



# 維奧生物科技控股有限公司 Vital BioTech Holdings Limited

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

## Placing of Shares

$\alpha$  Interferon

ERQ

PSD  
Protein Stabilisation and Delivery

Protein

Global Co-ordinator and Sponsor



**Core Pacific - Yamaichi Capital Limited**

Skin Drug Delivery System

Lead Manager

GM-CSF

**Core Pacific - Yamaichi International (H.K.) Limited**

INTERFERON

INSULIN

INSULIN

$\beta$  Interferon

Skin Drug Delivery System

## IMPORTANT

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



### Vital BioTech Holdings Limited 維奧生物科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

#### LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED NEW ISSUE AND OFFER FOR SALE BY WAY OF PLACING OF SHARES

**Number of Placing Shares** : 300,000,000 Shares consisting of  
240,000,000 New Shares and  
60,000,000 Sale Shares (subject to  
Over-allotment Option of up to 45,000,000 Shares)

**Placing Price** : Not more than HK\$0.50 per Placing Share

**Nominal Value** : HK\$0.01 each

**Stock Code** : 8193

Global Coordinator and Sponsor



**Core Pacific – Yamaichi Capital Limited**

Lead Manager



**Core Pacific – Yamaichi International (H.K.) Limited**

Underwriters

**Guotai Junan Securities (Hong Kong) Limited**  
**Celestial Capital Limited**  
**SBI E2-Capital Securities Limited**  
**Taiwan Securities (Hong Kong) Company Limited**

**GC Capital (Asia) Limited**  
**First Shanghai Securities Limited**  
**Sun Hung Kai International Limited**  
**YF Securities Company Limited**

The Stock Exchange of Hong Kong Limited and 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, having attached thereto the documents specified under the heading "Documents delivered to the Registrar of Companies" in Appendix V to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Placing Price will not be more than HK\$0.50 per Placing Share and is expected to be not less than HK\$0.40 per Placing Share although CPY International (on behalf of the Underwriters) and the Company may agree to a lower price. The final Placing Price is expected to be fixed by agreement between CPY International (on behalf of the Underwriters) and the Company on or before 5:00 p.m. on 30th January, 2002. In the case that the Placing Price is lower than the above price range, notices of the reduction in the indicative Placing Price range will be published on the GEM website no later than 31st January, 2002. If CPY International (on behalf of the Underwriters) and the Company are unable to reach agreement on the Placing Price by 5:00 p.m. on 30th January, 2002, or such later date as may be agreed between CPY International (on behalf of the Underwriters) and the Company (but in any event not later than 5:00 p.m. on 1st February, 2002), the Placing will not become unconditional and will lapse. In such case, an announcement will be made immediately on the GEM website.

Prospective investors of the Placing Shares should note that the Placing will not proceed if CPY International, on behalf of the Underwriters, terminates the Underwriters' obligations under the Underwriting Agreement by notice in writing to the Company, in accordance with its terms and conditions, at any time prior to 6:00 p.m. on the day immediately preceding the date on which dealings in the Shares on GEM commence upon the occurrence of any of the events set forth in the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus. Such events include but without limitation any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, acts of terrorism, flooding, civil commotion, acts of war, acts of God, public disorder or economic sanctions, accident or interruption or delay in transportation); or any change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory or market conditions and matters, any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange and/or the occurrence of any disasters; or any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the PRC, Hong Kong, the Cayman Islands, the British Virgin Islands, Australia or any other jurisdictions relevant to the Company and its subsidiaries; or the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the United States of America or by the European Union (or any member thereof) on the PRC; or a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the PRC, Hong Kong, the Cayman Islands, the British Virgin Islands, Australia or any other jurisdictions relevant to the Company and its subsidiaries; or any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group, which will or may, in the reasonable opinion of CPY International (for itself and on behalf of the other Underwriters), be materially adverse to the Group or its prospects and/or the Placing or the success thereof or which makes it inadvisable or inexpedient to proceed with the Placing.

30th January, 2002

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## CHARACTERISTICS OF GEM

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

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

**The principal means of information dissemination on GEM is publication on the Internet web-site 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 web-site in order to obtain up-to-date information on GEM-listed issuers.**

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## EXPECTED TIMETABLE

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2002

Determination of the Placing Price ( <i>Note 2</i> ) .....	5:00 p.m. Wednesday 30th January
Announcement of the results of the Placing and the Placing Price per Share to be published on the GEM website at <a href="http://www.hkgem.com">www.hkgem.com</a> on or about .....	Tuesday, 5th February
Allotment or transfer of the Placing Shares to successful placees on or before .....	Wednesday, 6th February
Deposit of share certificates into CCASS on or about ( <i>Note 3</i> ) .....	Wednesday, 6th February
Dealings in Shares on GEM to commence on .....	Thursday, 7th February

Notes:

1. All dates and times refer to Hong Kong date and time.
2. The Placing Price will not be more than HK\$0.50 per Placing Share and is expected to be not less than HK\$0.40 per Placing Share although CPY International (on behalf of the Underwriters) and the Company may agree to a lower price. The final Placing Price is expected to be fixed by agreement between CPY International (on behalf of the Underwriters) and the Company on or before 5:00 p.m. on 30th January, 2002. In the case that the Placing Price is lower than the above price range, notices of the reduction in the indicative Placing Price range will be published on the GEM website no later than 31st January, 2002. If CPY International (on behalf of the Underwriters) and the Company are unable to reach agreement on the Placing Price by 5:00 p.m. on 30th January, 2002, or such later date as may be agreed between CPY International (on behalf of the Underwriters) and the Company (but in any event not later than 5:00 p.m. on 1st February, 2002), the Placing will not become unconditional and will lapse. In such case, an announcement will be made immediately on the GEM website.
3. Successful placees will receive their respective Placing Shares via CCASS. The share certificates are expected to be issued in the name of HKSCC Nominees Limited or in the name of the placee(s) or their agent(s) as determined by CPY International, and deposited directly into CCASS on or about 6th February, 2002 for credit to the respective CCASS participants' stock accounts or investor participants' stock accounts designated by the Underwriters, the placees or their agents, as the case may be, on 6th February, 2002. No temporary documents of title will be issued.
4. If there is any change to the expected timetable, the Company will issue a separate announcement.

For details of the structure of the Placing, including conditions of the Placing, please refer to the section headed "Structure and conditions of the Placing" in this prospectus.

