medical products in terms of sales in the retail medicines system. According to the "PRC Pharmaceutical Retail Analysis System Report" ("中國藥品零售分析系統報告") issued in August, 1999, Moisten eyedrops was also ranked first in terms of sales among retail medicines for eye, ear, nose and throat diseases in the PRC. Since the

SUMMARY

introduction into the PRC market, the sales of Moisten eyedrops have grown at an average annual rate of approximately 121 per cent. between 1995 and 1999. For the year ended 31 December, 1999, the sales of Moisten eyedrops reached approximately HK\$84.3 million. In 1998, the sales of ophthalmic medicines produced by CTF accounted for approximately 6 per cent. of the total sales of ophthalmic medicine in the PRC.

The production approval (魯衛藥准字 (93) 1236-127) for Moisten eyedrops was first granted by the Public Health Department of Shandong Province in 1993. The sales of Moisten eyedrops accounted for approximately 71 per cent., approximately 68 per cent. and approximately 65 per cent. of the total sales of CTF, and approximately 25 per cent., approximately 28 per cent. and approximately 28 per cent. of the total sales of the Group, for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, respectively.

The six ophthalmic medicines produced by CTF, including Moisten eyedrops, have patent registrations in the PRC, and all chloromycetin eyedrops containing hyaluronan produced by CTF and their production methods are also patented. The Directors believe that CTF possesses significant competitive advantages in research and development of ophthalmic medicines. Going forward, the Directors expect the demand for Moisten eyedrops will experience significant growth in the PRC as the product is more effective than traditional eyedrops, and its price is generally lower than that of imported products.

The principal business of CTT

With its production facilities in Lianyungang, Jiangsu Province, the PRC, CTT currently produces approximately 80 different types of modernised Chinese medicine and chemical medicine. The principal products of CTT are Diammonii Glycyrrhizinatis (甘利欣) and Polyporus Polysaccharide Injection (豬苓多糖注射劑), which are used in the medical treatment of hepatitis. According to “The PRC Health Yearbook 1999” the PRC has approximately 120 million hepatitis B virus carriers and hepatitis B and C virus patients reached approximately 75 million as at 31 December, 1999. The total amount of medical expenses incurred by hepatitis patients in the PRC in each year was between approximately RMB30 and 50 billion.

CTT has been certified by the Research Institute of the Scientific Development of Public Health and Pharmaceutical of the MPH as the first pharmaceutical enterprise in the PRC to apply licorice (甘草) in the research and production of modernised Chinese medicine for treating hepatitis. Its product, Diammonii Glycyrrhizinatis, was certified as the premier licorice medicine for the medical treatment of hepatitis. The functions of Diammonii Glycyrrhizinatis include anti-inflammation, protection of membranes of liver cells and enhancement of liver functions. The chemical ingredients for making Diammonii Glycyrrhizinatis are extracted and separated from licorices using botanical-chemical method, and alpha licorice acid, which is highly effective in treating hepatitis, is subsequently obtained from these chemical ingredients. Alpha licorice acid has the characteristics of high activation, high lipotropism and easy assimilation by the human body. Through its research and development, CTT has produced Diammonii Glycyrrhizinatis in the form of injections and capsules, which are included in the State Basic Pharmaceuticals Catalogue. The medicine approval certificates ((94) 衛藥准字 x-74號 and (94) 衛藥准字 x-75號) for Diammonii Glycyrrhizinatis were granted by MPH in 1994.

SUMMARY

Polyporuse Polysaccharide injection, also a modernised Chinese medicine, is CTT's other product. It is produced by the extraction of polysaccharide (多糖類成份) from umbellate pore fungus (豬苓), a Chinese herbal medicine. Polyporuse Polysaccharide injection received production approval (蘇衛藥准字 (91) 1857-1) from the Public Health Department of Jiangsu Province, the PRC in 1991, and is classified as a Class 2 state protected Chinese medicine. The Directors believe that CTT has secured a leading position in the research and production of Chinese medicine for the treatment of hepatitis.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the aggregate sales of Diammonii Glycyrrhizinatis injection, Diammonii Glycyrrhizinatis capsule and Polyporuse Polysaccharide injection accounted for approximately 56 per cent., approximately 68 per cent. and approximately 71 per cent. of the sales of CTT and approximately 36 per cent., approximately 41 per cent. and approximately 41 per cent. of the total sales of the Group, respectively.

COMPETITIVE ADVANTAGES

The Directors believe that the Group's competitive advantages are as follows:—

- the Group's operations have achieved economies of scale and the Group's products for ophthalmia, such as Moistening eye drops, and modernised Chinese medicine for hepatitis treatment, such as Diammonii Glycyrrhizinatis and Polyporuse Polysaccharide injections, are well established in the market. These products provide a solid foundation for the future business development of the Group;
- the Group's research and development team and its long-standing research and development relationship with Shandong Research Institute have enabled it to command a leading position in the PRC in the research and development of the medical applications of hyaluronan. Particulars of the arrangement and information regarding Shandong Research Institute are set forth in the section headed "Relationship with Shandong Biopharmaceutical and Jiangsu Tianqing" in this prospectus;
- the Group's research and development personnel, and its technologies and production facilities for conducting extraction, separation, purification and preparation of Chinese herbal medicine have enabled it to enjoy considerable advantages in the modernisation of TCM production in the PRC;
- the Group has a leading position in the PRC in the development and production of modernised Chinese medicine using alpha licorice acid for the medical treatment of hepatitis;
- the Group's patent in respect of the production methods of chloramphenicol eye drops containing hyaluronan has consolidated its competitive advantage in the PRC ophthalmic medicine market;
- the Group's experience in the research and development of biopharmaceuticals and modernised Chinese medicine has enabled it to enhance and improve the production process and quality control of the Group's new products;
- the Group's principal products have obtained GMP certification;

SUMMARY

- the Directors and the senior management of the Group are experienced in different fields of research, development, production, marketing and corporate management in the pharmaceutical industry in the PRC; and
- the wide reach of the Group's existing distribution networks.

BUSINESS STRATEGY

The business strategy of the Group is to promote the use of biopharmaceutical medicine in the PRC and enhance the modernisation process of TCM to bring about further growth in the core business of the Group. The Directors are of the opinion that the medicine industry in the PRC possesses high growth potential. To capitalise on this growth, the Group intends to adopt the following principal business strategies:—

- **Focus on the development of biopharmaceutical products and modernised Chinese medicine**

The Directors believe that the Group possesses expertise in using hyaluronan and low molecular heparin in the research, development and production of biopharmaceutical products in the PRC and has experience in extraction, separation and synthesis of medicinal ingredients in Chinese herbal materials and, in particular, applying alpha licorice acid in the production of modernised Chinese medicine for the treatment of hepatitis. The Group will continue to focus on developing these products.

- **Expand through mergers, acquisitions, cooperative arrangements, strategic alliances and joint ventures**

The Group will continue to seek suitable investment candidates and business partnerships, including strategic alliances with foreign and PRC-based pharmaceutical companies in order to further expand and strengthen its core business.

- **Further expand production capacity and research and development capabilities to meet the increasing demand in the PRC**

The Directors intend to further expand production capacity and its research and development capabilities to further strengthen the competitive advantages currently enjoyed by the Group. It is also one of the business objectives of the Group to further develop new products in order to meet the increasing demand in the PRC, in particular, the needs of the aging population.

- **Further expand distribution networks and sales teams and strengthen the brandnames through promotional activities**

The Directors believe that, in view of the vast geographical span and population in the PRC, it is feasible for the Group to further expand its existing distribution networks and sales outlets from its present coverage to regional cities and rural areas in the PRC.

SUMMARY

— **Further enhance and refine production technologies and facilities**

The Directors intend to improve the Group's product quality by upgrading its production technologies and facilities and intend to actively seek certification of its products by international organisations to ensure international standards are achieved. This will facilitate expansion into overseas markets.

— **Diversify into new realms of the biopharmaceuticals sectors**

The Directors believe that the biopharmaceuticals industry in the PRC is still in its infancy. The development in genetic technology is expected to improve the treatment and the prevention of genetic diseases and stimulate the development of biopharmaceutical products. The Group will seek to cooperate with enterprises which possess advanced genetic technology and/or acquire proprietary technologies.

— **Establish the Group's website with the medium-term objective of engaging in e-commerce**

The Directors plan to establish a website to enhance the core businesses of the Group. Initially, the website will be used to advertise the Group's products and to gauge market demand. The medium-term objective is to develop the website into a sales channel and an e-commerce platform for the Group's products.

SUMMARY

BUSINESS OBJECTIVES

The Directors intend to build on the competitive advantages of the Group in its two core businesses in the PRC market and to become a leading producer of ophthalmic biopharmaceuticals and modernised Chinese medicine for the medical treatment of hepatitis.

The chart below illustrates business objectives and the implementation plans of the Group for each of the five consecutive six-month periods from the Latest Practicable Date to 31 December, 2002:—

Principal business activities	Implementation plans	From the Latest Practicable Date to 31 December, 2000	For the six months ending			
			30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002
Research and development	<p>Establish a research and development centre in Beijing</p> <p>Product research and development activities carried out by CTF</p> <p>Product research and development activities carried out by CTT</p>	○	□		△	~~~~~
Production of biopharmaceutical products	<p>Establish business alliances with pharmaceutical enterprises in the fields of biopharmaceutical, Chinese medicine and/or natural herbal products</p> <p>Expand existing business</p>	○	□		△	~~~~~
Marketing and sales	<p>Expand and consolidate distribution networks</p> <p>Establish website of the Group and e-commerce activities</p>	○	□		△	~~~~~
		○	□		△	~~~~~

Keys: ○ preparation stage □ implementation stage △ initial completion stage ~~~~ on-going development

SUMMARY

RISK FACTORS

The Directors are of the opinion that there are certain risks involved in investing in the Company. These risks can be divided into: (i) risks relating to the business of the Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; (iv) risks relating to the Shares; and (v) issues to consider in relation to certain statements made in this prospectus, details of which are set out under the section headed “Risk factors” in this prospectus:—

Risks relating to the business of the Group

- Funding requirements for the implementation of the business objectives of the Group
- Reliance on the PRC market
- Dependence on joint venture partners
- Competing businesses of the controlling shareholder of the Company
- Permits and business licenses required in the production and/or trading of biopharmaceutical products in the PRC
- Good Manufacturing Practice
- Reliance on certain suppliers
- Fluctuations in prices of raw materials
- Land ownership
- Preferential tax treatment
- Product concentration
- Dividend policy
- Research and development risk
- Imitation of medicines
- Risks with the use of Internet as a means of conducting business
- Implementations of the Group’s strategies in achieving its business objectives
- Product liability insurance

Risks relating to the industry

- Medicare reforms in the PRC
- Product protection
- Product substitution
- Competition
- Price controls
- WTO

SUMMARY

Risks relating to the PRC

- Economic considerations
- Political and social considerations
- Legal considerations
- Currency conversion and foreign exchange control

Risks relating to the Shares

- Protection of the interests of minority shareholders under the laws of the Cayman Islands
- Liquidity and possible price volatility of the Shares
- Control by the Initial Management Shareholders

Issues to consider in relation to certain statements made in this prospectus

- Forward-looking statements contained in this prospectus

SUMMARY

TRADING RECORD

The SFC has granted a waiver from strict compliance with paragraph 27 of Part I of the Third Schedule and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance so that the Group is only required to include in this prospectus the financial results and information covering the two years ended 31 December, 1999 and the five months ended 31 May, 2000.

The following is a summary of the combined results of the Group for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000. This summary has been prepared on the basis that the existing structure of the Group had been in place throughout the Track Record Period and should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	Year ended 31 December,		Five months ended 31 May,
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover (<i>Note 1</i>)	237,972	305,776	151,227
Cost of sales	(74,080)	(82,161)	(31,870)
Gross profit	163,892	223,615	119,357
Less: Selling expenses	(84,114)	(112,838)	(59,754)
Administrative expenses	(36,147)	(44,698)	(18,511)
Finance charges	(4,400)	(3,721)	(1,176)
Other (expenses)/income	(331)	(1,825)	59
Add: Interest income	1,000	881	832
Profit before taxation	39,900	61,414	40,807
Taxation	—	(2,611)	(3,577)
Profit before minority interests	39,900	58,803	37,230
Minority interests	(17,796)	(22,969)	(15,752)
Profit attributable to shareholders	22,104	35,834	21,478
Dividends	—	24,820	—
Earnings per Share — Basic (<i>Note 2</i>)	HK9.2 cents	HK14.9 cents	HK8.9 cents

Notes:—

1. Turnover represents the invoiced value of goods sold, net of discounts and returns, sales tax refunds and dividend income.
2. The calculation of the basic earnings per Share is based on the net profit attributable to shareholders during the Track Record Period and on the assumption that 240,000,000 shares had been in issue throughout the Track Record Period.

SUMMARY

USE OF PROCEEDS

The net proceeds from the Placing, after deducting related expenses, are estimated to be approximately HK\$60 million. The Directors presently intend to use such net proceeds as follows:—

	From the Latest Practicable Date to 31 December, 2000	Six months ending				Total
	30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002		
For the research and development activities including the establishment of a research and development centre in Beijing	5.0	3.0	2.0	3.0	2.0	15.0
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceutical, Chinese medicine and/or natural herbal products	—	10.0	10.0	—	—	20.0
For the expansion of the distribution networks of the Group	5.0	5.0	—	—	—	10.0
For the establishment of the Group's website and commencement of e-commerce	1.0	0.5	0.5	0.5	0.5	3.0
General working capital	4.0	2.0	2.0	2.0	2.0	12.0
	<u>15.0</u>	<u>20.5</u>	<u>14.5</u>	<u>5.5</u>	<u>4.5</u>	<u>60.0</u>

In the event that the Over-allotment Option is exercised in full and based on the Issue Price, the additional net proceeds of approximately HK\$10.8 million will be applied by the Company for general working capital of the Group to support its ongoing operations and expansion.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that such proceeds should be placed on short-term deposits with banks or financial institutions in Hong Kong.

The Directors believe that the net proceeds from the Placing will not be sufficient to finance all planned and/or intended projects of the Group as described in the section headed “Statement of business objectives” in this prospectus. The Directors currently estimate that an additional funding of no more than approximately HK\$85.8 million may be required to achieve all the business objectives of the Group up to 31 December, 2002 including, in particular, the expansion of the production facilities of CTF and CTT, subject to the achievement of all other respects of the business plans of the Group and the same bases and assumptions as stated in the section headed “Statement of business objectives” in this prospectus. The Directors believe that the Group will be able to satisfy such additional funding requirements through internally generated financial resources and banking facilities. In the event that there is any material change in the use of proceeds from the Placing, the Company will make a separate announcement.

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER, 2000

Forecast combined profit after taxation and minority interests

but before extraordinary items (*Note 1*) not less than HK\$39 million

Forecast earnings per Share

(a) pro forma fully diluted (*Note 2*) HK14.0 cents

(b) weighted average (*Note 3*) HK15.2 cents

Notes:—

1. The bases and assumptions on which the forecast combined profit after taxation and minority interests but before extraordinary items of the Group has been prepared are set forth in Appendix II to this prospectus. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December, 2000.
2. The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December, 2000 assuming that the Company had been listed since 1 January, 2000 and a total of 300,000,000 Shares had been in issue throughout the year. The calculation does not take into account any Shares that may be allotted and issued pursuant to the Over-allotment Option or of any options which may be granted pursuant to the Share Option Scheme. If the Over-allotment Option is exercised in full, the number of Shares expected to be in issue would be 309,000,000 Shares and the forecast pro forma fully diluted earnings per Share would be HK13.8 cents.

For the purpose of this calculation, the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December, 2000 has been adjusted to take into account the interest income that would have been earned if the net proceeds of the Placing had been received on 1 January, 2000 and held on deposit thereafter, based on an interest rate (net of tax) of 5.0 per cent. per annum for the whole year.

3. The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December, 2000 and the weighted average number of 255,737,705 Shares expected to be in issue during that year.

SUMMARY

PLACING STATISTICS *(Note 1)*

Market capitalisation *(Note 2)*.HK\$360 million

Prospective price/earnings multiple

(a) pro forma fully diluted *(Note 3)* 8.57 times

(b) weighted average *(Note 4)* 7.9 times

Adjusted net tangible asset value per Share *(Note 5)* HK63 cents

Notes:—

1. Except where otherwise indicated, the statistics have been prepared on the assumption that no Shares will be allotted and issued pursuant to the Over-allotment Option or of any option which may be granted pursuant to the Share Option Scheme.
2. The calculation of market capitalisation of the Company is based on the Issue Price and 300,000,000 Shares in issue immediately after completion of the Placing but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options granted pursuant to the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the mandates referred to in Appendix V to this prospectus. If the Over-allotment Option is exercised in full, the market capitalisation of the Company at the Issue Price would be approximately HK\$370.8 million.
3. The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma fully diluted basis for the year ending 31 December, 2000 of approximately HK14.0 cents and the Issue Price.
4. The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis of the year ending 31 December, 2000 of approximately HK15.2 cents and the Issue Price.
5. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to under “Adjusted net tangible assets” in the section headed “Financial Information” in this prospectus and on the basis of 300,000,000 Shares in issue and to be issued as mentioned herein, but takes no account of any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or the options granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors referred to in the paragraph headed “Written resolutions of the sole shareholder of the Company passed on 20 June, 2000 and 19 September, 2000” in the section headed “Further Information about the Company” in Appendix V to this prospectus.

If the Over-allotment Option is exercised in full or in part, the adjusted net asset value per Share will increase, whilst the earnings per Share will be diluted correspondingly.

SUMMARY

MORATORIUM PERIOD APPLICABLE TO THE INITIAL MANAGEMENT SHAREHOLDERS

Name of the Initial Management Shareholders	Number of Shares or attributable number of Shares held immediately after the Placing	Approximate percentage of shareholding or attributable percentage of shareholding immediately after the Placing <i>(Note 3)</i>	Moratorium period from the date on which dealings in the Shares on GEM commence <i>(Note 4)</i>
Conspicuous Group Limited <i>(Note 1)</i>	108,000,000	36.00	6 months
Remarkable Industries Limited <i>(Note 1)</i>	57,317,760	19.11	6 months
Validated Profits Limited <i>(Note 1)</i>	65,802,240	21.93	6 months
Discover Profits Limited <i>(Note 2)</i>	8,880,000	2.96	6 months

Notes:—

1. 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 the chairman of the Group and an executive Director.
2. Discover Profits Limited is an investment holding company wholly owned by Mr. Wang Jinyu who is an executive Director.
3. Assuming that the options granted or to be granted under the Over-allotment Option and the Share Option Scheme are not exercised.
4. Each of Mr. Tse Ping, Mr. Wang Jinyu, Conspicuous Group Limited, Remarkable Industries Limited, Validated Profits Limited and Discover Profits Limited, being the Initial Management Shareholders, has undertaken with the Stock Exchange, the Company and DBS Asia (acting on behalf of the Underwriters) that it/he will not dispose of any of its/his direct or indirect interests in the Shares held by it/him immediately following completion of the Placing during the 6 months following commencement of dealings in the Shares on GEM.

Each of Mr. Tse Ping, Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited has further undertaken to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that he/it shall not dispose of any of his or its direct or indirect interests in the Company which would result in the aggregate number of Shares held by them falling below 35 per cent. of the issued share capital of the Company during a period of six months immediately after the first six month period after dealings in the Shares on GEM commence. Particulars of the undertakings are set out in the section headed “Undertakings given by Initial Management Shareholders” in this prospectus.

Particulars of the waiver granted by the Stock Exchange are set forth in the section headed “Waivers from strict compliance with the GEM Listing Rules and the Companies Ordinance” in this prospectus.

SUMMARY

SHAREHOLDERS OF THE COMPANY FOLLOWING COMPLETION OF THE REORGANISATION

Particulars of the Reorganisation are set forth in Appendix V to this prospectus. As a result of the Reorganisation, the existing shareholders' interests in the Company immediately following completion of the Placing (assuming that the options granted or to be granted pursuant to the Over-allotment Option and under the Share Options Scheme are not exercised) are summarised as follows:—

Name of shareholders	Number of Shares held immediately after the Placing	Approximate percentage of shareholding immediately after the Placing <i>(Note 3)</i>	Approximate cost of investment per Share <i>HK\$ cents</i>	Approximate total cost of investment <i>(Note 4)</i> <i>HK\$</i>
Conspicuous Group Limited <i>(Note 1)</i>	108,000,000	36.00	33.15	35,796,207.63
Remarkable Industries Limited <i>(Note 1)</i>	57,317,760	19.11	33.15	18,997,763.32
Validated Profits Limited <i>(Note 1)</i>	65,802,240	21.93	33.15	21,809,913.39
Discover Profits Limited <i>(Note 2)</i>	8,880,000	2.96	0.01	909.00

Notes:—

1. Each of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited is an investment holding company and is wholly owned by Mr. Tse Ping who is the chairman of the Group and an executive Director.
2. Discover Profits Limited is an investment holding company and is wholly owned by Mr. Wang Jinyu who is an executive Director.
3. Assuming that the options granted or to be granted pursuant to the Over-allotment Option or under the Share Option Scheme are not exercised.
4. This represents the actual amount of consideration paid by each of the shareholders of the Company for their respective interests in the Group prior to the Reorganisation.

RISK FACTORS

Prospective investors for the Shares should consider carefully all of the information set out in this prospectus and, in particular, the following risk factors in connection with an investment in the Company. The information in this prospectus includes forward-looking statements, which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the "Risk Factors" and "General Overview of the Group" sections and elsewhere in this prospectus.

RISKS RELATING TO THE BUSINESS OF GROUP

Funding requirements for the implementation of the business objectives of the Group

The Group's business plans are set forth in the section headed "Statement of business objectives" in this prospectus. Taking into account the net proceeds from the Placing and the estimated cash flow generated from the business of the Group, the Directors believe that the Group will have sufficient funds to meet its present working capital requirements. However, according to the business plans of the Group, the Directors estimate that an additional funding of approximately HK\$85.8 million may be required to achieve all the business objectives of the Group up to 31 December, 2002, including, in particular, the expansion of the production facilities of CTF and CTT, subject to the achievement of all other respects of the business plans of the Group and the same bases and assumptions as stated in the section headed "Statement of business objectives" in this prospectus. The Directors anticipate that the Group will be able to satisfy such additional funding requirements through internally generated financial resources and banking facilities.

Nevertheless, there is no assurance that the Group will be able to obtain sufficient funds as anticipated by the Directors. In addition, if the business objectives and the business plans of the Group do not materialise as planned, the working capital of the Group could be adversely affected.

Reliance on the PRC market

During each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, sales of the Group's products in the PRC (before sales discount) accounted for approximately 98 per cent., approximately 98 per cent. and approximately 98 per cent. of the total turnover of the Group, respectively. The Directors anticipate that the sales of the Group's products in the PRC will continue to represent a significant proportion of the Group's total turnover in the near future. In this connection, the Group is exposed to changes in economic, political and social conditions in the PRC as well as changes in the domestic demands for the Group's products in the PRC. There is no assurance that such changes will not adversely affect the performance and the profitability of the Group.

Dependence on joint venture partners

The Group's operations are mainly carried out through CTF and CTT, in which the Group has 55 per cent. and 60 per cent. equity interest through Sino Technology and CTL, respectively. The Company is able to exercise control on the board of directors and management of each of these two

RISK FACTORS

equity joint ventures companies. However, there is no assurance that any disagreements or disputes which could arise between the Company and the joint venture partners of these two equity joint venture companies would not hinder the smooth operation of the Group's business.

As at 31 July, 2000, Jiangsu Tianqing, the joint venture partner of CTT, provided guarantees for CTT's banking facilities which in aggregate amounted to HK\$18.8 million, of which HK\$14.2 million had been utilised. The guarantees provided by Jiangsu Tianqing are in the amount of HK\$14.1 million and HK\$4.7 million which will expire on 31 December, 2000 and 28 January, 2001, respectively. Should the joint venture partner cease to provide such guarantees, the Group's financial position may be adversely affected.

Competing businesses of the controlling shareholder of the Company

The controlling shareholder of the Company, Mr. Tse Ping, has interests or other investments in various pharmaceutical enterprises, including Chia Tai Pharmaceutical (Xian) Co., Limited ("CT Xian"), Ankang Chia Tai Pharmaceutical Co., Limited ("CT Ankang"), Hainan Tigerlily Pharmaceutical Co., Limited ("HTPC") and ABH Nature's Products Inc. ("ABH"). Particulars of these enterprises are set forth in the section headed "Competing businesses of the Initial Management Shareholders and non-competition undertaking" in this prospectus. CT Xian is a pharmaceutical company principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines (腸胃藥), gynaecological medicines (婦科藥) and dermatitis medicine for psoriasis (牛皮癬). CT Ankang is principally engaged in the production and distribution of medicine reducing blood-fat level, gynaecomastia medicines (乳腺病藥) and other chemical medicines. HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines. ABH is principally engaged in the re-processing of natural medicines and vitamins in the U.S.

Currently, none of the above enterprises has engaged in any business which competes, directly or indirectly, with the business of the Group. There is, however, no prohibition, regulatory or otherwise, to prevent the above enterprises from engaging in businesses which compete either directly or indirectly with the business Group. In the event that there is competition between the businesses of the Group and that of the other companies in which Mr. Tse Ping has interests and that the Group cannot compete with its own resources, the performance and the profitability of the Group could be adversely affected.

Permits and business licenses required in production and/or trading of pharmaceutical products in the PRC

Enterprises engaging in production and/or trading of pharmaceutical products in the PRC are required to obtain from relevant PRC governmental administrative authorities appropriate permits and licenses. Particulars of the relevant permits and licenses are set out in the section headed "Industry overview" in this prospectus.

Save as described below, CTF and CTT have obtained all current permits and licenses required for their respective operations. However, both CTF and CTT have to renew such permits and licenses upon their expiry, and the issuing authorities may conduct examination and assessment before

RISK FACTORS

renewal. The statutory and regulatory provisions relating to the granting of the permits and licenses, and the compliance standards in respect of such permits and licenses at the time of renewal, are subject to changes.

The “pharmaceutical production enterprise permits” of CTF and CTT expired in December and September 1999, respectively. As the original issuing authorities of the permits have been abolished and the new issuing authorities, which are the Shandong Pharmaceutical Supervision and Administration Bureau (which was established on 28 October, 1999) and the Jiangsu Pharmaceutical Supervision and Administration Bureau (which was established on 1 June, 2000), have yet to begin accepting applications, the renewal of such permits are pending and have not yet been formally approved. Pursuant to the “Notice Regarding the Renewal of Pharmaceutical Production Enterprise Permits” (關於藥品生產企業許可證換證工作的通知) and the “Notice Regarding Extension of Valid Period of Pharmaceutical Supervisory and Administrative Permits” (關於延長藥品監督管理許可證使用期限的通知) issued by SDA in June and December 1999, respectively, the above permits will continue to be valid prior to their formal renewal. Nevertheless, should the permits of any specific products of CTF and CTT not to be renewed subsequently, the operations and the financial condition of the Group may be adversely affected.

Good Manufacturing Practice

Since the last decade, the PRC government has begun to encourage pharmaceutical product producers to comply with GMP. Pursuant to the “Notice Regarding Relevant Stipulations on Implementing GMP” (關於藥品生產質量管理規範有關規定的通知) (the “Notice”) issued by SDA in 1999, producers of certain kinds of biopharmaceutical products shall comply with GMP standards within a stipulated time limit. If producers have not obtained the GMP certification within the stipulated time limit, their pharmaceutical production enterprise permit cannot be renewed. Pursuant to the Notice, powder injection (including frozen and dry), large volume injection and genetic engineering products should comply with GMP standards and obtain the GMP certification before the end of 2000. Small volume injection products should comply with GMP standards and obtain the GMP certification before the end of 2002.

CTF’s eyedrop and injection and CTT’s tablet and capsule have obtained GMP certification. CTF and CTT are in the process of implementing the GMP standards in respect of the remaining products. If the large and small volume injections are unable to comply with GMP standards by the stipulated time limits the production of the relevant products by CTT may have to cease, and this may have an adverse impact on the Group’s profitability.

The sales of such relevant products represented approximately 57 per cent. and approximately 60 per cent. of the total turnover of CTT for the year ended 31 December, 1999 and the five months ended 31 May, 2000, respectively. There is currently no guideline on the time limit to comply with GMP standards. The Group is currently developing 11 new medicines. Unless GMP certifications regarding the relevant production are obtained, CTF and CTT will not be allowed to commence the commercial production of such new medicines, which could adversely affect the business development and the profitability of the Group.

Further details regarding GMP certification of the Group’s production are set forth under “Production facility and GMP certification” in the section headed “General overview of the Group” in this prospectus.

RISK FACTORS

Reliance on certain suppliers

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, purchases from CTF's five largest suppliers accounted for approximately 42 per cent., approximately 47 per cent. and approximately 57 per cent., respectively, of CTF's total purchases and approximately 6 per cent., approximately 13 per cent. and approximately 15 per cent., respectively, of the Group's total purchases. The largest supplier accounted for approximately 16 per cent., approximately 15 per cent. and approximately 20 per cent., respectively, of CTF's total purchases and approximately 2 per cent., approximately 4 per cent. and approximately 5 per cent., respectively, of the Group's total purchases during the same periods.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, purchases from its five largest suppliers, with whom CTT has over five years of business relationship, accounted for approximately 29 per cent., approximately 40 per cent. and approximately 43 per cent., respectively, of CTT's total purchases and approximately 25 per cent., approximately 30 per cent. and approximately 31 per cent., respectively, of the Group's total purchases. The principal raw material used by CTT for production is diammonii glycyrrhizinatis, of which Xinjiang Tianshan Pharmaceutical Industrial Company (新疆天山製藥工業公司) is the single largest supplier and accounted for approximately 9 per cent., approximately 6 per cent. and approximately 14 per cent., respectively, of CTT's total purchases and approximately 8 per cent., approximately 5 per cent. and approximately 10 per cent., respectively, of the Group's total purchases during the same periods.

The five largest suppliers of CTT and CTF are separate entities and are third parties independent of the Group, the Directors and their respective associates. Should these suppliers cease their supply of the respective principal raw materials to CTF or CTT for whatever reasons and should no suitable replacement be identified in time, the Group's business and profitability could be adversely affected.

Fluctuations in prices of principal raw materials

CTT's production of modernised Chinese medicine is highly dependent upon the supplies of agricultural products or medicinal herbs, and their availability and market prices are depending on the agricultural and medical herbs harvests in each year. Therefore, the fluctuations in the quantity supplied and market prices may adversely affect the profitability of the Group.

The principal raw material used by CTF is hyaluronan. CTF purchases hyaluronan in bulk volume and then processes it into high quality hyaluronan suitable for the production of ophthalmic medicine. During the Track Record Period, the prices of low quality hyaluronan was approximately RMB10,000 per kilogram whereas the prices of premium hyaluronan remained approximately at the same level. In the event that the prices of hyaluronan increase and that CTF fails to increase the price of ophthalmic medicine due to market factors, the Group's profitability may be adversely affected.

Land ownership

All of CTT's production workshops are located in an industrial complex situated at No. 8 Julong North Road, Xinpu District, Lianyungang, Jiangsu Province, the PRC with a total area of approximately 99,270.84 sq.m. Whilst CTT has obtained the long term title to the buildings comprising the industrial complex, Jiangsu Tianqing is the grantee of the land use rights of the industrial complex.

RISK FACTORS

According to the land lease contract entered into between Jiangsu Tianqing and CTT on 1 May, 1997, Jiangsu Tianqing has agreed to lease to CTT the above mentioned land for a term of approximately 50 years until 31 December, 2046. Pursuant to such land lease contract: (i) if the PRC government makes a requisition for the land on which the industrial complex of CTT is situated which causes cessation of the production activities and relocation of the production facilities, the PRC government may compensate Jiangsu Tianqing against all economic loss incurred; and (ii) CTT may request Jiangsu Tianqing to transfer to it the sum of compensation received by Jiangsu Tianqing, and Jiangsu Tianqing shall act in accordance with such request. In addition, pursuant to the joint venture agreement dated 26 October, 1998 entered into between Jiangsu Tianqing and CTL, if the PRC government makes a requisition for the above mentioned land, CTT may be entitled to apply for another suitable piece of land and be compensated against all costs, expenses and losses incurred in relation to such relocation.

Nevertheless, there is no assurance that the relevant land lease contract is sufficient to give CTT a legal right to use the land on which the industrial complex is situated. If CTT is unable to continue to use the land and no alternative sites are available for relocation of its production facilities, CTT's production activities as well as the Group's business and profitability could be adversely affected.

In addition, CTF owns 12 residential units situated at Jinan, Shandong Province, the PRC, which are being used as staff quarters. CTF has not been granted any land use rights in respect of the 12 residential units. CTF has obtained the Housing Title Certificates for six residential units, and all of them were valued as at 31 July, 2000 by DTZ Debenham Tie Leung Limited for an aggregate value of HK\$1,900,000, and the asset value attributable to the Group as at the same date was HK\$1,045,000. No commercial value is assigned to the remaining six units without obtaining the Housing Title Certificates. According to the legal opinion issued by the PRC legal advisers to the Company, apart from completion of land granting procedure which is the responsibility of the relevant property developers, there is no legal impediment for CTF to obtain the relevant title documents. However, in the event that the property developers are unable to complete the land granting procedure and that CTF is not able to complete its title to those properties, additional expenses may be incurred by the Group to locate other premises as its staff quarters and the value of such residential units will be adversely affected.

Preferential tax treatment

The principal tax payments of CTF and CTT are the PRC corporate income tax and PRC value-added tax.

As both CTF and CTT are sino-foreign equity joint venture companies, they are entitled to a full exemption from payment of the PRC corporate income tax for the first two financial years making profit and a 50 per cent. reduction for the subsequent three financial years. Accordingly, CTF was exempt from the payment of the PRC corporate income tax in 1997 and 1998 and currently enjoys a 50 per cent. tax reduction of the PRC corporate income tax from 1999 to 2001. As CTF was classified as a "High and New Technology Enterprise" and a "Foreign Invested Advanced Technology Enterprise" by the Scientific Technology Commission of Shandong Province on 17 December, 1993 and 3 July, 1997, respectively, the applicable income tax rate was 15 per cent., and the effective tax rate for the PRC corporate income tax during this period was 7.5 per cent. As long as CTF continues to be classified as a "High and New Technology Enterprise", it will be entitled to a reduced tax rate of 15 per cent. for and after the year ending 31 December, 2002.

RISK FACTORS

CTT enjoyed its two years' tax exemption in 1998 and 1999. For the three financial years ending 31 December, 2002, CTT will be subject to the PRC corporate income tax at the rate of 12 per cent., being one-half of the applicable PRC corporate income tax rate because CTT is located in the coastal economic zone where preferential tax rate of 24 per cent. applies.

In the event that the above preferential tax treatments are cancelled or changed or that either CTF or CTT is no longer entitled to such preferential treatments, the Group's tax liability will increase which may have a negative impact on the profitability of the Group.

Product concentration

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the total sales of Moisten eyedrops accounted for approximately 71 per cent., approximately 69 per cent. and approximately 65 per cent. of the total sales of CTF respectively, and the sales of Diammonii Glycyrrhizinatis injection, Diammonii Glycyrrhizinatis capsule and Polyporuse Polysaccharide injection accounted for approximately 56 per cent., approximately 68 per cent. and approximately 71 per cent. of the total sales of CTT respectively during the same periods. The total sales of these three products accounted for approximately 61 per cent., approximately 68 per cent. and approximately 69 per cent. of the total sales of the Group during the same Period. Accordingly, the Group's total sales could be adversely affected by any downward adjustments in the sales of those products.

Dividend policy

The annual dividend paid by the Group accounted for approximately 69 per cent. of the profit attributable to shareholders for the year ended 31 December, 1999.

There is no assurance that the amount of dividend in the future will be equivalent to the dividend above mentioned. In addition, the dividend amount and the payout ratio should not be taken as reference or criteria for the determination of the amount of future dividend. Particulars of the dividend policy of the Group are contained in section headed "Financial information" in this prospectus.

Research and development risk

An important part of the Group's business strategy is to focus on the research and development of biopharmaceutical products, modernised Chinese medicine and chemical medicine. The Directors will initiate any research project only after conducting a careful feasibility study. However, there is no assurance that the research projects initiated or undertaken by the Group itself and/or the Group jointly with third parties would be completed within the anticipated timeframe or lead to any technology breakthrough, and that the results of such research projects would lead to viable commercial production. In the event that such research projects do not contribute to viable commercial production of marketable medicines, the Group's resources may be wasted and the Group's profitability may be adversely affected.

Imitation of medicines

Pursuant to Order No. 5 of the SDA regarding imitated medicine, pharmaceutical production enterprises may apply for imitation of medicines under certain conditions. Detailed information regarding these are set forth under "Imitation of medicines" in the section headed "Industry

RISK FACTORS

Overview” in this prospectus. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the sales of medicine of the Group that are not subject to any protection accounted for approximately 66 per cent., approximately 61 per cent. and approximately 59 per cent. of the total sales of the Group, respectively. In the event that those medicines produced by the Group are imitated by other pharmaceutical production enterprises, the Group’s sales and profitability could be adversely affected.

Risks with the use of Internet as a means of conducting business

One of the business strategies of the Group is to develop its website to facilitate on-line promotion, collection of information and provision of health consultation information. The Directors also intend to develop the website to facilitate on-line transactions in respect of the Group’s products. The operation of the website might be interrupted due to system failure, human error, excessive traffic, force majeure, viruses or deliberate attack. The Group might also be exposed to claims and other proceedings if the logistics of the Group fails to meet service standards or to fulfill the obligations under the contracts made with the on-line users. In addition, there is no assurance that the PRC governmental authorities to which the Group’s website are subject will not adopt new regulations addressing operations in relation to on-line trading of pharmaceuticals which may require the Group to significantly modify the plan of its future e-commerce operations. In such event, the implementation plan of the business objectives of the Group may need to change.

Implementation of the Group’s strategies in achieving its business objectives

The business plan of the Group as described in the section headed “Statement of business objectives” in this prospectus is based on circumstances currently prevailing and the bases and assumptions that certain circumstances will or will not occur, as well as the risks and uncertainties inherent in various stages of development. However, there is no assurance that the Group will be successful in implementing its strategies or that its strategies, even if implemented, will lead to successful achievement of the Group’s objectives. If the Group is not able to implement its strategies effectively, the Group’s business operations and financial performance may be adversely effected.

Product liability insurance

The Group may face claims of liability arising from the alleged harmful effects of consumption or use of its products. The Group does not maintain any insurance against liability for products sold by the Group and indirect losses arising from the termination of business as this is not a statutory requirement under the current PRC laws and regulations. There is no assurance that any product liability claim brought against the Group in respect of any of its products would not have any adverse effect on the results of the operations or the financial conditions of the Group or its occurrence would not damage the Group’s reputation.

RISKS RELATING TO THE INDUSTRY

Medicare reforms in the PRC

The growth in pharmaceutical industry in the PRC may be slowed down in short term by the social medicare reforms, as medicare expenditure incurred by employees (and their family members) of the central and municipal governments, retired civil servants and disabled veterans will not be reimbursed by the State and the removal of hospitals’ incentive to sell drugs. The Directors believe

RISK FACTORS

that the likely impact of such reform will result in a change in the structure of the distribution channel for medicine whereby hospitals will reduce their purchases for drugs which may affect the profitability of the Group.

Product protection

Four types of pharmaceutical products of the Group, i.e. Moisten eyedrops, Polyporuse Polysaccharide injection, Foscarnet Disodium injection (可耐注射液) and Zegui Longshuang capsule (澤桂癰爽膠囊), are either protected by the relevant laws in the PRC or currently enjoying administrative protection. Particulars of the regulations regarding the Group's protected products are set forth in the sections headed "Industry overview" and "General overview of the Group" in this prospectus. Among the four protected products of the Group, Moisten eyedrops are under patent protection for a period of 20 years to be expired in 2013. The patent for Foscarnet Disodium injection will expire on 4 May, 2001 and any further extension will not be granted, whereas application for extension of another seven year protection can be filed for the patent of Polyporuse Polysaccharide injection upon expiration of its "Certificate of Protected Chinese Medicine", and Zegui Longshuang is expected to be entitled to 7 to 30 years' protection if the application for the "Certificate of Protected Chinese Medicine" is approved. However, there is no assurance that the relevant authorities will extend the protection period of these products or process the application and approval procedures in time. In the event that the renewal of the "Certificates of Protected Chinese Medicine" in respect of these protected products are not granted, and that other pharmaceutical producers in the PRC obtain product production permit from the SDA for similar products and engage in imitating production, the Group's production business could be adversely affected.

Product substitution

Pharmaceutical products in the PRC are usually under patent and administrative protections for a period of time during which no other producers may produce the same products. Currently, the Group has four products under such protection. These include Moisten eyedrops, Polyporuse Polysaccharide injection, Foscarnet Disodium injection and Zegui Longshuang capsule. Patents for C. P. Bright eyedrops (正大維他滴眼液), Fredex eyedrops (F的確當滴眼液), C. P. Jasper eyedrops (正大捷普滴眼液), Pilocarpine Nitrate eyedrops (真瑞滴眼液), Frecoseryl eyedrops (F角膜寧滴眼液) and Hepudiod cream (海普林軟膏) are in the process of patent application. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the sales of these ten products accounted for approximately 35 per cent., 39 per cent. and 43 per cent. of the total sales of the Group, respectively. Although there is less competition in the protected products, it is possible for other pharmaceutical producers to produce similar products or products having similar treatments or therapeutic effects which could be used as substitutes for the protected products. The marketing of substitutes, whose prices are generally lower than those distributed or manufactured by the Group, may adversely affect the profitability of the Group.

Competition

The Group's business is subject to competition from other pharmaceutical producers. Generally speaking, competition will become more intense when the demand for and/or the market price of any pharmaceutical product increases. The Directors believe that because of the administrative protection, the competition in respect of the four protected products of the Group is not intense whereas in respect of the other products of the Group not subject to any administrative protection face intense

RISK FACTORS

competition from other pharmaceutical producers. Should there be any significant increase in the number of distributors and/or producers in the pharmaceutical products in which the Group is engaged in or the Group is unable to cope with the changing market conditions by improving its competitiveness, the Group's profitability could be adversely affected.

Price controls

The prices of all those pharmaceutical products manufactured and sold by the Group in the PRC are subject to the control of the State or provincial price administration authorities. Particulars are set forth in the sections headed "Industry overview" and "General overview of the Group" in this prospectus. In the event that the costs of the Group's manufactured products shall increase or any application for an increase in the price ceilings of the relevant products is not approved, the Group's profitability may be adversely affected.

WTO

The PRC government has currently entered into bilateral agreements in respect of entering the WTO ("WTO agreements") with a number of member states of the WTO, including the U.S. and the European Union. The Directors expect that such WTO agreements will pave the way for the PRC to enter the WTO. In the event that China enter into the WTO successfully, the tariffs on pharmaceutical products is expected to be lowered from the present average of approximately 24 per cent. to approximately 6 per cent. within 10 years. This would make it easier for overseas pharmaceutical products to be imported into China thereby increasing competition, which may have an adverse effect on the sales and profitability of the Group.

RISKS RELATING TO THE PRC

As most of the Group's products are sold in the PRC, the Group's profitability, financial position and prospects may be affected by the changes in economic, political and legal developments in the PRC.

Economic considerations

The PRC economy was until the mid-1980s a totally planned economy organised on socialist economic principles. Since its adoption of the open-door policy in 1978, the PRC government has implemented economic reforms and transformed from a planned economy to a market economy with socialist characteristics. These economic reforms allowed greater manipulation of market forces in the distribution of resources and granted enterprises with greater autonomy in operation. However, many regulations implemented by the PRC government are still at a preliminary stage of development. The economic system is subject to further refinement and re-adjustment for it to continue to mature. Nonetheless, no assurance can be given that any change in economic conditions as a result of the economic reforms and macro-economic measures adopted by the PRC government will have positive effects on the PRC's economic development in general or the pharmaceutical sector in particular. At the same time, there can be no assurance that such measures will be consistent and effective or that the Group will benefit from or be able to capitalise on all such reforms. The PRC government may implement macro-economic adjustment measures from time to time that may have a negative impact on the Group's operations.

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Political and social considerations

The PRC government has undergone a series of reforms since 1978. Further reforms in the political system are expected. These reforms have resulted in significant economic growth and social progress. However, the political system is subject to refinement and re-adjustment in order to mature. There can be no assurance that such reform measures of the Chinese Government will be implemented continuously or effectively or the Group's operations may not be significantly affected by any adjustments resulting from the reform measures.

Legal considerations

Since 1979, the State has promulgated a number of laws and regulations dealing with economic matters in general and foreign investments. In December 1982, China's National People's Congress amended the constitution to authorise foreign investment and protect the lawful rights and interests of foreign investors in the PRC. Since then, the trend of legislation has been to enhance significantly the protection afforded to foreign investors and to allow more effective control by foreign investors in foreign investment enterprises in the PRC. Despite significant improvements in the legal system, there is no comprehensive legal system and the enforcement of the existing laws may be uncertain and sporadic and its implementation and interpretation therefore may be inconsistent. Hence, there is no assurance that such inconsistency or future changes in legislation or the interpretation thereof will not have a negative impact on the Group's operations.

