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 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 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.

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.

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.

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

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 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 (澤桂癃爽膠囊), 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 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.

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.

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 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.