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

*The Company 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 the Company, the Vendors, the Sponsor, the Underwriters, or their respective directors, officers, employees and/or representatives or any other person involved in the Placing.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. This is only a summary and does not contain all the information that may be important to you. You should read the entire prospectus before deciding to invest in the Company.*

*There are risks associated with any investment. You are advised to consider carefully all information set out in this prospectus and, in particular, should evaluate the risks set out under the section headed "Risk factors" in this prospectus before deciding to invest in the Company.*

*Terms used herein will bear the same meanings as those defined under the respective sections headed "Definitions" and "Glossary" respectively of this prospectus.*

### THE BUSINESS

The Group is principally engaged in the research and development, production and distribution of biopharmaceutical and conventional pharmaceutical products with a focus on downstream value adding biotechnology processing systems. The Group is a developer of protein stabilisation and various drug delivery technologies which may be adapted to a wide range of applications. During the Track Record Period, the Group has utilised its technologies to develop two products, namely, Opin which was originally developed for treatment of chronic erosive cervicitis by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) and subsequently acquired by the Group through the acquisition of Tianao, and Spray-On Bandage, which was originally developed by Mr. Ko for wound protection. The two platform technologies commercialised and refined by the Group are the "Protein Stabilisation and Delivery (PSD)" technology and the polymer membrane based "Skin Drug Delivery System (SDDS)" technology. The PSD technology, jointly invented by Mr. Ko and Mr. Au Yeung, is built on a micro bio-encapsulation process. This allows products to be room temperature stable and enables them to be delivered via a non-injection route, e.g. through various mucosal surface of the body. The SDDS technology, invented by Mr. Ko, is used for delivering various chemical drugs through the skin-surface. Both technologies can be used to develop products for human and veterinary applications. SDDS and PSD are only manufacturing technologies. The technologies have no specific therapeutic claim or efficacy claim. Such claims are claims of the product that uses the technology. Clinical trials or empirical studies are conducted on the actual proposed products. No clinical study has been conducted on either platform technologies. These products' clinical trials or studies have been disclosed in the relevant sections of this prospectus on the specific products e.g. Opin and Spray-On Bandage.

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

Since 2000, the Group has developed an extensive distribution network of pharmaceutical products in the PRC. Currently, the Group has 22 marketing and liaison offices strategically located in various major cities in the PRC to promote the Group's products and to provide after-sales services. In order to penetrate into the vast PRC market at a faster pace and lower cost, the Group has also appointed distribution agents in the PRC to distribute its products.



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## SUMMARY

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The Directors expect that the Group's product range will be further expanded upon the commissioning of its production facilities and the completion of the construction of its research and development centre in Chengdu City, Sichuan Province, the PRC, and with the further strengthening of its co-operations with other global pharmaceutical companies. The Group's production facilities at Chengdu City obtained its PRC GMP approval in December 2001 and is expected to commence production during the first quarter of 2002. Construction of the research and development centre is expected to commence in late 2002 and to be completed by late 2003.

### MISSION STATEMENT

The Group's objective is to become a world-class research and development based biotechnology group in the pharmaceutical industry with emphasis on biopharmaceutical products that can be distributed to the mass market at an affordable price.

The Directors believe that the Group can accomplish its mission in the following ways:

- (a) the Group's management are well-trained in either the PRC or overseas specialising in the biotechnology or pharmaceutical industry. The Directors believe that by applying the successful management philosophy and the capabilities of the Group to its research and development of biopharmaceutical products, the Group can effectively and successfully implement its expansion plan to match the anticipated growing trend of the biotechnology and pharmaceutical industry worldwide;
- (b) building on the skills and experience of its team of high calibre professionals and technologists in the biotechnology and pharmaceutical industry;
- (c) capitalising on the following strengths:
  - research and development capability: the Group has its own research centre in Australia where the Group commercialised and refined its PSD and SDDS technologies. The Directors expect that the research capability of the Group will be further strengthened upon the completion of its proposed research and development centre in Chengdu City, Sichuan Province, the PRC;
  - quality assurance: GMP is a set of standards set for pharmaceutical companies for assurance of the quality of their products. The Group's production plant in Chengdu City, Sichuan Province, the PRC obtained GMP certification in December 2001. The Company plans to gradually raise all the current production standard in a structured manner to the PRC GMP standards and then to international GMP standards in preparation for the launching of the Group's products to international market in the near future;
  - established distribution channels: the Group has established various distribution channels through which its products are distributed to end-users, including hospitals, clinics and drug stores in major PRC cities. The Directors believe that the Group's experience in establishing distribution network in the PRC will serve as the base for the launching of its products to overseas markets, such as Taiwan, Singapore and Russia;

## SUMMARY

- the Group's platform technologies: the Group applies the micro bio-encapsulation platform technology to stabilise biological protein products and to deliver them through non-injectable means (e.g. through various mucosal surface). The Group also uses a polymer based dermal drug delivery system for chemical drugs. These technologies can be applied to a broad range of biopharmaceutical and conventional pharmaceutical products which will in turn be released as mass-market products for the prevention and treatment of diseases. The Group's technologies aim at lowering production costs, improving drug efficiency, and making drug delivery more user-friendly. The technologies can be commercialised for new and existing pharmaceutical products via the Group's in-house manufacturing and distribution systems, through cooperation with strategic partners or through joint venture, licensing and other collaborative methods; and
- strategic alliances: the Group has entered into co-operation and strategic alliances with various established pharmaceutical companies and research institutes in the PRC and abroad for the joint development and production of pharmaceutical products in a cost effective and timely manner. The Directors believe that the growth of the Group will be expedited by the synergy generated from the Group's research capabilities and its strategic alliances and co-operation with biotechnology and pharmaceutical research institutes in the PRC and abroad.

### RECOGNITION AND AWARDS

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

Awards/Certifications/ Recognition	Product/ company receiving award	Date of grant	Award granting/ issuing organisation
Technology certificate (科學技術進步獎勵證書)	Opin	December 1999	the People's Government of Hubei Province (湖北省人民政府)
Finalist of the 2000 HSBC Business Award	Vitapharm Research	2000	Hong Kong Australia Business Association
Top ten business enterprises (十強企業)	Tianao	February 2000	Information Center of the Statistical Bureau of Hubei Province (湖北省統計局信息中心)
Star privately owned technology enterprises (明星民營科技企業)	Tianao	January 2001	the Science and Technology Committee of Wuchang District (武昌區科學技術委員會)
Certificate of New High Technology Enterprise (高新技術企業證書)	Tianao	February 2000 June 2001	the People's Government of Wuhan City (武漢市人民政府)

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## SUMMARY

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The Directors believe that the above awards and certifications have enhanced the public recognition and competitiveness of the Group and Opin. As such, the sales of Opin increased from approximately HK\$21.7 million for the year ended 31st December, 1999 to approximately HK\$29.3 million for the year ended 31st December, 2000, representing an increase of 35%. For the six months ended 30th June, 2001, the sales of Opin was approximately HK\$19.2 million, representing approximately 66% of the sales of Opin for the whole year of 2000.