Currency conversion and foreign exchange control

During the Track Record Period, a majority of the Group's turnover and its costs were denominated in RMB. After the listing of its shares on the GEM, the Group's accounts will be stated in HK dollars. In addition, as the Group intends to further develop its overseas market, part of the sales would be denominated in foreign currency. Therefore, the Group's profitability, asset value and its ability to pay dividend in HK dollars would be adversely affected by the fluctuations of RMB to HK dollars or US dollars exchange rates.

RMB is not freely convertible to foreign currency. In accordance with "Foreign Exchange Control Regulations" (外匯管理條例) and the "Regulations on the Administration on Settlement, Sale and Payment of Foreign Exchange" (結匯、售匯及付匯管理規定), foreign investment enterprises are allowed to convert RMB to foreign currency in its foreign currency accounts or by the banks authorised to conduct foreign exchange transactions, for repatriation and distribution of its profits or dividends overseas. Foreign investment enterprises are authorised to convert RMB to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The conversion of RMB to foreign currency in respect of capital account items (including direct investment, loan, guarantee investment) is still under control.

In the event that there is any law or regulation which forbids or further restricts the conversion of RMB into foreign currency, there can be no assurance that shortages in the availability of foreign currency will not restrict the Company's ability to obtain sufficient foreign currency to pay dividends on the Shares.

RISK FACTORS

RISKS RELATING TO THE SHARES

Protection of the interests of minority shareholders under the laws of the Cayman Islands

The Company's corporate affairs are governed by its memorandum and articles of association and by the Companies Law. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders and to the fiduciary responsibilities of directors may differ from the laws of Hong Kong and the corresponding remedies available to such shareholders may differ accordingly. A summary of the laws of the Cayman Island relating to protection of minority shareholders is set forth in Appendix IV to this prospectus. The Group's shareholders may have difficulty in protecting their interests in the face of actions by the Directors, management or controlling shareholders.

Liquidity and possible price volatility of the Shares

An active trading market for the Shares may not develop and the trading price for Shares may fluctuate significantly. Prior to the Placing, there has been no public market for any of the Shares. The Issue Price for the Placing Shares will be determined by negotiation between the Group and the Underwriters. This price may not be indicative of the price at which Shares will trade following the completion of the Placing. In addition, there can be no guarantee that an active trading market for Shares will develop, or, if it does develop, that it will be sustained following the completion of the Placing, or that the market price of the Shares will not decline below the Issue Price.

The trading price of the Shares could also be subject to significant volatility in response to, among other factors:—

- investor perceptions of the Group and the Group's business plans in the PRC;
- variations in operating results of the Group;
- announcements of new products;
- technological innovations;
- changes in pricing made by the Group, the Group's competitors or other pharmaceutical producers;
- changes in senior management personnel;
- the depth and liquidity of the market for the Shares and the development of GEM as a stock market; and
- general economic and other factors.

Control by the Initial Management Shareholders

Upon completion of the Placing, the Initial Management Shareholders will beneficially own in the aggregate approximately 80 per cent. of the issued Shares (taking no account of the options granted or to be granted pursuant to the Over-allotment Option and under the Share Option Scheme). As a result, these persons, if they act together, will be able to exercise significant influence over certain corporate governance matters requiring shareholders' approval, including the election of Directors and

RISK FACTORS

the approval of significant corporate transactions, and will have veto power with respect to any shareholders' action or approval requiring a majority vote. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of the Group which may benefit the Group's shareholders.

ISSUES TO CONSIDER IN RELATION TO CERTAIN STATEMENTS MADE IN THIS PROSPECTUS

Forward-looking statements contained in this prospectus

Included in this prospectus are various forward-looking statements which can be identified by the use of forward looking terminology such as "may", "will", "expect", "anticipate", "estimate", "continue", "believe" and other similar words. The Group and its Directors have made forward-looking statements with respect to the following, among other things:—

- the Group's strategies to achieve such objectives;
- the importance and expected growth of the biopharmaceutical industry; and
- the expected growth of market demand for hepatitis medicines in the PRC.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Important factors that could cause the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the loss of key personnel of the Group, changes relating to the Asian and global pharmaceutical industry and changes in general economic and business conditions. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed above in this section. These forward-looking statements speak only as of the Latest Practicable Date.

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

WAIVER ON SHARE DISPOSAL RESTRICTION UNDER THE GEM LISTING RULES

Moratorium period imposed on the Initial Management Shareholders

Under Rule 13.16 of the GEM Listing Rules, a new applicant shall procure that every initial management shareholder undertakes to the new applicant and the Stock Exchange not to dispose of (or enter into any agreement to dispose of), for a period of two years from the date on which dealings in the shares of the listing applicant on GEM commence save as provided in Rule 13.17 of the GEM Listing Rules, any direct or indirect interest in relevant securities.

Under the GEM Listing Rules, Mr. Tse Ping, Mr. Wang Jinyu, Conspicuous Group Limited, Remarkable Industries Limited, Validated Profits Limited and Discover Profits Limited, being the Initial Management Shareholders, would ordinarily be subject to a moratorium period of two years from the date on which dealings in the Shares on GEM commence. However, as the result of an application made on behalf of the Company and the Initial Management Shareholders, and consistent with the joint announcement issued by the SFC and the Stock Exchange dated 11 March, 2000 (the "Joint Announcement"), the Stock Exchange has granted a waiver to the Initial Management Shareholders from strict compliance with Rule 13.16 of the GEM Listing Rules to the effect that the moratorium period applicable to Mr. Tse Ping, Mr. Wang Jinyu, Conspicuous Group Limited, Remarkable Industries Limited, Validated Profits Limited and Discover Profits Limited, being the Initial Management Shareholders, has been reduced to six months from the date on which dealings in the Shares on GEM commence, subject to the conditions that none of Mr. Tse Ping, Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited are allowed to dispose of any relevant securities in the second six-month period after listing if such disposal would result in Mr. Tse Ping, Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited together ceasing to have control over 35 per cent. of the voting powers at general meetings of the Company.

Stock borrowing arrangement

In order to facilitate the settlement of over-allocations in the Placing, DBS Asia may choose to borrow Shares from Mr. Tse Ping and Conspicuous Group Limited, being two of the Initial Management Shareholders, under a stock borrowing arrangement prior to any exercise of the Over-allotment Option or the acquisition of a sufficient number of Shares from other sources. An application has been made to the Stock Exchange for a waiver to be granted to Mr. Tse Ping and Conspicuous Group Limited from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of shares by initial management shareholders following a new listing, in order to allow it to enter into the stock borrowing arrangement. The Stock Exchange has indicated that the waiver will be granted subject to the following conditions:—

- (1) such stock borrowing arrangement with Mr. Tse Ping and Conspicuous Group Limited will only be effected by DBS Asia for settlement of over-allocation in connection with the Placing;
- (2) the maximum number of Shares borrowed from Mr. Tse Ping and Conspicuous Group Limited will be limited to the maximum number of 9,000,000 Shares which may be placed upon exercise of the Over-allotment Option; and

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

- (3) up to 9,000,000 Shares borrowed from Mr. Tse Ping and Conspicuous Group Limited (subject to the offset arrangement as mentioned below) shall be returned to Conspicuous Group Limited no later than 3 business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised or (ii) the day on which the Over-allotment Option is exercised in full.

Such stock borrowing arrangement will be effected in compliance with all applicable laws, and regulatory requirements. No payments will be made to Mr. Tse Ping and Conspicuous Group Limited by DBS Asia in relation to such stock borrowing arrangement. In the event that DBS Asia (acting on behalf of the Underwriters) exercises the Over-allotment Option, such Shares received by DBS Asia pursuant to the exercise of the Over-allotment Option will be used to offset against the Shares owed by DBS Asia to Conspicuous Group Limited, if any.

WAIVER ON THE REQUIREMENT OF FINANCIAL PERIOD REPORTED ON UNDER THE COMPANIES ORDINANCE

Under paragraph 27 of Part I of the Third Schedule and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, this prospectus is required to include a report by the auditors of the Company and its subsidiaries in respect of each of the three financial years immediately preceding the issue of this prospectus.

The Company has sought a waiver from the SFC in relation to the above Companies Ordinance requirements. The SFC has granted such waiver in relation to paragraph 27 of Part I of the Third Schedule and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance accordingly. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31 May, 2000, and there is no event which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

- (a) the information contained in this prospectus 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 prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

PLACING SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing. The Placing initially involves 60,000,000 Placing Shares (subject to the Over-allotment Option pursuant to which up to 9,000,000 Shares are to be issued and allotted to DBS Asia) at the Issue Price.

The Placing is sponsored and managed by DBS Asia and fully underwritten by the Underwriters. For full information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

PLACING SHARES TO BE OFFERED IN HONG KONG ONLY

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus to the public in any jurisdiction other than Hong Kong. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstance in which such an offer or invitation is not authorised, or to any person to whom it is unlawful to make an unauthorised offer or invitation.

The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus. Any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Underwriters, any of their respective directors or any other person involved in the Placing.

United States

This prospectus may not be published in the United States, its territories, possessions or areas subject to its jurisdiction, and the Placing Shares may not be offered or sold, directly or indirectly, to the nationals or residents thereof or any corporation formed or organised therein.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Placing Shares may not be offered or sold in the United Kingdom and this prospectus or any other announcement or document in connection with the Placing may not be published or distributed in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, shares or bonds (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Financial Services Act 1986 as amended by the Public Offers of Securities Regulations 1995. In addition, no person may issue or pass on to any person in the United Kingdom this prospectus or any document received by him in connection with the Placing unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 of the United Kingdom, as amended, or is a person to whom such document may otherwise lawfully be issued or passed on.

Singapore

This prospectus has not been registered and will not be registered as a prospectus with the Registrar of Companies and Businesses in Singapore. Accordingly, this prospectus and any other document or materials in connection with the offer of the Placing Shares may not be issued, circulated or distributed in Singapore, nor may any of the Placing Shares be offered for subscription or Placing purchase or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Placing Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) pursuant to, and in accordance with the conditions of, exemption invoked under Division 5A of Part IV of the Singapore Companies Act (Chapter 50 of Singapore) and to persons to whom the Placing Shares may be offered or sold under such exemption; or (b) otherwise pursuant to, and in accordance with the conditions of any other provision of the Singapore Companies Act.

Japan

The Placing has not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). The Placing Shares may not be offered or sold, directly or indirectly, in Japan, or to the account or for the benefit of any resident of Japan, except pursuant to an applicable exemption from the registration and prospectus delivery requirements of the Securities and Exchange Law and in compliance with any other applicable Japanese laws.

Cayman Islands

No invitation may be made directly or indirectly by or on behalf of the Company to the public in the Cayman Islands to subscribe for or acquire any of the Placing Shares.

APPLICATION FOR LISTING ON GEM

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, and the Shares which are to be issued pursuant to the Placing and Shares which may fall to be issued upon exercise of options granted under the Share Option Scheme, on the GEM.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and at present no such listing or permission to deal is being or proposed to be sought.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares offered under this prospectus to be listed on the Stock Exchange has been refused before the expiration of three weeks from the date of the closing of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, (i) the Company must maintain the “minimum prescribed percentage” of 20 per cent. of the issued share capital of the Company in the hands of the public; (ii) the market capitalisation of the share capital of the Company in the hands of the public must be at least HK\$30 million; (iii) the share capital of the Company in the hands of the public should, as at the time of listing, be held among at least 100 persons.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Placing Shares, you should consult an expert.

The Company, the Directors, the Underwriters and any other person involved in the Placing do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, or purchase, holding or disposal of, or dealing in or the exercise of any rights in relation to, the Placing Shares.

STAMP DUTY

Dealings in the Shares registered on the Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty.

CONDITIONS OF PLACING

Particulars of the Placing, including its conditions, are set out in the section headed “Structure and conditions of the Placing” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Residential address	Nationality
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Executive Directors:—

Mr. Tse Ping	Flat A, 28th Floor, Block 1 Clovelly Court 12 May Road Hong Kong	Chinese
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Mr. Wang Jinyu	Flat C, 3rd Floor Celestial Garden 5 Repulse Bay Road Hong Kong	Chinese
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Mr. Ling Peixue	Room 402, Unit 5, Building 1 Wendongyuan 5, Jingshi Road, Jinan, Shandong, PRC.	Chinese
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Mr. Tao Huiqi	Room 602, Unit 1, Building 7 10 Taipingmen Street Xuanwu District Nanjing Jiangsu PRC	Chinese
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Independent non-executive Directors:—

Dr. Patrick Ho Chi Ping JP	Flat A, 10th Floor, Estoril Court 55 Garden Road Hong Kong	Chinese
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Mr. Hu Xi Ming	Room 101, Unit 1, Building 7 Area A16, Xiao Ying Gan Yang Shu Chaoyang District Beijing PRC	Chinese
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DIRECTORS AND PARTIES INVOLVED IN THE PLACING

PARTIES INVOLVED IN THE PLACING

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Legal advisers to the Company

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As to Cayman Islands Law:—
Conyers Dill & Pearman, Cayman
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Legal advisers to the Underwriters	<i>As to Hong Kong Law:—</i> Richards Butler 20th Floor, Alexandra House 16-20 Chater Road Hong Kong
Auditors and reporting accountants	Ernst & Young <i>Certified Public Accountants</i> 15th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
Property valuers	DTZ Debenham Tie Leung Limited 10 Floor, Jardine House Central Hong Kong

CORPORATE INFORMATION

Registered office	Codan Trust Company (Cayman) Limited Zephyr House George Town Grand Cayman British West Indies
Head office and principal place of business	Unit 09, 41st Floor, Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong
Company secretary	Mr. Yee Foo Hei HKICS
Assistant secretary	Codan Trust Company (Cayman) Limited
Compliance officer	Mr. Tse Ping
Qualified accountant	Ms. Wong Pui Shan, ACCA, AHKSA
Audit committee	Dr. Patrick Ho Chi Ping JP (<i>Chairman</i>) Mr. Hu Xi Ming
Authorised representatives	Mr. Tse Ping Flat A, 28th Floor, Block 1 Clovelly Court 12 May Road Hong Kong Mr. Yee Foo Hei Flat A, 12th Floor Glory Heights 52 Lyttelton Road Hong Kong
Principal banker	CITIC Ka Wah Bank Limited 166 Hennessy Road Wanchai Hong Kong
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands
Hong Kong branch share registrar and transfer office	Tengis Limited 4th Floor, Hutchison House 10 Harcourt Road Central Hong Kong

BACKGROUND OF DEVELOPMENT OF PHARMACEUTICAL INDUSTRY

Medical science and technology

The Directors believe that advancements in medical science and technology in the fields of clinical diagnostic techniques and therapeutic and preventive medicine have significantly improved the standard of health care in modern society. Growth in medical knowledge has facilitated early diagnosis of diseases and development of new medicine with increased medical efficiency and reduced side-effects. Advances in medical science have spurred new frontiers in modern medicine such as biotechnology and the modernisation and scientific applications of traditional remedies.

The science of biotechnology involves the development of biological organisms or their components for commercial or industrial purposes. Related to this development are studies of molecular biology and the developments in genetic engineering and recombinant DNA. The Directors believe that biotechnology has already made a significant contribution to the field of medicine. Human insulin, interferons, human growth hormone and antibiotics are examples of products created through genetic engineering.

Another field that has been gaining momentum is the modernisation and scientific applications of traditional remedies. The use of traditional remedies, such as TCM, has been practised for thousands of years in the PRC. During the previous decade, the use of traditional remedies such as herbal medicine, acupuncture and other modalities through the applications of modern technologies have been increasingly supported and accepted by the scientific community as well as the public. Researches conducted in developed countries have provided scientific support for the use of traditional remedies in modern medical science. Furthermore, the application of modern medical scientific technologies have also improved the medical efficiency of various traditional remedies.

The advancement of modern technology has brought about enormous changes in the chemical medicine sector. For example, combinatorial chemistry, a new technology used by most pharmaceutical companies and research laboratories, has shortened the time in locating integrated chemical mixtures and leading chemical mixtures. With the advancement in computers, industrial automation equipment and new environmental protection devices and the application of new equipment, traditional remedy will have to satisfy not only the requirement of medical efficacy, but also the demands for low wastage and environmental protection.

Global pharmaceutical industry

According to the forecast of IMS, the total value of the global pharmaceutical market is expected to reach approximately US\$405.9 billion in 2002 and the average annual rate of growth between the period of 1998 to 2002 is expected to be approximately 8 per cent.

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According to the report of IMS, the largest growth of the global pharmaceutical market, for the period up to 2002, is expected to be in North America, Middle East, Australia and South East Asia including the PRC. The following table illustrates the expected market size of the global pharmaceutical industry up to 2002 and the average growth rate between the period of 1998 to 2002:—

Region	Expected market size in 2002 (US billion)	Average growth rate (%)
North America	169.5	9.8
Europe	100.8	5.8
Japan	45.8	4.9
Central and South America	30.5	8.4
South East Asia, the PRC	20.1	11.0
Eastern Europe	10.6	8.6
Middle East	7.4	10.6
Africa	7.3	3.3
Indian Sub-continent	5.3	8.6
Australia	5.4	9.8
Commonwealth of Independent States	3.2	6.7
Total	405.9	7.8

Source:—

IMS Health Report

Pharmaceutical industry in the PRC

In 1999, there were approximately 6,300 pharmaceutical producers in the PRC producing more than 1,400 chemical raw material medicines, 4,000 preparations and 8,000 TCM and modernised Chinese medicines. The total production value of the pharmaceutical industry increased from approximately RMB6.4 billion in 1978 to approximately RMB82 billion in 1993 with an annual average rate of growth of 19 per cent. The total production value of the PRC pharmaceutical industry in 1999 increased by 14 per cent. as compared with 1998 to approximately RMB194.6 billion.

In 1999, the aggregate industrial sales of medicine in the PRC was approximately RMB143.8 billion. According to the latest statistics of the MPH, the medicine consumption in the PRC in 1999 was approximately RMB100 billion and the average medicine consumption per capita was approximately RMB80. The medicine consumption per capita in the PRC of approximately US\$10 is less than the per capita consumption between approximately US\$40 and approximately US\$160 in certain developed countries.

The development of the PRC biochemical pharmaceutical industry began in early 1950s. In 1998, there were approximately 300 biopharmaceutical producers which produced pharmaceutical products, such as insulin, liquaemin, kallikrein, hyaluronan, and biopharmaceutical products approved

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by the PRC government, such as hydrolyzate of brain protein injections, low molecular heparin and interferons, etc. The production value of the biopharmaceutical products increased from approximately RMB120 million in 1978 to approximately RMB5.9 billion in 1998.

The Directors believe that biotechnological pharmaceuticals is an important new area of research and development in the pharmaceuticals sector. The Directors also believe the biotech pharmaceutical industry will become an important new segment of the pharmaceutical industry in the future and occupy a more crucial position in the pharmaceutical field.

TCM has long been the traditional medicine in the PRC. But modernised Chinese medicine has undergone tremendous development in recent decades. As a result of the advancement in science technology, the Directors consider that research and development of modernised Chinese medicine and natural medicine will focus on the development of new compound medicines with high medical efficacy.

REGULATIONS GOVERNING THE PHARMACEUTICAL INDUSTRY IN THE PRC

SDA

The SDA was established in 19 August, 1998 under the State Council to assume the responsibilities of MPH, SATCM and the former State Pharmaceutical Administrations for the administrative and technical supervision of research, production, circulation, application and the technology of the PRC pharmaceutical industry.

Permits and business licenses required by pharmaceutical production and trading enterprises

Before any pharmaceutical production enterprises can proceed to manufacture and distribute products, they must obtain the following permits and business license from the relevant pharmaceutical regulatory authorities:—

- (i) Pharmaceutical production permit: the Pharmaceutical Production Enterprise Permit (藥品生產企業許可證), which is issued to pharmaceutical production enterprises by the relevant Drug Administration of the province, autonomous region or municipality where the enterprise locates;
- (ii) Pharmaceutical trading permit: the Pharmaceutical Trading Enterprise Permit (藥品經營企業許可證), which is issued to trading pharmaceutical enterprises by the relevant Drug Administration of the province, autonomous region or municipality where the enterprise locates; and
- (iii) After the pharmaceutical production or trading enterprise has successfully obtained all the necessary permits mentioned in the above (i) or (ii), the relevant Industry and Commerce Bureau shall issue the business licence.

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All permits issued to any pharmaceutical production and trading enterprise are for an initial term of five years. Any pharmaceutical production and trading enterprise shall apply for the renewal of the above permits not later than six months prior to the date of expiration. Such renewal is subject to the examination, assessment and approval of the issuing department pursuant to the relevant law and regulatory regulations for the time being.

Production of new medicine

In accordance with the “Measures on the Approval of New Medicines” (新藥審批辦法) promulgated by the SDA, which became effective on 1 May, 1999, the SDA has the authority to grant the approvals by issuing a Certificate of New Medicine for the clinical research, manufacture and sale of new medicines. Application and approval of any new medicine may be divided into two main phases: clinical research and commercial production and sales. Applications for new medicines must be submitted to the provincial pharmaceutical supervisory authority for preliminary review. All relevant information and samples in respect of any application for clinical research and commercial production and sales must be submitted together with a completed application form to the relevant pharmaceutical supervisory authority for preliminary approval and to the SDA for final approval. The enterprise or workshop can only commence production upon receiving the production approval document granted from SDA after obtaining the Pharmaceutical Production Enterprise Permit and satisfying the GMP standard as stipulated by the SDA.

According to the “Measures on the Approval of New Medicines”, new medicines are divided into chemical medicine/biopharmaceuticals and Chinese medicine, which are further subdivided into five categories.

The following table illustrates the five categories of chemical medicine/biopharmaceuticals and Chinese medicine and their respective protection periods:—

	Chemical medicine/Biopharmaceuticals	Chinese medicine	Protection periods
Category 1	<ol style="list-style-type: none">1. Raw material medicines produced through synthesis methods and its preparations through semi-synthesis methods.2. Active single element extracted from natural materials and its preparations extracted from fermentation.3. Chemical mixtures with overseas medical research reports but yet to obtain market approval from any country’s pharmaceutical regulatory authority.	<ol style="list-style-type: none">1. Synthetic materials from Chinese medicinal raw materials.2. Newly discovered Chinese medicinal raw materials and their preparations.3. The active ingredients and their preparations derived from Chinese medicinal raw materials.4. The active ingredients derived from a complex prescription.	12 years

INDUSTRY OVERVIEW

	Chemical medicine/Biopharmaceuticals	Chinese medicine	Protection periods
Category 2	<ol style="list-style-type: none"> 1. Medicines with production and marketing approvals overseas but yet to be admitted into medical formulary or imported into China 2. Optical matters and preparations of a known medicine produced by separation or synthesis methods. 3. Orally or externally administrated medicines, not marketed overseas, which are converted into injections, or medicines altered from partial to overall administration (eg. oral, inhalation preparations). 	<ol style="list-style-type: none"> 1. Injections manufactured from Chinese medicinal raw materials. 2. New medicinal applications and their preparations from anatomical components of existing Chinese medicinal raw materials. 3. The active components and its preparations derived from existing Chinese medicinal raw materials and their derivatives. 4. Medicinal products extracted from animals, and its preparations, obtained from artificial means. 5. The active components cluster derived from complex prescription. 	8 years
Category 3	<ol style="list-style-type: none"> 1. Complex preparations from new combinations of chemical medicines. 2. Complex preparations from new combinations of chemical medicines and Chinese medicines with chemical medicines as the main applicator. 3. Raw material medicines and their preparations derived from a number of marketed medicine components made into lesser number of components. 4. Chemical medicines extracted from new components of animals or their tissues and organs. 	<ol style="list-style-type: none"> 1. New preparations from complex prescription. 2. Semi-finished components from Chinese medicine and synthetic drugs based on theory of Chinese Medicine prepared from a complex prescription. 3. Common imported medicinal raw materials and their preparations introduced from overseas. 	8 years

INDUSTRY OVERVIEW

	Chemical medicine/Biopharmaceuticals	Chinese medicine	Protection periods
Category 4	<ol style="list-style-type: none"> 1. Raw material medicines and its preparations admitted into overseas medical formulary. 2. Raw material medicines and/or its preparations imported into China (preparations produced from imported raw material medicines, including raw material medicines and its preparations researched and produced domestically). 3. Optical matters and its preparations of an overseas known and marketed medicine produced by separation or synthesis methods. 4. Raw material medicines and its preparations produced from changes in the acid or alkaline base (or metallic element) of known salt-based medicines. Such change does not affect its pharmacology and affects only its physical properties (such as solvency, stability etc.) for storage, production or clinical needs. 5. Complex preparations and derivative components marketed overseas. 6. Preparations produced from imported raw material medicines. 7. Medicine from derivative components. 8. Medicines with changes in the form of administration (excluding new medicine under 3 of category 2). 	<ol style="list-style-type: none"> 1. Altered preparations and preparations with altered form of intake. 2. Transplanted from overseas or domesticated animal and herbal medicine. 	6 years
Category 5	<ol style="list-style-type: none"> 1. Those with extended administration cycles and/or increased dosages. 2. Those without any changes or reduction in administration cycles and/or increased dosages. 3. Those approved overseas for use by patients. 	Newly-discovered medical applications of existing drugs.	6 years

Protected products

In accordance with the “Regulations on the Protection and Technology Transfer of New Medicines ” promulgated on 22 April, 1999 by the SDA, any new medicine, after being granted a Certificate of New Medicine by SDA, is entitled to a protection period ranging from six to 12 years, depending on the product category as stipulated above. The protection periods (including the trial production period) of various new medicines range from 12 years for category 1 new medicines; eight years for category 2 and 3 new medicines; and six years for category 4 and 5 new medicines. In the event that the commercial protection of such a new pharmaceutical product was not commenced within two years after the Certificate of New Medicine being granted without any reasonable reasons, the protection of the new pharmaceutical product shall be withdrawn.

The “Regulations on the Protection of Chinese Medicine” (中藥品種保護條例), which have been implemented from 1 January, 1993, seek to protect the interests of enterprises producing modernised Chinese medicine and assist the development of the Chinese medicine sector. Upon the expiry of the protection period of new medicine provided under the “Measures on the Approval of New Medicines”, the enterprise may apply for renewal of the protection period under the regulations. Based on the types of raw materials and the therapeutic functions of the medicines, the medicines that are categorised into national criterion of Chinese medicine, are classified as Class 1 or Class 2 State-protected products. Class 1 State-protected products enjoy an initial protection period ranging from ten to thirty years. Class 2 State-protected products enjoy an initial protection period of 7 years. The enterprise may apply for renewal upon the expiry of the initial protection period in accordance with the measures. Application for the extension of the protection period of Class 1 and Class 2 State-protected products shall be granted for a period not exceeding its initial protection period.

If the patent application of a medicine in the PRC is approved, it will enjoy a protection for a term of ten to twenty years, depending on the type of patent, from the date of the application. For biopharmaceuticals and chemical medicine, application for commercial name with SDA is also required, and the commercial name can be registered as a trademark to provide trademark protection for the medicine.

Trademarks of pharmaceutical products

Apart from Chinese herbal medicines and Chinese beverage medicines, all pharmaceutical products for domestic sales in the PRC must have a trademark registered with a trademark registration authority in the PRC. The Group has a total of 53 trademarks for all its pharmaceutical products. Particulars on the Group’s trademarks are set forth under “Intellectual property” in Appendix V to this prospectus.

Imitation of medicines

Order No. 5 of the SDA effective 1 May, 1999 has stipulated certain approval measures in respect of imitated medicines. Pursuant to Order No. 5, imitated medicines are imitations of those products which have obtained formal government approvals for production and listed on the state medicine standards (including the PRC biological product regulations and procedures). No imitation is allowed in respect of medicines on trial standard and under state administrative protection. Any enterprise applying for imitation must be enterprises or workshops which have obtained “Pharmaceutical Production Enterprise Permit” (藥品生產企業許可證) and “GMP Certificate for

INDUSTRY OVERVIEW

Medicines” (藥品 GMP 證書). The quality standard of imitated medicines must not be inferior to the originals and the usage instruction must be consistent with the originals. The State encourages innovation and technological advances, controls the approvals of imitation of medicine and gives guidance through announcements. In respect of products which have met clinical demands, acceptance and approval of applications will be suspended temporarily. However, applications for imitation from enterprises, which have managed to reduce costs or enhance quality and quantity significantly, will still be accepted after examination by the SDA. The imitated medicines produced by the Group accounted for less than 0.1 per cent. of its total sales during the year ended 31 December, 1999 and the five months ended 31 May, 2000. Pursuant to the “Notice Regarding Strengthening the Administration on Chinese Medicine Registration” issued by SDA on 14 April, 2000, acceptance and approval of imitations applications of Chinese Medicine injections are suspended temporarily.

GOOD MANUFACTURING PRACTICE

The GMP originated from the U.S. and was adopted by the World Health Organisation. Currently, several developed countries such as the U.S., the United Kingdom and Japan have already adopted the GMP systems. GMP imposes strict compliance procedures on pharmaceutical production process, including, inter alia, the design of production facilities; qualification of personnel involved in the production process; plant and machinery, hygiene and raw materials handling; packaging and labelling, production management, documentation of production processes, quality control, sales record, customer comments and complaints records.

Since 1988, the State has began to implement the GMP. In 1992, the MPH formulated the guidelines for implementing the GMP standards. From 1 October, 1995, any pharmaceutical production enterprise (workshop), which satisfies relevant conditions, may apply for GMP certification in accordance with relevant regulations. Pursuant to the “Notice Regarding Relevant Stipulations on Implementing GMP” (關於藥品生產質量管理規範有關規定的通知) issued by SDA in November 1999, producers of certain kinds of pharmaceuticals shall comply with GMP standards by the stipulated time limit. If those producers have not obtained the GMP certification within the stipulated time limit, their Pharmaceutical Production Enterprise Permit will not be renewed. Pursuant to the above-mentioned Notice, powder injection (including frozen and dry), large volume injection and genetic engineering products should comply with GMP standards and pass GMP certification prior to the end of 2000. Small volume injection products should comply with GMP standards and pass GMP certification prior to the end of 2002. However, production of its existing products is allowed if the producer is considered by the relevant Drug Administration to be capable of complying with GMP standards.

On 18 March, 1999, the “Pharmaceutical Products — GMP (1998 revised edition)” (藥品生產質量管理規範(1998修訂版)) was passed by the SDA and became effective on 1 August, 1999. It requires, inter alia, that every producer of medicine must meet the relevant production standards in respect of production facilities, equipment, raw materials, production management and quality control, etc. prior to the award of a GMP certification. As at 10 April, 2000, approximately 210 pharmaceutical production enterprises in the PRC had met the requirements set in the GMP and obtained the GMP certification.

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IMPORT AND EXPORT

The PRC government encourages export of pharmaceutical products. The exports of Chinese medicine by PRC enterprises are not subject to any restriction, however, any export of Chinese medicine by a Chinese enterprise shall be subject to all applicable laws and regulations in respect of Chinese medicine imposed by the destination countries or regions.

The SDA is responsible for the registrations of imported medicine. In the PRC, there is a registration system for imported medicine. Overseas producers or sales agents shall apply to and be granted the Certificate of Registration of Imported Medicine by the SDA prior to the import of the medicine into the PRC.

It is expected that the PRC import duties on pharmaceutical products will decrease from 24 per cent. to approximately 6 per cent. within ten years subsequent to the PRC's entry into the WTO.

PRICE CONTROL

The price of pharmaceutical products is subject to the control of the price administrative bureau at state and provincial levels. Domestic manufactured pharmaceutical products are subject to a price control list containing the names and fixed prices of medicines announced by the State from time to time. Furthermore, provincial price administrative bureaus shall also announce a price list applicable to medicines sold in its area. Any pharmaceutical product whose price is allowed to float freely by the relevant State authority shall not be subject to the price control regulations. In accordance with the existing price control policy, domestic producers shall enjoy the maximum sales profit rate of 8 per cent. to 40 per cent. in setting the ex-factory price of their products, depending upon factors such as the type of the products, the costs of production and the extent to which the producers comply with the GMP etc.

The fixed price on the price control list will be adjusted correspondingly in line with the revision made by the price administrative bureau from time to time. In order to enable the relevant authorities to adjust prices in accordance with market conditions, domestic pharmaceutical producers shall submit information regarding production costs, such as costs of raw materials to the relevant authorities on a regular basis. Any pharmaceutical producer who has found material changes in the cost structure or the demand for specific products shall submit a request to the price administrative bureau for adjustment of the fixed price. The price administrative bureau may approve such adjustment.

STATE BASIC PHARMACEUTICALS CATALOGUE

In 1996, MPH released the State Basic Pharmaceuticals Catalogue after spending four years screening basic pharmaceuticals. The pharmaceuticals included in the State Basic Pharmaceuticals Catalogue are the ones which are representatives of their respective particular categories of pharmaceuticals, and they also have stable quality, reasonable price and are user-friendly. The PRC government uses the State Basic Pharmaceuticals Catalogue as a reference in determining the cost of medicine in the Public Medicare Insurance Catalogue (公費醫療保險目錄).

NATIONAL OUT-PATIENT MEDICINES CATALOGUE

As part of the medicare insurance reform, the SDA issued in 1999 the “Provisional Measures Regarding the Separation of the Administration on Out-Patient Medicines and Prescription Drugs” (處方藥與非處方藥分類管理暫行辦法) and the National Out-Patient Medicines Catalogue. Medicines included in the National Out-Patient Medicines Catalogue can be safely consumed by users in accordance with the medicine’s label and instructions and can be purchased in drug stores and supermarkets without doctor’s prescription. Out-Patient medicines can be given wide publicity through mass communication media while prescription drugs can only be promoted through professional and academic medical journals.

MEDICARE INSURANCE SYSTEM

In the past, under of the government medicare insurance system, all employees of state, provincial and local governments, retired civil servants and disabled veterans did not have to pay medicare expenses. As required by the employee medicare insurance system, state-owned enterprises must pay for the payments in full of the medicare expenses of its employees. This resulted in hospitals increasing dosages to raise their profitability.

Since 1993, the PRC government has selectively conducted trial reforms of the medicare system in selected cities. In November 1997, a seminar was held to discuss the trial reforms of the national medicare system. In 1999, a new social medicare insurance system was instituted after the seminar for implementation in all cities. This system featured the social medicare fund and the individual medicare account. According to the social medicare insurance system, state-owned and non state-owned enterprises have to contribute 6 per cent. of its payroll to the medicare fund, of which 70 per cent. will go to the social medicare fund and the remaining 30 per cent. of the enterprises’ contributions will go to the accounts of their employees. In addition, employees have to contribute a minimum of 2 per cent. of their annual salary into their respective accounts. All medicare expenses will be paid out of individual medicare accounts and social medicare fund. All relevant medicare expenses, including most of the out-patient expenses, will be paid out first from individual medicare accounts. If the total medicare expenses exceed certain levels in any financial year, the excess will be paid out of the social medicare fund. Thus, social medicare fund can protect serious illnesses of employees.

Medicine expenses paid out of the social medicare fund are limited to the purchases of medicines that are listed in the “State Basic Medicine Catalogue” issued by the MPH. The Group’s principal products, such as Moisten eyedrops and Diammonii Glycyrrhizinatis, are all listed in this catalogue.

ENVIRONMENTAL PROTECTION

Pharmaceutical producers must comply with environmental laws and regulations stipulated by the State and the local environmental protection bureau. Those laws and regulations comprise provisions in respect of the prevention and treatment of sewage and exhaust fumes, and the prevention of industrial pollution. The local authority is also authorised to impose fines on any persons and enterprises for violation of the relevant provisions.

E-COMMERCE

The Internet is a global network of interconnected computer networks that is emerging as a communication and commerce medium, which enables peoples and businesses to share information and conduct business electronically. Using the website, individuals as well as enterprises can display information that can reach people having Internet-access devices. In addition, websites can be linked with other websites that might be of interest to viewers.

The increased popularity and the use of the Internet has allowed enterprises to conduct business with other enterprises or consumers through the Internet. The conducting of commerce over the Internet between business enterprises is generally referred to as B2B e-commerce while B2C refers to e-commerce between business enterprises and consumers. Only B2B e-commerce of pharmaceuticals is allowed in the PRC at current stage. But the Directors believe B2C e-commerce of pharmaceuticals will be approved soon by the PRC government.

PROSPECTS OF THE PRC PHARMACEUTICAL INDUSTRY IN THE PRC

The pharmaceutical industry is one of the focal industries of the PRC. In accordance with the “Ninth Five-Year Plan of the PRC Pharmaceutical Industry” and the “Tentative Planning for 2010 of the PRC Pharmaceutical Industry”, the pharmaceutical industry is regarded as one of the sectors with major economic growth. The annual targeted growth rate is expected to be approximately 15 per cent. until 2010. The Directors believe that the demand for medicine will increase in line with the future economic growth of the PRC.

The natural growth in the population and its aging population in the PRC are the main factors contributing to the growth of pharmaceutical industry which may continue to drive the demand for medicine and health care products. Recent developments of the pharmaceutical industry, such as the reform of the national medicare insurance system and the opening of the out-patient medicine market to allow certain medicines to be purchased in supermarkets or drug stores without doctors’ prescriptions, are expected to further stimulate the growth of the industry.

Opening of the out-patient medicine market

On 22 July, 1999, as a part of the medicare insurance reform, the SDA released the first list of out-patient medicine and the separation of the management of out-patient medicine and prescription drugs commencing 2000. Through the opening of the out-patient medicine market, the State intends to encourage patients to purchase medicine for less serious diseases instead of consultation at hospitals with the objectives of reducing government expenditure on medicare.

Products of the Group categorised as out-patient medicine include Moisten eyedrops, C.P. Bright eyedrops (正大維他滴眼液) and C.P. Jasper eyedrops (正大捷普滴眼液).

According to the first issue of “The PRC Pharmaceutical Business Information”(中國醫藥商訊) of 2000, the sales for the out-patient medicine market in China in 1990 was approximately RMB2.08 billion. By the end of 1999, it has reached approximately RMB5 billion and is expected to reach approximately RMB15.9 billion by the end of 2000. By 2010, total medicine consumption in rural areas will reach approximately RMB33.2 billion, most of which would be out-patient medicine.

Reform of the national medicare insurance system

The PRC government is in the process of implementing a medicare insurance system to replace the existing reimbursement system. Under the new system, both employers and employees of each company shall make contributions to the relevant medicare insurance fund. If an individual's medicare expenses exceed the sum assured by his medicare insurance, the employee shall have to pay for part of the expenses. Accordingly, the Directors expect that the demand for domestic pharmaceutical products shall exceed those of imported pharmaceutical products as imported medicines are generally more expensive than domestic products.

Prospects of ophthalmic medicine in the PRC

The most common incidences of ophthalmia amongst residents of the PRC is short-sightedness, keratoconjunctivitis sicca, conjunctiva, trachomatous conjunctivitis and cataract. Demand from residents for ophthalmic medicine (especially for eye care medicine) is expected to continue to grow considerably. During the period from 1998 to 1999, there were over 2 million ophthalmia patients requiring medical consultation every two weeks. According to the "China Urban Residents Consuming Patterns Reports 1999" (1999年中國城市居民消費形態報告), the frequency of using ophthalmic medicine by urban dwellers amounted to approximately 28 per cent. with an eye fatigue population reaching approximately 150 to approximately 200 million. Accordingly, the demand of the ophthalmic market in the PRC is continually growing.

Prospects of hepatitis medicine in the PRC

According to "The PRC Health Yearbook 1999", the PRC has approximately 120 million hepatitis virus carriers, and hepatitis B and C virus patients reached approximately 75 million. The total amount of medical expenses incurred by hepatitis patients in the PRC in each year was between approximately RMB30 and 50 billion.

Currently, the number of hepatitis patients, in particular, patients suffering hepatitis B, in China is rising every year. Thus, the Directors believe that there will be a demand for hepatitis medicine. However, with the widespread use of hepatitis B vaccines and the increase in immunity of the residents, the market for hepatitis B medicines will slow down. With the simultaneous increase in living standards, the incidence of fatty liver will increase.

Prospects of the senility medicine market in the PRC

As stated in "China Pharmaceutical Daily" (中國醫藥報) dated 2 December, 1999, at the end of 1998, the aged population (over 60) had reached 120 million in the PRC, accounting for approximately 10 per cent. of the total population of the PRC. By the end of 2000, the senile population is expected to increase to approximately 130 million accounting for approximately 10 per cent. of the total population. The senile population is expected to grow annually at approximately 3 per cent. It is estimated that, by 2005, the senile population of the PRC would reach approximately 160 million, accounting for approximately 12 per cent. of the total population; by 2025, it would reach approximately 280 million, or approximately 12 per cent. of the total population, and 2050, it would reach approximately 400 million, or approximately 27 per cent. of the total population.

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Currently, the consumption of senile medicine accounted for approximately 50 per cent. of the total consumption of medicine. At the current average consumption level of medicine of the aged at approximately RMB385, the aggregation consumption of senile medicine is expected to reach approximately RMB50.05 billion by 2002; and approximately RMB61.6 billion by 2005. The net increase in senile medicine between 2000 and 2005 is approximately RMB9.15 billion. Thus, the Directors consider that the senile medicine market in the PRC have bright prospects.

GENERAL OVERVIEW OF THE GROUP

INTRODUCTION

The Company was established on 2 February, 2000 as an investment holding company pursuant to the Reorganisation. The existing core businesses of the Group include the operation of CTF and CTT. CTF is principally engaged in the research, development, production and sales of a series of biopharmaceuticals specialised in the treatments of ophthalmia whereas CTT is principally engaged in the research, development, production and sales of a series of modernised Chinese medicine and chemical medicine specialised in the treatment of hepatitis. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, approximately 36 per cent., approximately 40 per cent. and approximately 43 per cent., respectively, of the Group's total sales (before sales discount) was derived from its biopharmaceutical business, whereas approximately 64 per cent., approximately 60 per cent. and approximately 57 per cent. of the Group's total sales (before sales discount), respectively, was derived from its modernised Chinese medicine and chemical medicine businesses in the PRC.

HISTORY AND DEVELOPMENT

Mr. Tse Ping, the chairman of the Company, began his investments in the PRC pharmaceutical industry in 1991. During the last decade, Mr. Tse Ping has invested in and managed a number of pharmaceutical enterprises in the PRC, including 999 Pharmaceutical Joint-Stock Company Limited (三九醫藥股份有限公司), Hainan Pharmaceutical Industrial Joint-Stock Company Limited (海南海藥實業股份有限公司), CTQ, CTF and CTT. The "A" shares of 999 Pharmaceutical Joint-Stock Company Limited and Hainan Pharmaceutical Industry Joint-Stock Company Limited are now listed on the stock market in the PRC.

Establishment of CTQ

CTQ was established in November 1992 as a sino-foreign equity joint venture with a term of 50 years and was owned as to 60 per cent. by CTH with the remaining 40 per cent. held by China Qingchunbao. On 27 October, 1998, Golden News agreed to acquire the entire 100 per cent. shareholding in CTH. In November 1998, Shanghai Industrial Holdings Limited (a company listed on the Main Board), through its subsidiaries (which include SIIC Medical), acquired a 91.67 per cent. attributable interest in Golden News with a consideration of approximately HK\$357.2 million, and the balance of 8.33 per cent. was and continues to be held by Champion First, of which Mr. Tse Ping was the then sole shareholder and which has now become a wholly-owned subsidiary of the Company following the Reorganisation. The Group accordingly holds a 5 per cent. attributable equity interest in CTQ. The joint venture contract and the articles of association of CTQ were amended on 2 June, 1999 so that CTH, China Qingchunbao and Hangzhou City Chia Tai Qingchunbao Staff Stock Fund (杭州正大青春寶職工持股協會) became interested in 60 per cent., 20 per cent. and 20 per cent. respectively of the registered capital of CTQ.

CTQ is principally engaged in the manufacture, distribution and sale of pharmaceutical products based primarily on natural herbal ingredients in the PRC. Currently, CTQ has obtained approvals to manufacture over 70 types of medicinal products, of which over 20 types were manufactured during 1998. The principal product of CTQ is Shen Mai Injection (參麥注射液) which is an intravenous drug made from natural Ginseng (*Radix Ginseng*) and Mai Dong (*Radix Ophiopogonis*). The medical applications of Shen Mai Injection include improving cardiomuscular systolysis and preserving and restoring cardiomuscular tissue. It is also used as an adjunct in anti-tumour therapy.

Establishment of CTF

CTF was established as a sino-foreign equity joint venture company with a term of 50 years under its business licence on 31 March, 1992 by Shandong Business Science & Technology Research Institute Service Department (山東華商技術開發服務公司), a company established in the PRC, and FII, which then held 55 per cent. and 45 per cent. of the equity interests respectively. As a result of various subsequent transfers and changes in equity of CTF, in October 1994, Sino Technology, a company then wholly-owned by Mr. Tse Ping, became interested in 55 per cent. of the registered capital of CTF by way of an injection of new capital into CTF in the amount of RMB6.05 million. The balance of the registered capital was held by Shandong Biopharmaceutical (as to 40 per cent.) and FII (as to 5 per cent.). In August 1997, CTF increased its total investment amount from RMB14 million to RMB28 million and its registered capital from RMB11 million to RMB20 million in view of the additional capital required to expand its business. The increase in capital contribution was approved by the relevant authority on 11 August, 1997.

Sino Technology has since October 1994 been the majority shareholder of CTF with its 55 per cent. interest and Shandong Biopharmaceutical and FII hold 40 per cent. and 5 per cent. of the remaining interests in CTF respectively. According to the current joint venture contract and the articles of association of CTF, the board of directors of CTF comprises seven directors, of whom three are nominated by Shandong Biopharmaceutical and the remaining four by Sino Technology. Ordinary resolutions must be passed by a simple majority while special resolutions on substantial issues (such as winding up of the joint venture and amendment to the articles of association of the joint venture) are required to be passed by unanimous votes of the directors of CTF.

During the period between 9 February, 1998 to 18 March, 1999, the entire issued share capital of CTPM, the immediate holding company of Sino Technology, was held (through wholly-owned subsidiaries) by Chia Tai Medicines Group Limited (“CTMG”) in which a 15 per cent. interest was held by Mr. Tse Ping and the balance of 85 per cent. was held by three individuals including two close relatives of Mr. Tse Ping (collectively, the “Other Former Shareholders”). Both CTPM and CTMG are investment holding companies. According to a declaration of trust dated 5 January, 2000 made by each of the Other Former Shareholders in favour of Mr. Tse Ping, each of them since 28 February, 1998 held the shares in CTMG registered in his name as nominee for Mr. Tse Ping. On 19 March, 1999, CTPM transferred all its shareholdings in Sino Technology to Mr. Tse Ping and Madam Chia Fai, who is Mr. Tse Ping’s sister on a 50:50 basis. According to a declaration of trust dated 5 January, 2000 made by Madam Chia Fai in favour of Mr. Tse Ping, Madam Chia Fai since 19 March, 1999 held the one share in Sino Technology registered in her name as nominee for Mr. Tse Ping. The day-to-day management team of CTF has been led by Mr. Tse Ping since Sino Technology became a joint venture partner in CTF in 1994 and Mr. Tse Ping has been the vice chairman in the board of directors of CTF since 1997.

On 26 July, 1999, Sino Technology allotted 900 new shares at the par value of HK\$1.00 each to Well Base (Asia) Limited as a result of which Well Base (Asia) Limited became interested in 9 per cent. of the issued share capital of Sino Technology as enlarged by such allotment. Well Base (Asia) Limited is an investment holding company wholly owned by Mr. Wang Jinyu and his spouse. Mr. Wang Jinyu, who is a business partner of Mr. Tse Ping, is also a Director.

GENERAL OVERVIEW OF THE GROUP

Sino Technology has become a wholly-owned subsidiary and CTF, which is 55 per cent. owned by Sino Technology, has become an indirect 55 per cent. owned subsidiary of the Company as a result of the Reorganisation.

Establishment of CTT

CTT was established as a sino-foreign equity joint venture company with a term of 50 years under its business licence on 16 April, 1997 by Jiangsu Tianqing and CTH, a company wholly-owned by Golden News, which then held 40 per cent. and 60 per cent. of the equity interests in CTT respectively. The total investment of CTT is RMB130.35 million and its registered capital is RMB68 million. According to the joint venture contract and the articles of association of CTT dated 5 January, 1997, the board of directors of CTT comprises five directors, two of them to be nominated by Jiangsu Tianqing and the other three by CTH.

During the period between 9 February, 1998 to 19 July, 1998, the entire issued share capital of CTPM was held by CTMG in which a 15 per cent. interest was held by Mr. Tse Ping and the balance of 85 per cent. was held by three individuals including two close relatives of Mr. Tse Ping (collectively, the “Other Former Shareholders”). According to a declaration of trust dated 5 January, 2000 made by each of the Other Former Shareholders in favour of Mr. Tse Ping, each of them has since 28 February, 1998 held the shares in CTMG registered in his name as nominee for Mr. Tse Ping. On 20 July 1998, CTL acquired from CTH its 60 per cent. equity interests in CTT in consideration of an amount of RMB 40,800,000 (equivalent to approximately HK\$38,130,000). On 27 October, 1998, approval by the PRC authorities was obtained and the transfer became effective. The two issued shares in CTL since July 1998 were held respectively by Mr. Tse Ping and by Madam Chia Fai. According to a declaration of trust dated 5 January, 2000 made by Madam Chia Fai in favour of Mr. Tse Ping, Madam Chia Fai since 22 July, 1998 held the one share in CTL registered in her name as nominee for Mr. Tse Ping. The day-to-day management team of CTT has been led by Mr. Tse Ping, who has also been the chairman in the board of directors of CTT, since the commencement of business of CTT in April 1997. CTL has become a wholly-owned subsidiary of the Company and CTT, which is 60 per cent. owned by CTL, has become an indirect 60 per cent. owned subsidiary of the Company as a result of the Reorganisation.

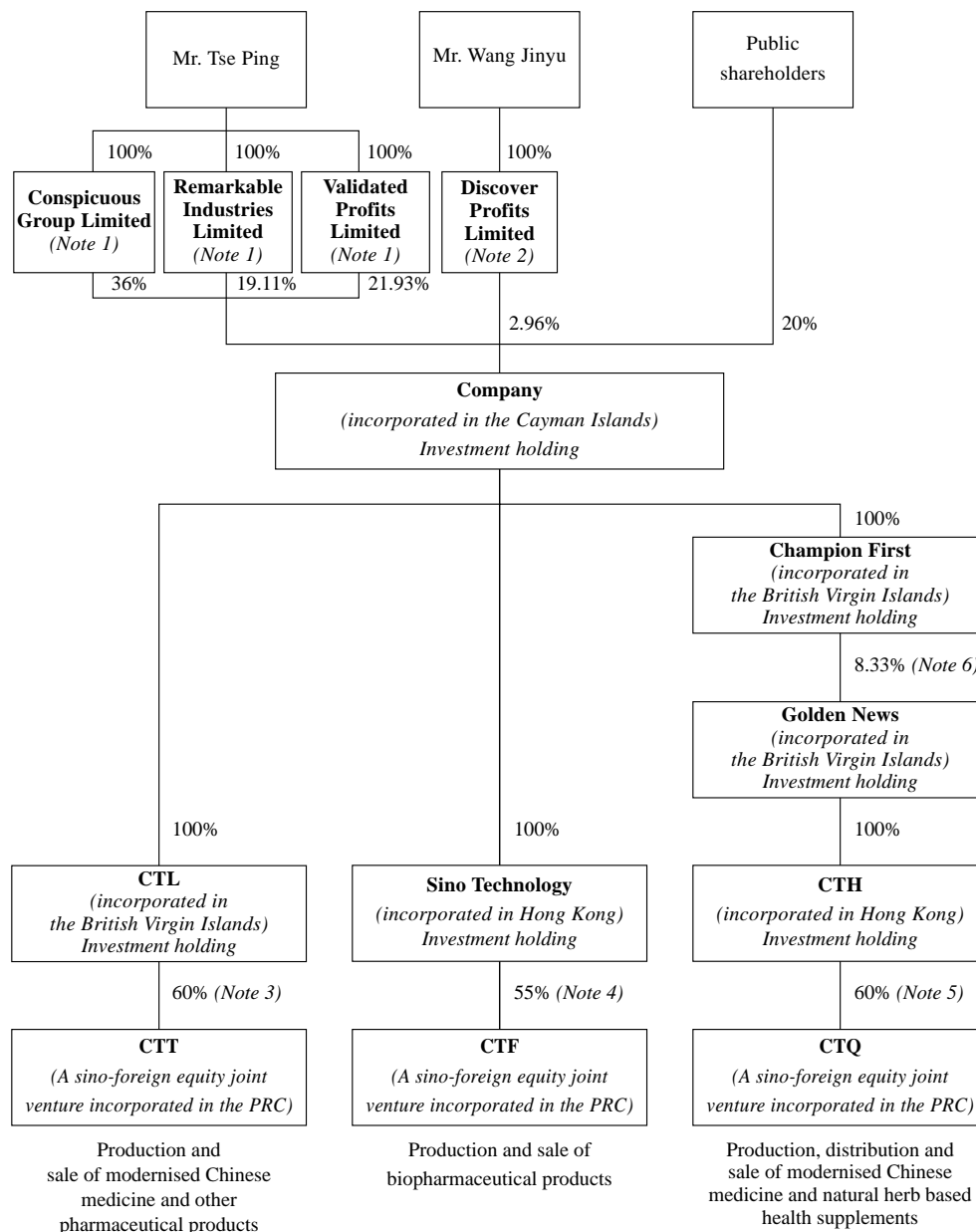
Reorganisation

In anticipation of the listing of the Shares on GEM, the Group underwent the Reorganisation, pursuant to which the Company has become the ultimate holding company of the Group.

GENERAL OVERVIEW OF THE GROUP

CORPORATE STRUCTURE

The organisation structure of the Company, its shareholders and each of its subsidiaries immediately following the completion of the Placing is set out below (assuming that the Over-allotment Option is not exercised):—



Notes:—

1. Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited are investment holding companies wholly owned by Mr. Tse Ping who is the chairman of the Company and an executive Director. All of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited and Mr. Tse Ping are Initial Management Shareholders for the purpose of the GEM Listing Rules.
2. Discover Profits Limited is an investment holding company wholly owned by Mr. Wang Jinyu who is an executive Director. Both Discover Profits Limited and Mr. Wang Jinyu are Initial Management Shareholders for the purpose of the GEM Listing Rules.

GENERAL OVERVIEW OF THE GROUP

3. The remaining 40 per cent. equity interest in CTT is held by Jiangsu Tianqing.
4. The remaining equity interest in CTF is held as to 40 per cent. and 5 per cent. by Shandong Biopharmaceutical and FII, respectively.
5. The remaining 40 per cent. equity interest in CTQ is held as to 20 per cent. by China Qingchunbao and 20 per cent. by Hangzhou City Chia Tai Qingchunbao Staff Stock Fund (杭州市正大青春寶職工持股協會).
6. The remaining 91.67 per cent. equity interest in Golden News is held indirectly by SIIC Medical.

BUSINESS OF THE GROUP

The business of the Group can be divided into the following two main categories: biopharmaceutical business; and modernised Chinese medicine and chemical medicine businesses.

(I) BIOPHARMACEUTICAL BUSINESS

Introduction

The biopharmaceutical business of the Group has been operated by CTF since March 1992 and production began in March 1993. With its production facilities in Jinan, Shandong Province, the PRC, CTF currently produces 10 different biopharmaceutical products, all of which use hyaluronan (透明質酸) as substrates. Consisting of big polysaccharide molecule, hyaluronan is a natural moisturising agent with a high degree of adhesion. Eye drops and injections using hyaluronan as substrates have a higher degree of adhesion and slower dilution than traditional eye drops and injections.

CTF was the first enterprise to be given approval to research and produce ophthalmic medicines using hyaluronan in the PRC. The Directors believe that CTF has expertise in researching and developing the medical applications of hyaluronan in the PRC.

One of the principal products of CTF is Moisten eyedrops (潤舒滴眼液), which is used primarily for treating eye diseases such as xerophthalmia (乾眼症), trachomatous conjunctivitis (結膜炎), trachoma (沙眼) and keratitis (角膜炎). The production approval (魯衛藥准字 (93) 1236-127) of Moisten eyedrops was first granted by the Public Health Department of Shandong Province in 1993. The sales of Moisten eyedrops accounted for approximately 71 per cent., approximately 68 per cent. and approximately 65 per cent. of the total sales of CTF, and approximately 25 per cent., approximately 28 per cent. and approximately 28 per cent. of the total sales of the Group, for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, respectively.

Since its introduction into the PRC market, the sales of Moisten eyedrops have grown at an average annual rate of approximately 121 per cent. between 1995 and 1999. For the year ended 31 December, 1999, the sales of Moisten eyedrops reached approximately HK\$84.3 million. Moisten eyedrops were also ranked within top ten medical products in terms of sales in the retail medicines system in the “PRC Non-prescription drugs Medical Survey — 1999”. In August 1999, according to the PRC Pharmaceutical Retail Analysis System Report (中國藥品零售分析系統報告), Moisten eyedrops were ranked the first in terms of sales among the sales of retail medicines system for eye, ear, nose and throat diseases (零售藥五官科) in the PRC. The brandname of “Moisten eyedrops” is included in the State Basic Pharmaceuticals Catalogue and the National OTC Medicines Catalogue, which allows Moisten eyedrops to be promoted through mass communication media in the PRC and to be sold widely in drug stores and supermarkets in the PRC.

Technology

CTF's medical products are based on its proprietary technology and its patented HA-containing eyedrops production technology.

Hyaluronan, an important component of CTF's products, is derived from the intercellular matrix. The intercellular matrix is a complex biological substance which connects, supports and protects the cells of living organisms. It comprises a network of entangled fibers and membranes held together by certain elastoviscous materials which consist of hyaluronan (a polysaccharide), molecular complexes of proteins and other polysaccharides (proteoglycans). This intercellular matrix forms a highly specific environment for cells and is largely responsible for the regulation of regenerative and healing processes in the body.

Using its patented production technology, CTF has developed a broad spectrum of proprietary products.

From a therapeutic standpoint, CTF's medical products address three medical treatment modalities: viscosurgery (黏液治療), viscosupplementation (黏液補充療法) and matrix engineering (基質工程). *Viscosurgery* is the use of viscoelastic protection solutions to prevent tissue adhesions after surgery. *Viscosupplementation* is the use of elastoviscous solutions and viscoelastic gels to replenish the body's natural elastoviscous substances, such as the lubricating fluid for the joints or the tears of the eye. *Matrix engineering* is the therapeutic use of biomaterials to direct or modify the healing or regenerative processes of tissue, e.g. by filling tissue space in the skin or muscle with a gel or film like materials in order to speed up the healing and regenerative processes of tissue and reduce scar formation after surgery.

GENERAL OVERVIEW OF THE GROUP

Products

CTF's products include a total of 10 types of pharmaceuticals, which can be divided into three categories: ophthalmic medicine (眼科用藥), osteoarthritis medicine (骨科用藥) and dermatitis medicine (皮膚用藥). Sales of the remaining two products are very limited. A brief description of the major products of CTF is as follows:—

Name	Medicine category	Form	Functions
<i>Ophthalmic medicine</i> (眼科用藥)			
Moisten eyedrops (潤舒滴眼液)	Biochem medicine	Eyedrop	Treatment for xerophthalmia (乾眼症), keratoconjunctivitis sicca (乾燥性角膜結膜炎), trachomatous conjunctivitis (沙眼), keratitis (角膜炎), blepharitis (瞼線炎), ambustio by chemicals (化學品造成的眼睛灼傷)
C.P. Bright eyedrops (正大維他滴眼液)	Biochem medicine	Eyedrop	Treatment for acute conjunctiva (慢性結膜炎), conjunctival congestion (結膜充血), injury of cornea and conjunctiva (角膜及結膜受損), fatigue and infection (眼睛疲勞及感染)
C.P. Jasper eyedrops (正大捷普滴眼液)	Biochem medicine	Eyedrop	Anti-virus medicine for eye disease
Fredex eyedrops (F的確當滴眼液)	Biochem medicine	Eyedrop	Anti-infection and anti-inflammation
Frecoseryl eyedrops (F角膜寧滴眼液)	Biochem medicine	Eyedrop	Treatment for keratitis, cornea ulcer, injury of cornea
Pilocarpine Nitrate eyedrops (真瑞滴眼液)	Biochem medicine	Eyedrop	Treatment for glaucoma (青光眼)
IVIZ Sodium Hyaluronate injection (愛維注射液)	Biochem medicine	Injection	An adjuvant used in intraocular surgery such as cataract extraction (白內障摘除)

GENERAL OVERVIEW OF THE GROUP

Name	Medicine category	Form	Functions
Carbamylcholine injection (卡米可林注射液)	Chemical medicine	Injection	An iridoconstrictor (縮瞳劑) used in intraocular surgery such as cataract extraction and corneal transplant
<i>Osteoarthritis medicine</i> (骨科用藥)			
SOFAST Sodium Hyaluronate injection (施沛特)	Biochem medicine	Injection	For adhesive capsulitis and osteoarthritis (骨關節炎和肩周炎)
<i>Dermatitis medicine</i> (皮膚用藥)			
HEPUDIOD cream (海普林)	Biochem medicine	Ointment	Treatment for damaged tissues caused by various types of localised wounds such as burns, varicose veins, edema and eczema.

Ophthalmic medicine

Hyaluronan eye drops is used as an elastoviscous lubricating supplement to moisten the eye and to protect the surface of the eye when production of tears is impaired, as in dry eye and other conditions. Other treatments tend to require frequent applications to relieve pain, itching and burning sensations. The Directors believe that the elastoviscous properties of hyaluronan would reduce the frequency required for a patient to lubricate the surface of the eye with eyedrops. The principle hyaluronan eye drop products of CTF are Moisten eyedrops, C.P. Bright eyedrops and C.P. Jasper eyedrops.

IVIZ Sodium Hyaluronan injection is applied directly to the front ventricle of the eye during ophthalmic surgery which acts as a protector and lubricant for delicate tissues and helps to maintain the shape of the eye during certain procedures, such as cataract removals and intraocular lens implantations. Its major application is mostly in surgical procedures such as intraocular surgery. The principle hyaluronan injection product of CTF is IVIZ Sodium Hyaluronate injection.

Osteoarthritis medicine

The major symptom of osteoarthritis, a chronic degenerative disease of the joints, is the deterioration of articular cartilage. Concurrently, the synovial fluid of the joints progressively loses its natural lubricating and shock absorbing properties necessary for normal joint functions. Affecting primarily the body's weight bearing joints, such as the knees, osteoarthritis may result in severe pain and, ultimately, impairment of the functions of the joints. Osteoarthritis products were developed by CTF to address the pain and impairment of functions of the joints caused by osteoarthritis. The principal product of CTF for osteoarthritis is SOFAST Sodium Hyaluronate injection which involves injections into the affected arthritic joint in order to supplement the natural lubricating and protective properties of the synovial fluid. Similar to the naturally-occurring hyaluronan, this product has a longer residence time in the affected joints and can help relieve the symptoms and pain.

GENERAL OVERVIEW OF THE GROUP

Dermatitis medicine

Healed wounds often develop capsules, adhesions to other tissues or excessive scarring. Such abnormal wound healing may result in severe pain, dysfunction and deformation. CTF's HEPUDIOD Cream is intended to help prevent inflammation of skin wound, speed up the healing process and inhibit tissue proliferation to reduce scar formation.

Production

Production facilities and GMP certification

The production facilities of CTF are located in Jinan, Shandong Province with a gross floor area of approximately 7,770.5 sq.m. The entire facilities are leased to CTF by Shandong Research Institute. Detailed information is set out in the section headed "Relationship with Shandong Biopharmaceutical and Jiangsu Tianqing".

CTF has three production workshops for eyedrop production, canned injection production and ointment production, respectively. The production of eyedrop and injection have obtained GMP certification. The Directors expect that additional expenses of approximately HK\$12.1 million will have to be incurred for the ointment production workshop to be upgraded to meet the GMP requirements. Such expenses are expected to be financed by CTF's internal resources. The Directors expect to file an application for GMP certification for the ointment production workshop and obtain the relevant GMP certificate by the end of 2001.

The production facilities of CTF are summarised as follows:—

Workshop name	Products produced	Annual production capacity	GMP certification
Eyedrop production workshop	Moisten eyedrops, C. P. Bright eyedrops, C. P. Jasper eyedrops, Fredex eyedrops, Frecoseryl eyedrops, Pilocarpine Nitrate eyedrops	25 million bottles of eyedrops	GMP certificate obtained
Canned injection production workshop	IVIZ Sodium Hyaluronate injection Carbamylcholine injection SOFAST Sodium Hyaluronate injection	1 million bottles of injection	GMP certificate obtained
Ointment production workshop	HEPUDIOD cream	3 million bottles of ointment	Implementing GMP procedures

GENERAL OVERVIEW OF THE GROUP

With respect to CTF's production of ointment, there is currently no prescribed time before which the Group will have to comply with the GMP standard. The Directors understand that those non-compliance workshops producing Ointment can continue to produce their existing products but cannot apply for production of new medicines. Nevertheless, there is no assurance that this arrangement will continue in the future. The Directors are not aware of any breach of any relevant regulations regarding GMP compliance of the production facilities of the Group.

Production planning

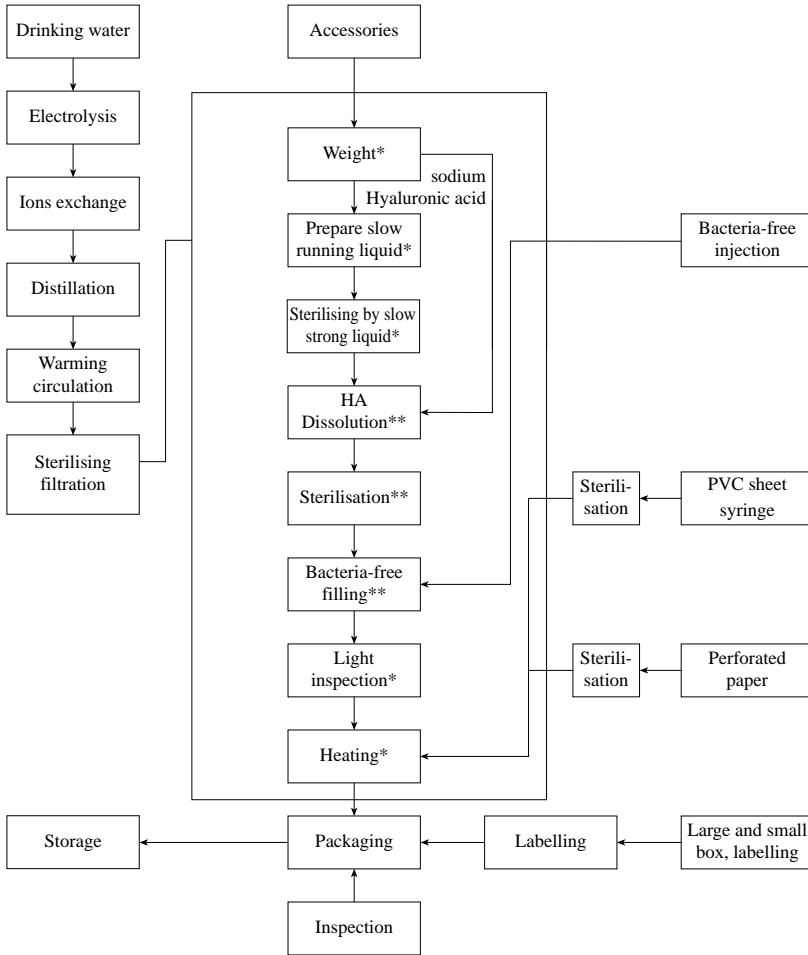
The planning of production output of CTF is principally based on market demand. On a monthly basis, CTF will develop a production plan for the next three months and arrange the production schedule for the next month based on orders on hand and inventory level. In addition, the actual monthly production plan will be adjusted taking into account actual sales and inventory level. The inventory turnover of CTF generally did not exceed three months' demand during the Track Record Period.

GENERAL OVERVIEW OF THE GROUP

Production processes

The production processes for the three forms of CTF's products, namely, (i) injection, (ii) eyedrops and (iii) ointment, are briefly described as follows:—

1. Production process for injection



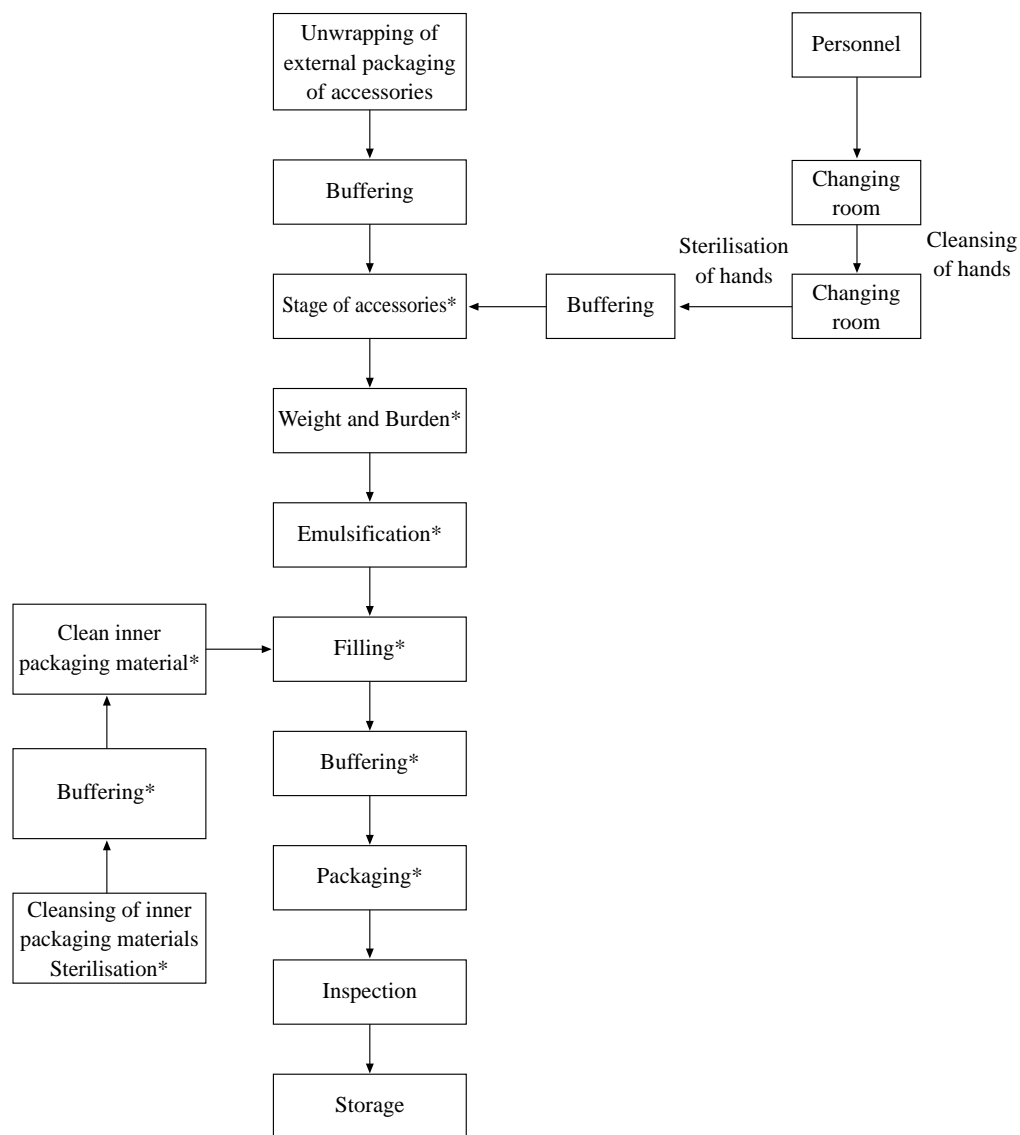
One of the production characteristics of hyaluronan is that it cannot be sterilised by high temperature; otherwise its efficacy will be reduced. It therefore has to be produced in bacteria-free at 10,000 environment and, for some stages, bacteria-free at 100 environment.

* Bacteria-free at 10,000 (Note)

** Bacteria-free at 100 (Note)

GENERAL OVERVIEW OF THE GROUP

3. Production process for ointment



* Bacteria-free at 100,000 (Note)

Note:—

The table below sets out information regarding bacteria-free levels:—

Bacteria-free level	Amount of dust/m ³		Amount of live microorganism/m ³	
	≥ 0.5 μm	≥ 5 μm	Subsiding bacteria	Floating bacteria
at 100	≤ 3,500	0	≤ 1	≤ 5
at 10,000	≤ 350,000	≤ 2,000	≤ 3	≤ 1000
at 100,000	≤ 3,500,000	≤ 20,000	≤ 10	≤ 500

Raw materials

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the costs of raw medicinal materials represented approximately 22 per cent., approximately 28 per cent. and approximately 25 per cent. of the total production costs of CTF, respectively. The major raw materials used by CTF for the production of ophthalmic medicine is high quality hyaluronan. CTF purchases hyaluronan in bulk and processes it into high quality hyaluronan suitable for ophthalmic medicines. During the same periods, the costs of hyaluronan accounted for approximately 20 per cent., approximately 15 per cent. and approximately 15 per cent., respectively, of the total production costs of CTF, whereas the cost of packaging materials accounted for approximately 46 per cent., approximately 38 per cent. and approximately 38 per cent., respectively, of the total production costs of CTF.

Purchases by CTF of raw materials are settled in RMB and in general the credit period granted by major suppliers to CTF is 30 days.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, purchases from CTF's five largest suppliers accounted for approximately 42 per cent., approximately 47 per cent. and approximately 57 per cent. respectively of its total purchases and approximately 6 per cent., approximately 13 per cent. and approximately 15 per cent., respectively, of the Group's total purchases. Among them, the largest supplier accounted for approximately 16 per cent., approximately 15 per cent. and approximately 20 per cent., respectively of CTF's total purchases and approximately 2 per cent., approximately 4 per cent. and approximately 5 per cent., respectively, of the Group's total purchases. None of CTF, the Company and the Directors nor their respective associates has any interests in any of these five largest suppliers of raw materials. The Group did not experience any significant difficulty in sourcing raw materials during the Track Record Period and the Directors do not foresee any significant difficulty in the sourcing of raw materials in the foreseeable future.

GENERAL OVERVIEW OF THE GROUP

Sales and marketing

The following table sets forth the sales of the principal products of CTF during the Track Record Period:—

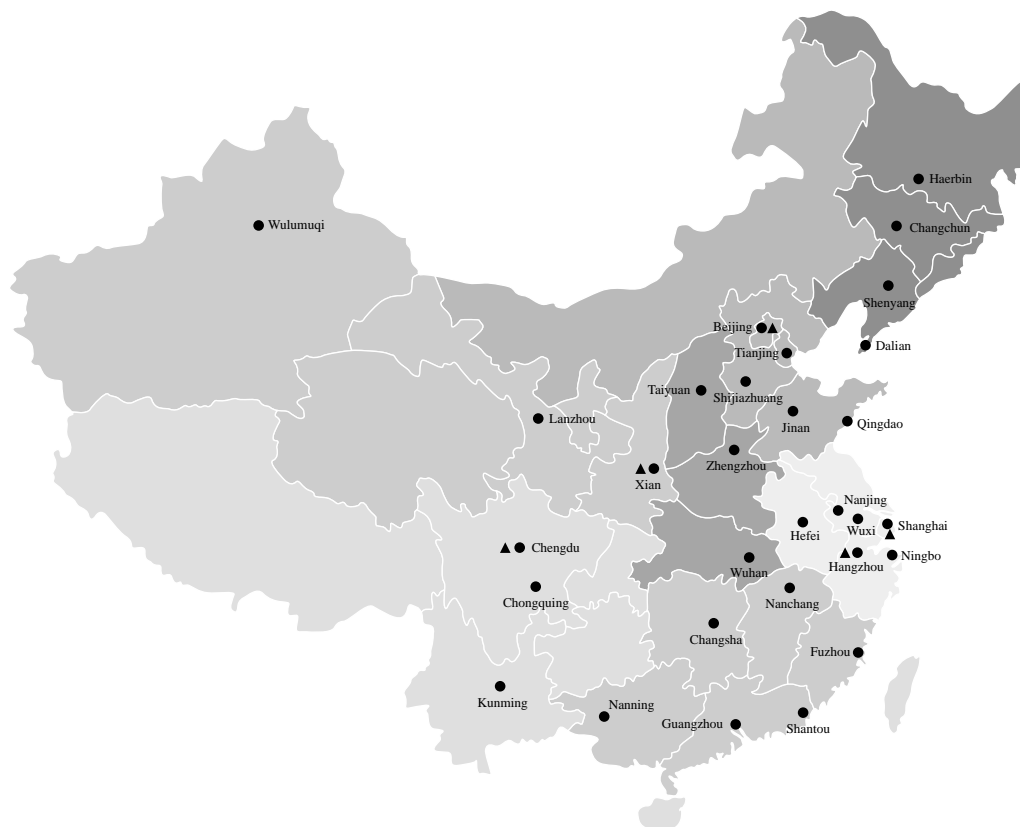
	Year ended 31 December, 1998		Year ended 31 December, 1999		Five months ended 31 May, 2000	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<i>Ophthalmic medicine</i>						
MOISTEN eyedrops	59,171	70.7	84,271	68.4	44,264	65.0
IVIZ Sodium Hyaluronate injection	6,797	8.1	6,745	5.5	3,065	4.5
<i>Carbamylcholine injection</i>						
FREDEX eyedrops	—	—	1,835	1.5	903	1.3
FRECOSERYL eyedrops	—	—	5,228	4.3	3,429	5.0
PILOCARPINE NITRATE eyedrops	—	—	3,225	2.6	2,298	3.4
	—	—	316	0.3	228	0.3
C.P. JASPER eyedrops	2,297	2.7	2,638	2.1	1,435	2.1
C.P. BRIGHT eyedrops	2,709	3.2	4,021	3.3	2,366	3.5
<i>Orthopaedic medicine</i>						
SOFAST Sodium Hyaluronate injection	3,840	4.6	7,541	6.1	4,727	6.9
<i>Dermatitis medicine</i>						
HEPUDIOD cream	3,379	4.0	6,604	5.4	3,586	5.3
<i>Non-core products</i>	<u>3,809</u>	<u>4.8</u>	<u>692</u>	<u>0.5</u>	<u>1,753</u>	<u>2.7</u>
Total	<u>83,606</u>	<u>100.0</u>	<u>123,116</u>	<u>100.0</u>	<u>68,054</u>	<u>100.0</u>

GENERAL OVERVIEW OF THE GROUP

CTF divides its sales area into five regions, namely northwest China, south China, east China, northeast China and central China, and has established five corresponding sales centers in Xian, Chengdu, Hangzhou, Shanghai and Beijing which are in charge of a total of 30 representative offices in various locations in the PRC.

The map below illustrates the geographical locations of CTF's sales centres and representative offices in the PRC:—

Sales network of CTF



- ▲ — Sales centre
- — Representative office

GENERAL OVERVIEW OF THE GROUP

The following table sets forth a geographical analysis of the sales of the products manufactured by CTF during the Track Record Period:—

	Year ended 31 December,		Five months ended
	1998	1999	31 May, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Northwest China (<i>Note 1</i>)	10,766	13,047	7,622
South China (<i>Note 2</i>)	18,210	27,113	11,705
East China (<i>Note 3</i>)	15,853	23,708	13,611
Northeast China (<i>Note 4</i>)	21,249	23,338	12,590
Central China (<i>Note 5</i>)	<u>17,528</u>	<u>35,910</u>	<u>22,526</u>
Total	<u><u>83,606</u></u>	<u><u>123,116</u></u>	<u><u>68,054</u></u>

Notes:—

1. Northwest China — Shanxi, Gansu, Henan and Yunnan provinces and Xinjiang Autonomous Region
2. South China — Hunan, Hubei, Sichuan and Guangdong provinces
3. East China — Zhejiang, Jiangxi, Fujian, Anhui provinces and Tianjing
4. Northeast China — Heilongjiang, Liaoning, Jilin and Hebei provinces and Beijing
5. Central China — Shandong, Jiangsu, Henan provinces and Shanghai

As at 30 June, 2000, CTF had a sales and marketing team consisting of 289 staff who were responsible for sales and promotion, customer relations, payment collection and market research.

The sales staff of CTF are divided into three groups: out-patient medicine representatives who are responsible for the sales of pharmaceuticals of CTF to pharmaceutical retailers, business representatives who are responsible for the sales of pharmaceuticals of CTF to pharmaceutical wholesalers and medical representatives who are responsible for the promotion of pharmaceuticals to hospitals.

CTF currently has approximately 900 customers in the PRC. Most customers of CTF are pharmaceutical distributors while some are hospitals. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, sales to the five largest customers of CTF accounted for approximately 12 per cent. of the total sales of CTF. CTF has established business relationship with its five largest customers for at least five years. None of CTF, the Company and Shandong Biopharmaceutical, the Directors or their respective associates has any interests in the five largest customers of CTF.

GENERAL OVERVIEW OF THE GROUP

CTF exercises stringent control and supervision over the credit terms granted to its customers. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, approximately 96 per cent., approximately 95 per cent. and approximately 95 per cent. of the sales of CTF had credit periods ranging from 30 days to 120 days, respectively. The remaining sales of CTF were settled by cash, bank cheques or bank transfers. The management of CTF review the bad and doubtful debts position periodically. Individual provisions will be made once bad debts are determined. As at 31 December, 1998, 31 December, 1999 and 31 May, 2000, the provisions for bad debts of CTF were HK\$816,138, HK\$680,406 and HK\$682,725, respectively.

CTF's marketing focus is advertising through newspapers, television, medical and specialist magazines and other media. CTF also holds promotion seminars in various hospitals through its regional representative offices.

CTF organises training programs to sharpen the marketing skills and product knowledge of its sales and marketing staff on a regular basis.

Pricing policy

Pharmaceutical products (including CTF's pharmaceutical products) are subject to price control administered at the State or provincial levels in the PRC. The main objective of price control is to set ceilings for the ex-factory prices, the wholesale prices and the retail prices of pharmaceutical products. However, pharmaceutical enterprises in the PRC can apply to the provincial price bureau to adjust such prices for their products. The Directors are not aware of any CTF's applications for price adjustments having been denied by the relevant price control administrative authorities during the Track Record Period.

Intellectual property rights

In an effort to protect its core technology and products, CTF has obtained a licence regarding the patent (already granted or in the process of application) for the use of certain materials in its various principal products and their production method. These products include Moisten eyedrops (in relation to which the relevant patent has been granted and will expire on 16 June, 2013) and C. P. Bright eyedrops, C. P. Jasper eyedrops, Fredex eyedrops, Frecoseryl eyedrops, Pilocarpine Nitrate eyedrops and Hepudiod cream (in relation to which patent are in the process of application or to be announced).

CTF has also registered 17 trademarks for all its existing products. Particulars of these trademarks are set forth under "Intellectual property" in Appendix V to the prospectus.

Competition

CTF researched and developed its own ophtalmic medicine with hyaluronic acid as substrates by its in-house research team. The high quality hyaluronic acid needed for its products is derived from the fermentation of microorganisms. The technology and formula for using hyaluronic acid and other medicines to produce products such as Moisten eyedrops enjoy patent protection in the PRC. Apart from developing pharmaceutical products which are currently under demand, CTF has also purchased machinery and equipment for the production of new drugs. In line with the changes in the policies in the PRC as regards product protection, CTF has already applied for patent and product protection for

GENERAL OVERVIEW OF THE GROUP

numerous products under development in order to maintain its competitive position. The Directors believe that CTF has established a commanding position in respect of several types of technology over similar pharmaceutical products in the PRC.

The sale price of Moisten eyedrops is approximately RMB10 (equivalent to approximately HK\$9.4) per bottle, which is lower than the price of similar imported eye drops sold in the PRC. According to the “PRC Non-prescription drugs Medical Survey — 1999”, Moisten eyedrops was ranked one of the top ten medical products in terms of sales in the retail medicines system. According to the “PRC Pharmaceutical Retail Analysis System Report” (“中國藥品零售分析系統報告”) issued in August, 1999, Moisten eyedrops was ranked first in terms of sales of retail medicines for eye, ear, nose and throat diseases in the PRC. CTF was granted the patent over preparation of Moisten eyedrops with a protection period of 20 years from 1995. The Directors believe that such patent protection enables CTF to enjoy a significant competitive advantage over other ophthalmic medicine available in the market.

HEPUDIOD cream, the ointment manufactured by using low molecular hepain as substrates for the treatment of dermatitis, was also developed by CTF itself.

According to the PRC Biopharmaceutical Economy Statistics Report of 1999, CTF was one of the top five biochemical pharmaceutical production enterprises in the PRC in terms of sales value. It was ranked second in terms of net profit out of all of the PRC’s biopharmaceuticals producers.

Research and development

Most of CTF’s products were developed by CTF internally, including Moisten Eyedrop. As at 30 June, 2000, CTF had 17 staff in its research and development department and it also engaged more than 40 ophthalmologists and professors as consultants to advise on the research and development of products and clinical efficacy.

Mr. Ling Peixue, an executive Director and the general manager of CTF, has engaged in the research and development of hyaluronan for approximately 17 years. Mr. Ling is a member of Industrial Biochemical Professional Committee of the Biochemical Association of the PRC, a member of the Industrial Biochemical Professional Committee of the Association of Biochemistry and Molecular Biology of the PRC and an executive director of Industrial Association of Biopharmaceuticals of the PRC. He has published approximately 30 theses on biopharmaceutical products, including, in particular, hyaluronan, and received nine awards for scientific research and outstanding achievements in various aspects. Products of CTF were researched and developed by CTF’s research and development team under the guidance of Mr. Ling.

In 1994, CTF’s sodium hyaluronate injection was awarded the First Prize in the National Domestic Trade Department Scientific Advancement Award (國家國內貿易部科學技術進步獎). In 1997, the Intra-articular sodium hyaluronate injection (“關節腔內注射用玻璃酸鈉注射液”) of CTF was awarded the Third Prize of New Medicine Research and Development Award (新藥研製三等獎) by SDA. In 1998, the biochem pharmaceutical research of CTF was awarded the Third Prize in the Scientific Advancement Award (科學進步三等獎) by the Ministry of Domestic Trade of the PRC.

GENERAL OVERVIEW OF THE GROUP

CTF also entered into an agreement on 10 December, 1999 with the Shandong Research Institute in respect of joint research and development of new products for a period of ten years. Pursuant to the agreement, CTF has the first right to acquire research products of the Shandong Research Institute. CTF can request Shandong Research Institute to conduct research on projects designated by CTF in line with the production technologies and product development of CTF. Research products resulting from projects designated by CTF belong to both CTF and Shandong Research Institute.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the research and development costs incurred by CTF were approximately HK\$1.2 million, HK\$1.9 million and HK\$0.6 million, respectively.

The principal direction of product research and development of CTF is biological ophthalmic medicine. CTF currently has three new products under research and development. All of them are aimed at frequently-occurring clinical diseases and common ailments, especially for treating the syndrome of eye fatigue, which has become very common with the wide use of computers and electronic appliances in daily life. The three new products under research and development by CTF are summarised as follows:—

Product name	Clinical applications	Development stage
Jingfu eyedrops (晶福滴眼液)	Treatment for contract	Pre-clinical trial study completed
Composite Tobramycin Gel (複方妥布霉素凝膠)	Anti-virus, anti-inflammation and anti-allergy medicine for eye disease	Pre-clinical trial study
Butenafine Hydrochloride Gel (布替耐芬凝膠)	Anti-virus, anti-infection	Pre-clinical trial study

Quality control

The Directors regard product quality as the prime factor to which the continuing success of CTF can be attributed. Accordingly, CTF continuously tries to maintain and enhance its product quality. CTF has begun to improve and manage its production in accordance with GMP standards since 1996, and the eyedrops and canned injection have obtained GMP certification in 1999. Its ointment production workshop has been implementing GMP procedures and is expected by the Directors to fully comply with GMP procedures before June 2001. None of CTF's products have failed to meet the applicable quality standards prescribed by the relevant PRC authorities.

On 30 June, 2000, CTF employed 21 staff responsible for quality control. In order to enhance the performance of its staff, CTF organises training programs for its staff to improve their knowledge in quality control. Furthermore, CTF has also compiled a quality control manual for implementation by staff and various departments.

During the Track Record Period, CTF did not experience any material interruption to its business due to failure in the quality control system. The Directors confirm that CTF has never experienced any claims, lawsuits or litigation concerning the quality of its products.

GENERAL OVERVIEW OF THE GROUP

(II) ACTIVE BUSINESS PURSUITS IN THE GROUP'S BIOPHARMACEUTICAL BUSINESS

Sales

The sales volume of the principal products of CTF during the Track Record Period was set out as follows:—

Product name	Year ended 31 December,		Five months ended
	1998	1999	31 May, 2000
	<i>('000 bottles)</i>		
Moisten eyedrops	11,488	15,651	8,299
IVIZ Sodium Hyaluronate injection	89	90	41
Carbamylcholine injection	84	94	47
C.P. Bright eyedrops	533	792	473
C.P. Jasper eyedrops	221	239	133
SOFAST Sodium Hyaluronate injection	36	72	45
Hepudiod cream	396	755	415

Marketing

The expansion in the marketing operation of CTF during the Track Record Period was as follows:—

Period	Number of sales centres	Number of representative offices	Number of sales staff	Marketing expenses <i>HK\$'000</i>
Six months ended 30 June, 1998	4	16	180	15,143
Six months ended 31 December, 1998	5	16	201	17,149
Six months ended 30 June, 1999	5	25	243	18,505
Six month ended 31 December, 1999	5	30	265	23,553
From 1 January, 2000 to 31 May, 2000	5	30	289	25,452

GENERAL OVERVIEW OF THE GROUP

Production facilities and GMP compliance

CTF has been improving and upgrading its production facilities in the last few years as follows:—

Period	Plant	Status of Compliance with GMP
Six months ended 30 June, 1998	Located in Jinan of Shandong Province with a total gross floor area of approximately 2,624 sq.m.	Canned injection workshop, eyedrop and ointment workshops implemented GMP procedures by rearranging of the different sections of the production facilities in accordance with the GMP standard.
Six months ended 31 December, 1998	Total gross floor area of approximately 5,429 sq.m.	Canned injection workshop, eyedrop workshop and ointment workshop continued implementation of GMP procedures.
Six months ended 30 June, 1999	Established a new workshop. Total gross floor area increased to 7,770.5 sq.m.	Canned injection and eyedrop applied for GMP certification. Ointment workshop continued implementation of GMP procedures.
Six months ended 31 December, 1999		Canned injection and eyedrop obtained GMP certificates. Ointment workshop continued GMP procedures.
From 1 January, 2000 to the Latest Practicable Date		Ointment workshop continued GMP procedures.