### COMPETITIVE ADVANTAGES

As living standard continues to improve, average life expectancy in the PRC is expected to improve. This has led to an increase in health consciousness and the demand for health care services and products is expected to grow significantly. With general availability of the genetic information from the Human Genome Program, the Directors believe that the demand for advanced technology and new methodologies for the production and development of effective and affordable biopharmaceutical products will increase.

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

- **Proven research and development capabilities**

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

- **Growing business**

Improvement in living standard and greater life expectancy have resulted in an increase in health consciousness among the general public, and an increasing demand for biopharmaceutical products in the PRC. The Group's research and development capabilities have attracted the co-operation of various manufacturers of pharmaceutical products and enable it to tap the potential growth of the biotechnology and pharmaceutical market in the PRC.

- **Established and extensive distribution network**

The Group is able to distribute its products through established channels, including its own marketing and liaison offices and distributors.

- **Production facilities constructed in accordance with GMP standards**

The Group has a production plant in Chengdu City, Sichuan Province, the PRC, which obtained PRC GMP certification in December 2001. The production plant is expected to commence commercial production in early 2002.

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## SUMMARY

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- **Effective business plans enabling the Group to benefit from the State policy of GMP certification**

The Group has obtained PRC GMP certification of its production facilities in Chengdu City, Sichuan Province, the PRC. The Directors expect that, this will create more business opportunities for the Group in the PRC.

- **Cost effectiveness**

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

- **A strong management team**

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

- **Strategical location**

The Group's research and development facilities are located in Melbourne, the State of Victoria, Australia. The State Government of Victoria has planned to invest at least AUD320 million (approximately HK\$1,280 million) over the four years to 2004-2005 to deliver key aspects of its biotechnology strategic plan, which aims to develop Melbourne, Australia, as one of the top five locations in the world for biotechnology research and development, commercialisation, production and marketing.

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

- **Monopoly position on certain products in the PRC**

In May 2000, the Group applied for a new indication for Opin as a Class 5 new drug in relation to a project which involves the use of Opin for the treatment of herpes. The project is at the stage of clinical trial currently. The new registration has not been approved as at the Latest Practicable Date. The Directors believe that upon the application being approved, Opin will enjoy 6 years of regulatory protection for the new indication. During the protection period, no pharmaceutical manufacturing enterprises other than the original manufacturer of the new pharmaceutical products approved by the SDA (i.e., Tianao), may engage in the manufacture of Opin unless it enters into a technology transfer agreement with the original manufacturer. The transferee must hold a Pharmaceutical Manufacturing Enterprise Permit (藥品企業生產許可證) and a Pharmaceutical GMP Certificate (藥品GMP證書) before such a technology transfer can become effective.

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## SUMMARY

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- **Platform technologies under patent applications**

The PSD and SDDS technologies are platform technologies either invented solely by Mr. Ko, a founder of the Group, or in conjunction with Mr. Au Yeung. Application for the registration of various patents for the two platform technologies have been filed in the US and Australia, as has an international application in accordance with the Patent Co-operation Treaty, with further applications to follow as mentioned hereinafter. Although the patents have not been obtained, the Directors believe it is likely that patent registration may be completed in some countries by the end of 2003. Although the patents have not been obtained, upon the granting of patents in the countries in which applications have been filed, the Group will be afforded with the exclusive right to exclude others from practising the invention in those countries in which the patent is granted. Once granted, the term of a particular patent is generally twenty years from the date of application for registration.

## REASONS FOR SEEKING A LISTING ON GEM, FUTURE PLANS AND USE OF PROCEEDS

### Reasons for seeking a listing on GEM

The Directors consider that a listing on GEM is important for the Company's future growth and long term development since this will enhance the profile of the Group in the PRC and Australia and in the longer term worldwide, enabling the Group to attract high calibre professionals and technologists in the research and development field as well as in the production and distribution management, expand its market coverage and customer base and relationships, forge strategic alliances and/or partnerships, and continue to grow through strategic acquisitions and technology transfer arrangements worldwide.

The Directors believe that it is in the interest of the Company to raise funds by way of the Placing which will enable the Group to strengthen its capital base and to achieve its mission.

### Use of proceeds

Based on the indicative Placing Price of HK\$0.45 per Share (being the mid-point of the stated range of the Placing Price between HK\$0.40 and HK\$0.50 per Placing Share), the net proceeds of the New Issue (on the basis that the Over-allotment Option is not exercised), after deducting related expenses to be borne by the Company, are estimated to amount to about HK\$96 million. It is presently intended that the net proceeds will be applied in the following manner:

- as to about HK\$18 million for the establishment of new production lines in the production facilities of Weiao situated in Chengdu City, Sichuan Province, the PRC;
- as to about HK\$27 million for the construction of Phase I of the Chengdu research and development centre in Chengdu City, Sichuan Province, the PRC;
- as to about HK\$9 million for the research and development of biopharmaceutical and conventional pharmaceutical products;
- as to about HK\$11 million for the construction of a GMP standard research and development centre in Melbourne, the State of Victoria, Australia;

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## SUMMARY

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- as to about HK\$19 million for the expansion of the Group's distribution network with focus on expanding the existing OTC distribution network in the PRC and reaching out to regional cities and rural areas in the PRC to be applied in the following manner:
  - as to HK\$4 million on the setting up of infrastructure and staff training for the six months ending 30th June, 2002;
  - as to HK\$5 million on network setup (for points of sales, local distributors, regional wholesalers and medical specialists), promotion (for points of sales, local distributors and consumers) and market survey for the six months ending 31st December, 2002;
  - as to HK\$5 million on staff training, promotion (for points of sales, local distributors and consumers) and market survey for the six months ending 30th June, 2003; and
  - as to HK\$5 million on promotion (for points of sales, local distributors and consumers) and market survey for the six months ending 31st December, 2003.
- as to the remaining balance of about HK\$12 million as additional general working capital. The Group does not currently have any specific plan for the use of such general working capital. The Directors intend that approximately HK\$7 million of the general working capital may be used as a buffer for the establishment of new production lines in the production facilities of Weiao and the recruitment of more staff.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of about HK\$20.25 million based on a Placing Price of HK\$0.45 per Share (being the mid-point of the stated range of the Placing Price between HK\$0.40 and HK\$0.50 per Placing Share). The Directors intend to allocate the additional net proceeds raised from the Over-allotment Option to the projects and matters set out above on a pro rata basis.