GENERAL OVERVIEW OF THE GROUP

Research and development

In the past few years, CTF has been continuously developing new products. The major progress made during the period is illustrated as follows:—

Period	Pilocarpine Nitrate eyedrops	Mioclear eyedrops	Jingfu eyedrops	Composite Tobramycin Gel
Six months ended 31 December, 1997	Application submitted for new medicine	Obtained approval for clinical trial		
Six months ended 30 June, 1998	Received new medicine certificate and applied for production approval	Commenced clinical trial	Conducted feasibility study	Conducted feasibility study
Six months ended 31 December, 1998	Received production approval	Completed clinical trial	Established pre-clinical trial study project	Established pre-clinical trial study project
Six months ended 30 June, 1999	Commenced production	Applied for production approval	Commenced pre-clinical trial study	Commenced pre-clinical trial study
Six months ended 31 December, 1999		Obtained production approval	Continued with pre-clinical trial study	Continued with pre-clinical trial study
From 1 January, 2000 to the Latest Practicable Date		Commenced production	Completed pre-clinical trial study	Completed pre-clinical trial study

Number of full-time staff

The table below sets out a breakdown of full-time staff of CTF according to their major operational functions.

Functions	As at 31 December,		As at
	1998	1999	the Latest Practicable Date
Production	46	52	68
Quality management and control	16	21	23
Sales and marketing	201	265	289
Research and development	16	17	17
Purchasing	5	5	5
Administration	78	95	104
Total	<u>362</u>	<u>455</u>	<u>506</u>

(III) MODERNISED CHINESE MEDICINE AND CHEMICAL MEDICINE BUSINESSES

The modernised Chinese medicine and chemical medicine businesses of the Group are operated by CTT. According to the “Pharmaceutical Statistics Yearbook 1999” of SETC, CTT was one of the top 50 chemical pharmaceutical industrial enterprises in the PRC in terms of taxable profit in 1999. With its production facilities in Lianyungang, Jiangsu Province, the PRC, CTT currently produces approximately 80 different types of modernised Chinese medicine and chemical medicine. The principal products of CTT are Diammonii Glycyrrhizinatis (甘利欣) and Polyporus Polysaccharide injection (豬苓多糖注射劑), which are used in the medical treatment of hepatitis.

The functions of Diammonii Glycyrrhizinatis include anti-inflammation, protection of membranes of liver cells and enhancement of liver functions. The chemical substances for the production of Diammonii Glycyrrhizinatis are extracted and separated from licorices (甘草) using botany-chemical method and alpha licorice acid, which has a high degree of efficacy in treating hepatitis. Alpha licorice acid has the characteristics of high activation, high lipotropism and easy assimilation by the human body. Through its research and development, CTT has produced Diammonii Glycyrrhizinatis in the form of injections and capsules, which are included in the State Basic Pharmaceuticals Catalogue. The medicine approval certificates ((94) 衛藥准字 x-74號 and (94) 衛藥准字 x-75號) of Diammonii Glycyrrhizinatis were granted by MPH in 1994. CTT has been certified by the Research Institute of the Scientific Development of Public Health and Pharmaceutical of the MPH as the first pharmaceutical enterprise in the PRC applying licorice in the research and production of modernised Chinese medicine for the medical treatment of hepatitis, while its product, Diammonii Glycyrrhizinatis, was certified as the premier licorice medicine for the medical treatment of hepatitis. The Directors believe that CTT is one of the leading producers of licorice pharmaceuticals for the medical treatment of hepatitis in the PRC.

Polyporus Polysaccharide injection, a modernised Chinese medicine, is another principal product of CTT. It is produced through the extraction of polysaccharide (多糖類成份) from umbellate pore fungus (豬苓), a traditional Chinese herbal medicine. Polyporus Polysaccharide injection received production approval (蘇衛藥准字 (91) 1857-1) from the Public Health Department of Jiangsu Province, the PRC in 1991, and is classified as a Class 2 state protected Chinese medicine.

The Directors consider that, with the certification issued by the relevant authorities and/or organisations in the PRC, CTT is one of the leading pharmaceutical enterprises engaged in the research and development of modernised Chinese medicine using licorice in the medical treatment of hepatitis.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the aggregate sales of Diammonii Glycyrrhizinatis injections and capsules and Polyporus Polysaccharide injection accounted for approximately 56 per cent., approximately 68 per cent. and approximately 71 per cent. of the sales of CTT and approximately 36 per cent., approximately 41 per cent. and approximately 41 per cent. of the total sales of the Group, respectively.

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Products

CTT has obtained approvals to produce approximately 80 modernised Chinese medicine and chemical medicine. A brief description of the principal products of CTT is as follows:—

Product	Medicine category	Form	Functions
<i>For hepatitis</i>			
Diammonii Glycyrrhizinatis injection (甘利欣注射液)	Modernised Chinese medicine	Injection	Treatment of hepatitis
Diammonii Glycyrrhizinatis capsules (甘利欣膠囊)	Modernised Chinese medicine	Capsule	Treatment of hepatitis
Polyporus Polysaccharide injection (豬苓多糖注射液)	Modernised Chinese medicine	Injection	Treatment of chronic hepatitis, prevention of tumor (tumor tissue growth), improve immune system and reduce the side effects of chemotherapy (化療)
<i>For urinary tract</i>			
Zegui Longshuang capsule (澤桂癭爽膠囊)	Modernised Chinese medicine	Capsule	Used in prostatic proliferation of bladder (膀胱瘀阻型前列腺增生症)
<i>For anti-virus</i>			
Foscarnet Disodium injection (可耐注射液)	Chemical medicine	Injection	Anti-virus, used in organ transplant, AIDS patients and for CMV meningoencephalitis (CMV性網膜炎)
<i>For anti-ageing</i>			
Proanthocianidin capsule (必綠膠囊)	Plant extracts	Capsule	Anti-ageing
<i>For Orthopaedics</i>			
Etidronate Disodium tablet (依麟片)	Chemical medicine	Tablet	Treatment for osteoporosis (骨質疏鬆症)

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The principal ingredient of Diammonii Glycyrrhizinatis injections and Diammonii Glycyrrhizinatis capsules is licorice (甘草). The use of licorice has over 2000 years of medical history. CTT's medical researchers discovered the protective function which licorice conferred on the liver in historical documents. Based on this research, CTT managed to separate various chemical substances from licorice, from which alpha licorice acid, an active ingredient for treating hepatitis, was selected. Despite its low content in licorice, alpha licorice acid has lipotropism and can combine easily with receptor protein and steroid hormone to target cell receptors of human bodies. CTT researched and eventually successfully developed Diammonii Glycyrrhizinatis for treating hepatitis which has better medical treatment efficacy against chronic hepatitis, lower recrudescence rate and a cheaper price compared to most other similar products. It is the third generation (which is also the latest) product of modernised Chinese medicine made from licorice. By possessing the proprietary technology in the production of Diammonii Glycyrrhizinatis, CTT has received certification for being in a leading position in the research and manufacture of high efficacy, low cost modernised Chinese medicine for the medical treatment of hepatitis using licorice-derived medicines.

Diammonii Glycyrrhizinatis injections and capsules and Polyporuse Polysacchoride injections are listed in the State Basic Medicines Catalogue and the urban medicare insurance catalogue in the PRC. Polyporuse Polysaccharide injection, a modernised Chinese medicine, is under patent protection in the PRC and has been used for medical treatment against hepatitis for nearly 10 years.

GENERAL OVERVIEW OF THE GROUP

Production

Production facilities and GMP certification

The production facilities of CTT are located in Lianyungang, Jiangsu Province. It has six workshops, two auxiliary workshops, a research and development centre and a medicine laboratory, with a total gross floor area of approximately 34,370.9 sq.m. The production facilities are as follows:—

Workshop name	Major products produced	Production capacity	GMP certification
Small volume injection workshop	Polyporuse Polysaccharide injection, Diammonii Glycyrrhizinatis injection	180 million bottles of injections	Implementing GMP procedures
Large volume injection workshop	Mannital injection	20 million bottles of injections	Implementing GMP procedures
Solid preparation workshop	Etidronate Disodium tablet, Diammonii Glycyrrhizinatis capsule and Proanthocianidin capsule	100 million tablets and 50 million granules	GMP certificate obtained
Powder injection workshop	Sepctinomycin hydrochloride powder injection	250 million bottles of injections	GMP certificate obtained
Plant extraction workshop	Proanthociandin, Hyoericin	Annual processing of 1,000 tonnes of medicine herbs	Implementing GMP procedures
Synthetis drugs raw material workshop	Etidronote Disodium	20,000 kilograms	Implementing GMP procedures

The Directors plan to upgrade the production facilities of CTT to enable it to apply for and obtain GMP certification for the remaining workshops by 2002.

Production plan

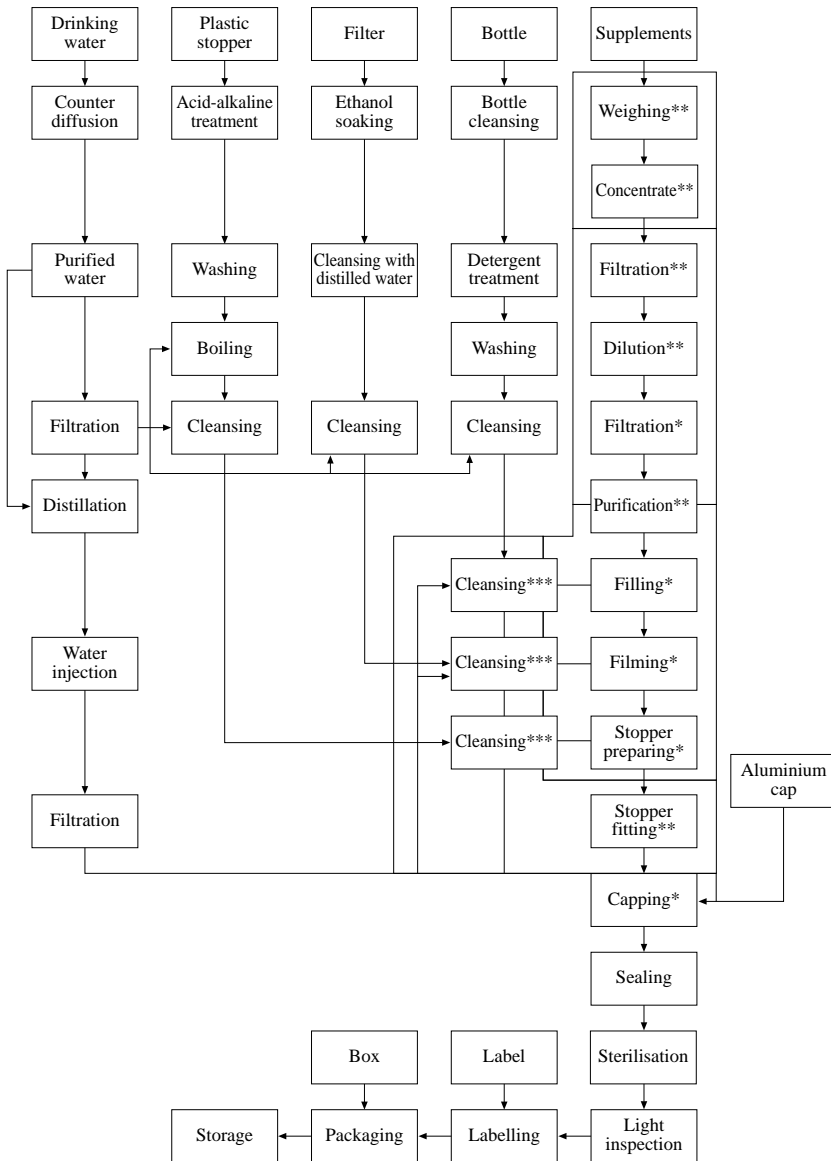
The planning of the production output of CTT is principally based on market demand. On a monthly basis, CTT will develop a production plan for the next three months and arrange the production schedule for the next month based on orders on hand and inventory level. In addition, the actual monthly production plan will be adjusted according to the actual sales and inventory level. The inventory turnover of CTT was between three to five months during the Track Record Period.

GENERAL OVERVIEW OF THE GROUP

Production process

The following flow charts show the production processes of the main categories of products of CTT:—

1. Production process for large volume injections



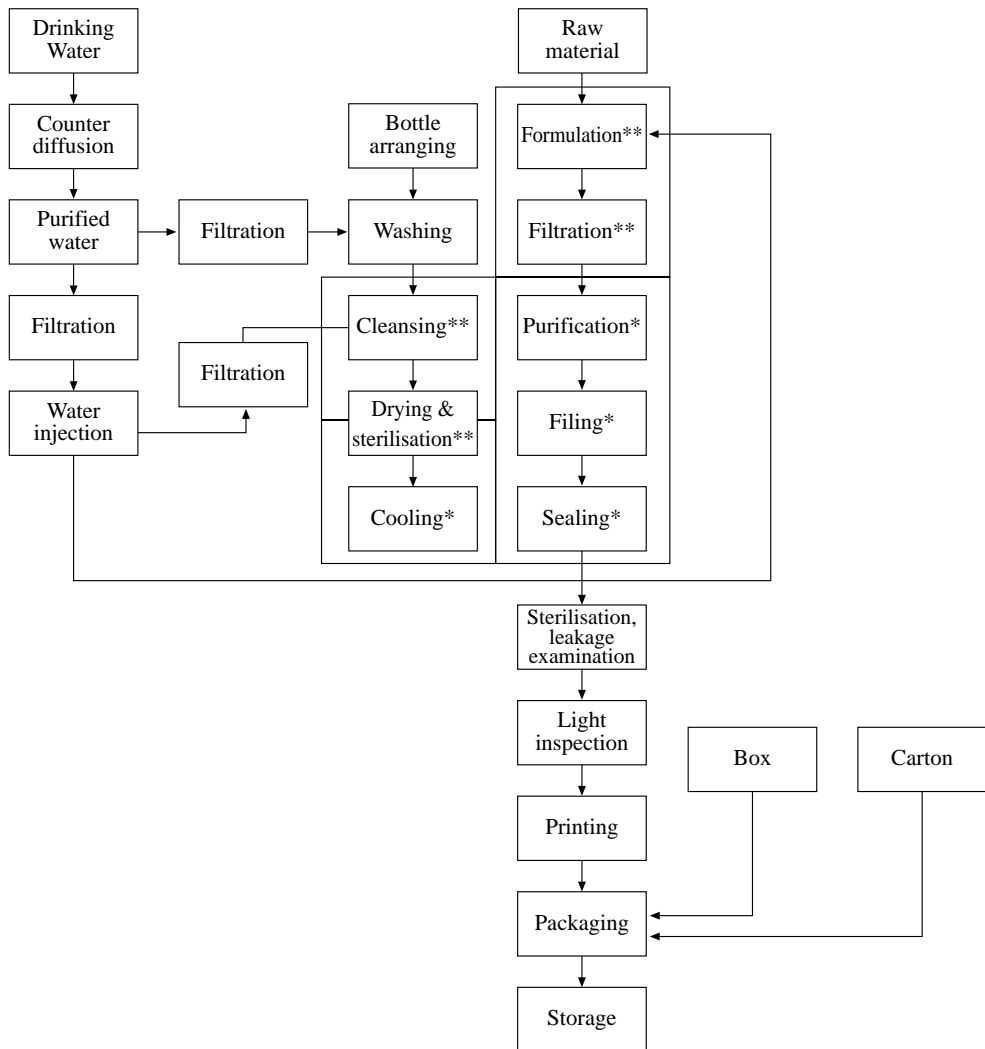
* Bacteria-free at 100

** Bacteria-free at 10,000

*** Bacteria-free at 100,000

GENERAL OVERVIEW OF THE GROUP

2. Production process for small volume injections

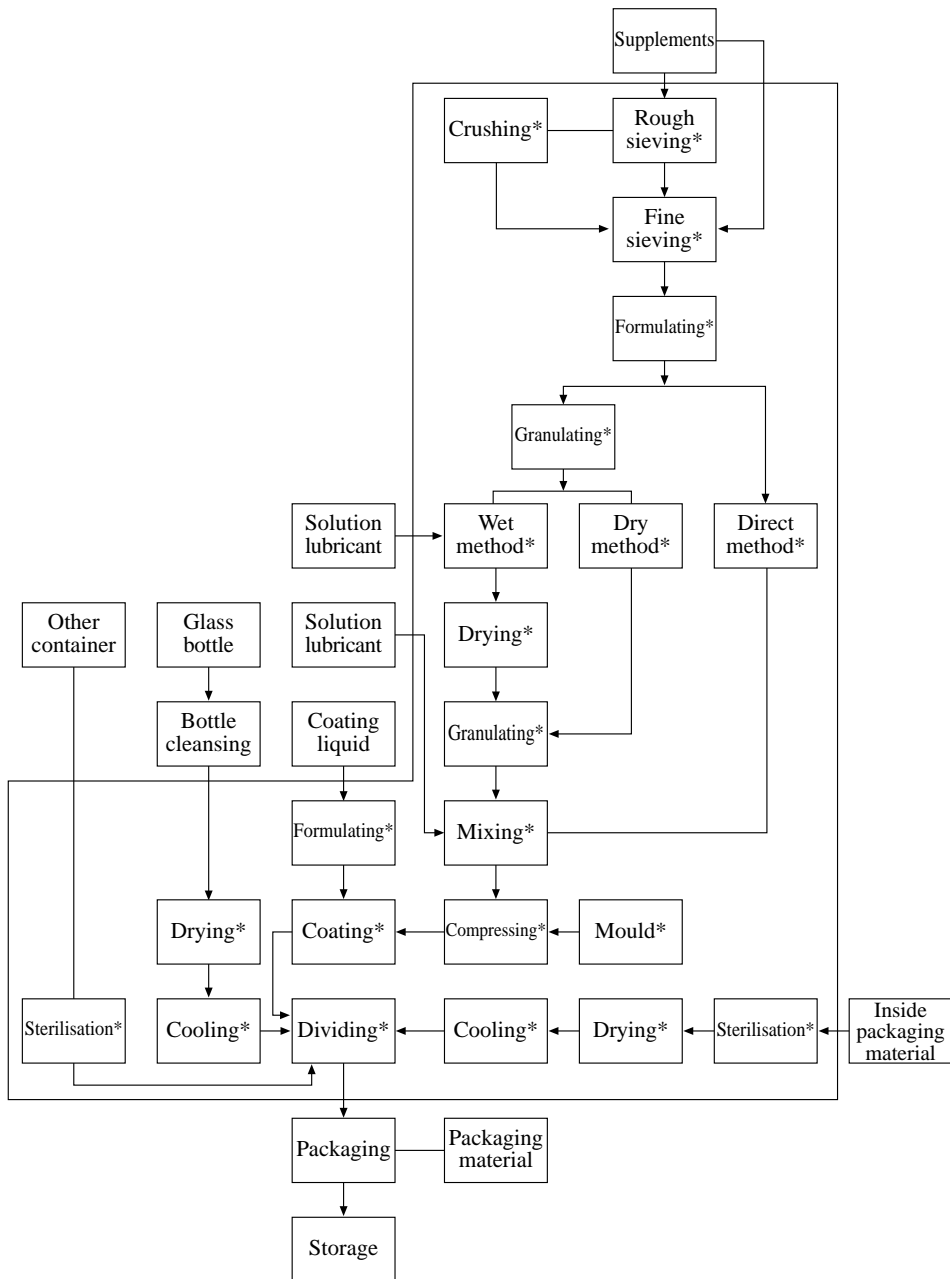


* *Bacteria-free at 10,000*

** *Bacteria-free at 100,000*

GENERAL OVERVIEW OF THE GROUP

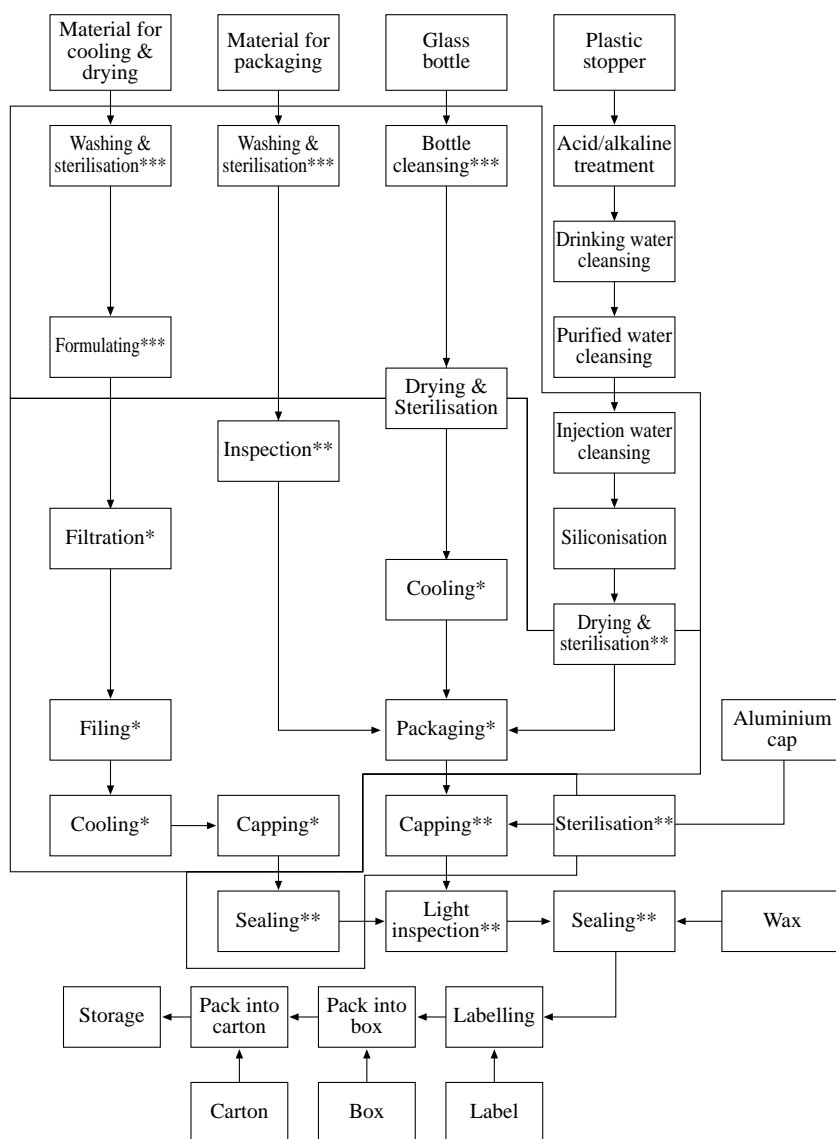
3. Production process for solid form products (capsules, tablets)



* Bacteria-free at 100,000

GENERAL OVERVIEW OF THE GROUP

4. Production process of injection powder



* *Bacteria-free at 100*

** *Bacteria-free at 10,000*

*** *Bacteria-free at 100,000*

Raw materials

CTT uses numerous types of Chinese medicinal herbs, Chinese medicinal extractions and chemical medicines as raw materials for its products. CTT sources its raw materials from Chinese medicinal herb wholesalers in the PRC. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the costs of raw medicinal materials represented 42 per cent., 43 per cent. and 39 per cent. of the total production costs of CTT, respectively.

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For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, purchases from CTT's five largest suppliers of raw materials accounted for approximately 29 per cent., 40 per cent. and 43 per cent., respectively, of CTT's total purchases and 25 per cent., 30 per cent. and 31 per cent., respectively, of the Group's total purchases. The major raw material used by CTT for production is Diammonii Glycyrrhizinatis of which Xinjiang Tianshan Pharmaceutical Industrial Company (新疆天山製藥工業公司) is the largest supplier for the two years ended 31 December, 1999 and the five months ended 31 May, 2000 as a whole and accounted for approximately 9 per cent., 6 per cent. and 14 per cent., respectively, of CTT's total purchases and 8 per cent., 5 per cent. and 10 per cent., respectively, of the Group's total purchases for the corresponding periods. None of CTT, the Company and the Directors nor their respective associates has any interests in any of these five largest suppliers of raw materials. CTT has established long-standing relationship with its major suppliers. The Group did not experience any significant difficulty in sourcing raw materials during the Track Record Period and the Directors do not expect any significant difficulty in the sourcing of raw materials in the foreseeable future.

During each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the cost of packaging materials accounted for approximately 31 per cent., 27 per cent. and 28 per cent., respectively, of CTT's total production costs. Purchases of CTT are settled in Renminbi. Credit terms granted by suppliers are generally 60 days.

Sales and marketing

The following table sets out the sales of the major products of CTT during the Track Record Period:—

	Year ended 31 December,		Five months ended 31 May,			
	1998	1999	2000			
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<i>Major modernised Chinese medicine</i>						
Diammonii Glycyrrhizinatis injection	58,465	38.9	92,511	50.5	46,570	51.9
Diammonii Glycyrrhizinatis capsule	12,971	8.6	23,572	12.9	14,482	16.1
Polyporuse Polysaccharide injection	12,537	8.4	8,516	4.6	2,943	3.3
<i>Major chemical medicine</i>						
Foscarnet Disodium injection	180	0.1	4,508	2.5	4,657	5.2
Etidronate Disodium tablet	2,837	1.9	4,429	2.4	3,765	4.2
<i>Non-core products (Note 1)</i>	60,880	40.5	45,211	24.7	15,591	17.4
Exported products (Note 2)	<u>2,467</u>	<u>1.6</u>	<u>4,536</u>	<u>2.4</u>	<u>1,758</u>	<u>1.9</u>
Total	<u>150,337</u>	<u>100.0</u>	<u>183,283</u>	<u>100.0</u>	<u>89,766</u>	<u>100.0</u>

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Notes:—

1. Non-core products include Glycerin and Sodium Chloride (甘油氯化鈉), Tinidazoliet and Glucose Injection (替硝唑葡萄糖), Mannitol (甘露醇), Sepctinomycin Hydrocheoride (大觀霉素), Ciprofloxacin Lactate (乳酸環丙沙星) and Lincomycin (潔霉素).
2. Currently, only Proanthociandin (原花青素) is exported to the U.S., Japan and countries in Africa.

CTT divides its sales area into five regions, namely, East China, South China, Central China, Southwest China and North China, and has established five sales centres in Chengdu, Fuzhou, Wuhan, Shanghai and Beijing which are in charge of a total of 30 representative offices in various locations in the PRC.

The map below illustrates the geographical locations of CTT's sales centres and representative offices in the PRC:—

Sales network of CTT



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CTT has a total of over 400 sales staff. The sales centres and offices are responsible for liaising with its commercial clients and hospitals, as well as the promotion and after-sales service of products and for monitoring feedback and market information. The following table sets out a geographical analysis of the sales of the products manufactured by CTT during the Track Record Period:—

	Year ended 31 December,		Five months ended 31st
	1998	1999	May, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
East China (<i>Note 1</i>)	70,271	79,886	36,804
South China (<i>Note 2</i>)	15,768	23,142	12,465
Central China (<i>Note 3</i>)	15,538	25,648	13,652
Southwest China (<i>Note 4</i>)	5,081	6,278	4,489
North China (<i>Note 5</i>)	<u>43,679</u>	<u>48,329</u>	<u>22,356</u>
Total	<u><u>150,337</u></u>	<u><u>183,283</u></u>	<u><u>89,766</u></u>

Notes:—

1. East China — Jiangsu, Zhejiang, Jiangxi, Anhui and Shandong provinces and Shanghai.
2. South China — Fujian and Guangdong provinces and the Guangxi Autonomous Region.
3. Central China — Hunan, Hubei and Henan provinces.
4. Southwest China — Sichuan, Yunnan and Guizhou provinces.
5. North China — Hebei, Shanxi, Gansu, Heilongjiang, Liaoning and Jilin provinces and the Xinjiang Autonomous Region.

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The products of CTT are mainly sold in the PRC while an insignificant portion is exported to the U.S., Japan and Africa. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, exports accounted for approximately 2 per cent., 2 per cent. and 2 per cent. of the total sales of CTT, respectively.

CTT has more than 2,000 customers in the PRC. During the Track Record Period, the sales to the five largest customers accounted for approximately 9 per cent. of the total sales of CTT.

In general, the credit terms granted by CTT to its customers are 60 days. Customers will receive cash discounts if they pay in advance. CTT will usually withhold the next delivery if payment for the previous delivery is overdue until that payment is received. Products are generally delivered by rail and truck. Extended credit terms will be granted to foreign customers taking into consideration the delivery time. As at 31 December, 1998, 31 December, 1999 and 31 May, 2000, the provision for bad debts of CTT was approximately HK\$4.7 million, HK\$5.2 million and HK\$4.9 million, respectively.

In addition to advertising through mass communication media (including newspapers and magazines), CTT also holds promotion seminars in various hospitals through its regional representative offices to promote its products. It places particular emphasis on the presentations made by the medical representatives of CTT at professional medical conferences to disseminate information about its own products. Since such seminars and conferences are open to medical practitioners, the Directors believe such activities have had significant positive effects on the results of CTT.

CTT organises training programs to sharpen the marketing skills and product knowledge of its sales and marketing staff on a regular basis.

Pricing policy

Pharmaceutical products are subject to price controls administered at the State or provincial levels in the PRC. The main objective of price controls is to set ceilings for the ex-factory prices, wholesale prices and retail prices of pharmaceutical products. However, pharmaceutical enterprises in the PRC can apply to the provincial price bureau to adjust such prices for their products.

A majority of CTT's pharmaceutical products are subject to price control. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, sales of the products which were subject to the price control by the State represented approximately 98 per cent., 98 per cent. and 98 per cent., respectively, of CTT's total sales. The Directors are not aware of any CTT's applications for price adjustments having been denied by the relevant price control administrative authorities during the Track Record Period.

Intellectual property rights

The trademarks of several products of CTT have been granted intellectual property rights protection. Furthermore, the packaging of several products of CTT has trademark registration to prevent imitation by its competitors. Detailed information is set out in the section headed "Intellectual property" in Appendix V to this prospectus.

GENERAL OVERVIEW OF THE GROUP

To prevent forgery of its products, CTT maintains regular contacts with its distributors, including hospitals, so that early investigation of any forgery can be initiated.

CTT has protection registered for the following products:—

Product name	Category	Expiry date of product protection
Polyporus Polysaacharide injection	Class 2 Protected Chinese medicine	1 February, 2001 <i>(Note 1)</i>
Zegui Longshuang capsule	Class 3 Chinese medicine	26 May, 2002 <i>(Note 2)</i>
Foscarnet Disodium injection	Class 4 chemical medicine	4 May, 2001

Notes:—

1. Protection on this modernised Chinese medicine may be renewed for seven years upon expiration of its Certificate of Protected Chinese Medicine.
2. Application for the “Certification of Protected Chinese Medicine” can be filed upon the expiration of the protection period. If the application is approved, this medicine will be entitled to another 7 to 30 years of protection.

Particulars of the Intellectual property right of the Group are set forth in Appendix V to this prospectus.

Competition

According to the “Pharmaceutical Statistics Yearbook 1999” of SETC, in 1998, CTT was one of the top 50 chemicals pharmaceutical industrial enterprises in the PRC in terms of taxable profit. Diammonii Glycyrrhizinatis, the principal product of CTT, has been classified as one of the State Basic Medicines of the PRC. Another principal product of CTT, Polyporus Polysaccharide injection, which has been applied in the treatment of hepatitis B for over nine years, is a Class 2 State protected Chinese medicine. The Directors believe that CTT has achieved a leading position in the research and production of modernised Chinese medicine in the treatment of hepatitis, and its products and brandnames have enjoyed great prestige in the market.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the aggregate sales of Diammonii Glycyrrhizinatis injection and capsule and Polyporus Polysaccharide injection accounted for approximately 60 per cent., 68 per cent. and 71 per cent. of the total sales of CTT, respectively. At present, there are approximately ten domestic producers producing similar products in the PRC. However, since Diammonii Glycyrrhizinatis, which is solely produced by CTT, is listed in the public medicare catalogue and its price is relatively low compared with those not listed in the catalogue, the Directors believe that Diammonii Glycyrrhizinatis has competitive advantages over such similar products, especially in the rural market in the PRC. Competition with Diammonii Glycyrrhizinatis comes from imported or domestic made bio-

GENERAL OVERVIEW OF THE GROUP

engineering products such as interferon. In terms of pricing, the medical expenses come to around RMB10,000 to RMB30,000 for using other local or imported interferon to treat hepatitis while it is only about RMB1,000 for Diammonii Glycyrrhizinatis.

CTT is designated by the Scientific Technology Commission of Jiangsu Province as a “Knowledge and Technology Intensive Enterprise”. It possesses advanced technologies in the research, development and production of modernised Chinese medicines. CTT has obtained GMP certificates to produce tablet and capsule products and the Directors expect that the production of the remaining products will be granted GMP certification by 2002. The Directors believe that it is not currently common for pharmaceutical manufactures in the PRC to fully comply with GMP certification and obtaining GMP certification will enable CTT to further enhance its competitive advantages.

CTT has 30 representative offices and over 2,000 customers spread across the country, which enables CTT to fully utilise its production capacity and achieve economies of scale, thereby reducing its production cost.

CTT employs a group of scientific research staff and experts in hepatitis. The Directors believe that the knowledge and experience of such staff and experts in the research and development enables CTT to detect and set new trends in the development of medicines for hepatitis treatment and develop new products required by the market.

While the principal products of CTT face significant market competition, the Directors believe that CTT’s products have competitive advantages in the market in respect of its quality, efficacy, price, production size and marketing network.

Research and development

As at the Latest Practicable Date, CTT had 27 employees in its research and development department. Most of its employees are holders of university degrees including doctorates. CTT also carries out research and development with its advanced equipment for research and analysis. The Directors believe that, with personnel with years of experience and expertise, CTT has competitive advantages in the research and development of hepatitis medicine.

GENERAL OVERVIEW OF THE GROUP

CTT currently has undertaken research and development of ten principal products. Among them, Oxymatrine (苦參素) is a follow-up product of Diammonii Glycyrrhizinatis and Polyporuse Polysaccharide and aims at anti-virus in the medical treatment of hepatitis. Sanzi Kechuan is for respiratory system diseases and Puerarin (葛根素) is for cardiovascular system diseases. Both diseases have been the major death causes recently. The products under the research and development by CTT are summarised as follows:—

Product name	Clinical application	Development stage
Oxymatrine capsules, Oxymatrine and Glucose injection (苦參素膠囊及苦參素葡萄糖輸液)	Treatment for viral hepatitis	Obtained new medicine certificate from SDA and applied for production approval document
Diammonii Glycyrrhizinatis Sodium Chloride and Glucose injection (甘草酸二銨氯化鈉及葡萄糖輸液)	Treatment for hepatitis	Completed clinical trial study
Puerarin and Glucose capsule and injection (葛根素膠囊及注射液)	Treatment for angina pectoris and myocardial infarction	Completed pre-clinical trial technical information review by provincial level SDA
Buyang Huanwutang injection (腦脈康注射液)	Treatment for apoplexy and its sequelae	Commenced pre-clinical trial study
Roloxifene Hydrochloride bulk and tablet (雷洛昔分原料及片劑)	Treatment for osteoporosis	Commenced pre-clinical trial study
Sotaloi Hydrochloride injection (鹽酸索它絡爾注射液)	Treatment for hypertension	Completed clinical trial study and obtained new medicine certificate from SDA
Clindamycin Phosphate Powder Injection (克林霉素磷酸酯粉針)	Antibiotic	Applied for production approval from SDA
Sanzi Kechuan capsule (三子咳喘膠囊)	Treatment for respiratory system diseases	Commenced pre-clinical trial study
Netimycin Sulfate and Sodium Chloride Injection (硫酸奈替米星氯化鈉輸液)	Antibiotic	Applied for production approval

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the research and development cost incurred by CTT was approximately HK\$2.1 million, HK\$1.3 million and HK\$3.2 million, respectively.

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Quality control

The Directors believe that the maintenance of quality control during the production stage is one of the basic factors on which the long-term growth of CTT depends. Tablets and capsules of CTT have obtained GMP certificates and powder injection has passed credentials examination conducted by GMP Certification Centre of SDA. Applications for GMP certification have been made in respect of the workshop for large volume injection and small volume injection which are expected by the Directors to be approved in the second half of 2000.

As at 30 June, 2000, CTT employed 48 staff who were responsible for quality control. CTT organises regular training programmes for its staff to improve their knowledge of quality control. Furthermore, CTT has also compiled a quality control manual.

During the Track Record Period, CTT did not experience any material interruption to its business because of failure in the quality control systems. The Directors confirm that CTT has never experienced any claims, lawsuits or litigation concerning the quality of its products.

(IV) ACTIVE BUSINESS PURSUITS IN THE GROUP'S MODERNISED CHINESE MEDICINE AND CHEMICAL MEDICINE BUSINESSES

Sales

The sales volume of the principal products of CTT during the Track Record Period were as follows:—

Product name	Year ended 31 December,		Five months ended
	1998	1999	31 May, 2000
		('000 boxes)	
Diammonii Glycyrrhizinatis injection	4,446	5,942	2,810
Polyporus Polysaacharide injection	282	192	65
Diammonii Glycyrrhizinatis capsules	1,373	2,064	1,181

Marketing

Between the period of May 1997 (following CTT's establishment) and May 2000, the marketing strategies of CTT include mainly the active development of its sales network, involvement in academic conferences in promoting its own products and visits to hospitals, clinics and other customers by its regional sales representatives. Furthermore, CTT also arranges promotional shows and seminars to promote its products. CTT's products are promoted through advertisements in newspapers, magazines and television. Some of the products of CTT are sold overseas. These exports, however, accounted for less than 3 per cent. of the total sales of CTT during the entire period.

GENERAL OVERVIEW OF THE GROUP

The expansion in the marketing operations of CTT during the Track Record Period was as follow:—

Period	Number of sales center	Number of sales office	Number of sales Staff	Marketing expenses <i>HK\$'000</i>
Six months ended 30 June, 1998	3	10	250	9,088
Six months ended 31 December, 1998	3	11	277	11,107
Six months ended 30 June, 1999	5	20	300	7,767
Six months ended 31 December, 1999	5	30	401	14,991
From 1 January, 2000 to the 31 May, 2000	5	30	462	16,071

Production facilities and GMP compliance

During the period of May 1997 to the Latest Practicable Date, even though there was no expansion of the plants and workshops of CTT, its production facilities underwent the following GMP compliance procedures:—

Period	Plant	GMP compliance
May to December 1997	Total gross floor area of 15,000 sq.m. for six workshops, two ancillary workshops	Solid form dosage workshop commenced trial run of GMP standards
Six months ended 30 June, 1998		Solid form dosage workshop commenced to implement GMP standards
Six months ended 31 December, 1998		Powder injection workshop commenced to implement GMP standards
Six months ended 30 June, 1999		Powder injection workshop complied with GMP standards
Six months ended 31 December, 1999		Large and small volume injection workshops commenced to implement GMP procedures. Solid form dosage workshop complied with GMP standards. Powder injection workshop complied with GMP standards
From 1 January, 2000 to the Latest Practicable Date		Large and small volume injection workshops commenced to implement GMP standards. Solid form dosage workshop complied with GMP standards. Powder injection workshop complied with GMP standards

GENERAL OVERVIEW OF THE GROUP

Research and development

CTT has been developing new products continuously since its establishment. Its progress during the following periods is shown below:—

Period	Etidronate Disodium	Foscarnet Disodium	Zegui Longshuang	Marine Glucose injection and capsule	Puerarin Glucose Capsules and injections	Diammonii Glycyrrhizinatis and Glucose injections
May 1997 to December 1997	Obtained new medicine certificate and approval document from SDA	Concluded clinical trial and applied for new medicine certificate and production approval	Concluded clinical trial and applied for new medicine certificate and production approval			
Six months ended 30 June, 1998	Marketed	Obtained new medicine certificate and approval document from SDA	Obtained new medicine certificate and approval document from SDA	Conducted feasibility study	Conducted feasibility study	Conducted feasibility study
Six months ended 31 December, 1998		Marketed	Marketed	Established project	Established project	Established project
Six months ended 30 June, 1999				Commenced pre-clinical trial study	Commenced pre-clinical trial study	Commenced pre-clinical trial study
Six months ended 31 December, 1999				Commenced pre-clinical trial study	Commenced pre-clinical trial	Commenced clinical trial
From 1 January, 2000 to the Latest Practicable Date				Commenced pre-clinical trial study	Obtained new medicine certificate from SDA	Obtained new medicine certificate from SDA

Number of full-time staff

The table below sets out a breakdown of full-time staff of CTT according to their major operational functions:—

	As at 31 December,		As at the Latest Practicable Date
	1998	1999	Date
Functions			
Production	561	535	532
Quality management and control	40	46	48
Sales and marketing	285	409	445
Research and development	23	27	27
Purchasing	9	9	9
Administration	191	204	204
Total	1,109	1,230	1,265

GENERAL OVERVIEW OF THE GROUP

INSURANCE

The Group maintains insurance policies which cover the Group's fixed and current assets against damage caused by accidents and natural disasters. In accordance with established practice in the PRC, however, the insurance policies maintained by the Group do not cover any indirect losses (such as loss of profits) caused by termination of its business. The Group also maintains medical insurance in relation to its employees which also covers the death and personal injury at work of employees.

Other than the above-mentioned insurance policies effected by the Group, the Group does not maintain any third party liability insurance to cover any claims in respect of personal injury or the deterioration of products sold by the Group. However, the Group has never experienced any material third party liability claim in relation to its products. The Directors believe that the Group can effectively control the product liability risk through stringent quality control of its operations. In addition, all of the Group's products must meet quality standards imposed by regulatory authorities in its principal markets in order for the Group to obtain and maintain the necessary certificates, permits and approvals for the production, sale and distribution of such products. The Directors believe that product liability claims are not common in the PRC, which is the principal market for its products.

ENVIRONMENTAL PROTECTION

The Group's production facilities have complied with applicable PRC standards relating to environmental protection. It is the Directors' intention that CTT and CTF should continuously improve their environmental protection measures in order to ensure continuing compliance with future relevant regulations. To the knowledge of the Directors, the Group has not violated any environmental laws and regulations of the PRC.

YEAR 2000 COMPUTER COMPLIANCE

The "Year 2000 Compliance Problem" refers to the failure of certain computer hardware and software and electronic systems to process correctly four digit year dates beginning with the year 2000. The Group implemented and completed several measures to resolve the Year 2000 Computer Problem with free assistance from computer and software suppliers. As at the Latest Practicable Date, the Directors were not aware of any such problem occurring in the computer hardware and software used by the computer and electronic systems of the Group, and do not expect that it will result in any significant exposure to potential problems for the Group.

STATEMENT OF BUSINESS OBJECTIVES

BUSINESS STRATEGY

The business strategy of the Group is to promote the use of biopharmaceutical medicine in the PRC and enhance the modernisation process of TCM to bring about further growth in the core business of the Group. The Directors are of the opinion that the medicine industry in the PRC possesses high growth potential. To capitalise on such growth, the Group intends to adopt the following principal business strategies:—

— **Focus on the development of biopharmaceutical products and modernised Chinese medicine**

The Directors believe that the Group possesses expertise in using hyaluronan and low molecular heparin in the research, development and production of biopharmaceutical products in the PRC and has experience in extraction, separation and synthesis of medicinal ingredients in Chinese herbal materials and, in particular, applying alpha licorice acid in the production of modernised Chinese medicine for the treatment of hepatitis. The Group will continue to focus on developing these products.

— **Expand through mergers, acquisitions, cooperative arrangements, strategic alliances and joint ventures**

The Group will continue to seek suitable investment candidates and business partnerships, including strategic alliances with foreign and PRC-based pharmaceutical companies in order to further expand and strengthen its core business.

— **Further expand production capacity and research and development capabilities to meet the increasing demand in the PRC**

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

— **Further expand distribution networks and sales teams and strengthen the brandnames through promotional activities**

The Directors believe that, in view of the vast geographical span and population in the PRC, it is feasible for the Group to further expand its existing distribution networks and sales outlets from its present coverage to regional cities and rural areas in the PRC.

STATEMENT OF BUSINESS OBJECTIVES

— **Further enhancement and refinement of production technologies and facilities**

The Directors intend to improve the Group's product quality by upgrading its production technologies and facilities and intend to actively seek certification of its products by international organisations to ensure international standards are achieved. This will facilitate expansion into overseas markets.

— **Diversify into new realms of the biopharmaceuticals sector**

The Directors believe that the biopharmaceuticals industry in the PRC is still in its infancy. The development in genetic technology is expected to improve the treatment and the prevention of genetic diseases and stimulate the development of biopharmaceutical products. The Group will seek to cooperate with enterprises which possess advanced genetic technology and/or acquire proprietary technologies.

— **Establish the Group's website with the medium-term objective of engaging in e-commerce**

The Directors plan to establish a website to enhance the core businesses of the Group. Initially, the website will be used to advertise the Group's products and to gauge market demand. The medium-term objective is to develop the website into a sales channel and an e-commerce platform for the Group's products.