To the extent that the net proceeds of the New Issue are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds be placed on short-term deposits with authorised financial institutions.

In the event that any part of the business plans of the Group does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding and the proceeds of the New Issue to other business plans and/or to new projects and/or place such funds as short-term deposits so long as the Directors consider it to be in the interests of the Company and shareholders as a whole. The Company will make an announcement accordingly if this happens.

### **CORPORATE REORGANISATION AND RESTRICTION ON DISPOSAL OF THE SHARES**

The Group's reorganisation is detailed in Appendix IV to this prospectus. Immediately after completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), the respective shareholding of each of the Initial Management Shareholders and certain other individual and corporate

## SUMMARY

Shareholders in the share capital of the Company (without taking into account Shares which may be taken up under the Placing) will be as follows:

Name of shareholders	Date of entry or acquisition	Number of Shares or attributable number of Shares held	Approximate percentage of shareholding or attributable percentage of shareholding	Approximate total investment cost HK\$	Approximate average cost per Share HK\$	Lock-up period from the Listing Date
<b>Initial Management Shareholders</b>						
Perfect Develop	26th January, 2002 (Note 1)	612,000,000	51.00	780.00	0.0000012575	12 months (Note 12)
Mr. Ko	29th April, 1997 (Note 1)	250,382,400 (Note 4)	20.86	538.30	0.000002150	12 months (Notes 4 and 12)
Mr. Au Yeung	29th April, 1997 (Note 1)	44,572,800 (Note 5)	3.71	117.10	0.000002627	12 months (Notes 5 and 12)
Mr. Liu	29th April, 1997 (Note 1)	88,070,400 (Note 6)	7.34	195.10	0.000002215	12 months (Notes 6 and 12)
Mr. Tao	29th April, 1997 (Note 1)	403,195,200 (Note 7)	33.60	709.80	0.000001760	12 months (Notes 7 and 12)
Dr. Wong Tuen Yee Elizabeth (Note 14)	23rd January, 2002 (Note 3)	1,526,300	0.13	27,139.40	0.01783	12 months (Note 12)
<b>Other shareholders</b>						
Pernanga	29th April, 1997 (Note 2)	7,200,000 (Note 8)	0.60	23.40	0.000000812	12 months (Note 13)
Chu Kwok Ching David Chu Chan Sai Wah Grace & Chu Wing Cheong	23rd January, 2002 (Note 3)	45,667,200	3.80	814,191.68	0.01783	12 months (Note 13)
Diamond Clear Associates Limited	23rd January, 2002 (Note 3)	15,225,600 (Note 9)	1.27	271,450.56	0.01783	12 months (Note 13)
Active Device Co., Ltd.	23rd January, 2002 (Note 3)	15,225,600 (Note 10)	1.27	271,450.56	0.01783	12 months (Note 13)

## SUMMARY

Name of shareholders	Date of entry or acquisition	Number of Shares or attributable number of Shares held	Approximate percentage of shareholding or attributable percentage of shareholding	Approximate total investment cost HK\$	Approximate average cost per Share HK\$	Lock-up period from the Listing Date
Ho Louis Kok Hay & Ho Yue Lai Fong	23rd January, 2002 (Note 3)	15,225,600	1.27	271,450.56	0.01783	12 months (Note 13)
Canterbury 2000 Limited	23rd January, 2002 (Note 3)	4,569,600 (Note 11)	0.38	81,446.48	0.01783	12 months (Note 13)
Lam Yiu Cheung	23rd January, 2002 (Note 3)	3,043,200	0.25	54,260.00	0.01783	12 months (Note 13)
Kenneth Walter Glynn	23rd January, 2002 (Note 3)	3,043,200	0.25	54,260.00	0.01783	12 months (Note 13)
Margaret Carmel D'Arcy-Evans	23rd January, 2002 (Note 3)	1,526,600	0.13	27,214.72	0.01783	12 months (Note 13)
Angela Cutri (Note 15)	23rd January, 2002 (Note 3)	1,526,300	0.13	27,139.40	0.01783	12 months (Note 13)

Notes:

- I. The entire issued share capital of Perfect Develop is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 12% by Mr. Liu and 6% by Mr. Au Yeung. Mr. Tao, Mr. Ko, Mr. Au Yeung and Mr. Liu are founders of the Group.

Perfect Develop acquired Shares from Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao in consideration and exchange for the allotment and issue of shares in the capital of Perfect Develop to them, the particulars of which are set out in the paragraph headed "Group reorganisation" in Appendix IV to this prospectus.

Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao acquired their respective Shares through an exchange of their entire shareholding in Yugofoil with the Company, the particulars of which are set out in the paragraph headed "Group reorganisation" in Appendix IV to this prospectus.

Pursuant to a resolution of all shareholders of the Company passed on 26th January, 2002, the Capitalisation Issue was approved pursuant to which an aggregate of 600,409,080, 47,505,190, 7,704,030, 14,353,380 and 101,358,400 Shares would be allotted and issued to Perfect Develop, Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao, respectively, in proportion to their then existing shareholding in the Company. Particulars of the Capitalisation Issue are set out in the paragraph headed "Resolutions in writing of all shareholders of the Company passed on 26th January, 2002" in Appendix IV to this prospectus.

Prior to such share exchange and the Capitalisation Issue, Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao had been holding 33%, 6%, 12% and 42%, respectively, of the entire issued share capital of Yugofoil since 29th April, 1997.

Each of the ultimate beneficial owners of Perfect Develop namely, Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao, has undertaken to the Company, CPY (on behalf of the Underwriters) and the Stock Exchange that save as provided in Rule 13.18 of the GEM Listing Rules, he will not sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any of his direct interest in Perfect Develop within a period of 12 months commencing from the Listing Date.



## SUMMARY

2. Pernanga acquired its Shares through an exchange of its entire shareholding in Yugofoil with the Company, the particulars of which are set out in the paragraph headed "Group reorganisation" in Appendix IV to this prospectus. Pursuant to a resolution of all shareholders of the Company passed on 26th January, 2002, the Capitalisation Issue was approved pursuant to which an aggregate of 28,254,540 Shares would be allotted and issued to Pernanga in proportion to its then existing shareholding in the Company. Particulars of the Capitalisation Issue are set out in the paragraph headed "Resolutions in writing of all shareholders of the Company passed on 26th January, 2002" in Appendix IV to this prospectus.

Prior to such share exchange and the Capitalisation Issue, Pernanga had been holding 3% of the entire issued share capital of Yugofoil since 29th April, 1997.

Pernanga and its ultimate beneficial owner are independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company and any of their respective associates. The investment cost per Share incurred by Pernanga was approximately at a 99.99% discount to the Placing Price of HK\$0.45 per Share (being the mid-point of the stated range of the indicative Placing Price between HK\$0.40 and HK\$0.50 per Placing Share). The Directors consider that the discount to the Placing Price is fair and reasonable as the investment was made back in 1997 when the founders initially established Yugofoil prior to the founding of the Group.

3. On 23rd January, 2002, an aggregate of 201,836 shares of HK\$0.10 in the Company were transferred from Mr. Ko as to 131,942 shares, Mr. Au Yeung as to 23,487 shares and Mr. Liu as to 46,407 shares to the following persons at the consideration of AUD2.3534 (equivalent to approximately HK\$9.4136) per share, with the number of shares transferred set opposite their respective names:

Name	Number of shares of HK\$0.10 each	Approximately total investment cost
Chu Kwok Ching, David	57,655	HK\$542,741.12
Diamond Clear Associates Limited	28,836	HK\$271,450.56
Active Device Co., Ltd.	28,836	HK\$271,450.56
Ho Louis Kok Hay & Ho Yue Lai Fong	28,836	HK\$271,450.56
Chu Chan Sai Wah, Grace	14,418	HK\$135,725.28
Chu Wing Cheong	14,418	HK\$135,725.28
Canterbury 2000 Limited	8,652	HK\$81,446.48
Lam Yiu Cheung	5,764	HK\$54,260.00
Kenneth Walter Glynn	5,764	HK\$54,260.00
Margaret Carmel D'Arcy-Evans	2,891	HK\$27,214.72
Wong Tuen Yee Elizabeth	2,883	HK\$27,139.40
Angela Cutri	2,883	HK\$27,139.40

Pursuant to a resolution of all shareholders of the Company passed on 26th January, 2002, the Capitalisation Issue was approved pursuant to which an aggregate of 104,560,840 Shares would be allotted and issued to the above shareholders in proportion to their then existing shareholding. Particulars of the Capitalisation Issue are set out in the paragraph "Resolutions in writing of all shareholders of the Company passed on 26th January, 2002" in Appendix IV to this prospectus.

These shareholders and their ultimate beneficial owners are long term friends or acquaintances of Mr. Ko, Mr. Au Yeung and Mr. Liu. They had indicated their interests in investing in the business of the Group back in 2000 because of their optimistic outlook for its future growth. Except Dr. Wong Tuen Yee Elizabeth who is an Initial Management Shareholders, each of these other shareholders and their respective ultimate beneficial owners are independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company and any of their respective associates. The investment costs per Share incurred by these investors were approximately at a 96.04% discount to the Placing Price of HK\$0.45 per Share (being the mid-point of the stated range of the indicative Placing Price between HK\$0.40 and HK\$0.50 per Placing Share). The Directors consider the discount to the Placing Price is fair and reasonable in view of the long term relationship between these investors and Mr. Ko, Mr. Au Yeung and Mr. Liu. The Directors also believe that the experience and business connection possessed by these shareholders or their respective beneficial owners accumulated from their years of experience could contribute to the future growth of the Company.

Save and except for Chu Kwok Ching, David, Chu Chan Sai Wah, Grace, Chu Wing Cheong and Ho Louis Kok Hay & Ho Yue Lai Fong, the above shareholders and their ultimate beneficial owners are independent of and not connected with each other.

Chu Kwok Ching, David and Chu Chan Sai Wah, Grace are a married couple while Chu Wing Cheong is the father of Chu Kwok Ching, David. They hold, in aggregate, 3.80% of the issued share capital of the Company immediately after the Placing and the Capitalisation Issue without taking into account any Shares fall to be allotted and issued upon the

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## SUMMARY

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exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme. Ho Louis Kok Hay and Ho Yue Lai Fong are a married couple and they hold, in aggregate, 1.27% of the issued share capital of the Company immediately after the Placing and the Capitalisation Issue without taking into account any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme.

Save for their inter-relationship as father and son and husband and wife, each of Chu Kwok Ching, David, Chu Chan Sai Wah, Grace, Chu Wing Cheong, Ho Louis Kok Hay and Ho Yue Lai Fong is also independent of and not connected with the other strategic investors and their ultimate beneficial owners.

Furthermore, none of the above shareholders or their ultimate beneficial owners, as the case may be, has been financed directly or indirectly in the subscription of the Shares by the Directors, the chief executive, Initial Management Shareholders, substantial shareholders of the Company and any of their respective associates (as defined in the GEM Listing Rules) or is accustomed to taking instructions from such persons in relation to the acquisition, disposal, voting or other disposition of Shares in their names or otherwise held by them.

Each of these shareholders has voluntarily undertaken to the Company and CPY International (on behalf of the Underwriters) that, he/she/it will not dispose of his/her/its direct or indirect interests in the Company for a period of 12 months commencing from the Listing Date, particulars of which are set out in note 13 below.