BASES AND ASSUMPTIONS

The Directors have assessed the potential of the markets involved in the Group's business during the forward looking period. Based on the past development trends of the industry and the forecast of future growth, coupled with the prospective demand deemed through experience, the Directors have formulated strategies to achieve the Group's business objectives. In assessing the potentials and formulating the strategies, the Directors have made the following principal assumptions:—

- there will be no material changes in the existing laws (whether in the PRC, Hong Kong or any part of the world), policies or industry or regulatory treatment relating to the Group, or in the political, economic or market conditions in which the Group operates.
- inflation, interest rate and exchange rates will not differ materially from those prevailing as of the date of this prospectus;
- no material changes in the bases or rates of taxation applicable to the Group;
- suitable personnel can be recruited and retained by the Group;
- there will be no change in the funding requirement for each of the near term development strategies described herein from the amount as estimated by the management of the Group;
- external financing will be readily available to the Group; and
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its property or facilities.

STATEMENT OF BUSINESS OBJECTIVES

IMPLEMENTATION PLANS

The Group's plans to implement the above strategies to achieve its business objectives during the forward looking period are stated below. **It should be noted that as the Group operates in a fast-growing and ever-changing market, the following implementation plans have been formulated on the bases of the Directors' best estimate of market trend and demand and may be subject to changes should any material changes in market conditions arise. As a result, the following implementation plans should be read with caution.**

The chart below illustrates business objectives and the implementation plans of the Group for each of the five consecutive six-month periods from the Latest Practicable Date to 31 December, 2002:—

Principal business activities	Implementation plans	From the Latest Practicable Date to 31 December, 2000	For the six months ending			
			30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002
Research and development	<p>Establish a research and development centre in Beijing</p> <p>Product research and development activities carried out by CTF</p> <p>Product research and development activities carried out by CTT</p>	○	□	△	△	△
Production of biopharmaceutical products	<p>Establish business alliances with pharmaceutical enterprises in the fields of biopharmaceutical, Chinese medicine and/or natural herbal products</p> <p>Expand existing business</p>	○	□	△	△	△
Marketing and sales	<p>Expand and consolidate distribution networks</p> <p>Establish website of the Group and e-commerce activities</p>	○	□	△	△	△

Keys: ○ preparation stage □ implementation stage △ initial completion stage ~ on-going development

STATEMENT OF BUSINESS OBJECTIVES

Research and development

i. *Establish a research and development centre in Beijing*

In view of the clustering of medical research institutions in Beijing, which would enable the Group to enlist medical experts and to be up to date with the latest developments in the pharmaceutical industry, the Directors intend to establish a company for research and development in Beijing. This research and development centre will be principally engaged in the research and development of new medicines for the therapeutic treatment of hepatitis, senility and ophthalmia, research and development of new medicine dosage and renovation of production techniques.

The Group will also identify business opportunities to cooperate with research institutes and enterprises possessing genetic technology with the objective of developing biotechnological products. In this connection the Group is discussing with independent research institutes in the PRC to explore such co-operative business relationship. No memorandum of understanding or any other agreement has been signed for such business cooperation.

In relation to the research and development of ophthalmic medicine, the Group will focus on the medical treatment of cataract and eye fatigue. The Group will also take its advantage in hyaluron based ophthalmic medicine to further develop new medicines for the medical treatment of trachoma, acute conjunctivitis, keratitis, glaucoma and near-sighted.

In relation to the research and development of medicine for the medical treatment of hepatitis, the Group will focus on the medical treatment of cirrhosis of liver and fatty liver. The Group will take advantage in its modernised production technology and research capacity to further improve the medical treatment efficacy of its existing products and to develop new medicines targeting at jaundice, anti-virus, high transaminase indicators, hepatitis coma and hepatitis C.

The Group will also focus on the research and development of medicine for the medical treatment of age-related diseases especially in the area of cardiovascular and cerebral system. The Group will derive active ingredients from Chinese medicinal herbs using advanced technology and manufacture new medicine in the forms of injections, capsules or tablets which will have better medical treatment efficacy than the traditional Chinese medicine.

The planned funding is primarily intended for the research expenditure, acquisition of equipment, clinical tests and approval expenses of the above projects.

STATEMENT OF BUSINESS OBJECTIVES

Time	From the Latest Practicable Date to 31 December, 2000		Six months ending		
	30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002	
Stage of development	Preparation stage	Implementation stage	Implementation stage	Implementation stage	On-going stage
Description	<ol style="list-style-type: none"> 1. Complete feasibility study of the research and development centre 2. Identify scientific research organisations to cooperate on research and development projects 	<ol style="list-style-type: none"> 1. Commence operation of the centre 2. Confirm research and development projects 	<ol style="list-style-type: none"> 1. Cooperate with scientific research organisations by entering into research and development project agreements 2. Commence to carry out research work on development projects (a maximum of 5 projects at one time) 	<ol style="list-style-type: none"> 1. Continue to carry out research work on development projects 2. Complete research work on 1–2 development projects 3. Prepare information for applications of registration and approval of projects with research work completed 	<ol style="list-style-type: none"> 1. Complete applications of registration and approval of new products 2. Confirm transfer and production of new products 3. Continue to carry out research work on incomplete projects

STATEMENT OF BUSINESS OBJECTIVES

ii. *Plan of new product research and development of CTF*

Product name	From the Latest Practicable Date to 31 December,		Six months ending		
	2000	30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002
Jingfu Eyedrops	Apply for approval from state level SDA to commence clinical trial	Obtain approval from state level SDA to commence clinical trial	Obtain new medicine certificate from SDA and apply for production approval	Commence commercial production	Market and promote product
Composite Tobramycin GEL	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from state level SDA to commence clinical trial	Obtain new medicine certificate from SDA and apply for production approval	Commence commercial production	Market and promote product
Butenafine Hydrochloride Gel	Complete pre-clinical trial study	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from State level SDA to commence clinical trial	Commence clinical trial	obtain new medicine certificate from SDA and apply for production approval

STATEMENT OF BUSINESS OBJECTIVES

iii. Plan of new product research and development of CTT

Product name	From the Latest Practicable Date to 31 December, 2000	30 June, 2001	Six months ending 31 December, 2001	30 June, 2002	31 December, 2002
	Oxymatrine Capsules and Oxymatrine Glucose injection (苦參素膠囊及葡萄糖輸液)	Obtain production approval from SDA	Prepare for commercial production	Commence commercial production	Market and promote product
Diammonii Glycyrrhizinatis Sodium Chloride and Glucose injection (甘草酸二銨氯化鈉及葡萄糖輸液)	Apply for production approval	Obtain production approval from SDA	Commence commercial production	Market and promote product	Market and promote product
Puerarin glucose injection (葛根素葡萄糖輸液)	Apply and obtain production approval from SDA	Commence commercial production	Market and promote product	Market and promote product	Market and promote product
Buyang Huanwutang injections (腦脈康注射液)	Continued with pre-clinical trial study	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from state level SDA to commence clinical trial	Complete clinical trial	Apply for production approval
Roloxifene Hydrochloride and tablets (雷洛昔芬原料及片劑)	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from state level SDA to commence clinical trial	Complete clinical trial	Complete clinical trial	Apply for production approval
Sotalol Hydrochloride injection (鹽酸索它絡爾注射液)	Prepare for commercial production	Prepare for commercial production	Commence commercial production	Market and promote product	Market and promote product
Clindamycin Phosphate powder injections (克林霉素磷酸酯粉針)	Obtain production approval from SDA	Prepare for commercial production	Commence commercial production	Market and promote product	Market and promote product
Sanzi Kechuan capsules (三子咳喘膠囊)	Complete pre-clinical trial study	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from state level SDA to commence clinical trial	Complete clinical trial	Apply for production approval
Netimycin Sulfate and Sodium Chloride injection (硫酸奈替米星氯化鈉輸液)	Apply for production approval	Obtain production approval from SDA	Commence commercial production	Market and promote product	Market and promote product
Puerarin capsules (葛根素膠囊)	Complete clinical trial	Apply for production approval documents	Obtain production approval documents from SDA	Commence commercial production	Market and promote product

STATEMENT OF BUSINESS OBJECTIVES

Production of pharmaceutical products

- i. *Forming alliance with reputable producers of biopharmaceuticals, Chinese medicine or natural herbal products*

The Group intends to seek co-operation with selected Chinese prescription medicine enterprises which have famous brandnames, proven therapeutic uses by clinical trials and a long history in the TCM industry. This will expand the markets of the Group's business.

Period	From the Latest	30 June, 2001	Six months ending		31 December, 2002
	Practicable Date to 31 December, 2000		31 December, 2001	30 June, 2002	
Description	Continue to identify and assess suitable cooperative partners Commence negotiations with cooperative partners	Execute cooperative agreements under appropriate circumstances	Continue to identify cooperative partners and execute cooperative agreements prior to year end	Continue to identify cooperative partners and execute cooperative agreements	Continue to identify cooperative partners and execute cooperative agreements

- ii. *Expansion of production facilities of CTF*

The Directors forecast that during the period from 2000 to 2002, the production capacity of CTF will be expanded from annual production of 25 million bottles of eyedrops in 2000 to 55 million bottles in 2002. It is estimated that an additional production workshop will be required to satisfy additional orders. The total cost of expansion of the production facilities of CTF is expected to be approximately HK\$55.8 million, which is expected to be financed by CTF's internal resources. As part of the expansion, the ointment production workshop of CTF will be upgraded to meet the GMP requirements before June 2001 at the cost of approximately HK\$12.1 million, of which HK\$250,000 will be used for floor area expansion and the remaining will be used for workshop renovation and equipment upgrading.

Period	Factory	GMP compliance
From the Latest Practicable Date to 31 December, 2000	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 8,700 sq.m.	Canned injection workshop and eyedrops workshop comply fully with GMP procedures Ointment workshop commences installation of air purification system and GMP complying equipment.
Six months ending 30 June, 2001	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 10,200 sq.m. as a result of business expansion, a new power workshop of 1,500 sq.m. in the High and New Technology Development Zone.	Ointment workshop complies fully with GMP procedures

STATEMENT OF BUSINESS OBJECTIVES

Period	Factory	GMP compliance
Six months ending 31 December, 2001	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 10,200 sq.m.	All workshops comply fully with GMP procedures
Six months ending 30 June, 2002	Located in Jinan, Shandong Province, the PRC with a total gross floor area reaching 12,000 sq.m.	New eyedrop workshop in the High and New Technology Development Zone commence construction according to GMP standard
Six months ending 31 December, 2002	Located in Jihan, Shandong Province, the PRC with a total gross floor area of 12,000 sq.m.	All workshops comply fully with GMP procedures

iii. *Expansion of production facilities of CTT*

The present production facilities of CTT are conducted in two work shifts. Should there be any sudden increase in product demands, extra shifts shall be arranged to meet additional orders. The focus of CTT's business expansion is to further improve and upgrade its production facilities including installing air purification systems and necessary equipment, workshop renovations, etc., in order to pass GMP certification of all workshops. Such expansion is expected to be at a total cost of approximately HK\$30.0 million which will be financed by the internal resources of CTT.

Period	Factory	GMP compliance
From the Latest Practicable Date to 31 December, 2000	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Large-volume workshop and small-volume workshop fully comply with GMP
Six months ending 30 June, 2001	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Plant extraction workshop, synthetic drugs raw material workshop commence to implement GMP procedures. Husbandry room fully complies with GMP
Six months ending 31 December, 2001	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Plant extraction workshop and synthetic drugs raw material workshop implement GMP procedures
Six months ending 30 June, 2002	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Plant extraction workshop and synthetic drugs raw material workshop fully comply with GMP procedures

STATEMENT OF BUSINESS OBJECTIVES

Period	Factory	GMP compliance
Six months ending 31 December, 2002	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	All workshops fully comply with GMP procedures

Marketing and sales

- i. *Establishment of the Group's website with the medium-term aim of commencing e-commerce of pharmaceuticals*

The Internet is fast-becoming an effective channel for the promotion and advertising of products, gauging market demand and selling products. The Directors are of the opinion that the application of the Internet technology will enhance the reputation and sales of the Group's products. The Directors intends to establish a website to advertise the businesses and products of the Group and collect relevant information to develop products tailored for customers needs. The medium-term target is to develop the Group's website into a sales channel and an e-commerce platform for the Group's products.

Time	Contents of work
From the Latest Practicable Date to 31 December, 2000	Edit CTT's website (www.zdtqzy.com), improve website content to include more information about the company and products, promote CTT's products as well as website; launch CTF's website (www.cpfreda.com)
Six months ending 30 June, 2001	Turn static release of information into interactive website by enhancing health consultation content as regards ophthalmia and hepatitis
Six months ending 31 December, 2001	design and trial run of e-commerce strengthen website content, turn the website into the leading website for doctors and patients of eye and liver health care
Six months ending 30 June, 2002	Complete e-commerce system, continue to refine the website content.

- ii. *Expansion and consolidation of the PRC distribution network*

The Group's marketing and sales strategies are to expand and consolidate its distribution network. Apart from the expansion and consolidation of its distribution network, the Group is planning to boost the sales of its out-patient medicine and healthcare products by cooperating with major chain stores and supermarkets.

STATEMENT OF BUSINESS OBJECTIVES

The expansion plan of the sales network of CTF:—

Time	Number of representative offices	Number of sales staff
From the Latest Practicable Date to 31 December, 2000	30	330
Six months ending 30 June, 2001	35	350
Six months ending 31 December, 2001	35	380
Six months ending 30 June, 2002	40	400
Six months ending 31 December, 2002	40	450

The expansion plan of the sales network of CTT:—

Time	Number of representative offices	Number of sales staff
From the Latest Practicable Date to 31 December, 2000	30	550
Six months ending 30 June, 2001	35	650
Six months ending 31 December, 2001	35	750
Six months ending 30 June, 2002	40	820
Six months ending 31 December, 2002	40	900

The aforesaid plans are based on the existing plans and intentions of the Group which are either in a conceptual stage or a preliminary stage. Furthermore, such intentions and plans are based on assumptions of future events which by their nature are subject to uncertainty. Accordingly, the Group's actual course of action may therefore vary from the intentions and plans set out above. Although the Directors will endeavour to execute such plans in accordance with the aforesaid terms and timeframe, there can be no assurance that the plans of the Group will materialise, result in the conclusion of any agreement or be executed in accordance with the aforesaid timeframe or that, the objectives of the Group will be fully accomplished or accomplished at all.

Growth through acquisitions and alliances is one of the principal strategies of the Group. The Directors intend to expand the Group through mergers, acquisitions, cooperative arrangements, strategic alliance and joint ventures. The Directors are currently evaluating a number of business opportunities. However, the evaluation and related negotiations with the relevant parties are only at preliminary stages and there is no assurance that any of these negotiations will be consummated.

Any future acquisition or disposal of assets by the Group are subject to the provisions of the GEM Listing Rules. Pursuant to the GEM Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to its shareholders when any acquisition or disposal of assets by the Group is proposed, irrespective of the size of such acquisition or disposal and in particular when such acquisition or disposal represents a departure from the principal activities of the Group. The Stock Exchange also has the authority, pursuant to the GEM Listing Rules, to aggregate a series of acquisitions or disposals by the Group and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the GEM Listing Rules.

STATEMENT OF BUSINESS OBJECTIVES

USE OF PROCEEDS

The net proceeds from the Placing, after deducting related expenses, are estimated to be approximately HK\$60 million. The Directors presently intend to use such net proceeds as follows:—

	From the Latest Practicable Date to 31 December, 2000	Six months ending				Total
	30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002		
For the research and development activities including the establishment of a research and development centre in Beijing	5.0	3.0	2.0	3.0	2.0	15.0
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceutical, Chinese medicine and/or natural herbal products	—	10.0	10.0	—	—	20.0
For the expansion of the distribution networks of the Group	5.0	5.0	—	—	—	10.0
For the establishment of the Group's website and commencement of e-commerce	1.0	0.5	0.5	0.5	0.5	3.0
General working capital	<u>4.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>12.0</u>
	<u>15.0</u>	<u>20.5</u>	<u>14.5</u>	<u>5.5</u>	<u>4.5</u>	<u>60.0</u>

In the event that the Over-allotment Option is exercised in full and based on the Issue Price, the additional net proceeds of approximately HK\$10.8 million will be applied by the Company for general working capital of the Group to support its ongoing operations and expansion.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that such proceeds should be placed on short-term deposits with banks or financial institutions in Hong Kong.

The Directors believe that the net proceeds from the Placing will not be sufficient to finance all planned and/or intended projects of the Group as described in the section headed “Statement of business objectives” in this prospectus. The Directors currently estimate that an additional funding of no more than approximately HK\$85.8 million may be required to achieve all the business objectives of the Group up to 31 December, 2002 including, in particular, the expansion of the production facilities of CTF and CTT, subject to the achievement of all other respects of the business plans of the Group and the same bases and assumptions as stated in the section headed “Statement of business objectives” in this prospectus. The Directors believe that the Group will be able to satisfy such additional funding requirements through internally generated financial resources and banking facilities. In the event that there is any material change in the use of proceeds from the Placing, the Company will make a separate announcement.

DIRECTORS

Executive Directors

Mr. Tse Ping (謝炳先生), aged 50, is the Chairman and President of the Company. Mr. Tse is responsible for formulating the overall business strategy and plans of the Group. Mr. Tse has about 10 years' experience in the investment and management of pharmaceutical enterprises in the PRC. He began his investment and management of CTF and CTT in September 1994 and April 1997 respectively. The other enterprises in which he had invested and managed include 999 Pharmaceutical Joint-Stock Co., Limited (a company with A Shares listed on the stock exchange in the PRC), Hainan Pharmaceutical Industrial Joint-Stock Co., Limited (a company with A Shares listed on the stock exchange in the PRC) and CTQ (a subsidiary of SIIC Medical Science and Technology (Group) Limited, a company listed on GEM). He is the chairman of Xi'an Chia Tai Pharmaceutical Co., Limited and ABH Nature's Products Inc., executive chairman of the board of directors of TM International Bank Ltd., vice-chairman of Hong Kong Fortune Ltd., a property investment company listed on the Stock Exchange, and a committee member of the Association of Pharmaceutical Biotechnology of China. Mr. Tse is also a member of the 9th Chinese People's Political Consultative Conference of the PRC.

Mr. Wang Jinyu (王金宇先生), aged 30, joined the Group in March 1999. Mr. Wang graduated from Beijing Normal University in 1992 and California State University at San Francisco in 1996. Mr. Wang is responsible for the business development of the Group. Mr. Wang worked in the corporate finance division of BNP Prime Peregrine Capital Limited prior to his joining the Company. Mr. Wang has extensive experience in corporate finance, investment management, development and promotion of new and high technology. He is also the joint chairman and general manager of Dic Network Company Limited.

Mr. Ling Peixue (凌沛學先生), aged 37, joined the Group in October 1994 and is a director and general manager of CTF, responsible for the business development of CTF. Mr. Ling graduated from Shandong University of Medicine with a master degree. Mr. Ling has over 20 years' experience in pharmaceutical research and development. Mr. Ling is a guest professor of Shenyang University of Pharmacy and a visiting professor of Shandong University of Medicine. Mr. Ling has done in-depth research on sodium hyaluronan and has more than 30 publications in relation to such research. He received numerous awards from the State Council, SDA and the State Science and Technology Committee and was conferred the title of Outstanding Young Person of Shandong Province. Mr. Ling is also a deputy chairman of the Biochem Pharmaceutical Professional Committee of the Association of Chinese Medicine, a deputy head of the Industrial Biochemistry Professional Committee of the Association of Biochemistry and Molecular Biology of China, an executive director of the Association of Biochem Pharmaceutical Manufacture of China and a member of the editorial committee of the Chinese Medicine Magazine and Chinese Biochem Pharmaceutical Magazine.

Mr. Tao Huiqi (陶惠啟先生), aged 51, joined the Group in May 1997 and is the vice-chairman and president of CTT, responsible for the business development of CTT. Mr. Tao has a university professional certificate and is a senior economist. Mr. Tao has extensive experience in the management of pharmaceutical production enterprises. He has been awarded "The Best Entrepreneur" by China Pharmaceutical Association, China Chinese Medicine Association, Jiangsu Economic Planning Commission and Jiangsu Pharmaceutical Administration respectively.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Independent non-executive Directors

Dr. Patrick Ho Chi Ping JP. (何志平太平紳士), aged 50, was appointed independent non-executive Director on 14 September, 2000. He is a medical specialist in eye disease and surgery in Hong Kong. He further sub-specialises in the disease and surgery of the retina and vitreous, especially in the treatment of diabetic eye complications. He was a professor of surgery (Ophthalmology) at the Chinese University of Hong Kong before he began his private clinical practice in eye disease and surgery in 1994. He has published more than 100 scientific articles in scientific journal on eye disease and surgery and many more others on medical and health policies in newspaper columns and periodicals. Dr. Ho is also a honorary professor and advisor to more than 15 universities and hospitals in the PRC, including Clinical Professor of the Eye Hospital of China Academy of Traditional Chinese Medicine, and honorary director of International Exchange Center of the Ministry of Health of China. Dr. Ho was a past president of the Hong Kong Ophthalmological Society, a founding president of the Hong Kong Surgical Laser Society, a past honorary deputy secretary of the Hong Kong Medical Association. Dr. Ho is presently the director of the Hong Kong Eye Centre (Canossa Hospital-Caritas), chairman of the Hong Kong Eye Foundation (Charity), a vice chairman of the Lions Hong Kong Eye Bank, a vice president of the Hong Kong Federation of Societies for the Prevention of Blindness, a member of the Human Organ Transplant Board of the Hong Kong Government, a member of the Chinese Medicines Board of Chinese Medicine Council of Hong Kong. Internationally, Dr. Ho is a vice president of the Asia Pacific Academy of Ophthalmology, a co-chairman of the Western Pacific Region of International Agency for the Prevention of Blindness, and a SightFirst technical adviser of the Lions Club International Foundation. Dr. Ho was a member of the Hong Kong SAR Preparatory Committee. Dr. Ho is a member of the 8th and 9th Chinese People's Political Consultative Conference.

Mr. Hu Xi Ming (胡熙明先生), aged 67, was appointed independent non-executive Director on 14 September, 2000. He is a member of the Chinese Peoples's Political Consultive Conference, editor-in-chief of Chinese Traditional Medicine Magazine of China, president of China Acupuncture Society, vice president of Chinese Traditional Medical and Pharmaceutical Society of China and president of Association for Medical, Pharmaceutical and Public Health Exchanges Between the Two Sides of the Taiwan Straits. Mr. Hu had served more than 30 years in MPH. Mr. Hu had assumed a number of titles, including deputy head of Traditional Medicine Research Academy, director of SATCM, vice minister of MPH, vice chairman of the State Committee for Combating Narcotics.

SENIOR MANAGEMENT

Ms. Zhao Yanping (趙艷萍女士), aged 37, is the vice president of the Company. Ms. Zhao graduated from Shenyang Pharmaceutical Institute with a bachelor's degree in science. She joined the Group in 1992. Ms. Zhao was a general manager of the research and development department of the Group, an executive director of CTF and a visiting professor of Shenyang University of Medicine. Ms. Zhao is one of the editors of the "1998 National Development Guide for New Chemical Medicine" (the "1998國家級化學醫藥新產品開發指南"). Ms. Zhao has 17 years' experience in the pharmaceutical industry.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Stephen Tse Hsin (謝忻先生), aged 31, is a vice president of the Company and is in charge of the Group's audit division. Mr. Tse graduated from the University of Hong Kong with a bachelor's degree in engineering. He joined the Group in 1995 as an assistant to the executive vice president of the Group. He has also served as a managing director of Xian C. P. Pharmaceutical Co., Ltd. Mr. Tse Hsin is a cousin of Mr. Tse Ping.

Mr. Yee Foo Hei (余富熙), aged 37, is the secretary of the Company. Mr. Yee joined the Company in February 2000. Mr. Yee is an associate member of The Hong Kong Institute of Company Secretaries and is also a holder of a bachelor degree in law. Mr. Yee has more than 10 years' experience in company secretarial works.

Mr. Zhang Baowen (張寶文先生), aged 43, is an assistant to the president of the Company. Mr. Zhang graduated from Shenyang University of Medicine with a bachelor's degree in science. Mr. Zhang joined the Group in 1995 and was manager of the investment division and the general manager of the corporate management division. Mr. Zhang is a committee member of the Association of Chinese Medicine of China. Mr. Zhang has nearly 20 years' experience in the pharmaceutical industry.

Ms. Wong Pui Shan (黃佩珊女士), aged 29, is the financial controller of the Company. Ms. Wong graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy. She is an associate member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. Ms. Wong worked in PricewaterhouseCoopers prior to joining the Company in August 2000.

Ms. Chen Xiaofung (陳曉楓女士), aged 46, is the deputy financial controller of the Company. Ms. Chen joined the Group in 1993 and was a manager of the investment division, deputy controller of the accounting division, officer of the audit division and controller of the finance and accounting division. Ms. Chen is a certified accountant in the PRC and has 20 years' experience in accounting and finance.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the board of Directors. The audit committee will also be responsible for reviewing the financial reporting process and internal control system of the Group.

The audit committee has two members comprising the two independent non-executive Directors, Dr. Patrick C. P. Ho and Mr. Hu Xi Ming.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF

As at the Latest Practicable Date, the Group had a workforce of 1,776 staff engaged in the following operations of the Group:—

Production	600
Quality management and control	71
Sales and marketing	734
Research and development	44
Purchasing	14
Administration and management	<u>313</u>
	<u><u>1,776</u></u>

COMPANY'S RELATIONSHIP WITH STAFF

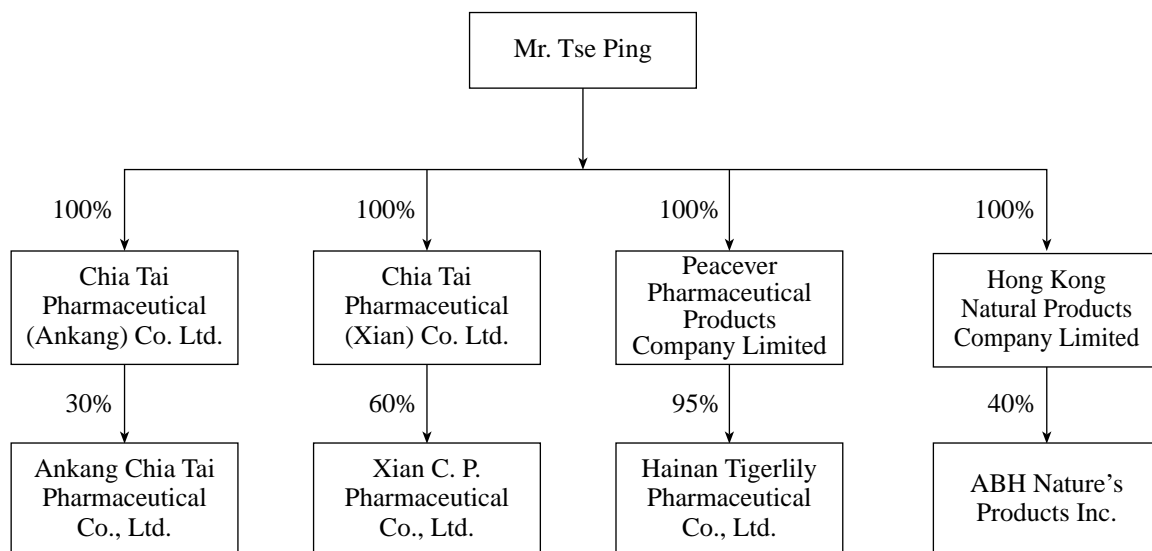
The Group has not experienced any disruption of its operations due to labour disputes in the past. The Directors consider that the Group has good relationship with its employees.

The Company has conditionally adopted the Share Option Scheme pursuant to which employees and executive Directors may be granted options to subscribe for the Shares. A summary of the principal terms of the Share Option Scheme is set forth in Appendix V to this prospectus.

The Group provides employees benefits scheme including pension contribution scheme to their employees, details of which are set out in Appendix I to this prospectus. The Company will provide employee benefits including pension fund pursuant to a defined contribution scheme and medical insurance scheme for its staff in Hong Kong. The Company will provide the pension fund scheme for its qualified employees and the amount of contributions payable by the Group will depend on the employees' seniority and positions held. The Company will follow the regulations in Hong Kong in respect of employees in Hong Kong once the Mandatory Provident Fund Schemes are required to be implemented in Hong Kong.

COMPETING BUSINESSES OF THE INITIAL MANAGEMENT SHAREHOLDERS AND NON-COMPETITION UNDERTAKING

COMPETING BUSINESSES



Mr. Tse Ping owns controlling equity interests or investment interests in the following pharmaceutical companies. A brief introduction of such companies are as follows:—

Xian C.P. Pharmaceutical Co., Ltd. (西安正大製藥有限公司) (“CT Xian”)

CT Xian, a sino-foreign equity joint venture established in the PRC, is a medicine producing enterprise principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines (腸胃藥), gynaecological medicines (婦科藥) and dermatitis medicine for psoriasis (牛皮癬). Mr. Tse Ping owns an indirect interest of 60 per cent. in CT Xian through Chia Tai Pharmaceutical (Xian) Co., Ltd. (正大製藥(西安)有限公司) whose sole asset and business is holding shares of CT Xian.

Ankang Chia Tai Pharmaceutical Co., Ltd. (安康正大製藥有限公司) (“CT Ankang”)

CT Ankang, a sino-foreign equity joint venture established in the PRC, is principally engaged in the production and distribution of medicine reducing blood-fat level, gynaecomastia medicines (乳腺病藥) and other chemical medicine. Mr. Tse Ping owns an indirect interest of 30 per cent. CT Ankang through Chia Tai Pharmaceutical (Ankang) Co., Ltd. (正大製藥(安康)有限公司) whose sole asset and business is its holding of shares in CT Ankang.

Hainan Tigerlily Pharmaceutical Co., Ltd. (海南萱華藥業有限公司) (“HTPC”)

HTPC, a sino-foreign equity joint venture established in the PRC, is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines from Europe, the United States, Korea and other countries. Mr. Tse Ping owns an indirect interest of 95 per cent. in HTPC through Peacever Pharmaceutical Products Company Limited. (天福藥業有限公司) whose sole asset and business is its holding of shares in HTPC.

COMPETING BUSINESSES OF THE INITIAL MANAGEMENT SHAREHOLDERS AND NON-COMPETITION UNDERTAKING

ABH Nature's Products Inc. (ABH天然產品公司) (“ABH”)

ABH is principally engaged in the re-processing of natural medicines and vitamins in the U.S.. Mr. Tse Ping owns an indirect interest of 40 per cent. in ABH through Hong Kong Natural Products Company Limited whose sole business is the holding of shares in ABH.

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into the businesses which compete directly or indirectly with the Group. Currently, the above enterprises do not have any business which constitute competition, whether directly or indirectly, with the Group's business.

NON-COMPETITION UNDERTAKING

Mr. Tse Ping has signed a deed of non-competition undertaking to the Company dated 19 September, 2000 and has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 35 per cent. of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities of which more than 50 per cent. 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 (the “Mr. Tse Ping's Companies”) (excluding for this purpose the Group) will:—

- (a) within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, carry on, become engaged or otherwise become interested (save through Mr. Tse Ping's interest in the Company), directly or indirectly, in any business activities involving the business of the Company, and
- (b) in the PRC, other than within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, (save through Mr. Tse Ping's interest in the Company) become engaged or otherwise become interested, directly or indirectly, in or otherwise commence any business activities involving the business of the Company if to do so will result in competition or likely to compete with any part of the business of the Company already carried on by the Group in such territory at the time Mr. Tse Ping and/or Mr. Tse Ping's Companies (excluding for this purpose the Group) propose to invest in such business activities.

CONNECTED TRANSACTIONS

Leasing of property

Pursuant to a lease agreement between Ledo Properties Limited and the Company dated 8 September, 2000, Ledo Properties Limited has agreed to lease to the Company an office premises situated on Unit F (also known as Unit 09), 41st Floor of Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong. The premise has a saleable area of 1,547 sq.ft. and is leased to the Company on normal commercial terms for a fixed term of two years from 1 June, 2000 to 31 May, 2002 with an option for the Company to renew the lease for a further term of one year at the then open market rent. The total annual rental consideration amounts to HK\$660,000 with monthly rental of HK\$55,000. All monthly rentals are exclusive of rates and management fees. The Company is required to pay a monthly management fee in the amount of HK\$9,486.

DTZ Debenham Tie Leung Limited has confirmed that the rental payable for the above mentioned property is fair and reasonable and the terms of the tenancy are at arm's length and on normal commercial terms.

After the Reorganisation and upon the listing of the Shares on the GEM, the tenancy agreement between Ledo Properties Limited, in which Mr. Tse Ping beneficially owns 50 per cent. equity interests and Mr. Tse Ping's wife (Ms. Cheng Cheung Ling) beneficially owns the other 50 per cent. equity interests, and the Company will constitute a connected transaction (as defined under the GEM Listing Rules), and is expected to continue in the future.

The Directors (including the independent non-executive Directors) and DBS Asia are of the view that the tenancy agreement described above has been entered into and carried out in the ordinary course of business of the Company, has been entered into on normal commercial terms and the transaction is fair and reasonable to the Company and its shareholders taken as a whole.

As such, the tenancy agreement falls under the de minimis exemption as a continuing connected transactions under Rule 20.25(3) and is exempted from all the reporting, announcement and shareholders' approval requirements set out in Rule 20.26, Rule 20.34, Rule 20.35 and Rule 20.36.

Licensing of patent

Pursuant to a patent licensing agreement entered between Mr. Ling Peixue and CTF dated 1 February, 2000, Mr. Ling Peixue has agreed to grant a license to CTF free of charge to use the patent for his inventions until their expiry date. Particulars of these patent are set forth under "Intellectual property" of Appendix V to this prospectus.

Given that Mr. Ling Peixue is an executive director, and thus a connected person, of the Company, the licensing of these patents to CTF constitutes a connected transaction for the Company under the GEM Listing Rules after the listing of Shares on the GEM. The Directors are of the opinion that the patent licensing agreement described above has been entered into and carried out in the ordinary course of business and will be beneficial to the Group.

Under the de minimis exemption pursuant to Rule 20.23 (2), the patent licensing agreement is exempt from any disclosure or shareholders' approval requirements.

RELATIONSHIP WITH SHANDONG BIOPHARMACEUTICAL**Research and development agreement**

Shandong Research Institute was assessed and graded by the Evaluation Committee of Provincial Key Laboratory of Scientific Research of Shandong Province as a biopharmaceutical research laboratory of Shandong Province. It is a fellow subsidiary of Shandong Biopharmaceutical under the same holding company, Shandong Commerce (Group) Company Limited (山東省商業集團總公司). With Shandong Biopharmaceutical as the Chinese joint venture partner, CTF is able to maintain a good relationship and co-operation with Shandong Research Institute.

On 10 December, 1999, CTF and Shandong Research Institute entered into a cooperation agreement for a term of 10 years to bolster CTF's research and development capabilities. Pursuant to this agreement, CTF may designate research topics for Shandong Research Institute while Shandong Research Institute may also select research topics in line with CTF's product development. CTF has a first right of refusal in relation to acquisition of the research results of Shandong Research Institute with a consideration of the total research expenses plus a margin of the range between 10 per cent. and 20 per cent. CTF and Shandong Research Institute shall, jointly own any intellectual property rights over the research results from any research projects done by Shandong Research Institute entrusted by CTF. As at 31 May, 2000, no such research expense was incurred by CTF since the date of entering into the cooperation agreement in December 1999.

Property leasing agreement

CTF entered into a leasing agreement with Shandong Research Institute on 1 June, 2000 to lease a property with a total gross floor area of approximately 7,685 sq.m. as office, workshop and staff quarters. Details regarding the property are set out in "Property valuation report" in Appendix III to this prospectus. Pursuant to the agreement, the property was leased by CTF for a term of one year from 1 June, 2000, with an option to renew annually until 2042. The rental of the property shall be agreed between the parties each year upon renewal of the lease. Such rental shall be determined based on market conditions and the basis of such rental is subject to adjustment for every five years.

Sales to Shandong Biopharmaceutical

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, CTF's sales to Shandong Biopharmaceutical amounted to approximately HK\$33,000, HK\$1,584,000 and HK\$822,000, respectively. The sales were all conducted at market price. The Directors advised that there is no long term agreement entered between CTF and Shandong Biopharmaceutical in this regard and they expect the sales to Shandong Biopharmaceutical will be minimal.

Bank facility guarantee

On 8 March, 2000, a bank facility guarantee contract was entered into between Shandong Biopharmaceutical and Bank of China Jinan Branch, pursuant to which Shandong Biopharmaceutical guarantees CTF's short term bank loan of RMB8,000,000 (equivalent to HK\$7,537,000) for a term of three months. On 8 June, 2000, the bank loan was fully repaid by CTF.

RELATIONSHIP WITH JIANGSU TIANQING**Land leasing agreement**

On 1 May, 1997, a land leasing agreement was entered into between CTT and Jiangsu Tianqing, pursuant to which CTT rents a piece of land with a total gross area of 99,270.84 sq.m. for a term of approximately 50 years expiring on 31 December, 2046. Such land leasing agreement was approved by Lianyungang City Land Administration Bureau (連雲港市土地管理局) by Document Lian Tu Di Cai 1996 No. 013 (連土地產〔1996〕013號). The annual rental is RMB595,625.04. Further details are set out in the “Property valuation report” in Appendix III to this prospectus.

Bank facility guarantees

On 5 January, 2000, a bank facility guarantee contract was entered into between Jiangsu Tianqing and Agriculture Bank of China Lianyungang Branch, pursuant to which Jiangsu Tianqing guarantees CTT’s bank facility with an aggregate amount not exceeding RMB15,000,000 (equivalent to HK\$14,132,000). As at 31 May, 2000, RMB11,050,000 (approximately HK\$10,410,000) of the guaranteed bank loans of CTT were utilised. The bank facility guarantee contract will expire on 31 December, 2000.

On 28 January, 2000, Jiangsu Tianqing entered into a bank facility guarantee contract expiring on 28 January, 2001 with Bank of Communications Lianyungang Branch, pursuant to which Jiangsu Tianqing guarantees CTT’s bank facility with an aggregate amount not exceeding RMB5,000,000 (approximately HK\$4,711,000). Such bank facility was fully utilised by CTT as at 31 May, 2000.

Jiangsu Tianqing has agreed and has provided an undertaking to the Stock Exchange to continue to provide the above guarantees until the relevant bank loans are fully repaid.

SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Placing (assuming that the Over-allotment Option and the options to be granted under the Share Option Scheme are not exercised) and taking no account the Shares which may be taken up pursuant to the Placing, so far as the Directors are aware, the only persons directly or indirectly entitled to exercise, or control the exercise, of 10 per cent. or more of, the issued share capital of the Company will be the following:—

Name	Number of Shares or attributable number of Shares held immediately after the Placing	Approximate percentage of shareholding or attributable percentage of shareholding immediately after the Placing
Mr. Tse Ping (<i>Note 1</i>)	231,120,000	77.04
Conspicuous Group Limited (<i>Note 2</i>)	108,000,000	36.00
Remarkable Industries Limited (<i>Note 2</i>)	57,317,760	19.11
Validated Profits Limited (<i>Note 2</i>)	65,802,240	21.93

Notes:—

1. The shareholding attributable to Mr. Tse Ping in the Company is held through Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited.
2. 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 the chairman of the Group and an executive Director.

So far as the Directors are aware, immediately following completion of the Placing (assuming that the Over-allotment Option and the options to be granted under the Share Option Scheme are not exercised), the holders of 10 per cent. or more of the voting power at general meetings of the subsidiaries of the Company (other than members of the Group) will be the following:—

Name of subsidiary of the Company	Name of shareholder	Percentage of shareholding (%)
CTF	Shandong Biopharmaceutical	40
CTT	Jiangsu Tianqing	40

Save as disclosed herein but taking no account the Shares which may be taken up under the Placing, the Directors are not aware of any person who will immediately following completion of the Placing be directly or indirectly interested in 10 per cent. or more of the Shares or equity interest then in issue in any member of the Group.

SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND SIGNIFICANT SHAREHOLDERS

INITIAL MANAGEMENT SHAREHOLDERS

Immediately after completion of the Placing (assuming that the Over-allotment Option and the options to be granted under the Share Option Scheme are not exercised) and taking no account the Shares which may be taken up pursuant to the Placing, the Initial Management Shareholders will be the following:—

Name of the Initial Management Shareholders	Number of Shares or attributable number of Shares held immediately after the Placing	Approximate percentage of shareholding or of attributable percentage shareholding immediately after the Placing <i>(Note 5)</i>
Mr. Tse Ping <i>(Note 1)</i>	231,120,000	77.04
Mr. Wang Jinyu <i>(Note 2)</i>	8,880,000	2.96
Conspicuous Group Limited <i>(Note 3)</i>	108,000,000	36.00
Remarkable Industries Limited <i>(Note 3)</i>	57,317,760	19.11
Validated Profits Limited <i>(Note 3)</i>	65,802,240	21.93
Discover Profits Limited <i>(Note 4)</i>	8,880,000	2.96

Notes:—

1. The shareholding attributable to Mr. Tse Ping in the Company is held through Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited.
2. The shareholding attributable to Mr. Wang Jinyu in the Company is held through Discover Profits Limited.
3. 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 the chairman of the Group and an executive Director.
4. Discover Profits Limited is an investment holding company wholly owned by Mr. Wang Jinyu who is an executive Director.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately after completion of the Placing (assuming that the Over-allotment Option and the options to be granted under the Share Option Scheme are not exercised) and taking no account the Shares which may be taken up under the Placing, apart from the substantial shareholders and the Initial Management Shareholders referred to above, no person will be interested in 5 per cent. or more of the voting power at general meetings of the Company.

UNDERTAKINGS GIVEN BY INITIAL MANAGEMENT SHAREHOLDERS

NON-DISPOSAL UNDERTAKINGS AND ESCROW ARRANGEMENT

Each of the Initial Management Shareholders has undertaken with the Stock Exchange, the Company and DBS Asia (acting on behalf of the Underwriters) that (i) for a period of 6 months from the date on which dealings in the Shares commence on GEM (the “Six Month Period”), it or he will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its/his direct or indirect interests in the Shares held by it or him immediately following completion of the Placing (the “Relevant Securities”). Each of Mr. Tse Ping, Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited has further undertaken to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that during the further six month period following the expiration of the Six Month Period (the “Second Six Month Period”), he or it will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) any of his or its interests in the Relevant Securities to the extent that they will cease to have control over 35 per cent. of the voting powers at general meetings of the Company.

Each of Conspicuous Group Limited, Remarkable Industries Limited, Validated Profits Limited and Discover Profits Limited will place in escrow, with an escrow agent approved by DBS Asia acceptable to the Stock Exchange, its Relevant Securities for the Six Month Period and Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited will continue to place its Relevant Securities in escrow during the Second Six Month Period such that Mr. Tse Ping, Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited will together maintain control of over 35 per cent. of the voting powers at general meetings of the Company.

OTHER UNDERTAKINGS

Each of the Initial Management Shareholders has further undertaken to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that (a) when it or he during the Six Month Period pledges or charges any interests in the Relevant Securities, it or he shall immediately inform the Company and DBS Asia (acting on behalf of the Underwriters) in writing of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details; and that (b) when it or he receives indications, either verbal or written, from any pledgee or chargee that the interest of the Relevant Securities pledged or charged by it or him will be or has been disposed of, it or he shall immediately inform the Company and DBS Asia (acting on behalf of the Underwriters) in writing of such indication for disposal.

Each of Mr. Tse Ping, Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited has further undertaken to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that (a) when it or he during the Second Six Month Period pledges or charges any interests in any of its or his direct or indirect interests in the Shares held by it or him, it or he shall immediately inform the Company and DBS Asia (acting on behalf of the Underwriters) in writing of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details; and that (b) when it or he receives indications, either verbal or written, from any pledgee or chargee that the interest of the Relevant Securities pledged or charged by it or him will be or has been disposed of, it or he shall immediately inform the Company and DBS Asia (acting on behalf of the Underwriters) in writing of such indication for disposal.

SHARE CAPITAL

Authorised share capital:—

HK\$

<u>1,000,000,000</u>	Shares	<u>100,000,000</u>
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Shares issued and to be issued, fully paid or credited as fully paid:—

240,000,000	Shares in issue	24,000,000
<u>60,000,000</u>	Placing Shares to be issued under the Placing	<u>6,000,000</u>

Total:—

<u>300,000,000</u>	Shares	<u>30,000,000</u>
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Assumption

This table assumes that the Placing becomes unconditional and no Shares shall have been issued pursuant to the exercise of the Over-allotment Option and the Share Option Scheme.

Ranking

The Placing Shares will rank equally with all Shares now in issue or to be issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

General mandate to issue Shares

The Directors have been granted a general unconditional mandate to allot or issue and deal with unissued Shares with an aggregate nominal value of not more than:—

- (a) 20 per cent. of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Placing; and
- (b) the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority referred to in paragraph headed “General mandate to repurchase Shares” below (if any).

The mandate will expire:—

- at the conclusion of the Company’s next annual general meeting; or
- at the expiration of the period within which the Company is required by the Companies Laws or any other applicable laws of the Cayman Islands or its Articles of Association to hold its next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of its shareholders in general meeting,

whichever is the earliest.