4. Perfect Develop is the registered holder of 612,000,000 Shares. Mr. Ko has an attributable interest in 33% of the Shares in which Perfect Develop is interested, amounting to 201,960,000 Shares. In addition, 48,422,400 Shares are registered in the name of Mr. Ko.
5. Perfect Develop is the registered holder of 612,000,000 Shares. Mr. Au Yeung has an attributable interest in 6% of the Shares in which Perfect Develop is interested, amounting to 36,720,000 Shares. In addition, 7,852,800 Shares are registered in the name of Mr. Au Yeung.
6. Perfect Develop is the registered holder of 612,000,000 Shares. Mr. Liu has an attributable interest in 12% of the Shares in which Perfect Develop is interested, amounting to 73,440,000 Shares. In addition, 14,630,400 Shares are registered in the name of Mr. Liu.
7. Perfect Develop is the registered holder of 612,000,000 Shares. Mr. Tao has an attributable interest in 49% of the Shares in which Perfect Develop is interested, amounting to 299,880,000 Shares. In addition, 103,315,200 Shares are registered in the name of Mr. Tao.
8. These Shares are registered in the name of Pernanga, the entire issued share capital of which is owned by Mr. Yeung Wing Sang. Pernanga and Mr. Yeung Wing Sang are not Initial Management Shareholders within the meaning of the GEM Listing Rules as they do not have any management role or board representation in the Group. Pernanga will dispose of approximately 77% of its interest in the Company (equivalent to approximately 2% of the issued share capital of the Company immediately after the Placing and the Capitalisation Issue without taking into account any Shares which may fall to be allotted and issued upon exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme) upon listing under the Offer for Sale. Pernanga will hold a remaining interest of 0.6% in the Company after listing, which will be subject to a 12-month lock-up period. Pernanga has confirmed to the Company that it intends to hold such interest as a long-term investment, and does not intend to be involved in the management of the Company.
9. These Shares are registered in the name of Diamond Clear Associates Limited, the entire issued share capital of which is owned by Ms. Choi Shui Hing.
10. These Shares are registered in the name of Active Device Co., Ltd., the entire issued share capital of which is beneficially owned as to 50% by Mr. Fan Yok Hon and as to the remaining 50% by Ms. Kwok Sik Chun.
11. These Shares are registered in the name of Canterbury 2000 Limited, the entire issued share capital of which is beneficially owned as to 50% by Mr. Tong Kwong Ming and as to the remaining 50% by Mr. Lai Wai Man.
12. Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor and the Stock Exchange that, save as provided in the GEM Listing Rules, he/she/it will not sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any direct or indirect interest in the Relevant Securities in the Company held by him/her/it immediately following completion of the Placing and the Capitalisation Issue within a period of 12 months commencing from the Listing Date, details of which are more particularly set out in the section headed "Substantial and Initial Management Shareholders" of this prospectus.
13. On the basis of arm's length discussion between the Company and the investors and Pernanga, each of the investors and Pernanga has voluntarily undertaken to the Company and the Sponsor that, save as provided in the GEM Listing Rules (as if each of them were an Initial Management Shareholder), he/she/it will not sell, transfer or otherwise

## SUMMARY

dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any direct or indirect interest in the Relevant Securities in the Company held by him/her/it immediately following completion of the Placing and the Capitalisation Issue within a period of 12 months commencing from the Listing Date. The Directors believe that the prospect of the business pursuit undertaken and to be undertaken by the Group has helped the Company to secure such undertakings from the investors.

14. Dr. Wong Tuen Yee Elizabeth is a member of the senior management of the Company, further particulars of whom are set out in the section headed "Directors, Senior Management and Staff" of the prospectus. Apart from that, Dr. Wong is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.
15. Angela Cutri is the office manager of Vitapharm Research but is not a member of the senior management of the Company. She joined the Group in 1998 and is responsible for overseeing the administration of Vitapharm Research. Apart from being an employee of the Group, Ms. Cutri is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

## TRADING RECORD

The following is a summary of the combined results of the Group for the two years ended 31st December, 2000 and the six months ended 30th June, 2001, which, except for information relating to the earnings per Share, have been extracted from the accountants' report set out in Appendix I to this prospectus. The combined results have been prepared on the basis of presentation set out in the same accountants' report.

	<b>Year ended 31st December,</b>		<b>Six months ended 30th June,</b>
	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover (Note 1)	22,875	64,128	52,767
Cost of sales	(14,435)	(37,921)	(28,953)
Gross profit	8,440	26,207	23,814
Other revenues	10	28	58
Selling and distribution expenses	(1,084)	(1,452)	(1,333)
Administrative expenses	(2,546)	(5,504)	(5,427)
Other operating expenses (net)	(1,441)	(2,146)	(2,195)
Operating profit	3,379	17,133	14,917
Finance costs	(2,233)	(1,836)	(1,220)
Profit before taxation	1,146	15,297	13,697
Taxation	–	(15)	(25)
Profit after taxation	1,146	15,282	13,672
Minority interests	(545)	(743)	(188)
Profit attributable to shareholders	<u>601</u>	<u>14,539</u>	<u>13,484</u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per Share (Note 2)	<u>HK0.06 cents</u>	<u>HK1.51 cents</u>	<u>HK1.40 cents</u>

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## SUMMARY

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Notes:

- (1) Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable, and consultancy fee income.
- (2) The calculation of basic earnings per Share is based on the Group's profit attributable to shareholders for each of the two years ended 31st December, 2000 and the six months ended 30th June, 2001, and 960,000,000 Shares in issue and issuable, comprising 18,181,820 Shares in issue as at the date of this prospectus and 941,818,180 Shares to be issued pursuant to the Capitalisation Issue, throughout each of the respective financial periods on the assumption that the Group reorganisation had been completed on 1st January, 1999.

### FINANCIAL PERIOD

**The accountants' report has been prepared for each of the two years ended 31st December, 2000 and the six months ended 30th June, 2001. As this prospectus is issued shortly after 31st December, 2001, the accountants' report has not been prepared for the full year ended 31st December, 2001 as it would be extremely burdensome and onerous for the Company to do so.**

**An application has been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and to the Securities and Futures Commission for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31st December, 2001 in this prospectus. A waiver has been granted by the Stock Exchange and a certificate of exemption has been granted by the Securities and Futures Commission.**

**Pursuant to Rule 11.11 of the GEM Listing Rules, the Company is required to include the financial results which must not have ended more than six months before the date of this prospectus. However, as the issue date of this prospectus had been postponed to 30th January, 2002, the financial period reported on had ended more than six months before the issue date of this prospectus.**

**As this prospectus includes the combined results of the Group covering each of the two years ended 31st December, 2000 and the six months ended 30th June, 2001 only, the Company has applied for and has been granted a waiver from strict compliance with Rule 11.11 of the GEM Listing Rules by the Stock Exchange.**

**The Company has confirmed that they have performed sufficient due diligence work on the Group to ensure that, save as disclosed in this prospectus, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of the Company or any of its subsidiaries since 30th June, 2001 which would materially affect the information as shown in the accountants' report as set out in Appendix I to this prospectus.**

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## SUMMARY

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### NEW ISSUE STATISTICS (Note 1)

	<b>Based on an indicative Placing Price of HK\$0.50 per Share</b>	<b>Based on an indicative Placing Price of HK\$0.40 per Share</b>
Market capitalisation (Note 2)	HK\$600 million	HK\$480 million
Historical pro forma diluted price/earnings multiple (Note 3)	approximately 35.9 times	approximately 29.6 times
Adjusted net tangible asset value per Share (Note 4)	HK\$0.12	HK\$0.10

#### Notes:

1. Except where otherwise indicated, the above statistics have been prepared on the assumption that no Share will be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted pursuant to the Share Option Scheme.  
  
If the Over-allotment Option is exercised, the market capitalisation of the Company will increase, the historical pro forma diluted price/earning multiple per Share will increase, and the adjusted net tangible asset value per Share will increase.
2. The calculation of market capitalisation is based on the Placing Price and 1,200,000,000 Shares in issue immediately after completion of the Placing and the Capitalisation Issue but takes no account of any Shares which may fall to be allotted and issued upon the exercise of 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 market capitalisation of the Shares would be approximately HK\$498,000,000 or HK\$622,500,000 based on the indicative Placing Price of HK\$0.40 and HK\$0.50 per Share, respectively.
3. The calculation of the historical pro forma diluted price/earnings multiple is based on the combined profit attributable to Shareholders for the year ended 31st December, 2000 assuming that the Company had been listed since 1st January, 2000 and a total of 1,200,000,000 Shares had been in issue throughout the year. The combined profit for the year ended 31st December, 2000 for the purpose of this calculation has been adjusted to take into account the interest income that would have been earned, had the net proceeds from the New Issue been received on 1st January, 2000, at the rate of 2% per annum. The historical pro forma diluted price/earnings multiple of approximately 29.6 times and 35.9 times is based on the historical pro forma earnings per Share for the year ended 31st December, 2000 and the indicative Placing Price at HK\$0.40 and HK\$0.50 per Share, respectively.
4. The adjusted net tangible asset value per Share has been arrived at after making the adjustments described under "Adjusted net tangible assets" in the section headed "Financial information" in this prospectus and on the basis of a total of 1,200,000,000 Shares in issue immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or of any options which may be granted pursuant to the Share Option Scheme).

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## SUMMARY

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### RISK FACTORS

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

#### Risks relating to the Group

- Trust arrangements in respect of Tianao and Vitapharm Research;
- The Group may not succeed in its patent applications for its platform technologies;
- Reliance on contract with Pharmco;
- Reliance on major suppliers;
- Reliance on sub-contractor;
- Reliance on major customers;
- Compliance with the GMP standards;
- The business licence of a member of the Group may be revoked for not fulfilling the obligation of making full capital investment contribution within the prescribed time;
- Expiry of protection period;
- There is no assurance that the plans of the Group will be achieved within the proposed time frame as set out in the section headed "Statement of business objectives" of this prospectus;
- Some statistics relating to the biotechnology and pharmaceutical industry in the PRC after 1997 are not available;
- Limited track record;
- May not be able to successfully manage its expanding operations;
- Future success will depend on its ability to keep pace with the production methodology of the biotechnology and pharmaceutical industry in the PRC;
- Defective products or harmful effects from the consumption or use of the Group's products and lack of product liability insurance coverage may result in material liability and loss of market share;
- There is no assurance that new products will be successfully developed and/or approved by the relevant authority;
- Unsuccessful launch of new products may result in the inability to recover expenses incurred in developing new products;

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## SUMMARY

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- Reliance on the PRC market;
- Failure to protect and defend its intellectual property rights may adversely affect the Group's business;
- Renewal of certificates, permits and business licences; and
- May not be able to attract and retain key management and technical personnel whom it needs for its success.

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

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

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

- Currency conversion and exchange control;
- Political, economic and social considerations;
- Legal consideration; and
- Risk relating to war.

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## DEFINITIONS

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

“associate”	the same meaning ascribed to in the GEM Listing Rules
“Beshabar (BVI)”	Beshabar Trading Limited, a company incorporated in BVI on 22nd April, 1997, a wholly-owned subsidiary of the Company
“Beshabar (HK)”	Beshabar Trading Limited (formerly known as Wise Shine Limited), a company incorporated in Hong Kong on 25th August, 2000, a wholly-owned subsidiary of the Company
“Bright Future”	Bright Future Pharmaceutical Laboratories Limited, a company incorporated in Hong Kong on 2nd September, 1993 and an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates. The company is engaged in the sub-contracting and manufacture of pharmaceutical products. The company was a registered joint venture partner of Tianao holding 90% interest in the registered capital of Tianao for and on behalf of Yugofoil pursuant to a trust arrangement, the particulars of which are more particularly described in the sections headed “Risk factors” and “Business” of this prospectus
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of part of certain sums standing to the credit of the share premium account of the Company referred to in the paragraph headed “Resolutions in writing of all shareholders of the Company passed on 26th January, 2002” in the section headed “Further information about the Company and its subsidiaries” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Companies Law”	Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Vital BioTech Holdings Limited 維奧生物科技控股有限公司, an exempted company incorporated in the Cayman Islands with limited liability on 30th May, 2001
“Covenantors”	the executive Directors and the Initial Management Shareholders



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## DEFINITIONS

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“CPY” or “Sponsor”	Core Pacific - Yamaichi Capital Limited, an investment adviser and dealer registered under the Securities Ordinance, the global co-ordinator of the Placing and the Sponsor to the Company
“CPY International”	Core Pacific - Yamaichi International (H.K.) Limited, an investment adviser and dealer registered under the Securities Ordinance, the lead manager of the Placing
“Director(s)”	the director(s) of the Company
“Ever Power”	Ever Power Holding Inc., a company incorporated in BVI on 25th May, 2001, a wholly-owned subsidiary of the Company
“Farthinghoe”	Farthinghoe Enterprises Limited, a company incorporated in BVI on 1st September, 1997, a wholly-owned subsidiary of the Company
“GEM Listing Committee”	the listing committee of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM”	the Growth Enterprise Market of the Stock Exchange
“Gainful Plan”	Gainful Plan Limited, a company incorporated in BVI on 25th May, 2001, a wholly-owned subsidiary of the Company
“Goldfield”	Goldfield Farming Agents Limited, a company incorporated in BVI on 29th April, 1997 and the entire issued share capital of which is owned by Mr. Ip Yu Chak
“Group”	the Company and its subsidiaries or any of them or, where the context requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Initial Management Shareholders”	Perfect Develop, Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao and Dr. Wong Tuen Yee, Elizabeth, details of their respective shareholdings are described under the section headed “Substantial and Initial Management Shareholders” of this prospectus
“Latest Practicable Date”	25th January, 2002, being the latest practicable date before the printing of this prospectus for ascertaining certain information of this prospectus