SHARE CAPITAL

For further details of this general mandate, please see the section headed “Written resolutions of the sole shareholder passed on the Company passed on 20 June, 2000 and 19 September, 2000” in Appendix V to this prospectus.

General mandate to repurchase Shares

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10 per cent. of the aggregate nominal value of the share capital of the Company in issue following the completion of the Placing.

This mandate only relates to repurchases made on GEM, or on any other stock exchange on which the Shares may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, in accordance with all applicable laws and/or requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed “Registrations of the GEM Listing Rules” in Appendix V to this prospectus.

The mandate will expire:—

- at the conclusion of the Company’s next annual general meeting; or
- at the expiration of the period within which the Company is required by the Companies Law or any other applicable laws of the Cayman Islands or its Articles of Association to hold its next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of its shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section headed “Written resolutions of the sole shareholder of the Company passed on 20 June, 2000 and 19 September, 2000” in Appendix V to this prospectus.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

As at the close of business on 31 July, 2000, being the latest practicable date for the indebtedness statement prior to the printing of this prospectus, the Group had total outstanding short-term borrowings of approximately HK\$35,352,000, comprising short-term bank borrowings of approximately HK\$29,720,000, an unsecured and interest-free short-term loan from Jiangsu Tianqing of approximately HK\$3,768,000 and amounts due to related companies of approximately HK\$1,864,000. Short-term bank borrowings comprised short-term bank loans of approximately HK\$14,177,000 guaranteed by Jiangsu Tianqing and short-term bank loans of approximately HK\$15,543,000 secured by a mortgage on the property of the Group with net book value of approximately HK\$26,247,000 as at 31 July, 2000. The loan from Jiangsu Tianqing is unsecured, interest-free and will be repaid by the Group in June 2001 using the Group's internally generated financial resources.

Foreign exchange risk

The Group earns revenue and incurs costs and expenses mainly in RMB. This will continue to be the case following the listing of the Shares on GEM. After listing of its shares on GEM, the Company's accounts will be 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 July, 2000 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 July 2000.

FINANCIAL INFORMATION

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 July, 2000, the Group had net current assets of approximately HK\$62,623,000. Current assets comprised cash and bank balances of approximately HK\$39,351,000, inventories of approximately HK\$32,200,000, trade debtors of approximately HK\$70,828,000, prepayments, deposits and other receivables of approximately HK\$24,821,000, and amounts due from related companies of approximately HK\$232,000. Current liabilities comprised short-term bank borrowings of approximately HK\$29,720,000, loan from a related company of approximately HK\$3,768,000, trade creditors of approximately HK\$12,362,000, other payables and accrued liabilities of approximately HK\$54,112,000, amounts due to related companies of approximately HK\$1,864,000, and taxation payable of approximately HK\$2,983,000.

Capital expenditure commitments

The capital expenditure commitments of the Group as at 31 July, 2000 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\$15.26 million and approximately HK\$13.72 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 and banking facilities provided by its principal bankers and loans from shareholders and related companies.

As at 31 July, 2000, the Group had aggregate banking facilities of approximately HK\$37.3 million, of which approximately HK\$18.8 million was guaranteed by Jiangsu Tianqing and HK\$18.5 million was secured by the fixed asset of the Group. As at 31 July, 2000, approximately HK\$14.2 million and approximately HK\$15.5 million had been utilised in respect of the guaranteed and secured banking facilities, respectively. Jiangsu Tianqing has agreed to continue to provide the guarantee until the relevant bank loans are fully repaid by the Group.

As at 31 July, 2000, the Group had cash and bank balances of approximately HK\$39.4 million and aggregate banking facilities of approximately HK\$37.3 million with various banks, of which approximately HK\$29.7 million had been utilised.

TRADING RECORD

Summary of combined results of the Group

The SFC has granted a waiver from strict compliance with paragraph 27 of Part I of the Third Schedule and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance so that the Group is only required to include in this prospectus the financial results and information covering the two years ended 31 December, 1999 and the five months ended 31 May, 2000

FINANCIAL INFORMATION

The following is a summary of the combined results of the Group for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000. This summary has been prepared on the basis that the existing structure of the Group had been in place throughout the Track Record Period and should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	Year ended 31 December,		Five months ended
	1998	1999	31 May, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover (<i>Note 1</i>)	237,972	305,776	151,227
Cost of sales	(74,080)	(82,161)	(31,870)
Gross profit	163,892	223,615	119,357
Less: Selling expenses	(84,114)	(112,838)	(59,754)
Administrative expenses	(36,147)	(44,698)	(18,511)
Finance charges	(4,400)	(3,721)	(1,176)
Other (expenses)/income	(331)	(1,825)	59
Add: Interest income	1,000	881	832
Profit before taxation	39,900	61,414	40,807
Taxation	—	(2,611)	(3,577)
Profit before minority interests	39,900	58,803	37,230
Minority interests	(17,796)	(22,969)	(15,752)
Profit attributable to shareholders	22,104	35,834	21,478
Dividends	—	24,820	—
Earnings per Share — basic (<i>Note 2</i>)	<u>HK9.2 cents</u>	<u>HK14.9 cents</u>	<u>HK8.9 cents</u>

Notes:—

1. Turnover represents the invoiced value of goods sold, net of discounts and returns, sales tax refunds and dividend income.
2. The calculation of the basic earnings per Share is based on the net profit attributable to shareholders during the Track Record Period and on the assumption that 240,000,000 Shares had been in issue throughout the Track Record Period.

FINANCIAL INFORMATION

(1) The following table analyses the combined turnover of the Group by the types of products during the Track Record Period and is prepared on the same basis on which the above summary is prepared:—

	Year ended 31 December,		Five months ended 31
	1998	1999	May, 2000
	HK\$'000	HK\$'000	HK\$'000
Sales of goods			
Biopharmaceutical products			
MOISTEN eyedrops	59,171	84,271	44,264
HEPUDIOD cream	3,379	6,604	3,586
IVIZ Sodium Hyaluronate	6,797	6,745	3,065
SOFAST Sodium Hyaluronate injection	3,840	7,541	4,727
C.P. JASPER	2,297	2,638	1,435
C.P. BRIGHT	2,709	4,021	2,366
FREDEX eyedrops	—	5,228	3,429
FRECOSERYL eyedrops	—	3,225	2,298
PILOCARPINE NITRATE eyedrops	—	316	228
	78,193	120,589	65,398
Modernised Chinese medicine			
Diammonii Glycyrrhizinatis injection	58,465	92,511	46,570
Diammonii Glycyrrhizinatis capsule	12,971	23,572	14,482
Polyporus polysaacharide injection	12,537	8,516	2,943
Pycno	—	257	120
Zegui Longshuang capsule	37	2,240	2,827
	84,010	127,096	66,942
Chemical medicine			
Carbamylcholine	1,604	1,835	903
Kairui	—	703	763
Foscarnet Disodium injection	180	4,508	4,657
Etidronate Disodium Yilin pills	2,837	4,429	3,765
Glycerin and Sodium Chloride	1,664	1,134	349
Tinidazoliet and Glucose injection	1,821	1,058	382
	8,106	13,667	10,819
Non-core products	61,167	40,511	12,903
Export products	2,467	4,536	1,758
	233,943	306,399	157,820
Less: Sales discount	(4,259)	(7,829)	(6,593)
Sales of goods, net of discount	229,684	298,570	151,227
Add: Sales tax refund	8,288	—	—
Dividend income	—	7,206	—
Total	237,972	305,776	151,227

FINANCIAL INFORMATION

The following is an analysis of the sales of goods and the gross profit by CTF and CTT during the Track Record Period:—

	Year ended 31 December,		Five months
	1998	1999	ended 31
	HK\$'000	HK\$'000	May, 2000
			HK\$'000
Sales of goods:—			
CTF	83,606	123,116	68,054
CTT	<u>150,337</u>	<u>183,283</u>	<u>89,766</u>
Subtotal	233,943	306,399	157,820
Sales discount — CTT	<u>(4,259)</u>	<u>(7,829)</u>	<u>(6,593)</u>
Total	<u><u>229,684</u></u>	<u><u>298,570</u></u>	<u><u>151,227</u></u>
Gross profit — from sales of goods			
CTF	73,350	104,909	59,253
CTT	<u>82,254</u>	<u>111,500</u>	<u>60,104</u>
Total	<u><u>155,604</u></u>	<u><u>216,409</u></u>	<u><u>119,357</u></u>

Management's discussions and analyses

General information

Turnover

The turnover of the Group during the Track Record Period was primarily derived from the sales of biopharmaceutical products and modernised Chinese medicine and chemical medicine in the PRC through CTF and CTT, respectively, and the dividend income received from Golden News.

Sales tax refunds

On 1 January, 1994, the PRC government abolished the commercial and industrial consolidated tax ("CICT") and introduced a new system of indirect taxes including value-added tax, business tax and consumption tax. Pursuant to a notice issued by the National People's Congress on 29 December, 1993, foreign investment enterprises established prior to 31 December, 1993 may, upon approval of the tax authorities, be entitled to a refund of the excess sales tax paid under the new tax legislation for a period of five years commencing from 1 January, 1994. CTF is entitled to such refund, but CTT is not entitled to such refund as it was established on 16 April, 1997.

Under the new tax legislation, CTF was subject to higher net sales tax payable when compared with sales tax calculated under CICT for the relevant period and has obtained approvals for such tax refunds on the excess sales tax paid over CICT that would otherwise be payable in accordance with the relevant tax rules.

As a result, CTF was refunded the excess sales tax paid for each of the two years ended 31 December, 1998.

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Taxation

The Group is subject to Hong Kong and PRC taxation. However, no provision for Hong Kong profits tax had been made during the Track Record Period as the Group had no assessable profit arising in or derived from Hong Kong.

With regard to the Group's operations in the PRC, provision for the taxation of profits has been calculated at the corporate income tax rates during the Track Record Period. As both CTF and CTT are sino-foreign equity joint venture companies, they are entitled to a full exemption from payment of the PRC corporate income tax for the first two financial years making profit and a 50 per cent. reduction for the three financial years thereafter. CTF was exempt from the payment of the PRC corporate income tax during the two financial years ended 31 December, 1998 and currently enjoys a 50 per cent. tax reduction of the PRC corporate income tax from 1999 to 2001. As CTF was classified as a "High and New Technology Enterprise" and a "Foreign Invested Advanced Technology Enterprise" by the Scientific Technology Commission of Shandong Province on 17 December, 1993 and 3 July, 1997, respectively, the applicable income tax rate was 15 per cent., and the effective tax rate for the PRC corporate income tax during that period was 7.5 per cent. As long as CTF continues to be classified as a "High and New Technology Enterprise", it will be entitled to a reduced tax rate of 15 per cent. for and after the year ending 31 December, 2002 and thereafter.

CTT enjoyed its two years' tax exemption in during the two financial years ended 31 December, 1999. For the three years ending 31 December, 2002, CTT will be subject to the PRC corporate income tax at the rate of 12 per cent., which is one-half of the applicable PRC corporate income tax rate, because CTT is located in the coastal economic zone where the preferential tax rate of 24 per cent. applies.

1999 compared with 1998

Turnover

For the year ended 31 December, 1999, the turnover arising from the sales of goods of the Group reached approximately HK\$298.6 million, representing a growth of approximately 30 per cent. as compared with the same for the year ended 31 December, 1998. Turnover arising from the sales of biopharmaceutical products of CTF was approximately HK\$123.1 million and turnover arising from the sales of modernised Chinese medicine and chemical medicine of CTT was approximately HK\$175.5 million.

The sales of biopharmaceutical products of CTF for the year ended 31 December, 1999 increased by approximately HK\$39.5 million from that of 1998, representing a growth of approximately 47 per cent. The increase in sales was primarily due to the improved sales and distribution network of CTF. The number of representative offices increased from 20 to 30 with additional sales staff and improved sales skills.

FINANCIAL INFORMATION

The sales of modernised Chinese medicine and chemical medicine of CTT for the year ended 31 December, 1999 increased by approximately HK\$29.5 million, as compared with the same in 1998, representing a growth of approximately 20 per cent. The increase in the turnover was primarily due to the following:—

- increasing selling price of Diammonii Ghycyrrhizinatis injection. The average selling price of Diammonii Ghycyrrhizinatis injection was RMB16 per unit during the year, representing an increase of RMB2, as compared with that in 1998, and the average selling price of Diammonii Ghycyrrhizinatis capsule was RMB12 per unit during the year, representing an increase of RMB2 compared with that in 1998;
- increase in the production volume of Diammonii Ghycyrrhizinatis;
- three new products, namely Etidronate Disodium, Foscarnet Disodium and Zegui Longshuang, were launched during the year; and
- increasing sales of CTT due to expanded sales and distribution network.

Gross profit

For the year ended 31 December, 1999, the gross profit of the Group, excluding the dividend income of approximately HK\$7.2 million, was approximately HK\$216.4 million, representing a growth of approximately 39 per cent., as compared with that of the Group for the year ended 31 December, 1998, of which the gross profit of CTF was approximately HK\$104.9 million and the gross profit of CTT was approximately HK\$111.5 million.

The gross profit of CTF for the year ended 31 December, 1999 increased by approximately HK\$31.6 million, as compared with the same in 1998, representing a growth of approximately 43 per cent. The increase in gross profit was primarily due to the increase in sales. The gross profit margin of CTF was approximately 88 per cent. and approximately 85 per cent. for each of the two years ended 31 December, 1999, respectively.

The gross profit of CTT for the year ended 31 December, 1999 increased by approximately HK\$29.2 million, as compared with the same in 1998, representing a growth of approximately 36 per cent. The increase was primarily due to the increase of sales of high gross margin products such as Diammonii Glycyrrhizinatis injection and capsule. The gross profit margin of CTT was approximately 56 per cent. and approximately 64 per cent. for each of the two years ended 31 December, 1999, respectively.

Selling expenses

For the year ended 31 December, 1999, the total amount of the selling expenses of the Group was approximately HK\$112.8 million, representing approximately 37 per cent. of the total turnover of the Group. One of the major components of the selling expenses of the Group was marketing and promotional expenses. For each of the two years ended 31 December, 1999, the marketing and promotional expense amounted to approximately HK\$52.5 million and approximately HK\$74.5 million, respectively. These expenses were charged to profit and loss accounts as and when incurred.

The selling expenses of CTF for the year ended 31 December, 1999 was approximately HK\$52.2 million, representing an increase of approximately HK\$13.0 million, or approximately 33 per cent., as compared with that in 1998. The increase in the selling expenses was primarily due to the increase in

FINANCIAL INFORMATION

the number of representative offices and sales personnel. In addition, there was an increase in the marketing and promotional expenses of approximately HK\$9.8 millions because of the Group's efforts to strengthen the market awareness of its products.

The selling expenses of CTT for the year ended 31 December, 1999 was approximately HK\$60.6 million, representing an increase of approximately HK\$15.7 million, or approximately 35 per cent., as compared with that in 1998. The main reasons for such increase in selling expenses were attributable to the following:—

- promotional expenses for core products were higher than that for non-core products;
- additional marketing and promotion expenses were incurred for new products; and
- additional expenses were incurred for advertisement.

Administrative expenses

For the year ended 31 December, 1999, the total amount of the administrative expenses of the Group was approximately HK\$44.7 million, representing approximately 15 per cent. of the total turnover of the Group.

The total amount of the administrative expenses of CTF for the year ended 31 December, 1999 was approximately HK\$17.7 million, representing an increase of approximately HK\$6.8 million, or approximately 62 per cent., as compared with that in 1998. The increase was mainly due to the transfer of 30 management staff from the sales department to the administration department to strengthen the administrative control on the marketing activities and an increase of the salary by approximately 15 per cent..

The administrative expenses of CTT for the year ended 31 December, 1999 was approximately HK\$25.0 million, representing an increase of approximately 2 per cent. as compared with that in 1998.

Finance charges

For the year ended 31 December, 1999, the total amount of finance charges of the Group was approximately HK\$3.7 million.

The total amount of finance charges of CTF was approximately HK\$1.0 million, representing an increase of approximately HK\$22,200, or approximately 2 per cent., as compared with that in 1998.

The total amount of finance charges of CTT for the year ended 31 December, 1999 was approximately HK\$2.7 million, representing approximately 79 per cent. of the same for the year ended 31 December, 1998.

For the five months ended 31 May, 2000

Turnover

For the five months ended 31 May, 2000, the turnover of the Group was approximately HK\$151.2 million, representing approximately 49 per cent. of the turnover of the Group for the year ended 31 December, 1999. The turnover of CTF and CTT was approximately HK\$68 million and approximately HK\$83 million, respectively.

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The Directors consider that, based on the actual performance from January 2000 to May 2000, the turnover of CTF and CTT for the year ending 31 December, 2000 is expected to increase by approximately 33 per cent. and approximately 14 per cent., respectively, as compared with the annual turnover of 1999, because of the following reasons:—

- the sales strategy of CTF has been adjusted whereby the sales representatives have been divided into three teams: ophthalmic, new products and out-patient medicine. The training of the sales representatives was enhanced. The efforts in selling new products were strengthened, resulting in an overall increase in its sales. In particular, amongst those new products, the expected sales of SOFAST Sodium Hyaluronate injection, Fredex eyedrops and Frecoseryl eyedrops for the year ending 31 December, 2000 will increase, as compared with the sales in 1999. Owing to the Group's efforts in exploring provincial markets, the expected sales of Moisten eyedrops for the year ending 31 December, 2000 will maintain a relatively high growth rate; and
- the Group strengthened its efforts in advertising. The sales of out-patient medicine products, such as Moisten eyedrops, C.P. Bright eyedrops and Mioclear eyedrops (which was newly introduced), increased by the intensive advertising campaigns.

Gross profit

For the five months ended 31 May, 2000, the gross profit of the Group was approximately HK\$119 million, representing approximately 53 per cent. of the aggregate gross profit for the year ended 31 December, 1999. The gross profit of CTF and CTT was approximately HK\$59 million and approximately HK\$60 million, respectively. The increase in the gross profit of these two companies was attributable to economics of production and the increase in the sales of products with high gross profit such as Diammonii Glycyrrhizinatis and Foscarnet Disodium injections.

Selling expenses

For the five months ended 31 May, 2000, the selling expenses incurred by the Group were approximately HK\$60 million, representing approximately 53 per cent. of the total selling expenses for the year ended 31 December, 1999. The selling expenses incurred by CTF and CTT were approximately HK\$31 million and approximately HK\$29 million, respectively. The principal items comprising the selling expenses were advertising and promotional expenses and the salary for additional sales representatives recruited by the Group during the review period.

Administrative expenses

The administrative expenses incurred by the Company from January to May 2000 was HK\$19 million, representing 42 per cent. of the total administrative expenses for the year ended 31 December, 1999. The administrative expenses incurred by CTF and CTT was HK\$7 million and HK\$12 million, respectively.

Finance charges

The finance charges incurred by the Company from January 2000 to May 2000 was HK\$1.2 million, representing 32 per cent. of the total finance charges for the year ended 31 December, 1999. The finance charges incurred by CTF and CTT was HK\$0.2 million and HK\$1.0 million, respectively.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Group has not advanced any money to any entity which exceeded 25 per cent. of the Group's audited combined net tangible assets, has not provided any financial assistance and guarantees to affiliated companies which exceeded 25 per cent. of the Group's audited combined net tangible assets, has not made any pledge over its shares by its controlling shareholder to secure debts, guarantees or support of other obligations of the Group, and has not entered into any loan agreements imposing specific performance obligations on the controlling shareholder. The Directors are not aware of any circumstances which give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

PROPERTY INTERESTS

Property owned in the PRC

The Group owns an industrial complex situated in Liangyungong in the PRC where the production workshops, as well as the head office of CTT are situated. At present, the land use right of the land upon which the industrial complex is located vest in Jiangsu Tianqing. According to the legal opinion given by the PRC legal advisors to the Company, if CTT intends to transfer, assign or sell such land use right or the real properties, it shall obtain further approvals from, and pay the land premium to, the relevant government authority for the land used by the Company and complete all relevant government procedures. Accordingly, the property has been valued as at 31 July, 2000 by DTZ Debenham Tie Leung Limited as having a value of HK\$30,500,000 based on depreciated replacement costs approach. Particulars of the properties are set out in Appendix III to this prospectus.

Pursuant to the land lease contract entered into between Jiangsu Tianqing, the grantee of the land use rights of the site, and CTT on 1 May, 1997: (i) if the PRC government makes a requisition for the land on which the industrial complex of CTT is situated which causes cessation of the production activities and relocation of the production facilities, the PRC government may compensate Jiangsu Tianqing against all the economic loss incurred; and (ii) CTT may request Jiangsu Tianqing to transfer to it the sum of compensation received by Jiangsu Tianqing, and Jiangsu Tianqing shall act in accordance with such request. In addition, pursuant to the joint venture agreement dated 26 October, 1998 entered into between Jiangsu Tianqing and CTL, if the PRC government makes a requisition for the abovementioned land, CTT may be entitled to apply for other suitable piece of land and be compensated against all costs, expenses and losses incurred in relation to such relocation.

The building structure of the industrial complex has a total gross floor area of about 34,370.89 sq.m. (369,968 sq.ft.). Jiangsu Tianqing has obtained the Certificate for the Use of State-owned Land for the site, and CTT has obtained the Housing Title Certificate in respect of the industrial complex.

The Group owns twelve residential units situated in Jinan, Shandong Province, the PRC as CTF's staff quarters. Six of them have obtained Housing Title Certificates and have been valued as at 31 July, 2000 by DTZ Debenham Tie Leung Limited for a capital value of HK\$1,900,000. As the relevant Housing Title Certificates for the remaining six units are in the process of being issued, no commercial value is assigned to them. According to the legal opinion given by the PRC legal advisers to the Company, CTF may transfer, sell, lease or mortgage the residential units after completion of the land granting procedure which is responsible by respective developer. Particulars of these premises are set

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out in Appendix III to this prospectus. The major shareholders of the Company have given an indemnity to the Company against any financial loss suffered by the Group arising from the failure of securing the transfer of the title of the residential units to the Group.

Property rented in Hong Kong

The office of the Company is situated at Unit F (also known as 09) on 41st Floor, Office Tower, Convention Plaza, Hong Kong. The premises have a saleable area of approximately 143.72 sq.m. (approximately 1,547 sq.ft.) and are leased from a company controlled by Mr. Tse Ping (the “Lessor”). A summary of the principal terms of the above lease agreement with the Lessor is set forth in the section headed “Connected transactions” in this prospectus.

Property valuation

The property interests attributable to the Group were valued at an aggregate amount of HK\$19,345,000 as at 31 July, 2000 by DTZ Debenham Tie Leung Limited, an independent property valuer. The property valuation report and valuation certificate, prepared by DTZ Debenham Tie Leung Limited, of these property interests are set forth in Appendix III to this prospectus.

PROFIT FORECAST, DIVIDENDS POLICY AND WORKING CAPITAL

Profit forecast

The Directors forecast that, in the absence of unforeseen circumstances, and subject to the bases and assumptions set forth in Appendix II to this prospectus, the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December, 2000 will amount to not less than HK\$39 million. The forecast has been prepared by the Directors based on the audited combined results of the Group for the five months ended 31 May, 2000, unaudited combined result for the month ended 30 June, 2000 and a forecast of the combined results of the Group for the remaining six months ending 31 December, 2000 and on the basis that the Group had been in existence throughout the entire year. The Directors are not aware of any extraordinary items which have arisen, or are likely to arise, during the year ending 31 December, 2000. The texts of letters from Ernst & Young, the reporting accountants of the Group, and from DBS Asia in respect of the profit forecast are set forth in Appendix II to this prospectus.

On the basis of the above profit forecast and the weighted average number of approximately 255,737,705 Shares expected to be in issue during the year ending 31 December, 2000, the forecast earnings per Share is approximately HK15.2 cents, representing a weighted average prospective price/earnings multiple of approximately 7.9 times based on the Issue Price. This does not take into account any Shares which may fall to be allotted and issued pursuant to the Over-allotment Option and the exercise of the options to be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors referred to under “Written resolutions of the sole shareholder of the Company passed on 20 June, 2000 and 19 September, 2000” in Appendix V to this prospectus, or otherwise.

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On the assumption that the Placing had been completed and a total of 300,000,000 Shares had been in issue on 1 January, 2000, the forecast fully diluted earnings per Share is approximately HK14.0 cents, representing a diluted fully price/earnings multiple of approximately 8.57 times based on the Issue Price.

Dividend policy

For the year ended 31 December, 1999, a total amount of dividend of HK\$24,820,000 was declared. No special loan arrangement has been or is required to be made for the payment of the dividends.

The Directors are of the view that the amount of any dividends to be declared in the future will depend on, among other things, the Company's results of operations, cash flow and financial condition, operating and capital requirements, the amount of distributable profits based on the generally accepted accounting principles in Hong Kong and the PRC, the applicable laws and regulations and all other relevant factors. The Directors expect the interim and final dividends to be paid in around October and July of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

Working capital

The Directors are of the opinion that after taking into account the Group's present available banking facilities, internally generated funds and the estimated net proceeds from the Placing, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

The Company was incorporated on 2 February, 2000, and there was no reserve available for distribution as at 31 May, 2000.

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ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the combined net assets of the Group as at 31 May, 2000, as shown in the Accountants' Report set forth in Appendix I to this prospectus, adjusted as described below:—

	<i>Note</i>	<i>HK\$'000</i>
Audited combined net assets of the Group as at 31 May, 2000		48,888
Less: Goodwill as at 31 May, 2000		<u>(4,163)</u>
Audited combined net tangible assets of the Group as at 31 May, 2000		44,725
Capitalisation of the aggregate amount due to a shareholder and a company related to a shareholder as at 30 June, 2000	(1)	76,595
Combined profit after taxation and minority interests of the Group for the month ended 30 June, 2000 based on its unaudited management accounts		5,818
Surplus arising from valuation of the property interests of the Group as at 30 June, 2000, less amount attributable to minority interests — buildings	(2), (3)	2,546
Estimated net proceeds of the Placing		<u>60,000</u>
Adjusted net tangible assets		<u><u>189,684</u></u>
Adjusted net tangible asset value per Share	(4)	<u><u>HK\$0.63</u></u>

Notes:—

- (1) The total amount due to Mr. Tse Ping and a company related to Mr. Tse Ping was capitalised as further described under "Subsequent events" in the Accountants' Report set forth in Appendix I to this prospectus.
- (2) According to the property valuation report set forth in Appendix III to this prospectus, the capital value of property no. 1 and 2 less the amount attributable to minority interests, was HK\$19,345,000. The net book value of these properties as at 30 June, 2000, less the amount attributable to minority interests, was HK\$16,799,000. Thus, the re-valuation surplus is HK\$2,546,000, which will be incorporated in the consolidated financial statements of the Group for the year ending 31 December, 2000. This revaluation surplus increases the amount of depreciation for remaining six months ending 31 December, 2000 by approximately HK\$57,000.
- (3) The relevant title certificates of property no. 3 under Group I in the property valuation report set forth in Appendix III to this prospectus with a net book value of approximately HK\$558,000 as at 30 June, 2000 are in the process of being transferred to the name of the Group's joint venture. As the relevant title has not been obtained, no commercial value was assigned to these buildings by DTZ Debenham Tie Leung Limited. For the purposes of the financial statements of the Group, the property is stated at its net book value as at 30 June, 2000 on the basis of the Directors' belief that no impairment to the value of this property to the Group has occurred. In the opinion of the PRC legal advisers to the Group,

FINANCIAL INFORMATION

there is no legal impediment for the Group to obtain good title to the property after compliance with the outstanding requisite procedures, and the Group would be entitled to transfer, dispose of, let or mortgage the property after such compliance. The major shareholders of the Company have given an indemnity to the Company against any financial loss to the Group arising from the failure of securing the transfer of the titles to the Group.

- (4) The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of a total of 300,000,000 Shares expected to be in issue immediately following completion of the Placing, but takes no account any Shares which may fall to be allotted and issued pursuant to the Over-allotment Option and the exercise of the options to be granted under the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the general mandates for allotment and issue and repurchase of Shares granted to the Directors, particulars of which are set forth in Appendix V to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 May, 2000, being the date to which the latest audited combined financial statements of the Group were made up.

UNDERWRITING

UNDERWRITING

Underwriters

DBS Asia Capital Limited
JS Cresvale International Limited
First Shanghai Capital Limited
Celestial Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

The Underwriting Agreement was entered into on 21 September, 2000. The Underwriters have agreed on a several, not joint and several, basis to procure subscribers for the Placing Shares on and subject to the terms and conditions of the Underwriting Agreement.

Grounds for termination

The respective obligations of the Underwriters to subscribe or procure subscribers for the Shares are subject to termination if certain grounds occur at any time prior to 6:00 p.m. on the business day immediately preceding the day on which dealings in the Shares on GEM commence, including:—

- (1) any breach of any of the warranties or any other provision of the Underwriting Agreement which is considered, in the sole opinion of DBS Asia, to be material in the context of the Placing;
- (2) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the sole opinion of DBS Asia in the context of the Placing;
- (3) any statement contained in this prospectus considered to be material by DBS Asia is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the sole opinion of DBS Asia to be material;
- (4) any event, act or omission which gives or is likely to give rise to any liability of the Company and any of the Initial Management Shareholders pursuant to the indemnities contained in the Underwriting Agreement;
- (5) any adverse change in the business or the financial or trading position of the Group which is considered in the sole opinion of DBS Asia to be material;
- (6) there shall develop, occur, exist or come into effect:—
 - (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction; or
 - (b) any change in, or any event or series of events resulting or likely to result in any change in Hong Kong, the PRC, national or international financial, currency, political, military, industrial, economic or market conditions; or

UNDERWRITING

- (c) any change in the conditions of Hong Kong, the PRC or international equity securities or other financial markets; or
- (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the GEM of the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (e) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the British Virgin Islands or the PRC or elsewhere; or
- (f) any change in the business or in the financial or trading position of the Group, which, in the opinion of DBS Asia (for itself and on behalf of the other Underwriters):—
 - (i) is or will or is likely to be materially adverse to the business, financial condition or prospects of the Group taken as a whole; or
 - (ii) has or will have or is likely to have a material adverse effect on the success of the Placing or the full subscription of all of the Placing Shares; or
 - (iii) makes it inadvisable or inexpedient to proceed with the Placing.

Commissions and expenses

The Underwriters will receive a commission of 4 per cent. of the aggregate issue price payable for the Placing Shares, out of which they will pay any sub-underwriting commissions, and DBS Asia will also receive a documentation fee. Such fee and commissions, together with the Stock Exchange listing fees, legal and other professional fees, printing, and other expenses relating to the Placing, which are estimated to amount to approximately HK\$12 million in aggregate, will be payable by the Company.

Undertaking

The Company has undertaken to the Underwriters in the Underwriting Agreement that it will not without the prior written consent of DBS Asia and unless in compliance with the requirements of the GEM Listing Rules, at any time after the date of the Underwriting Agreement up to and including the date falling six months after the date on which dealings in the Shares commence on the GEM of the Stock Exchange, allot or issue or agree to allot or issue any Shares or other securities of the Company (including warrants or other convertible securities) or grant or agree to grant any options or rights over any Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or has any intention to do so, except pursuant to the Placing, or the Share Option Scheme.

UNDERWRITING

Sponsors' interests in the Company

DBS Asia has entered into an agreement with the Company on 21 September, 2000 to act as the sponsor (as defined in the GEM Listing Rules) of the Company for the period from the date on which dealings in the Shares commence on the GEM of the Stock Exchange to 31 December, 2002. Save as disclosed above and its obligations under the Underwriting Agreement, DBS Asia has no shareholding interests in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Underwriters' interest in the Company

Save as provided for under the Underwriting Agreement and disclosed otherwise in this prospectus, none of the Underwriters has any shareholding interests in the Group nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group.

STRUCTURE AND CONDITIONS OF THE PLACING

ISSUE PRICE

The Issue Price is HK\$1.2 per Share in cash plus 1 per cent. brokerage and a 0.01 per cent. Stock Exchange transaction levy thereon amounting to a total of HK\$2,424.24 per board lot of 2,000 Placing Shares.

CONDITIONS

Acceptance of all applications for the Placing will be conditional upon:—

- (i) listing of and permission to deal in the Shares in issue and to be issued as described in this prospectus having been granted by the Stock Exchange; and
- (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by DBS Asia on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise,

in each case on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 22 October, 2000, being the date which is 30 days after the date of this prospectus.

THE PLACING

The Company is initially offering 60,000,000 Shares, for subscription by way of the Placing. The Placing is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement.

The Underwriters are soliciting from professional, institutional and individual investors indications of interest in acquiring Placing Shares in the Placing. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective professional and institutional investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as “book building”. The Placing Shares are unlikely to be allocated to individual retail investors.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

STABILISATION AND OVER-ALLOTMENT OPTION

In connection with the Placing, DBS Asia (acting on behalf of the Underwriters) may over-allocate Shares and may cover such over-allocation by means of exercising the Over-allotment Option or making open-market purchases in the secondary market. The number of Shares that may be over-allocated is no greater than the number of Shares that may be sold upon the full exercise of the Over-allotment Option, being 9,000,000 Shares, which is 15 per cent. of the Shares initially available under

STRUCTURE AND CONDITIONS OF THE PLACING

the Placing. DBS Asia (acting on behalf of the Underwriters) may also effect transactions which stabilise or maintain the market price of the Shares. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws and regulatory requirements. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of Shares, they will be done at the absolute discretion of DBS Asia.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the Underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the Issue Price of the securities.

In Hong Kong, such stabilisation activities are restricted to cases where underwriters genuinely purchase shares on the secondary market solely for the purpose of covering over-allocations in an offering. The stabilisation price will not exceed the Issue Price. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

In order to facilitate the settlement of over-allocations in connection with the Placing, DBS Asia may choose to borrow Shares from shareholders of the Company under stock borrowing arrangements prior to any exercise of the Over-allotment Option or the acquisition of a sufficient number of Shares from other sources.

An application has been made to the Stock Exchange for a waiver to be granted to Mr. Tse Ping and Conspicuous Group Limited from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of shares by initial management shareholders following a new listing, in order to allow Mr. Tse Ping and Conspicuous Group Limited to enter into such stock borrowing arrangement. Particulars of the waiver are contained in the section headed “Waivers from strict compliance with the GEM Listing Rules and the Companies Ordinance” in this prospectus.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on 29 September, 2000.

The Shares will be traded in board lots of 2,000 each.

SHARES WILL BE ELIGIBLE FOR CCASS

If the GEM Listing Committee of the Stock Exchange grants the listing of and permission to deal in the Shares and the Company complies with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date Hongkong Clearing chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All the necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report for the purpose of incorporation in this prospectus, from the auditors and reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong:—



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

22 September, 2000

The Directors
Sino Biopharmaceutical Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Sino Biopharmaceutical Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) prepared on the basis set out in Section 1 below, for inclusion in the prospectus of the Company dated 22 September, 2000 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Law (2000 Revision) of the Cayman Islands for the purpose of acting as a holding company of the subsidiaries set out in Section 1 below. The Company has not carried on any business since the date of its incorporation save for the acquisition on 19 September, 2000 of the subsidiaries listed in Section 1 below.

As at the date of this report, no audited financial statements have been prepared for the Company and certain of its subsidiaries namely Chia Tai Pharmaceutical (Lianyungang) Company Limited (“CTL”) and Champion First Investments Limited (“Champion First”) since the dates of their incorporation. We have, however, performed our own independent review of the management accounts and all relevant transactions of the Company and these subsidiaries since these respective dates of incorporation.

We have examined the audited financial statements or, where appropriate, the management accounts of all other companies now comprising the Group, for each of the periods referred to in this report, or from the respective dates of their incorporation/registration where this is a shorter period, in accordance with the Auditing Guideline “Prospectuses and the reporting accountant” issued by the Hong Kong Society of Accountants.

We have acted as auditors of the companies now comprising the Group for each of the periods referred to in this report, except for the following periods:—

Company	Financial period	Auditors
Sino Concept Technology Limited ("Sino Technology")	Year ended 31 December, 1998	Francis S. L. Yan & Co. Certified Public Accountants Hong Kong
Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF")	Each of the two years ended 31 December, 1999	Shandong Zhenlu Certified Public Accountants (formerly known as Shandong No. 2 Certified Public Accountants) People's Republic of China
Lianyungang Chiatai-Tianqing Pharmaceutical Co., Ltd. ("CTT")	Each of the two years ended 31 December, 1999	Lianyungang Jinhen Certified Public Accountants (formerly known as Lianyungang Certified Public Accountants) People's Republic of China

The statutory financial statements of CTF and CTT were audited by Shandong Zhenlu Certified Public Accountants and Lianyungang Jinhen Certified Public Accountants, respectively, certified public accountants registered in the PRC, for each of the two years ended 31 December, 1999. These statutory financial statements were prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC. For the purpose of this report, we have undertaken an independent audit of the financial statements of CTF and that of CTT for each of the two years ended 31 December, 1999 and for the five months ended 31 May, 2000 in accordance with the Statements of Auditing Standards issued by the Hong Kong Society of Accountants. We have also carried out such procedures as we considered necessary with regard to audited financial statements of Sino Technology for the year ended 31 December, 1998 and made such adjustments as we considered appropriate for them to be in conformity in all material respects with the accounting policies set out in Section 2 below. In respect of the year ended 31 December, 1999 and the five months ended 31 May, 2000, we have performed a separate audit of the accounts of Sino Technology in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants.

The financial statements of Sino Technology for the year ended 31 December, 1998 were qualified by the then auditors of Sino Technology because of limitations of scope with regard to its continuance in business as a going concern. In addition, the financial statements of CTT for the year ended 31 December, 1999 were also qualified because the then auditors of CTT had not been able to satisfy themselves with that a credit balance of inventory variance accounts amounting to RMB6,599,156, equivalent to HK\$6,196,000 as at 31 December, 1999 was not credited to the profit and loss accounts for the year ended 31 December, 1999. For the purpose of this report, we have performed additional procedures necessary to satisfy ourselves that Sino Technology will continue to

operate as a going concern and that, with regard to CTT, appropriate adjustments have been made and reflected in the combined results of the Group for each of the periods referred to in this report and of the combined net assets of the Group as at 31 May, 2000.

The summaries of the combined results of the Group for the periods referred to in this report and of the combined net assets of the Group as at 31 May, 2000 (the "Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, the management accounts of the companies now comprising the Group, after making such adjustments as we consider appropriate and are presented on the basis set out in Section 1 below.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results of the Group for each of the periods referred to in this report and of the combined net assets of the Group as at 31 May, 2000.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements or, where appropriate, the management accounts of the companies now comprising the Group, after making such adjustments as we consider appropriate, include the results and net assets of the companies now comprising the Group as if the current Group structure had been in existence throughout the periods referred to in this report, or since the dates of their incorporation/registration where this is a shorter period. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated/registered outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong), the particulars of which are set out below:—

Company	Place and date of incorporation/registration	Paid-up share/registered capital	Attributable equity interest	Principal activities
CTL	British Virgin Islands 2 July, 1998	US\$3 Ordinary	100% [#]	Investment holding
Sino Technology	Hong Kong 21 February, 1991	HK\$10,100 Ordinary	100% ^{**}	Investment holding and provision of management services
Champion First	British Virgin Islands 22 September, 1998	US\$2 Ordinary	100% [#]	Investment holding
CTF	People's Republic of China 31 March, 1992	RMB20,000,000	55%	Development, manufacture and distribution of pharmaceutical products
CTT	People's Republic of China 16 April, 1997	RMB68,000,000	60%	Development, manufacture and distribution of pharmaceutical products

Directly held by the Company

* *According to the Corporate Reorganisation as detailed in Appendix V to this Prospectus, the Company holds 100% equity interest in Sino Technology by acquiring its entire equity interest from Mr. Tse Ping and Well Base (Asia) Limited ("Well Base"), the existing shareholders. For the purpose of this report, Sino Technology has been accounted for as a wholly owned subsidiary of the Group throughout the periods referred to in this report.*

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, are set out below:—

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. The joint venture agreement stipulates the composition of the joint venture parties' capital contributions, the duration of the joint venture, and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the joint venture parties in proportion to their respective capital contributions.

A joint venture is treated as a subsidiary if, under the joint venture contract, the Group holds more than half of the joint venture company's registered capital and the Group can control the composition of the board of directors or exercise unilateral influence over the joint venture.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess of purchase consideration paid for subsidiaries over the fair values ascribed to the net underlying assets acquired at the date of acquisition. Goodwill is amortised on a straight-line basis over its useful life, not exceeding a period of 10 years, starting from the commencement date of the subsidiaries' operations.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the tangible fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the tangible fixed asset, the expenditure is capitalised as an additional cost of that tangible fixed assets.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:—

Leasehold improvement	10%–20%
Leasehold buildings	4%–5%
Plant and machinery	6%–9%
Furniture and fixtures	18%
Motor vehicles	18%

The carrying amounts are reviewed periodically in order to assess whether they are recorded in excess of their recoverable amounts, and where carrying amounts exceed the estimated recoverable amounts, assets are written down to their recoverable amounts. In determining the recoverable amounts of items of fixed assets, expected future cash flows have not been discounted to their present values.

Construction in progress

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction or installation and is stated at cost. Cost comprises the direct costs of construction, installation and testing as well as capitalised borrowing costs during the periods of construction, installation and testing. Construction in progress is transferred to fixed assets when it is completed and available for its intended use.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects in developing new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identified and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Product development expenditure which does not meet these criteria is expensed as incurred.

Deferred development costs are amortised on the straight-line basis over the shorter of the expected life of the products or 5 years, commencing from the year when the products are put into commercial production.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to be available for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation rate for the year is based on the weighted average cost of the related borrowings.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long-term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at their cost, less any provision for permanent diminution considered necessary by the directors on an individual basis. The provision is recognised as an expense immediately. The profit or loss on disposal of unlisted securities is accounted for in the period in which the disposals occurs as the difference between the net sales proceeds and the carrying amount of the securities.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significance influence.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars (“HK\$”) at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On combination, the financial statements of overseas subsidiaries are translated into HK\$ at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Deferred taxation

Deferred taxation is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Pension costs

Pension costs are charged to the profit and loss account as incurred.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:—

- (i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) sales tax refunds, on an accrual basis;
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (iv) dividends, when the shareholders' right to receive payment is established.

3. RESULTS

The following is a summary of the combined results of the Group for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000 (the "Relevant Years/Period"), after making such adjustments as we consider appropriate and on the basis set out in Section 1 above:—

		Year ended 31 December,		Five months ended
		1998	1999	31 May, 2000
	Notes	HK\$'000	HK\$'000	HK\$'000
Turnover	(a)	237,972	305,776	151,227
Cost of sales		<u>(74,080)</u>	<u>(82,161)</u>	<u>(31,870)</u>
Gross profits		163,892	223,615	119,357
Less: Selling expenses		(84,114)	(112,838)	(59,754)
Administrative expenses		(36,147)	(44,698)	(18,511)
Finance charges		(4,400)	(3,721)	(1,176)
Other (expenses)/income		(331)	(1,825)	59
Add: Interest income		<u>1,000</u>	<u>881</u>	<u>832</u>
Profit before taxation	(b)	39,900	61,414	40,807
Taxation	(e)	<u>—</u>	<u>(2,611)</u>	<u>(3,577)</u>
Profit before minority interests		39,900	58,803	37,230
Minority interests		<u>(17,796)</u>	<u>(22,969)</u>	<u>(15,752)</u>
Profit attributable to shareholders		<u>22,104</u>	<u>35,834</u>	<u>21,478</u>
Dividends	(f)	<u>—</u>	<u>24,820</u>	<u>—</u>
Earnings per share — basic (Note)		<u>HK9.2 cents</u>	<u>HK14.9 cents</u>	<u>HK8.9 cents</u>

Note: The calculation of the basic earnings per share is based on the net profit attributable to shareholders for each of the Relevant Years/Period and on the assumption that 240,000,000 shares had been in issue throughout the Relevant Years/Period as at the date of this prospectus.

(a) Turnover and revenue

Turnover represents the invoiced value of goods sold, net of discounts and returns, sales tax refunds, and dividend income.

The Group's turnover and revenue for the Relevant Years/Period arose from the following activities:—

	Year ended 31 December,		Five months
	1998	1999	ended
	HK\$'000	HK\$'000	31 May,
			2000
			HK\$'000
Sale of goods	229,684	298,570	151,227
Sales tax refunds — note	8,288	—	—
Dividend income	—	7,206	—
	<u>237,972</u>	<u>305,776</u>	<u>151,227</u>
Turnover	237,972	305,776	151,227
Interest income	<u>1,000</u>	<u>881</u>	<u>832</u>
	<u>238,972</u>	<u>306,657</u>	<u>152,059</u>
Total revenue for the year/period	<u>238,972</u>	<u>306,657</u>	<u>152,059</u>

Note: On 1 January, 1994, the PRC government abolished the Commercial and Industrial Consolidated Tax ("CICT") and introduced a new system of indirect taxes including Value Added Tax ("VAT"), Business Tax and Consumption Tax. Pursuant to a provision issued by the National People's Congress on 29 December, 1993, foreign investment enterprises established before 31 December, 1993 may, upon the approval by the tax authorities, be entitled to a refund of the excess sales tax paid under the new tax legislation for a period of five years from 1 January, 1994 to 31 December, 1998.

Under the new tax legislation, CTF was subject to higher net sales tax payable when compared with sales tax calculated under CICT for the Relevant Years/Period and has obtained approvals for sales tax refunds, as disclosed in turnover above, on the excess of sales tax paid over CICT that would otherwise be payable in accordance with the relevant tax rules.

(b) Profit before taxation

Profit before taxation is arrived at after charging/(crediting):—

	Year ended 31 December,		Five months ended
	1998	1999	31 May, 2000
	HK\$'000	HK\$'000	HK\$'000
Directors' remuneration	130	240	52
Auditors' remuneration	26	155	11
Depreciation of fixed assets	5,834	7,043	3,629
Amortisation of goodwill	681	792	285
Interests on:—			
Bank loans repayable within one year	3,114	2,065	1,132
Loans from related companies wholly repayable within one year	1,124	1,261	61
Other loans wholly repayable within one year	<u>162</u>	<u>395</u>	<u>—</u>
Total interests	4,400	3,721	1,193
Less: amounts capitalised	<u>—</u>	<u>—</u>	<u>—</u>
Total interest expenses	<u>4,400</u>	<u>3,721</u>	<u>1,193</u>
Operating lease rentals on land and buildings	2,082	2,878	577
Operating lease rentals on plant and machinery	377	1,137	826
Marketing and promotion expenses	52,487	64,816	45,751
Research and development expenses	3,270	3,151	3,803
Provision for doubtful debts	3,529	1,459	—
Loss on disposal of fixed assets	346	1,094	41
Staff costs	20,618	28,892	13,050
Staff welfare and bonus fund (<i>note 4(i)</i>)	4,903	4,961	—
Pension contributions (<i>note</i>)	3,486	4,704	2,155
Foreign exchange gains, net	(12)	(46)	(80)
Interest income	(1,000)	(881)	(832)
Dividend income from unlisted investment	<u>—</u>	<u>(7,206)</u>	<u>—</u>

Note: During the Relevant Years/Period, certain of the Company's subsidiaries in the PRC were members of a defined pension contribution scheme managed by the respective local governments in the PRC. Contributions made were based on 25% of the employees' salaries and were charged to the profit and loss account as they became payable. According to the existing PRC regulations, no forfeited contributions may be used by the employer to reduce the existing level of contributions.

(c) Directors' remuneration

Details of the remuneration of the directors during the Relevant Years/Period are as follows:—

	Year ended 31 December,		Five months
	1998	1999	ended
	HK\$'000	HK\$'000	31 May, 2000
Fees	—	—	—
Other emoluments:—			
Salaries, allowances and benefits in kind	75	96	40
Pension contributions	8	8	3
Discretionary bonuses	47	136	9
	<u>130</u>	<u>240</u>	<u>52</u>

The number of directors whose remuneration fell within the following band is as follows:—

	Year ended 31 December,		Five months
	1998	1999	ended
			31 May, 2000
HK\$Nil–HK\$1,000,000	<u>4</u>	<u>4</u>	<u>4</u>

Three directors received no emoluments and one director received emoluments of approximately HK\$130,000, HK\$240,000 and HK\$52,000 respectively for the two years ended 31 December, 1999 and the five months ended 31 May, 2000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Years/Period.

(d) Five highest-paid employees

The five highest-paid employees of the Group included one director whose remuneration has been disclosed in note (c) above, for the Relevant Years/Period.

Details of the remuneration and the designated band of the remaining four highest-paid employees during the Relevant Years/Period are as follows:—

	Year ended 31 December,		Five months
	1998	1999	ended
	HK\$'000	HK\$'000	31 May, 2000
Salaries, allowances and benefits in kind	586	626	211
Pension contributions	24	24	10
Discretionary bonuses	140	135	24
	<u>750</u>	<u>785</u>	<u>245</u>

The remuneration of the highest paid employees, other than the directors, fell within HK\$Nil–HK\$1,000,000 band.

During the Relevant Years/Period, no emoluments were paid by the Group to the directors or the other highest-paid employees either as an inducement to join the Group, or as compensation for loss of office.

(e) **Taxation**

	Year ended 31 December,		Five months ended
	1998	1999	31 May, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for the year/period:—			
PRC income tax	—	2,611	3,577
	<u> </u>	<u> </u>	<u> </u>
Taxation charge for the year/period	—	2,611	3,577
	<u> </u>	<u> </u>	<u> </u>

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in or derived from Hong Kong during the Relevant Years/Period.

PRC income tax is provided at the rates applicable to enterprises in the PRC on the income for statutory reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof. The deferred taxation represents timing differences in respect of the recognition of income and expenditure items under the generally accepted accounting principles between Hong Kong and the PRC.

Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory income tax rate of 33% (30% state income taxes plus 3% local income taxes) unless the enterprise is qualified as "High and New Technology Enterprise" or located in specially designated regions or cities for which more favorable effective tax rates apply. CTT is located in regions where preferential tax rates apply and currently qualify for reduced rates of taxation of 24%. CTF was qualified as a "High and New Technology Enterprise" for which preferential tax rate of 15% applies. Both companies are entitled to an income tax exemption for two years commencing from the first profitable year (after deducting losses carried forward), and a 50% reduction for the succeeding three years. As of 31 December, 1999, CTF is in its third profitable year and accordingly, it became subject to income tax rate of 7.5%. Should CTF continue to be profitable in year 2000, CTF will be in its fourth profitable year and will be subject to an income tax rate of 7.5%.

Furthermore, according to the relevant Income Tax Laws in the PRC, should a joint venture company be profitable in the first year of operations, in which the operating period is less than six months, the Company can opt for the commencement of the above tax exemption in the following fiscal year. However, the joint venture company is subject to income tax for the net income earned in that first profitable year. During the period ended 31 December, 1997, CTT was profitable in its first year of operations and it opted for the commencement of tax exemption in the fiscal year 1998. As of 31 December, 1999, CTT is in its second profitable year and accordingly, is exempted from income tax for that year. Should CTT continue to be profitable in year 2000, CTT will be in its third profitable year and will be subject to an income tax rate of 12%.

There were no material unprovided deferred tax liabilities during the Relevant Years/Period.

(f) Dividends

No dividends have been paid or declared by the Company since the date of its incorporation. The dividends paid or declared by the Company's subsidiaries to their then shareholders during the Relevant Years/Period were as follows:—

	Year ended 31 December,		Five months
	1998	1999	ended 31 May,
	HK\$'000	HK\$'000	2000
			HK\$'000
CTF	29,772	27,822	—
CTT	16,011	28,026	—
CTL	—	—	—
Sino Technology	—	17,626	—
Champion First	—	7,194	—
	<u>45,783</u>	<u>80,668</u>	<u>—</u>
Less: Elimination of dividends received by			
— members of the Group	(25,982)	(32,118)	—
— minority shareholders of subsidiaries	(19,801)	(23,730)	—
	<u>—</u>	<u>24,820</u>	<u>—</u>

The rates of dividends/distribution and the number of shares ranking for dividends are not presented, as such information is not meaningful with regard to the purpose of this report.

(g) Related party transactions

During the Relevant Years/Period, the Group had material transactions with the following related parties:—

	Year ended 31 December,		Five months
	1998	1999	ended 31 May,
	HK\$'000	HK\$'000	2000
			HK\$'000
Continuing transactions			
Bank loans guaranteed at end of year/period by:—			
— Jiangsu Tianqing	6,480	7,902	15,121
— Shangdong Biopharmaceutical	—	—	7,537
Sales to Shangdong Biopharmaceutical			
(note i)	33	1,584	822
Sales to Shandong Research Institute (note i)	6	10	7
Operating lease rentals payable to:—			
— Shandong Research Institute			
(note ii)	1,444	2,974	1,125
— Jiangsu Tianqing (note ii)	562	563	236
Non-continuing transactions			
Interest payable to:—			
— Shandong Research Institute			
(note iii)	227	390	—
— Shandong Biopharmaceutical			
(note iii)	—	73	—
— Jiangsu Tianqing (note iv)	<u>897</u>	<u>798</u>	<u>61</u>

All the above companies are related to the PRC joint venture partners of the Group's subsidiaries.

In the opinion of the directors of the Company, the transactions with the above related parties were carried out on normal commercial terms and in the ordinary course of business.

Notes:—

- (i) Sales to Shandong Biochemical Pharmaceutical Co. ("Shandong Biopharmaceutical"), the Chinese joint venture partner of CTF, and Shandong Biopharmaceutical Research Institute ("Shandong Research Institute"), a fellow subsidiary of Shandong Biopharmaceutical, were conducted at market prices.
- (ii) Operating lease rentals payable to Shandong Research Institute and Jiangsu Tianqing Pharmaceutical Company (Lianyungang) ("Jiangsu Tianqing"), the Chinese joint venture partner of CTT, were determined at an agreed rate in accordance with the relevant lease contracts.
- (iii) Interest payable to Shandong Research Institute and Shandong Biopharmaceutical was charged at 6.138% per annum in accordance with the relevant loan agreements.
- (iv) Interest payable to Jiangsu Tianqing was charged at 50% of the prevailing bank interest rate for the period from January 1998 to March 1998; 80% of the prevailing bank interest rate for the period from April 1998 to March 1999; and 100% of the prevailing bank interest rate commencing from April 1999 in accordance with the relevant loan agreements.

The loans from Jiangsu Tianqing, Shandong Research Institute and Shandong Biopharmaceutical were repaid subsequent to 31 December, 1999 and the related finance was met by the Group's internal resources.

- (v) As disclosed in note 4(f), the Group had amounts due from related companies of HK\$123,000 as at 31 May, 2000 mainly arising from transactions described in (i) above.
- (vi) As disclosed in note 4(f), the Group had amounts due to related companies amounting to HK\$1,558,000 as at 31 May, 2000 mainly arose from transactions described in (ii) above.
- (vii) As disclosed in note 4(h), the Group had amounts due to a shareholder and a company related to a shareholder aggregately amounted to HK\$69,347,000 as at 31 May, 2000 as long term loan to the Group during the Relevant Years/Period. Subsequent to 31 May, 2000, the aggregate amounts of approximately HK\$76,595,000 due to a shareholder and a company related to a shareholder as at 30 June, 2000 was capitalised as disclosed in note 7(b).
- (viii) On 20 July, 1998, with the approval of the originating approving authority in Jiangsu Province, Chia Tai Health Products Company Limited ("CTH"), a company incorporated in Hong Kong and wholly owned by Mr. Tse Ping, transferred its entire interest in CTT to CTL, in consideration of HK\$38,130,000. The original rights and obligations of CTH and Jiangsu Tianqing in respect of the equity joint venture agreement and articles of association of CTT were assumed by CTL.

Except for the capitalisation of amounts due to a shareholder and a company related to a shareholder, the transfer of interest in CTT to CTL and the interest payable to related parties as explained above, in the opinion of the directors, all other related party transactions will continue after the listing of the shares of the Company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM").

4. NET ASSETS

The following is a summary of the combined net assets of the Group as at 31 May, 2000, after making such adjustments as we consider appropriate and on the basis set out in Section 1 above:—

	<i>Notes</i>	Group <i>HK\$'000</i>
FIXED ASSETS	(a)	74,276
CONSTRUCTION IN PROGRESS		14,534
GOODWILL	(b)	4,163
LONG-TERM INVESTMENT	(c)	29,820
CURRENT ASSETS		
Cash and bank balances	(d)	38,475
Accounts receivable		61,868
Inventories	(e)	32,901
Prepayments, deposits and other receivables		23,463
Dividend receivable		1,402
Amounts due from related companies	(f)	<u>123</u>
		<u>158,232</u>
CURRENT LIABILITIES		
Bank loans	(g)	37,260
Accounts payable		12,815
Other payables and accrued liabilities		50,668
Amounts due to related companies	(f)	1,558
Taxation		2,161
Dividends payable to minority shareholders of subsidiaries		<u>8,880</u>
		<u>113,342</u>
NET CURRENT ASSETS		<u>44,890</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>167,683</u>
LONG TERM LIABILITIES		
Amounts due to a shareholder and a company related to a shareholder	(h) & 7(b)	<u>69,347</u>
NET ASSETS BEFORE MINORITY INTERESTS		98,336
MINORITY INTERESTS		<u>(49,448)</u>
NET ASSETS		<u><u>48,888</u></u>

Notes:—

(a) Fixed assets

	At cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold improvement	7,187	2,512	4,675
Leasehold buildings	40,050	11,423	28,627
Plant and machinery	47,638	15,550	32,088
Furniture and fixtures	7,736	2,972	4,764
Motor vehicles	<u>6,692</u>	<u>2,570</u>	<u>4,122</u>
	<u>109,303</u>	<u>35,027</u>	<u>74,276</u>

All leasehold buildings located in the PRC are held under medium term leases by the Group.

The relevant title certificates of certain of the above leasehold buildings (the "Property") with net book value of approximately HK\$587,925 as at 31 May, 2000 are in the process of being transferred to the name of the Group's subsidiary. As the relevant title has not been obtained, no commercial value was assigned to these buildings by DTZ Debenham Tie Leung Limited ("DTZ"), a registered professional surveyor incorporated in Hong Kong. For the purposes of this combined financial statements, these buildings are stated at their net book value as at 31 May, 2000 as in the opinion of the directors, no impairment to the value of these buildings to the Group has occurred. In the opinion of the Group's PRC legal advisers, there is no legal impediment for the Group to obtain good title to the Property after compliance with outstanding requisite procedures and the Group would be entitled to transfer, dispose of, let or mortgage the Property after such compliance. The major shareholders of the Company have given an indemnity to the Company against any financial loss to the Group arising from the failure of securing the transfer of the titles to the Group.

As at 31 May, 2000, certain of the above leasehold buildings with an aggregate net book value of approximately HK\$26,535,000 were pledged to secure certain of the Group's bank loans.

(b) Goodwill

	<i>HK\$'000</i>
Costs:—	6,781
Amortisation:—	
At beginning of period	2,333
Amortisation for the period	<u>285</u>
At end of period	<u>2,618</u>
Net book value	<u>4,163</u>

(c) Long-term investment*HK\$'000*

Unlisted shares, at cost	<u>29,820</u>
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The long term investment represented the Group's 8.33% interest in Golden News Enterprises Limited ("Golden News") which was incorporated in British Virgin Islands and is a subsidiary indirectly held by SIIC Medical Science and Technology (Group) Limited, a company listed on the GEM in 1999. Golden News, whose principal activity is investment holding, through Chia Tai Health Products Company Limited ("CTH"), indirectly holds 60% interest in Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("CTQ"), a sino-foreign equity joint venture company registered in the PRC.

(d) Cash and bank balances

The cash and bank balances included HK\$34,246,000 which were denominated in Renminbi ("RMB") in the amount of Rmb36,351,000. RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

(e) Inventories*HK\$'000*

Raw materials	9,628
Work in progress	5,522
Finished goods	16,687
Spare parts and consumables	<u>1,064</u>
	32,901
Less: Provision for slow-moving and obsolete inventories	<u>—</u>
	<u>32,901</u>

(f) Amounts due from/to related companies

The amounts due from/to related companies are unsecured, interest-free and have no fixed terms of repayment.

(g) Bank loans*HK\$'000*

Secured	14,602
Guaranteed	<u>22,658</u>
	<u>37,260</u>

Details of the Group's banking facilities and assets pledged are set out in Section 6 below.

(h) Amounts due to a shareholder and a company related to a shareholder

The amounts due to a shareholder and a company related to a shareholder are unsecured, interest-free and are not repayable within one year. As disclosed in Note 7(b), the amounts due to a shareholder and a company related to a shareholder were subsequently capitalised in accordance with the Group reorganisation arrangement.

(i) Reserves

Movements in the reserves of the Group during the Relevant Years/Period were as follows:—

	31 December,		31 May,
	1998	1999	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
General reserve fund (<i>Note</i>):—			
At beginning of year/period	462	2,116	3,311
Movements for the year/period	<u>1,654</u>	<u>1,195</u>	<u>—</u>
At end of year/period	<u><u>2,116</u></u>	<u><u>3,311</u></u>	<u><u>3,311</u></u>
Enterprise expansion fund (<i>Note</i>):—			
At beginning of year/period	885	3,628	5,028
Movements for the year/period	<u>2,743</u>	<u>1,400</u>	<u>—</u>
At end of year/period	<u><u>3,628</u></u>	<u><u>5,028</u></u>	<u><u>5,028</u></u>
Exchange fluctuation reserve:—			
At beginning of year/period	75	117	115
Arising on combination of PRC subsidiaries	<u>42</u>	<u>(2)</u>	<u>—</u>
At end of year/period	<u><u>117</u></u>	<u><u>115</u></u>	<u><u>115</u></u>

Note: According to the relevant laws and regulations for foreign investment enterprises incorporated under the law of the PRC on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's PRC joint ventures, profits of the Group's PRC joint ventures, as stated in the statutory financial statements prepared in accordance with the accounting rules and regulations in the PRC, are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures (1) satisfy all tax liabilities; (2) provide for losses in previous years and (3) make any required appropriations to the statutory reserve funds, including general reserve fund, enterprise expansion fund and staff welfare and bonus fund. The appropriation to the statutory reserve funds are at the discretion of the joint ventures' board of directors.

The general reserve fund can be used either to offset previous years' losses or to be capitalised as equity. The enterprise expansion fund can be used to expand the joint ventures' production and operations and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint ventures. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonus or collective welfare to the employees of the joint ventures.

In accordance with the articles of association of the Group's PRC joint ventures, profit after taxation, as determined in accordance with the PRC statutory financial statements, may be transferred to the general reserve fund, the enterprise expansion fund and the staff welfare and bonus fund at the discretion of the joint ventures' board of directors.

(j) Commitments

As at 31 May, 2000, the Group had the following commitments:—

	<i>HK\$'000</i>
Capital commitments in respect of plant and machinery:—	
Authorised, but not contracted for	15,259
Contracted, but not provided for	<u>10,880</u>
	<u><u>26,139</u></u>

Annual commitments payable in the following year under non-cancellable operating leases for land and buildings, and plant and machinery expiring:—

	Land and buildings	Plant and machinery	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,288	1,982	3,270
In the second to fifth years, inclusive	50	—	50
After five years	<u>565</u>	<u>—</u>	<u>565</u>
	<u><u>1,903</u></u>	<u><u>1,982</u></u>	<u><u>3,885</u></u>

(k) Contingent liabilities

As at 31 May, 2000, the Group had no material contingent liabilities.

(l) Net assets of the Company

The Company was incorporated on 2 February, 2000. On the basis set out in Section 1 above, the net assets of the Company as at 31 May, 2000 would have been approximately HK\$48,888,000, representing its investment in subsidiaries.

(m) Distributable reserves

As at 31 May, 2000, the Company had no reserve available for distribution to the shareholders of the Company.

5. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of the Relevant Years/Period by the Company or any of its subsidiaries to the directors of the Company.

Under the arrangements currently in force, the aggregate amount of directors' fees and other emoluments for the year ending 31 December, 2000 are approximately HK\$931,000, excluding discretionary bonuses payable under directors' service contracts, the terms of which are set out in the paragraph headed "Disclosure of interests" in Appendix V of the Prospectus.

6. BANKING FACILITIES AND PLEDGE OF ASSETS

The Group's bank loans bear interest at rates ranging from 6.435% to 7.326% per annum.

As at 31 May, 2000, the Group's secured bank loans of approximately HK\$14,602,000 were secured by certain fixed assets, with net book values of HK\$26,535,000. In addition, approximately HK\$15,121,000 and HK\$7,537,000 of the unsecured bank loans were guaranteed by Jiangsu Tianqing and Shandong Biopharmaceutical, the PRC joint venture partner of CTT and CTF, respectively. The guarantors have agreed to continue to provide the guarantees until the bank loans are fully repaid.

7. SUBSEQUENT EVENTS

- (a) On 19 September, 2000, the companies now comprising the Group effected a reorganisation arrangement to rationalise the Group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and the Company became the holding company of the Group. Details of this reorganization are set out in the paragraph headed "Corporate Reorganisation" in Appendix V of the Prospectus;
- (b) On 30 June, 2000, CTL issued and allotted 1 share of US\$1 each to Mr. Tse Ping, the chairman and major shareholder of the Company, as directed by Chia Tai Pharmaceutical & Medicines Limited ("CTPM"), a company ultimately owned by Mr. Tse Ping, for a consideration of HK\$36,217,658 paid by way of the capitalisation of the balance then due to CTPM in the amount of HK\$36,217,658 as at 30 June, 2000.

Pursuant to an ordinary resolution passed on 24 March, 2000, the authorised share capital of Sino Technology was increased from HK\$10,000 to HK\$10,100 by the creation of 100 additional shares of HK\$1 each, ranking pari passu in all respects with the existing ordinary share capital of Sino Technology. Thereafter, 100 shares of HK\$1 each were issued and allotted to the existing shareholders on 30 June, 2000. Out of the 100 shares, 91 shares of HK\$1 each were issued to Mr. Tse Ping, one of the shareholders of Sino Technology and the chairman of the Company, for a consideration of HK\$10,542,859 paid by way of the capitalisation of the balance then due to CTPM in the amount of HK\$10,542,859 as at 30 June, 2000. The remaining 9 shares of HK\$1 each were issued to Well Base, the remaining shareholder of Sino Technology, for cash at a subscription price of HK\$1 for a total cash consideration of HK\$9.

On 30 June, 2000, Champion First allotted and issued 1 share of US\$1 to Mr. Tse Ping to set off the outstanding indebtedness in the sum of HK\$29,834,244 due from Champion First to Mr. Tse Ping as of 30 June, 2000.

Henceforth, the amounts due to a shareholder and a company related to a shareholder, which aggregatedly amounted to HK\$76,594,761 as at 30 June, 2000, were capitalised.

Save as aforesaid, no other material significant events have taken place subsequent to 31 May, 2000.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 May, 2000.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The profit after taxation and minority interests but before extraordinary items of the Company for the year ending 31 December, 2000 is set forth under “Profit forecast” in the section headed “Financial information” in this prospectus:—

(A) BASES AND ASSUMPTIONS

The Directors have prepared the forecast of profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December, 2000, based on the audited combined results of the Group for the five months ended 31 May, 2000, unaudited combined result for the month ended 30 June, 2000 and a forecast of the results of the Group for the remaining six months ending 31 December, 2000. The Directors are not aware of any extraordinary items which had arisen or are likely to arise during the year ending 31 December, 2000. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those normally adopted by the Group as summarised in the Accountants’ Report, the text of which is set forth in Appendix I to this prospectus, and is based on the following assumptions:—

- (i) there will be no material changes in the existing political, legal, fiscal, economic or market conditions in the PRC, Hong Kong and the places in which the Group carries on business or from which it obtains its supply or materials;
- (ii) there will be no material changes in exchange rates and interest rates from those currently prevailing;
- (iii) there will be no material changes in legislation and regulations which will materially affect the business in Hong Kong and the PRC; and
- (iv) there will be no material changes in the bases or rates of taxation in the PRC, Hong Kong and in the countries in which any member of the Group carries on business.

(B) LETTERS

Set out below are the texts of letters received by the Directors from Ernst & Young, the auditors and reporting accountants of the Company, and from DBS Asia in connection with the forecast of profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December, 2000 and prepared for the purpose of inclusion in this prospectus.—

(I) Letter from Ernst & Young

 **ERNST & YOUNG**
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

22 September, 2000

The Directors
Sino Biopharmaceutical Limited
DBS Asia Capital Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the combined profits after taxation and minority interests but before extraordinary items of Sino Biopharmaceutical Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending 31 December, 2000, for which you as directors of the Company are solely responsible, as set out in the section headed “Profit forecast” in the prospectus of the Company dated 22 September, 2000 (the “Prospectus”). The forecast has been prepared by the directors of the Company based on the audited combined results of the Group for the five months ended 31 May, 2000, the unaudited combined result of the Group for the month ended 30 June, 2000 and a forecast of the combined results of the Group for the remaining six months of the year ending 31 December, 2000.

In our opinion, the profit forecast, so far as the accounting policies and calculation are concerned, has been properly compiled in accordance with the principal assumptions made by the directors of the Company as set out in Appendix II to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants’ Report dated 22 September, 2000.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(II) Letter from DBS Asia



16th Floor
Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

22 September, 2000

The Directors
Sino Biopharmaceutical Limited
Unit 9, 41st Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We refer to the forecast of the combined profit after taxation and minority interests but before extraordinary items of Sino Biopharmaceutical Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending 31 December, 2000 of not less than HK\$39 million as set out in the prospectus of the Company dated 22 September, 2000.

We have discussed with you the bases and assumptions upon which the profit forecast has been made. We have also considered the letter dated 22 September, 2000 addressed to you and ourselves from Ernst & Young relating to the accounting policies and calculations upon which the forecast has been made.

On the basis of the assumptions adopted by you and on the basis of the accounting policies and calculations reviewed by Ernst & Young, we are of the opinion that the forecast profit after taxation and minority interests but before extraordinary items of the Group, for which you as directors of the Company are solely responsible, has been made after due and careful consideration.

Yours faithfully,
For and on behalf of
DBS Asia Capital Limited
David Tsang
Managing Director

The following is the text of the letter together with a summary of valuation and valuation certificate from DTZ Debenham Tie Leung Limited, an independent property values, prepared for the purpose of inclusion in this prospectus in connection with the Group's property interest as at 31 July, 2000:—



Formerly C Y Leung & Company
原梁振英測量師行

22 September, 2000

The Directors
Sino Biopharmaceutical Limited
Unit 09 on 41st Floor
Office Tower
Convention Plaza
No. 1 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions of Sino Biopharmaceutical Limited (“the Company”) for us to value the property interests held by the Company and its subsidiaries (together referred to as “the Group”) in the People’s Republic of China (“the PRC”) and in the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of these property interests as at 31 July, 2000 (“the date of valuation”).

Our valuation of each of the properties is our opinion of the open market value which we could define as intended to mean “an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:—

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion”.

Our valuations have been made on the assumption that the owners sell the property interests on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to increase the value of the respective property interests.

In the course of our valuation of the properties situated in the PRC, we have assumed, unless otherwise stated, that transferable land use rights in respect of the property interests for respective specific terms at nominal annual land use fee have been granted and that any premium payable has already been fully paid. We have also assumed that the grantees or the users of the respective properties have free and uninterrupted rights to use or to assign the respective properties for the whole of the unexpired term as granted. We have relied on the advice given by the Group and its legal adviser on PRC law regarding the title to and the Group’s interest in the respective properties.

In forming our opinion of value of Property No. 1 which comprises building element only, we have valued it by Depreciated Replacement Cost Approach by taking into consideration the current reinstatement cost of the building structures with due allowance for the physical and functional obsolescence of the same. The land use rights of the land comprising the property have not been granted to the Group such that we have assigned no commercial value to the land element.

In forming our opinion of value of Property No. 2 which is held and occupied by the Group, we have valued it by Direct Comparison Approach assuming sale of the property in existing state with immediate vacant possession basis by making reference to comparable sales evidence as available in the relevant market.

In respect of Property No. 3, the Group has not yet obtained the relevant title certificate in respect of the land and building of the property. We have, therefore, in compliance with the relevant listing rules, assigned no commercial value to the property.

Properties in Groups II and III which are rented by the Group have no commercial value due mainly to the prohibition against assignment and subletting or otherwise to the lack of substantial profit rent.

We have been provided with copy of documents relating to the title to the properties situated in the PRC. However, we have not searched the original documents to ascertain ownership or to verify any amendments which may not appear on the copies handed to us. We have relied on the advice given by the Group on such matters as statutory notices, easements, tenure, particulars of occupancy and tenancies, site and floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate attached are based on the information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior and, where possible, the interior of each of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of not, infestation or any other structural defects. No test was carried out on any of the services. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the respective properties and we have assumed that the areas shown on the documents handed to us are correct.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the respective property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect value.

Unless otherwise stated, all money amounts stated in this valuation certificate are in Hong Kong dollars. The exchange rate adopted in our valuations is HK\$1=RMB1.07 which was the approximate exchange rate prevailing as at the date of valuation and there has been no significant fluctuation in such rate between that date and the date of this letter.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K. F. Chan
Registered Professional Surveyor (GP)
A.H.K.I.S., A.R.I.C.S.
Director

Note: Mr. Andrew K. F. Chan is a Chartered Surveyor who has extensive experience in valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUES

Property	Capital value in existing state as at 31 July, 2000 <i>HK\$</i>	Interest attributable to the Group %	Capital value in existing state attributable to the Group as at 31 July, 2000 <i>HK\$</i>
Group I — Properties held and occupied by the Group			
1. A factory situated at No. 8 Julong North Road (formerly known as Xinnong Road), Xinpu District, Lianyungang, Jiangsu Province, the PRC	30,500,000	60	18,300,000
2. Units 5-101, 5-102, 5-201, 5-301, 5-401 and 5-601 in Block No. 1, Wendong Court, No. 5 Jingshi Road, Lixia District, Jinan, Shandong Province, the PRC	1,900,000	55	1,045,000
3. Units West 2 on Level 1, South 5 and North 5 on Level 5, South 5 on Level 6, North 4 on Level 7 and Central 2 on Level 8, Block No. 8, No. 6 Shanshi East Road, Lixia District, Jinan, Shandong Province, the PRC			No commercial value
		Grand total:	19,345,000

Property	Capital value in existing state as at 31 July, 2000 <i>HK\$</i>	Interest attributable to the Group <i>%</i>	Capital value in existing state attributable to the Group as at 31 July, 2000 <i>HK\$</i>
Group II — Properties rented by the Group from its related parties			
4. Unit F (also known as Unit 09) on 41st Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong			No commercial value
5. No. 264 Shanda Road, Jinan, Shandong Province, the PRC			No commercial value
Group III — Properties rented by the Group from third parties			
6. Unit 1 on Level 6, West Block, Peacever Building, No. A10 Langjiayuan, Jianguomenwai Avenue, Dongcheng District, Beijing, the PRC			No commercial value
7. Units 203 and 205, Taoyuan Office Building, Xizhimen, Xicheng District, Beijing, the PRC			No commercial value
8. Room 637, Tianlin Guest House, No. 1 Tianlin Road, Xuhui District, Shanghai, the PRC			No commercial value
9. Unit 501, Qinfei Building, No. 172 Dongmutou City, Xian, Shaanxi Province, the PRC			No commercial value

Property	Capital value in existing state as at 31 July, 2000 <i>HK\$</i>	Interest attributable to the Group <i>%</i>	Capital value in existing state attributable to the Group as at 31 July, 2000 <i>HK\$</i>
10. Unit 1–1, Block A, No. 18 Tiansi Street, Tianxiang Town, Chengdu, Sichuan Province, the PRC			No commercial value
11. Block D on Level 2, Ziyun Court, Xizhi Garden, No. 598 Zhongshan North Road, Hangzhou, Zhejiang Province, the PRC			No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July, 2000
Group I — Properties held and occupied by the Group			
1. A factory situated at No. 8 Julong North Road (formerly known as Xinnong Road), Xinpu District, Lianyungang, Jiangsu Province, the PRC	<p>The property occupies an irregular-shaped site with an area of 99,270.84 sq.m. (1,068,551 sq.ft.).</p> <p>The property comprises various low-rise blocks for the accommodation of a pharmaceutical factory completed between 1981 and 1997.</p> <p>The property currently has a total gross floor area of approximately 34,370.89 sq.m. (369,968 sq.ft.).</p> <p>The property is also planned to comprise a single storey workshop building, with a gross floor area of approximately 800 sq.m. (8,611 sq.ft.), which are currently under construction and are scheduled for full completion by December 2000.</p> <p>The property is occupied by the Group under a land lease contract for a term due to expire on 31 December, 2046.</p>	<p>The property is currently occupied by Lianyungang Chiatai-Tianqing Pharmaceutical Co., Ltd. (“CTT”) as office, workshop, warehouse and staff quarters.</p>	<p>HK\$30,500,000 (60 per cent. interest attributable to the Group:— HK\$18,300,000)</p>

Notes:—

- (1) According to three Certificates for the Use of State-owned Land all issued by the People’s Government of Lianyungang in October 1994, the land use rights of the three lots situated at No. 8 Xinnong Road, Xinpu District, Lianyungang have been granted to Jiangsu Tianqing Pharmaceutical Company (Lianyungang) (“Jiangsu Tianqing”) for an unspecified term. Details of the said certificates are summarized as follows:—

Certificate No.	Site area	Use
(1994) 070	41,977.30 sq.m.	Residential
(1994) 071	85,089.34 sq.m.	Industrial
(1994) 072	8,085.67 sq.m.	Commercial

- (2) According to three Housing Title Certificates Nos. 322-1, 322-2 and 322-3 all issued by Lianyungang Real Estate Administrative Bureau on 18 December, 1997, the title to the various buildings of the property, comprising a total gross floor area of 34,370.89 sq.m., is vested in CTT.
- (3) According to the Land Lease Contract entered into between Jiangsu Tianqing (“Party A”) and CTT (“Party B”) on 1 May, 1997, Party A has agreed to lease to Party B a piece of land, comprising a site area of approximately 99,270.84 sq.m., for a term of 50 years at an average annual rent of RMB595,625.04, subject to review.

- (4) According to Planning Permit for Construction Works No. (99) 074, the workshop building currently under construction is permitted to comprise a development scale of 800 sq.m..
- (5) As advised by the Group, as at the date of valuation, the construction cost expended on the workshop building which is currently under construction was in the sum of approximately RMB2,700,000 and the outstanding cost to complete the same is estimated to be RMB850,000. We have taken into account such costs in our valuation.
- (6) According to Business License No. 001554, CTT has been incorporated with a registered capital of RMB68,000,000 and an operation period from 16 April, 1997 to 15 April, 2047.
- (7) According to the Equity Joint Venture Contract and the Memorandum of Amendment entered into between Jiangsu Tianqing (“Party A”) and Chia Tai Pharmaceutical Lianyungang Company Limited (“Party B”) on 5 January, 1997 and 26 October, 1998 respectively, the parties have agreed to establish an equity joint venture company (“the EJV”) on the terms as cited, inter alia, as follows:—
- | | | | |
|--------|-------------------------|---|---|
| (i) | Name of the EJV | : | CTT |
| (ii) | Total investment amount | : | RMB130,350,000 |
| (iii) | Registered capital | : | RMB68,000,000 |
| (iv) | Party A’s contribution | : | Fixed asset, intangible asset and currency evaluated at RMB27,200,000 accounting for 40 per cent. of the registered capital |
| (v) | Party B’s contribution | : | RMB40,800,000 in cash accounting for 60 per cent. of the registered capital |
| (vi) | Land leasing | : | Party A shall enter into a contract with the EJV for leasing a piece of land resumed by Party A |
| (vii) | Profit sharing | : | The parties shall share the profit of the EJV in accordance with their respective capital contribution |
| (viii) | Joint venture term | : | 50 years from the date of issue of the business license of the EJV |
- (8) The legal opinion of the Group’s legal adviser on PRC law states, inter alia, that:—
- (i) CTT is a sino-foreign joint venture enterprise duly incorporated under the PRC law.
- (ii) CTT has obtained relevant permits, approvals, authorization and business license in relation to its business.
- (iii) Jiangsu Tianqing has obtained three Certificates for the Use of State-owned Land and is in possession of the land use rights of the property.
- (iv) CTT has entered into a land lease contract with Jiangsu Tianqing pursuant to which CTT has leased a piece of land with an area of approximately 99,270.84 sq.m. from Jiangsu Tianqing at an average annual rent of RMB595,625.04 for a term of 50 years from the date of incorporation of CTT but such term shall not exceed 31 December, 2046 (being the expiry date of the term as stated in the approval of Lianyungang Land Administrative Bureau. The said contract has been approved by Lianyungang Land Administrative Bureau.
- (v) The occupation of the land comprising the property by CTT is in compliance with the PRC law.
- (vi) CTT has obtained the title to the various buildings of the property by virtue of obtaining three Housing Title Certificates.
- (vii) According to the Contract for Mortgage entered into between CTT and China Agricultural Bank Lianyungang Branch (“the Mortgagor”) on 20 April, 2000, CTT has mortgaged the buildings with a gross floor area of 20,752.30 sq.m. of the property to the Mortgagor to secure a loan in the amount of

RMB19,633,686. According to the PRC law and the Contract for Mortgage, CTT may lease or transfer the mortgaged portion of the property after obtaining consent of the Mortgagor. The relevant procedure of the Contract for Mortgage is in progress.

- (viii) The occupation and use of the building structures and the use of the land comprising the property by CTT do not contravene any PRC laws. CTT should however obtain approval from the government before transferring or selling the building structures and the land use rights.
- (9) We have relied on the information provided by the Group and the opinion of its legal adviser on PRC law and prepared our valuation on the following assumptions:—
- (i) CTT may occupy the land comprising the property for the residual term of the land lease contract as mentioned in note (3) above;
- (ii) CTT is in possession of a proper legal title to the building structures; and
- (iii) the design and construction of the building structure are in compliance with the local planning regulations and have been approved by the relevant government authorities
- (10) The status of title and grant of major approvals and licenses in accordance with the information provided by the Group are as follows:—

Certificates for the Use of State-owned Land	N/A
Housing Title Certificate/Real Estate Certificate	Yes
Planning Permit for Construction Works	Yes
Business License	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July, 2000
2. Units 5-101, 5-102, 5-201, 5-301, 5-401 and 5-601 in Block No. 1, Wendong Court, No. 5 Jingshi Road, Lixia District, Jinan, Shandong Province, the PRC	<p>The property comprises a six residential units in an 8-storey composite building completed in 1995.</p> <p>The various units of the property have a total gross floor area of approximately 609.94 sq.m. (6,565 sq.ft.) and a total basement area of approximately 81.52 sq.m. (877 sq.ft.).</p> <p>The land use rights of the property have been granted for an unspecified term.</p>	The property is currently occupied by Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") as staff quarters.	<p>HK\$1,900,000 (55 per cent. interest attributable to the Group: HK\$1,045,000)</p>

Notes:—

- (1) According to six Housing Title Certificates issued by Jinan Real Estate Administrative Bureau, the title to the various units of the property is vested in CTF. Details of the said certificates are cited as follows:—

Certificate No.	Date of issue	Unit No.	Gross floor area
012679	1999/04/23	5-101	109.84 sq.m.
012678	1999/05/12	5-102	133.52 sq.m.
012676	1999/04/23	5-201	112.33 sq.m.
012681	1999/04/23	5-301	112.33 sq.m.
012677	1999/04/23	5-401	109.84 sq.m.
012680	1999/04/23	5-601	113.60 sq.m.

- (2) According to Business License No. 003050-1/1, CTF has been incorporated with a registered capital of RMB20,000,000 and an operation period from 31 March, 1992 to 30 March, 2042.

- (3) According to the Equity Joint Venture Contract dated 26 December, 1991 and two supplemental agreements dated 8 September, 1994 and 20 June, 1997 respectively, Shandong Biochemical Pharmaceutical Co. ("Party A"), Freda International Inc. of America ("Party B") and Sino Concept Technology Limited ("Party C") have agreed to establish an equity joint venture company (the "EJV") on the terms as cited, inter alia, as follows:—

(i)	Name of the EJV	:	CTF
(ii)	Total investment amount	:	RMB28,000,000
(iii)	Registered capital	:	RMB20,000,000
(iv)	Party A's contribution	:	Fixed asset and intangible asset evaluated at RMB8,000,000 accounting for 40 per cent. of the registered capital
(v)	Party B's contribution	:	RMB1,000,000 in cash accounting for 5 per cent. of the registered capital

- (vi) Party C's contribution : RMB11,000,000 in cash accounting for 55 per cent. of the registered capital
- (vii) Profit sharing : The parties shall share the profit of the EJV in accordance with their respective capital contribution
- (viii) Joint venture term : 50 years from the date of issue of the business license of the EJV
- (4) The legal opinion of the Group's legal adviser on PRC law states, inter alia, that:—
- (i) CTF is a sino-foreign joint venture enterprise duly incorporated under the PRC law.
- (ii) CTF has obtained relevant permits, approvals, authorization and business license in relation to its business.
- (iii) CTF has lawfully obtained the housing title to the various units of the property by virtue of obtaining six Housing Title Certificates.
- (iv) The developer of the property has obtained the relevant land use rights which are for residential use by way of administrative allocation. Apart from completion of land grant procedure responsible by the developer, there is no legal impediment for CTF to obtain the relevant Certificates for the Use of State-owned Land of the various units of the property.
- (v) According to PRC laws, CTF is entitled to transfer, sell or lease the property after obtaining the relevant Certificates for the Use of State-owned Land.
- (5) We have relied on the information provided by the Group and the opinion of its legal adviser on PRC law and prepared our valuation on the following assumptions:—
- (i) CTF is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;
- (ii) all land premium and costs of ancillary utility services have been settled in full;
- (iii) the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant government authorities; and
- (iv) the property may be disposed of freely to third parties.
- (6) The status of title and grant of major approvals and licenses in accordance with the information provided by the Group are as follows:—
- | | |
|---|-----|
| Certificates for the Use of State-owned Land | No |
| Housing Title Certificate/Real Estate Certificate | Yes |
| Business License | Yes |

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July, 2000
3. Units West 2 on Level 1, South 5 and North 5 on Level 5, South 5 on Level 6, North 4 on Level 7 and Central 2 on Level 8, Block No. 8, No. 6 Shanshi East Road, Lixia District, Jinan, Shandong Province, the PRC	<p>The property comprises a six residential units in an 8-storey composite building completed in 1995.</p> <p>The various units of the property have a total gross floor area of approximately 308.43 sq.m. (3,320 sq.ft.).</p> <p>The land use rights of the property have been granted for an unspecified term.</p>	The property is currently occupied by CTF as staff quarters.	No commercial value

Notes:—

- (1) According to a Contract for Purchase of Housing dated 20 December, 1995, CTF has agreed to purchase the various units of the property, comprising a total gross floor area of 308.43 sq.m., at a total consideration of RMB665,055.
- (2) The legal opinion of the Group's legal adviser on PRC law states, *inter alia*, that:—
 - (i) CTF has entered into a Contract for Purchase of Housing on 20 December, 1995 to purchase the various units of the property at a total consideration of RMB665,055 which has been fully paid.
 - (ii) CTF and the developer of the property have certified that Certificates for the Use of State-owned Land and Housing Title Certificates in respect of various units of the property are in the course of being processed. Apart from completion of land grant procedure responsible by the developer, there is no legal impediment for CTF to obtain the relevant Certificates for the Use of State-owned Land and Housing Title Certificates in respect of the various units.
 - (iii) After obtaining the Certificates for the Use of State-owned Land and Housing Title Certificates, CTF may transfer, sell, lease or mortgage the property.
- (3) As the Group has not yet obtained the relevant Certificates for the Use of State-owned Land and Housing Title Certificates in respect of the property, we have, therefore, in compliance with the relevant listing rules, assigned no commercial value to the property.
- (4) The status of title and grant of major approvals and licenses in accordance with the information provided by the Group are as follows:—

Certificates for the Use of State-owned Land	No
Housing Title Certificate/Real Estate Certificate	No
Business License	Yes

Property	Description and tenancy details	Capital value in existing state as at 31 July, 2000
Group II — Properties rented by the Group from its related parties		
4. Unit F (also known as Unit 09) on 41st Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	<p>The property comprises an office unit on the 41st floor of the office tower within Convention Plaza which was completed in 1990.</p> <p>The property has a saleable area of approximately 143.72 sq.m. (1,547 sq.ft.) and is currently occupied by the Group as an office.</p> <p>The property is currently leased by the Group for a term of two years from 1 June, 2000 to 31 May, 2002 at a monthly rent of HK\$55,000, exclusive of rates and management fees.</p>	No commercial value
5. No. 264 Shanda Road, Jinan, Shandong Province, the PRC	<p>The property comprises various low-rise blocks for office, workshop and staff quarters uses. The various blocks were completed between 1981 and 1997.</p> <p>The property has a total gross floor area of approximately 7,695 sq.m. (82,829 sq.ft.) and is currently occupied by the Group as office, workshop and staff quarters.</p> <p>The property is currently leased by the Group for a term of one year from 1 June, 2000 at an annual rent of RMB3,102,744.</p>	No commercial value
Group III — Properties rented by the Group from third parties		
6. Unit 1 on Level 6, West Block, Peacever Building, No. A10 Langjiayuan, Jianguomenwai Avenue, Dongcheng District, Beijing, the PRC	<p>The property comprises an office unit on the 6th level of a 6-storey composite building completed in 1996.</p> <p>The property has a gross floor area of approximately 90 sq.m. (969 sq.ft.) and is currently occupied by the Group as an office.</p> <p>The property is currently leased by the Group for a term from 22nd May, 2000 to 21 May, 2002 at an annual rent of RMB147,825.</p>	No commercial value

Property	Description and tenancy details	Capital value in existing state as at 31 July, 2000
7. Units 203 and 205, Taoyuan Office Building, Xizhimen, Xicheng District, Beijing, the PRC	<p>The property comprises two office units on the 2nd level of a 4-storey composite building completed in 1995.</p> <p>The property has a total gross floor area of approximately 50 sq.m. (538 sq.ft.) and is currently occupied by the Group as an office.</p> <p>The property is currently leased by the Group for a term from 18 August, 1999 to 17 August, 2000 at an annual rent of RMB57,000.</p> <p>As advised by the Group, such lease has been renewed for a further term of one year at the same rent.</p>	No commercial value
8. Room 637, Tianlin Guest House, No. 1 Tianlin Road, Xuhui District, Shanghai, the PRC	<p>The property comprises a guest room on the 6th level of a 10-storey guest house building completed in 1998.</p> <p>The property has a gross floor area of approximately 50 sq.m. (538 sq.ft.) and is currently occupied by the Group as an office.</p> <p>The property is currently leased by the Group for a term of one year from 1 April, 2000 to 31 October, 2000 at a daily rent of RMB110.</p>	No commercial value
9. Unit 501, Qinfei Building, No. 172 Dongmutou City, Xian, Shaanxi Province, the PRC	<p>The property comprises an office unit on the 5th level of an 8-storey composite building completed in 1994.</p> <p>The property has a gross floor area of approximately 60 sq.m. (646 sq.ft.) and is currently occupied by the Group as an office.</p> <p>The property is currently leased by the Group for a term from 1 November, 1999 to 30 October, 2000 at an annual rent of RMB23,400.</p>	No commercial value
10. Unit 1-1, Block A, No. 18 Tiansi Street, Tianxiang Town, Chengdu, Sichuan Province, the PRC	<p>The property comprises an office unit on the 1st level of a an 18-storey composite building completed in 1996.</p> <p>The property has a gross floor area of approximately 121.71 sq.m. (1,310 sq.ft.) and is currently occupied by the Group as an office.</p> <p>The property is currently leased by the Group for a term from 3 January, 2000 to 30 January, 2001 at a monthly rent of RMB3,000.</p>	No commercial value

		Capital value in existing state as at 31 July, 2000
Property	Description and tenancy details	
11. Block D on Level 2, Ziyun Court, Xizhi Garden, No. 598 Zhongshan North Road, Hangzhou, Zhejiang Province, the PRC	<p>The property comprises an office unit on the 2nd level of a 21-storey composite building completed in 1995.</p> <p>The property has a gross floor area of approximately 128 sq.m. (1,378 sq.ft.) and is currently occupied by the Group as an office.</p> <p>The property is currently leased by the Group for a term from 8 February, 2000 to 7 February, 2001 at an annual rent of RMB40,000.</p>	No commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 February, 2000 under the Companies Law (Revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate, irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law in doing in any part of the world whether as principal, agent, contractor or otherwise whatever may be considered by it necessary for the attainment of its objects, and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 19 September, 2000. The following is a summary of certain provisions of the Articles:—

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles 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 Articles) and the Memorandum and Articles, 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 Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) 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 Articles 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 Articles 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 Articles, 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 Articles 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 Articles, 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 Articles. 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 Articles, 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 Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor 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 Articles)) is beneficially interested in 5 percent. 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*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. 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 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 whereupon the Board resolves to accept such resignation;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, 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;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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.

(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 Articles 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 30 days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to confirm any amendment to the Articles 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 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.
- (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 share premium account 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 Articles 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 Articles, 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 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 95 per cent. 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 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 15 days of being passed.

An ordinary resolution is defined in the Articles 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 Articles.

(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 Articles, 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 Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all 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 is a member of the Company it may authorise such person or persons (or its nominee) 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 entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual member of the Company.

(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 Articles)) 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 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 Articles.

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 Articles. 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 21 clear days' notice in writing, and any other extraordinary general meeting shall be called by at least 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 Articles 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 95 per cent 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; and
- (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 20 per cent in nominal value of its existing issued share capital.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form 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 Articles) 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 Articles), 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 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 Articles 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.

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

There are no provisions in the Articles 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 Articles 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 Articles 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 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 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 20 per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 dollars, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$10.00, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(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 Articles 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 Articles 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 Articles 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, as summarised in paragraph 4(e) of this Appendix.

(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 Articles, 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 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 Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) 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 Articles 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.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law (Revised) of the Cayman Islands and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:—

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of

capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m), above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:—

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 2 February, 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law (Revised) , is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY**Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 2 February, 2000. The Company was formerly known as “Sino Biotech Limited (中国生物科技有限公司)” and subsequently changed its name to “Sino Biopharmaceutical Limited (中國生物製藥有限公司)” on 20 June, 2000.

The Company has established a place of business in Hong Kong at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong and was registered on 5 April, 2000 as an oversea company under Part XI of the Companies Ordinance. In connection with such application, Ms. Tse Wun has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

The Company was incorporated in the Cayman Islands and is subject to the Companies Law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and relevant aspects of the Cayman Islands company law is set out in Appendix IV to this prospectus.

Changes in share capital

As at the date of incorporation of the Company, its initial authorised share capital was HK\$380,000 divided into 3,800,000 Shares. On 2 February, 2000, one Share was allotted and issued at par to the initial subscriber, Codan Trust Company (Cayman) Limited and then transferred to Mr. Tse Ping on the same day.

Pursuant to written resolutions of the sole shareholder of the Company passed on 19 September, 2000, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of 996,200,000 Shares.

On 19 September, 2000, the Company allotted and issued 107,999,999 Shares to Conspicuous Group Limited, 57,317,760 Shares to Remarkable Industries Limited and 65,802,240 Shares to Validated Profits Limited as directed by Mr. Tse Ping credited as fully paid as consideration for (a) the acquisition by the Company of the entire issued share capital of CTL from Mr. Tse Ping and (b) the acquisition by the Company of 91 per cent. of the issued share capital of Sino Technology from Mr. Tse Ping and (c) the acquisition by the Company of the entire issued share capital of Champion First from Mr. Tse Ping.

On 19 September, 2000, the Company allotted and issued in aggregate 8,880,000 Shares to Discover Profits Limited as directed by Well Base (Asia) Limited credited as fully paid as consideration for the acquisition by the Company of 9 per cent. of the issued share capital of Sino Technology from Well Base (Asia) Limited.

On 19 September, 2000, Mr. Tse Ping transferred one Share to Conspicuous Group Limited at its nominal value of HK\$0.10.

Assuming that the Placing becomes unconditional and the issue of the Placing Shares mentioned herein are made but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the authorised share capital of the Company will be HK\$100,000,000 divided into 1,000,000,000 Shares and the issued share capital of the Company will be HK\$30,000,000 divided into 300,000,000 Shares fully paid or credited as fully paid, with 700,000,000 Shares remaining unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the shareholders of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid, there has been no alteration in the share capital of the Company since the date of its incorporation.

Written resolutions of the sole shareholder of the Company passed on 20 June, 2000 and 19 September, 2000

On 20 June, 2000, written resolutions of the sole shareholder of the Company were passed pursuant to which:—

- (a) the name of the Company was changed from “Sino Biotech Limited 中国生物技术有限公司” to “Sino Biopharmaceutical Limited 中國生物製藥有限公司”; and
- (b) the memorandum and articles of association of the Company were amended by replacing all references to “Sino Biotech Limited 中国生物技术有限公司” with “Sino Biopharmaceutical Limited 中國生物製藥有限公司” to reflect the name change.

On 19 September, 2000, written resolutions of the sole shareholder of the Company were passed pursuant to which, inter alia:—

- (a) the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of 996,200,000 new Shares;
- (b) the Directors were authorised to allot and issue, credited as fully paid, (i) a total of 231,119,999 Shares, as to 107,999,999 Shares to Conspicuous Group Limited representing consideration for the acquisition by the Company of the entire issued share capital of CTL, 57,317,760 Shares to Remarkable Industries Limited representing consideration for the acquisition by the Company of 91 per cent. of the issued share capital of Sino Technology and 65,802,240 Shares to Validated Profits Limited representing consideration for the acquisition by the Company of the entire issued share capital of Champion First, in each case as directed by Mr. Tse Ping and (ii) a total of 8,880,000 Shares to Discover Profits Limited as directed by Well Base (Asia) Limited representing consideration for the acquisition by the Company of 9 per cent. of the issued share capital of Sino Technology;
- (c) conditional on (i) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming

unconditional (including, if relevant, as a result of the waiver of any condition(s) thereunder) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before 18 October, 2000 (or such later date as DBS Asia may agree), the Placing and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Placing Shares including the Shares which may be required to be issued if the Over-allotment Option is exercised;

- (d) conditional on (i) the GEM Listing Committee granting approval of the listing of, and permission to deal in, any Shares which may fall to be issued pursuant to the exercise of any option granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) thereunder) and not being terminated in accordance with the terms of that agreement or otherwise, the rules of the Share Option Scheme were approved and adopted, and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;
- (e) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights or an issue of shares upon the exercise of any subscription rights attached to any warrants of the Company or pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of shares of the Company in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company or a specific authority granted by the shareholders of the Company in general meeting, Shares with an aggregate nominal value not exceeding 20 per cent. of the total nominal value of the share capital of the Company in issue immediately following completion of the Placing, such mandate to remain in effect until whichever is the earliest of:—
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the Companies Law or any other applicable laws of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing such mandate;
- (f) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange for this

purpose such number of Shares as will represent up to 10 per cent. of the total nominal value of the share capital of the Company in issue immediately following completion of the Placing, such mandate to remain in effect until whichever is the earliest of:—

- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the Companies Law or any other applicable laws of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing such mandate;
- (g) the general unconditional mandate mentioned in paragraph (e) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above provided that such extended amount shall not exceed 10 per cent. of the total nominal value of the share capital of the Company in issue immediately following completion of the Placing; and
- (h) conditional upon the approval being obtained for the listing of the Shares on GEM, the Company approved and adopted new articles of association, the terms of which are summarised in Appendix IV to this prospectus, in substitution for and to the exclusion of all the previous articles of association of the Company.

Corporate Reorganisation

The companies comprising the Group underwent a reorganisation on 19 September, 2000 to rationalise the Group's structure in preparation for the listing of the Shares on GEM. CTL, Sino Technology and Champion First became the Group's intermediate holding companies and the Company became the ultimate holding company within the Group. The corporate reorganisation involved the following:—

- (a) the Company acquired from Mr. Tse Ping:—
 - (i) the entire issued share capital of CTL;
 - (ii) 91 per cent. of the issued share capital of Sino Technology; and
 - (iii) the entire issued share capital of Champion First

in consideration of the issue and allotment by the Company of 107,999,999 Shares to Conspicuous Group Limited, 57,317,760 Shares to Remarkable Industries Limited and 65,802,240 Shares to Validated Profits Limited as directed by Mr. Tse Ping; and

- (b) the Company acquired from Well Base (Asia) Limited 9 per cent. of the issued share capital of Sino Technology in consideration of the issue and allotment by the Company of 8,880,000 Shares to Discover Profits Limited as directed by Well Base (Asia) Limited.

Changes in the share capital of subsidiaries

The Company's subsidiaries are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:—

- (a) On 20 July, 1998, CTL acquired a 60 per cent. interest in CTT from CTH in consideration of RMB40,800,000 (HK\$38,130,000). Approval for the said transfer was granted by Lianyungang Foreign Economic and Trade Commission (連雲港市對外經濟貿易委員會) on 27 October, 1998.
- (b) On 30 June, 2000, CTL allotted and issued credited as fully paid 1 share of US\$1 to Mr. Tse Ping as directed by CTPM to set off the outstanding indebtedness in the sum of HK\$36,217,658 due from CTL to CTPM as of 30 June, 2000.
- (c) (i) On 19 March, 1999, CTPM transferred the two non-voting deferred shares of HK\$1 each of Sino Technology to Mr. Tse Ping. On the same day, CTPM also transferred one ordinary share of HK\$1 each in the capital of Sino Technology to Mr. Tse Ping. Well Chance Nominees Limited transferred one ordinary share of HK\$1 in the capital of Sino Technology to Ms. Chia Fai.
- (ii) The rights and restrictions attached to the ordinary and non-voting deferred shares in the capital of Sino Technology referred to in sub-paragraph (i) above are as follow:—
- (1) *as regards income* — the profits which Sino Technology may determine to distribute in respect of any financial period shall be distributed among the holders of ordinary shares according to the amounts paid up on the ordinary shares held by them respectively and no part of such profits shall be distributed among the holders of the non-voting deferred shares;
 - (2) *as regards capital* — on a return of assets on a winding-up or otherwise, the assets of Sino Technology to be returned shall be distributed as regards the first HK\$1,000,000,000,000,000 thereof among the holders of ordinary shares in proportion to the nominal amounts of the ordinary shares held by them respectively and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting deferred shares and the other half thereof to and among the holders of the ordinary shares, in each case in proportion to the nominal amounts of shares held by them respectively; and
 - (3) *as regards voting* — on a show of hands every holder of ordinary shares who (being an individual) is present in person or (being a corporation) is represented by its authorised representative shall have one vote, and on a poll, every holder of ordinary shares present in person or by proxy or, in the case of a corporation, by its authorised representative shall have one vote for every ordinary share

held by him/it, but the non-voting deferred shares shall not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of Sino Technology.

- (iii) Pursuant to a special resolution passed on 26 July, 1999, each of the 2 non-voting deferred shares of HK\$1 each in the issued share capital of Sino Technology then held by Mr. Tse Ping was converted into an ordinary share of HK\$1 which had the rights and privileges and rank *pari passu* in all respects with the existing ordinary shares of Sino Technology.

On the same day, 900 ordinary shares of HK\$1 each in the capital of Sino Technology were issued and allotted to Well Base (Asia) Limited and 8,096 ordinary shares of HK\$1 each in the capital of Sino Technology were issued and allotted to Mr. Tse Ping.

- (iv) On 6 December, 1999, 1,000 ordinary shares of HK\$1 each in the capital of Sino Technology were issued and allotted to Mr. Tse Ping.
 - (v) Pursuant to an ordinary resolution passed on 24 March, 2000, the authorised share capital of Sino Technology was increased from HK\$10,000 to HK\$10,100 by the creation of an additional 100 ordinary shares of HK\$1.00 each, such new shares ranking *pari passu* in all respects with the existing shares in the capital of Sino Technology.
 - (vi) On 30 June, 2000, Sino Technology allotted and issued credited as fully paid 91 shares of HK\$1.00 each to Mr. Tse Ping as directed by CTPM to set off the outstanding indebtedness in the sum of HK\$10,542,859 due from Sino Technology to CTPM as of 30 June, 2000; and allotted and issued for cash at par 9 shares of HK\$1.00 each to Well Base (Asia) Limited.
- (d) (i) Following its incorporation on 22 September, 1998, Champion First issued 1 share of US\$1 to Mr. Tse Ping for cash at par on 27 October, 1998.
 - (ii) On 30 June, 2000, Champion First allotted and issued credited as fully paid 1 share of US\$1 to Mr. Tse Ping to set off the outstanding indebtedness in the sum of HK\$29,834,244 due from Champion First to Mr. Tse Ping as of 30 June, 2000.

Save as aforesaid, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this prospectus.

Repurchase by the Company of its own securities

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Regulations of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:—

(i) *Shareholders' approval*

All repurchases of securities on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

Note: Pursuant to a written resolution of the sole shareholder of the Company passed on 19 September, 2000, a general unconditional mandate (the “Buyback Mandate”) was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange of up to 10 per cent. of the total nominal value of the share capital of the Company in issue immediately after completion of the Placing, at any time until the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the Companies Laws or any other applicable laws of the Cayman Islands to be held or the passing of an ordinary resolution of shareholders of the Company in general meeting revoking, varying or renewing such mandate, whichever occurs first.

(ii) *Source of funds*

Any repurchases must be financed out of funds legally available for the purpose in accordance with the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

(iii) *Trading restrictions*

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange the total number of shares which represent up to a maximum of 10 per cent. of the aggregate nominal value of the issued share capital of that company at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchases on GEM if the result of the repurchases would be that the number of the listed securities in public hands would be below the relevant prescribed minimum percentage for that company as determined by the Stock Exchange. A company may only repurchase shares on GEM if (1) the purchase price is not higher than the latest (or current) independent bid price or the last independent sale (contract) price quoted or reported on the system (as defined in the Rules of the Stock Exchange),

whichever is higher; and (2) the company has not made the opening bid nor any bid in the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange.

(iv) *Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(v) *Suspension of repurchase*

Any securities repurchase programme is required to be suspended after a price-sensitive development has occurred or has been the subject of directors' decision until the price-sensitive information is made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of the company's half-year report or a quarterly report, a company may not purchase its securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit repurchases of securities on GEM if a company has breached the GEM Listing Rules.

(vi) *Reporting requirements*

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(vii) *Connected parties*

Under the GEM Listing Rules, a company shall not knowingly repurchase shares from a connected person (as defined under the GEM Listing Rules) and a connected person shall not knowingly sell his shares to the company. As at the Latest Practicable Date and to the best of the knowledge of the Directors have made all reasonable enquiries, none of the Directors or their associates has a present intention to sell Shares to the Company.

(b) *Exercise of the buyback mandate*

Exercise in full of the buyback mandate, on the basis of 300,000,000 Shares in issue immediately after completion of the Placing and taking no account of the Shares which may be allotted pursuant to the Over-allotment Option could accordingly result in up to 30,000,000 Shares being repurchased by the Company during the period up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the Companies Law or any other applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the repurchase mandate by ordinary resolution of the shareholders of the Company in general meeting, whichever occurs first.

(c) *Reasons for repurchases*

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

(d) *Funding of repurchases*

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the applicable laws and regulations of the Cayman Islands. The Company may not purchase its securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(e) *General*

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Buyback Mandate is exercised in full. However, the Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules, the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

No connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he has a present intention to sell Shares to the Company or has undertaken not to do so.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a shareholder, or a group of

shareholders acting in concert, depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code.

Information about the Group's principal PRC enterprises

The Company has interests in three PRC enterprises, namely CTT, CTF and CTQ. Certain particulars of these enterprises are as follows:—

(a) CTT

Nature:	Sino-foreign equity joint venture
Registered capital:	RMB68,000,000 (fully contributed)
Total investment amount:	RMB130,350,000
Joint venture parties:	CTL and Jiangsu Tianqing
Attributable interest of the Company:	60 per cent.
Date of establishment:	16 April, 1997
Term of joint venture:	50 years
Capital contribution:	RMB68,000,000
Profit and loss sharing ratio:	in accordance with the ratio of equity interest
Arrangement upon liquidation:	in accordance with the ratio of equity interest
Restriction on transfer of equity interest:	other party has pre-emption right

(b) CTF

Nature:	Sino-foreign equity joint venture
Registered capital:	RMB20,000,000 (fully contributed)
Total investment amount:	RMB28,000,000
Joint venture parties:	Sino Technology, Shandong Biopharmaceutical and FII
Attributable interest of the Company:	55 per cent.
Date of establishment:	31 March, 1992
Term of joint venture	50 years
Capital contribution:	RMB20,000,000
Profit and loss sharing ratio:	in accordance with the ratio of equity interest
Arrangement upon liquidation:	in accordance with the ratio of equity interest
Restriction on transfer of equity interest:	other parties have pre-emption right

(c) CTQ

Nature:	Sino-foreign equity joint venture
Registered capital:	RMB128,500,000 (fully contributed)
Total investment amount:	RMB248,000,000
Joint venture parties:	CTH, China Qingchunbao and 杭州正大青春寶 職工持股協會 (Hangzhou City Chia Tai Qingchunbao Staff Stock Fund)

Attributable interest of the Company:	5 per cent.
Date of establishment:	6 November, 1992
Term of joint venture:	50 years
Capital contribution:	RMB128,500,000
Profit and loss sharing ratio:	in accordance with the ratio of equity interest
Arrangement upon liquidation:	in accordance with the ratio of equity interest
Restriction on transfer of equity interest:	other parties have pre-emption right

FURTHER INFORMATION ABOUT THE BUSINESS

Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:—

- (A) an underwriting agreement dated 21 September, 2000 entered into among the Company, the executive Directors, the Sponsor, the Underwriters, Mr. Tse Ping, Conspicuous Group Limited, Remarkable Industries Limited, Validated Profits Limited, Mr. Wang Jinyu and Discover Profits Limited in relation to the underwriting of the Placing Shares;
- (B) a deed of indemnity dated 21 September, 2000 executed by Mr. Tse Ping in favour of the Company and its subsidiaries, providing certain indemnities as referred to in the paragraph headed “Estate duty and tax indemnity” in the section headed “Other Information” in this Appendix;
- (C) a sponsor’s agreement dated 21 September, 2000 entered into between the Company and the Sponsor relating to the requirement under Rules 6.01 and 11.09 of the GEM Listing Rules;
- (D) a share purchase agreement dated 19 September, 2000 between Mr. Tse Ping, Well Base (Asia) Limited, the Company and Mr. Wang Jinyu whereby:—
 - (i) Mr. Tse Ping agreed to sell to the Company:—
 - (a) the entire issued share capital in CTL in consideration of the issue and allotment by the Company of 107,999,999 Shares credited as fully paid;
 - (b) 91 per cent. of the issued share capital in Sino Technology in consideration of the issue and allotment by the Company of 57,317,760 Shares credited as fully paid; and
 - (c) the entire issued share capital in Champion First in consideration of the issue and allotment by the Company of 65,802,240 Shares credited as fully paid

which Shares were at Mr. Tse Ping's direction allotted and issued, as to 107,999,999 Shares to Conspicuous Group Limited, as to 57,317,760 Shares to Remarkable Industries Limited and as to 65,802,240 Shares to Validated Profits Limited; and


- (ii) Well Base (Asia) Limited agreed to sell to the Company 9 per cent. of the issued share capital in Sino Technology in consideration of the issue and allotment by the Company of 8,880,000 Shares credited as fully paid to Discover Profits Limited (as directed by Well Base (Asia) Limited);
- (E) a non-competition undertaking dated 19 September, 2000 executed by Mr. Tse Ping in favour of the Company, providing certain undertakings as referred to in the paragraph headed "Non-Competition Undertaking" under the section headed "Competing Business of the Initial Management Shareholders and Non-Competition Undertaking" in this prospectus;
- (F) a set-off deed of indebtedness dated 30 June, 2000 entered into between CTL, CTPM and Mr. Tse Ping pursuant to which CTL agreed to allot and issue credited as fully paid 1 share of US\$1 to Mr. Tse Ping as directed by CTPM to set off the outstanding indebtedness in the sum of HK\$36,217,658 due from CTL to CTPM as of 30 June, 2000;
- (G) a set-off deed of indebtedness dated 30 June, 2000 entered into between Sino Technology, CTPM and Mr. Tse Ping pursuant to which Sino Technology agreed to allot and issue credited as fully paid 91 shares of HK\$1.00 each to Mr. Tse Ping as directed by CTPM to set off the outstanding indebtedness in the sum of HK\$10,542,859 due from Sino Technology to CTPM as of 30 June, 2000;
- (H) a set-off deed of indebtedness dated 30 June, 2000 entered into between Champion First and Mr. Tse Ping pursuant to which Champion First agreed to allot and issue credited as fully paid 1 share of US\$1 to Mr. Tse Ping to set off the outstanding indebtedness in the sum of HK\$29,834,244 due from Champion First to Mr. Tse Ping as of 30 June, 2000;
- (I) a patent licensing agreement dated 1 February, 2000 entered into between Ling Peixue and CTF pursuant to which Ling Peixue agreed to grant a license to CTF to use the patents as referred in sub-paragraph C of the paragraph headed "Intellectual property" in the section headed "Further Information about the Business" in this Appendix;
- (J) a transfer agreement dated 25 December, 1999 entered into between CTF and Shandong Biopharmaceutical (as transferors) and 山東正達科技有限公司 (as transferee) pursuant to which CTF and Shandong Biopharmaceutical agreed to dispose all their respective 25 per cent. and 75 per cent. interest in the registered capital of 山東福瑞達精細化工有限公司 to 山東正達科技有限公司 in consideration of a total amount of RMB3,000,000 (of which RMB750,000, being 25 per cent. of the total consideration, was attributable to CTF);
- (K) an agreement dated 10 July, 1999 entered into between Jiangsu Tianqing and CTT whereby Jiangsu Tianqing advanced a sum of staff wages in the amount of RMB11,414,574.59 and a sum of staff welfare fund in the amount of RMB2,745,932.53, both to CTT repayable on 31 January, 2000, pursuant to which CTT has to pay Jiangsu Tianqing a sum of RMB2,600,000 for keeping the funds provided by Jiangsu Tianqing;

- (L) a fund agreement dated 10 May, 1999 entered into between Shandong Biopharmaceutical and CTF whereby Shandong Biopharmaceutical advanced a sum in the amount of RMB2,400,000 to CTF repayable on 31 December, 1999 with an interest rate of 0.5115 per cent. per month;
- (M) a fund agreement dated 10 May, 1999 entered into between Shandong Research Institute and CTF whereby Shandong Research Institute advanced a sum in the amount of RMB7,600,000 to CTF repayable on 31 December, 1999 with an interest rate of 0.5115 per cent. per month;
- (N) an agreement dated 27 October, 1998 entered into among CTPM, Golden News, Champion First, Mr. Tse Ping and S.I. Pharmaceutical Holdings Limited whereby CTPM agreed to sell to Golden News the entire issued share capital of CTH in consideration of RMB381,818,000 (HK\$357,206,473.95) for the ordinary shares and US\$2.00 for the non-voting deferred shares;
- (O) a transfer agreement dated 20 July, 1998 entered into between CTH and CTL pursuant to which CTH agreed to dispose all its 60 per cent. interest in the registered capital of CTT to CTL in consideration of an amount of RMB40,800,000 (HK\$38,130,000);
- (P) a joint venture contract dated 26 October, 1998 entered into between Jiangsu Tianqing and CTL pursuant to which CTL has become a joint venture partner with Jiangsu Tianqing in CTT; and
- (Q) the joint venture articles of association dated 26 October, 1998 entered into between Jiangsu Tianqing and CTL pursuant to which CTL has become a joint venture partner with Jiangsu Tianqing in CTT.

Intellectual property





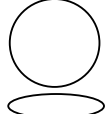
As at the Latest Practicable Date, the Group had the following intellectual property:—

A. Trademarks owned by CTF

Trademark	Country of Registration	Registration Number	Class	Expiry Date
润舒	PRC	1290252	5	6 July, 2009
润舒	PRC	734322	5	13 March, 2005
	PRC	638082	5	20 April, 2003
CPF	PRC	964239	5	20 March, 2007
FREDA	PRC	744730	5	13 May, 2005

Trademark	Country of Registration	Registration Number	Class	Expiry Date
HEPUDIOD	PRC	932621	5	20 January, 2007
真瑞	PRC	1290251	5	6 July, 2009
卡米可林	PRC	960671	5	13 March, 2007
iviz	PRC	964237	5	20 March, 2007
施沛特	PRC	964238	5	20 March, 2007
施沛克	PRC	956789	5	6 March, 2007
海伦	PRC	924693	5	6 January, 2007
双兔欣	PRC	924694	5	6 January, 2002
HoyaSH	PRC	1174254	5	13 May, 2008
凯瑞	PRC	924692	5	6 January, 2007
润尔乐	PRC	734321	5	13 March, 2005
维伦	PRC	956611	5	6 March, 2007

B. *Trademarks owned by CTT*

Trademark	Country of Registration	Registration Number	Class	Expiry Date
	PRC	862148	5	13 August, 2006
	PRC	800109	5	20 December, 2005
	PRC	800111	5	20 December, 2005
	PRC	800106	5	20 December, 2005
	PRC	800107	5	20 December, 2005

Trademark	Country of Registration	Registration Number	Class	Expiry Date
	PRC	800108	5	20 December, 2005
	PRC	853283	31	6 July, 2006
	PRC	780452	5	6 October, 2005
	PRC	124732	31	28 February, 2003
	PRC	650370	5	20 July, 2003
	PRC	743401	5	6 May, 2005
	PRC	768119	5	27 September, 2005
	PRC	780451	5	6 October, 2005
	PRC	800110	5	20 December, 2005
	PRC	800112	5	20 December, 2005
	PRC	800128	5	20 December, 2005
	PRC	800129	5	20 December, 2005
	PRC	800130	5	20 December, 2005
	PRC	800131	5	20 December, 2005
	PRC	800132	5	20 December, 2005
	PRC	800133	5	20 December, 2005
	PRC	800134	5	20 December, 2005

Trademark	Country of Registration	Registration Number	Class	Expiry Date
仁怡	PRC	800135	5	20 December, 2005
伊凡利	PRC	800136	5	20 December, 2005
依麟	PRC	800137	5	20 December, 2005
白思千	PRC	800138	5	20 December, 2005
中金	PRC	804209	5	6 January, 2006
太白	PRC	804210	5	6 January, 2006
	PRC	268991	31	19 November, 2006
希克勞	PRC	996927	5	6 May, 2007
君欣	PRC	1056736	5	20 July, 2007
伸宁	PRC	1056738	5	20 July, 2007
益通	PRC	1056793	5	20 July, 2007
松迪	PRC	1062557	5	27 July, 2007
疏可韌	PRC	1062559	5	27 July, 2007

C. *Patents licensed to CTF pursuant to the patent licensing agreement referred to in subparagraph (I) of the paragraph headed “Summary of material contracts” in the section headed “Further Information about the Business” in this Appendix.*

(a) Patents for invention already granted

Name	Country of Registration	Registration Number	Expiry Date	Patent owner
Hyaluronan-containing chloromycetin eyedrops and its production method (含玻璃酸鈉的氯霉素滴眼液及其製作方法)	PRC	ZL93111305.9	16 June, 2013	Ling Peixue

(b) Patents for inventions under applications

Name	Country of Application	Application/announcement Number	Application Date	Patent owner
Low molecular hepain-containing ointment and its production method (含有低分子肝素 的軟膏及其製作方法)	PRC	96116071.3 (CN1183281A)	22 November, 1996	Ling Peixue
Hyaluronan-containing eyedrops and its production method (含有玻璃酸鈉的滴眼液 及其製作方法)	PRC	96116072.1	22 November, 1996	Ling Peixue

D. *Patents owned by CTF*

(a) Patents for new model design

Name	Country of Registration	Registration Number	Expiry Date
A dropping bottle for eyedrops (一種滴眼瓶) A disposable syringe with canned injection (一種可預灌裝藥液 的一次性注射器)	PRC	ZL96248443.1	26 November, 2006
	PRC	ZL97206093.6	26 February, 2006

(b) Patents for outward appearance design

Name	Country of Registration	Registration Number	Expiry Date
A packing box for eyedrops (一種滴眼液包裝盒)	PRC	ZL97317942.2	30 December, 2007
A packing box for injections (一種注射液包裝盒)	PRC	ZL97317943.0	30 December, 2007
A packing box for ointment (一種藥膏包裝盒)	PRC	ZL97317944.9	30 December, 2007
A packing box for chloromycetin eyedrops (氯氟素滴眼液包裝盒)	PRC	ZL97317945.7	30 December, 2007
A packing box for medicine (藥品包裝盒)	PRC	ZL97322800.8	30 December, 2007

E. *Regulatory permits held by the Group*

Name of company	Country of issue	Type of permit	Certificate number	Expiry month (<i>Note</i>)
CTF	PRC	Pharmaceutical production enterprise permit	(魯)衛藥生證字第01-22號	December, 1999
CTT	PRC	Pharmaceutical production enterprise permit	(1994)蘇衛藥生證字第10022號	September, 1999
CTQ	PRC	Pharmaceutical production enterprise permit	(浙)衛藥生證字第01-A-02號	December, 1999

Note: Pursuant to document No. (1999) 453 issued by the SDA, the validity of the pharmaceutical production enterprise permit of a PRC pharmaceutical production enterprise will extend automatically until 31 December, 2000.

F. *Certificate of protective species of traditional Chinese medicine issued to CTT*

Name of product	Country of issue	Certificate number	Category	Expiry date
Polyporus Polysaccharide Injection (豬苓多糖注射液)	PRC	(94)衛藥中保證字第087號	Protected Chinese medicine-category 2	1 February, 2001 (<i>Note 1</i>)

G. *Certificate of new medicine issued to CTT*

Name of product	Country of issue	Certificate number	Category	Expiry date
Zigui Longshuang Capsule (澤桂癩爽膠囊)	PRC	(98)衛藥證字Z-093號	Protection of new medicine	26 May, 2002 (<i>Note 2</i>)

Note 1: Protection on this modernised Chinese medicine can be renewed for 7 years upon expiry of its term.

Note 2: Application for the "Certification of protected Chinese Medicine" can be filed upon the expiration of the protection period. If the application is approved, this medicine is entitled to another 7 to 30 years protection.

FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

Directors

Disclosure of interests

- (a) Immediately following completion of the Placing, the beneficial interests of the Directors in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the Shares are listed, or will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept thereunder once the Shares are listed, or will be required pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows:—

Name	Type of interest	Number of Shares	Percentage of issued capital
Mr. Tse Ping	Corporate (<i>Note 1</i>)	231,120,000	77.04
Mr. Wang Jinyu	Corporate (<i>Note 2</i>)	8,880,000	2.96

Note 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.

Note 2: Mr. Wang Jinyu held these Shares through Discover Profits Limited, the entire issued share capital of which is owned by Mr. Wang Jinyu.

Particulars of service contracts

- (a) Each of Mr. Tse Ping, Mr. Wang Jinyu, Mr. Ling Peixue and Mr. Tao Huiqi, being all the executive Directors, has entered into a service contract with the Company for a term of three years, all commencing from 19 September, 2000, which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.
- (b) Each of these executive Directors is entitled to a basic salary (subject to an annual increment to be determined by a majority of the Directors).
- (c) In addition, each of the executive Directors is also entitled to a management bonus in respect of each financial year of the Company (to be determined by a majority of the Directors at their discretion).
- (d) Under the articles of association of the Company, an executive Director may not vote on any resolution of the Directors regarding the amount of the annual increment and management bonus payable to him.

(e) The current basic annual salaries of the respective executive Directors are as follows:—

Mr. Tse Ping	HK\$2,000,000
Mr. Wong Jinyu	HK\$200,000
Mr. Ling Peixue	HK\$400,000
Mr. Tao Huiqi	HK\$400,000

Save as disclosed, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

Directors' remuneration

- (a) The Company's policies concerning remuneration of executive Directors are:—
- (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;
 - (ii) non-cash benefits may be provided to the Directors under their remuneration package; and
 - (iii) the executive Directors may be granted, at the discretion of the board of Directors, share options of the Company, as part of their remuneration package.
- (b) An aggregate of approximately RMB139,000, RMB256,000 and RMB56,000 (equivalent to HK\$130,000, HK\$240,000 and HK\$52,000 respectively) were paid to the Directors as total emoluments for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000.
- (c) It is expected that an aggregate sum of HK\$931,000 will be paid in cash to the Directors as remuneration by the Group in respect of the year ending 31 December, 2000 under current arrangements (excluding discretionary management bonuses, if any).
- (d) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.
- (e) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000.
- (f) Save for directors' fees, none of the non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director.

Agency fees or commissions received

Save as disclosed herein, none of the Directors or any of the persons whose names are listed in the paragraph headed “Consents of experts” in the section headed “Other Information” in this Appendix received any agency fee or commission from the Group within the two years immediately preceding the date of this prospectus. The Underwriters will receive an underwriting commission and DBS Asia will receive a financial advisory fee and a documentation fee as mentioned in the paragraph headed “Underwriting arrangements and expenses” under the section headed “Underwriting” in this prospectus.

Related party transactions

The Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note (g) in the section headed “Results” of the accountants’ report set out in Appendix I to this prospectus.

Disclaimers

Save as disclosed herein:—

- (a) none of the Directors or chief executives has for the purposes of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or which pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by directors will have to be notified to the Company and the Stock Exchange once such securities are listed on the Stock Exchange;
- (b) none of the Directors or any of the persons whose names are listed in the paragraph headed “Consents of experts” in the section headed “Other Information” in this Appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors or any of the persons whose names are listed in the paragraph headed “Consents of experts” in the section headed “Other Information” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;
- (d) none of the persons whose names are listed in the paragraph headed “Consents of experts” in the section headed “Other Information” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

- (e) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (f) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Placing or related transaction as mentioned in this prospectus; and
- (g) none of the Directors, their respective associates (as defined in the GEM Listing Rules) or shareholders of the Company who are interested in 5 per cent. or more of the issued share capital of the Company so far as is known to the Directors have any interests in the five largest customers of the Group.

SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a written resolution of the then sole shareholder of the Company passed on 19 September, 2000 (which is still subject to certain conditions as referred to in paragraph (t) in this section and is currently not yet effective):—

(a) *Who may join*

The Directors may, at their absolute discretion, invite any full time employee (“eligible employee”) of the Company or any of its subsidiaries, including any executive director of the Company or any such subsidiary, to take up options to subscribe for Shares.

(b) *Price for Shares*

The subscription price for Shares under the Share Option Scheme will be a price determined by the Directors, which shall be calculated with reference to the higher of (i) the closing price of the Shares on GEM on the date of grant of the option, and (ii) the average closing price of the Shares on GEM for the five trading days immediately preceding the date of grant of the option. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(c) *Maximum number of Shares*

- (i) The maximum number of Shares in respect of which options may be granted under the Share Option Scheme may not (when aggregated with Shares subject to any other employee share option scheme) exceed in nominal amount 10 per cent. of the issued share capital of the Company for a specified period of 10 consecutive years (the “10-year period”) excluding, for this purpose, Shares issued upon the exercise of any

options granted under the Share Option Scheme (or any other employee share option scheme) and any pro rata entitlements to further Shares issued in respect of those Shares mentioned above.

- (ii) No option may be granted to any one person which, if exercised in full, would result in the total number of Shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme exceeding 25 per cent. of the maximum aggregate number of Shares for the time being issued and which may fall to be issued under the Share Option Scheme.

(d) *Time of exercise of option*

An option may be accepted by an employee within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period from the date of grant of such option and ending on a date as determined by the Board, which in any event shall not exceed 10 years from that date, subject to the provisions for early termination thereof.

No option may be granted more than 10 years after the date of adoption of the Share Option Scheme.

(e) *Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable save as provided under the rules of the Share Option Scheme.

(f) *Rights on ceasing employment*

If the grantee of an option ceases to be an eligible employee of the Group for any reason other than death or for other grounds referred to in subparagraph (h) below before exercising his option in full, the option (to the extent not already exercised) will lapse three months after the date of cessation and will not be exercisable.

(g) *Rights on death*

If the grantee of an option ceases to be an eligible employee of the Group by reason of his death before exercising the option in full, his personal representative(s) may exercise the option (to the extent not already exercised) within a period of 12 months following the date of death.

(h) *Rights on dismissal*

If the grantee of an option ceases to be an eligible employee of the Group upon termination of his employment by reason 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 been convicted of any criminal offence involving his integrity or honesty, his option will lapse automatically and will not in any event be exercisable on or after the date of termination.

(i) *Effect of alterations to capital*

In the event of any alteration in the capital structure of the Company whether by way of reduction, sub-division or consolidation of the share capital of the Company, rights issue or capitalisation of profits or reserves other than an issue of Shares as consideration in respect of a transaction to which the Company is a party and alterations made on a capitalization issue, corresponding alterations shall be made to the number of Shares comprised in each option, the option price and/or the method of exercise of the option but such alterations shall be conditional on the auditors of the Company confirming in writing to the Board that the alteration proposed is on the basis that the proportion of the equity capital of the Company that grantee is entitled to after alteration shall remain the same as that before the alteration and that no Shares will be issued at less than the nominal value.

(j) *Rights on general offer*

If a general offer is made to acquire all or part of the issued Shares, or all or part of the issued Shares other than those held by the offeror and any person acting in concert with the offeror and the Company is aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company in respect of issued Shares has or will become vested in the offeror and/or any such persons, the Company shall give written notice to all the grantees of such vesting as soon as reasonably practicable after becoming so aware. Each grantee may, within 21 days of the date of such notice, by notice in writing to the Company exercise his or her option to its full extent or to the extent specified in his or her notice to the Company.

(k) *Rights on a compromise or arrangement*

In the event of a compromise or arrangement between the Company and its creditors or its members, a grantee may by notice in writing to the Company, within the period of 21 days after the date of application to the court in connection with the proposed compromise or arrangement, exercise his or her option to its full extent or to the extent specified in such notice. Upon the compromise or arrangement becoming effective, all options shall lapse except insofar as exercised.

(l) *Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the company at any time not less than two business days prior to the date on which such resolution is to be passed, exercise his or her option (to the extent not already

exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and the Company shall be no later than the business day immediately prior to the date on which such resolution is to be passed allot the relevant Shares to the grantee.

(m) *Ranking of Shares*

- (i) Shares allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company and will rank *pari passu* in all respects with the fully paid Shares in issue at the date of allotment (except in relation to a dividend or distribution to be paid or proposed to be paid if the record date therefor shall be before such date of exercise).
- (ii) Unless the context otherwise requires, references to “Shares” include references to shares in the share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of the Company from time to time.

(n) *Cancellation of options*

Any cancellation of options granted but not exercised must be approved by the shareholders of the Company in general meeting, with grantees and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(o) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on 19 September, 2000 being the date on which the Share Option Scheme was adopted by a resolution of the then sole shareholder of the Company.

(p) *Alteration to the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Directors except that the provisions of the Share Option Scheme relating to matters contained in rule 23.03 of the GEM Listing Rules will not be altered to the advantage of the grantees or prospective grantees except with the prior sanction of a resolution of the Company in general meeting, with the grantees and their associates abstaining from voting.

(q) *Administration of the Share Option Scheme*

The Share Option Scheme will be administered by a committee comprising the independent non-executive Directors.

(r) *Termination of the Share Option Scheme*

The Company by resolution in general meeting or the Directors may at any time terminate the operation of the Share Option Scheme. In such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

(s) *Price sensitive development*

Any grant of options will not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results, no option will be granted until such information has been so announced.

(t) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on (i) the GEM Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme, and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise.

As at the date of this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

Present Status of the Share Option Scheme

Application has been made to the GEM Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

OTHER INFORMATION

Estate duty and tax indemnity

Mr. Tse Ping has given in favour of the Group indemnities in connection with, among other things, any liability for Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group and any other tax liabilities of the Group on or before the date on which the Placing becomes unconditional except in respect of the following:—

- (1) where provisions have been made in the audited accounts of the Group up to 31 May, 2000;
- (2) where such liability would not have arisen but for any act or omission by any member of the Group voluntarily effected otherwise than in the ordinary course of businesses after 31 May, 2000;
- (3) where any member of the Group is primarily liable as a result of transactions entered into in the ordinary course of business after 31 May, 2000;
- (4) where such liability arises or is incurred as a result of the imposition of tax as a result of any retrospective change in relevant tax legislation;

- (5) where any provision or reserve made for tax in the audited accounts of the Group up to 31 May, 2000 is finally established to be an over-provision or an excessive reserve (and to the extent of such over-provision or excessive reserve); or
- (6) where penalty is imposed on any member of the Group by reason of any member of the Group defaulting in any obligation to give information to the Hong Kong tax authority under section 42(1) of the Estate Duty Ordinance.

Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

Address for service of process and notices

Ms. Tse Wun has been nominated as the authorised representative of the Company to accept service of process and notices on the Company. The address for service of process and notices is Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

Sponsor

The Sponsor has made an application on behalf of the Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and the Shares issuable upon exercise of any option granted under the Share Option Scheme.

Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US\$5,000 and are payable by the Company.

Promoters

The promoter of the Company is Mr. Tse Ping.

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no cash, securities or other benefit has been paid or given to the promoter in connection with the Placing or the related transactions described in this prospectus.

Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:—

Name	Qualification
DBS Asia	Registered investment adviser
Ernst & Young	Certified public accountants
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
DTZ Debenham Tie Leung Limited	Registered professional surveyors
Tianping Law Office	PRC legal adviser

Consents of experts

Each of DBS Asia, Ernst & Young, Conyers Dill & Pearman, Cayman, DTZ Debenham Tie Leung Limited and Tianping Law Office has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

Miscellaneous

(a) Save as disclosed in this prospectus:—

- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;
- (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and
- (v) within the two years preceding the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of the Group.

- (b) None of DBS Asia, Ernst & Young, Conyers Dill & Pearman, Cayman, DTZ Debenham Tie Leung Limited and Tianping Law Office nor any of their respective directors, employees and associates:—
 - (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.
- (c) No company within the Group is presently listed on any stock exchange or traded on any trading system.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in the paragraph headed “Consents of experts” in the section headed “Other Information” in Appendix V to this prospectus, copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in the section headed “Further Information about the Business” in Appendix V to this prospectus and the statement of adjustments made by Ernst & Young in arriving at the figures set out in the accountants’ report set out in Appendix I to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Chao and Chung, 26th Floor, Asia Pacific Finance Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong during normal business hours up to and including 9 October, 2000:—

- a. the memorandum and articles of association of the Company;
- b. the accountants’ report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus, and the related statement of adjustments;
- c. such audited financial statements as have been prepared for the companies comprising the Group for each of the two years ended 31 December, 1999;
- d. the letters relating to the profit forecast, the texts of which are set out in Appendix II to this prospectus;
- e. the letter, summary of valuation and valuation certificate relating to the property interests of the Group prepared by DTZ Debenham Tie Leung, the texts of which are set out in Appendix III to this prospectus;
- f. the letter of advice prepared by Conyers Dill & Pearman, Cayman referred to in the section headed “General” in Appendix IV to this prospectus summarising certain aspects of Cayman Islands company law;
- g. the Companies Law;
- h. the material contracts referred to in the paragraph headed “Summary of material contracts” in the section headed “Further Information about the Business” in Appendix V to this prospectus;
- i. the written consents referred to in the paragraph headed “Consents of experts” in the section headed “Other information” in Appendix V to this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
AND DOCUMENTS AVAILABLE FOR INSPECTION**

- j. the service contracts referred to in the paragraph headed “Particulars of service contracts” in the section headed “Further Information about Directors, Senior Management and Staff” in Appendix V to this prospectus; and
- k. the rules of the Share Option Scheme.