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## DEFINITIONS

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“Listing Date”	the date on which dealings in the Shares on GEM commence
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Maxsun”	Maxsun International Limited, a company incorporated in Hong Kong on 29th March, 2000, a subsidiary owned as to 51% by the Company
“Mr. Au Yeung”	Mr. Au Yeung Ping Yuen, Terence, an executive Director and an Initial Management Shareholder
“Mr. Ko”	Mr. Ko Sai Ying, Thomas, the Chairman, an executive Director and an Initial Management Shareholder
“Mr. Liu”	Mr. Liu Jin, James, an executive Director and an Initial Management Shareholder
“Mr. Tao”	Mr. Tao Lung, an executive Director and an Initial Management Shareholder
“New Issue”	the issue of the New Shares for subscription under the Placing
“New Shares”	the 240,000,000 new Shares to be issued at the Placing Price and where relevant, any additional new Shares to be issued pursuant to the exercise of the Over-allotment Option
“Offer for Sale”	the offer for sale of the Sale Shares by the Vendors for cash at the Placing Price pursuant to the Placing
“Over-allotment Option”	the option granted by the Company to the Underwriters exercisable by CPY International on behalf of the Underwriters pursuant to the Underwriting Agreement under which the Company may be required to issue at the Placing Price up to an additional 45,000,000 Shares, representing approximately 15% of the number of the Placing Shares being offered under the Placing solely to cover over-allocations in the Placing
“Perfect Develop”	Perfect Develop Holding Inc., a company incorporated in BVI on 3rd August, 2001 the entire issued share capital of which is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 12% by Mr. Liu and 6% by Mr. Au Yeung. Perfect Develop is an investment holding company

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## DEFINITIONS

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“Pernanga”	Pernanga Agents Limited, a company incorporated in BVI on 29th April, 1997 and the entire issued share capital of which is owned by Mr. Yeung Wing Sang
“Pharmco”	Pharmco International Inc., a corporation carrying on business under the name of IMAX International, was founded in 1989 in Dallas, Texas, U.S.A. and engaged in the trading of pharmaceutical products. For pharmaceutical products that are distributed in US the products are subject to the control and/or approval of the FDA. Pharmco is the sole supplier of the materials of Osteoform to the Group. The entire issued capital of Pharmco is owned by Ms. Betty Wei Bai and Mr. Tze-Rou Kuo. Save and except it is an associate (as defined in the GEM Listing Rules) of Ms. Betty Wei Bai and Mr. Tze-Rou Kuo, Pharmco is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Ms. Betty Wei Bai and Mr. Tze-Rou Kuo are currently holding 24 and 25 shares of HK\$1 each in Maxsun. Save and except for their beneficial interests in Maxsun, each of Ms. Betty Wei Bai and Mr. Tse-Rou Kuo is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules)
“Placing Shares”	the 240,000,000 New Shares and the 60,000,000 Sales Shares being offered for subscription or purchase under the Placing
“Placing”	the conditional placing of the Placing Shares, (subject to Overallotment Option at the Placing Price and subject to the terms and conditions described in this prospectus), as further described under the section headed “Structure and conditions of the Placing” of this prospectus
“Placing Price”	the price (not more than HK\$0.50 but not less than HK\$0.40) per Placing Share at which Shares shall be offered under the Placing and is determined by agreement between CPY International and the Company on or before the Price Determination Time
“PRC” or “China mainland”	the People’s Republic of China, and except where the context requires, references in this prospectus to the PRC or China mainland do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Relevant Securities”	has the meaning ascribed thereto in Rule 13.15 of the GEM Listing Rules

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## DEFINITIONS

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“Price Determination Date”	the date, expected to be around 30th January, 2002, on which the Placing Price will be fixed for the purpose of the Placing
“Price Determination Time”	5:00 p.m. on 30th January, 2002, at which time the Placing Price will be fixed for the purpose of the Placing or such later time as the Company and CPY International (on behalf of the Underwriters) may agree, but in any event not later than 5:00 p.m. on 1st February, 2002
“Sale Shares”	the 60,000,000 existing Shares being offered for sale by the Vendors for cash at the Placing Price under the Placing
“SDA”	State Drug Administration (國家藥品監督管理局), the PRC (being the authority under the State Council, which (i) monitors and supervises the administration of pharmaceutical industry, (ii) formulates administrative rules and policies concerning the pharmaceutical industry, (iii) evaluates, registers and approves new medicine; and (iv) approves and permits the manufacture and export of pharmaceutical products and establishment of pharmaceutical manufacturers)
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Securities Lending Agreement”	the securities lending agreement dated 30th January, 2002 and entered into between Perfect Develop and CPY International
“SFC”	the Securities and Futures Commission of Hong Kong
“Share Option Scheme”	the share option scheme approved and conditionally adopted by the Company on 26th January, 2002, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix IV to this prospectus
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianao”	Wuhan Tianao Pharmaceuticals Co., Ltd. (武漢天奧製藥有限公司), a sino-foreign equity joint venture established in the PRC on 30th October, 1996 and a subsidiary owned as to 95% by the Company
“Track Record Period”	the period of the two years ended 31st December, 2000 and the six months ended 30th June, 2001
“UK”	the United Kingdom

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## DEFINITIONS

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“Underwriters”	CPY International, Guotai Junan Securities (Hong Kong) Limited, GC Capital (Asia) Limited, SBI E2-Capital Securities Limited, Taiwan Securities (Hong Kong) Company Limited, First Shanghai Securities Limited, Sun Hung Kai International Limited, Celestial Capital Limited and YF Securities Company Limited
“Underwriting Agreement”	the underwriting agreement dated 30th January, 2002 made between the Company, the Vendors, the Initial Management Shareholders, the executive Directors, the Sponsor, CPY International and the Underwriters relating to the Placing
“US”	the United States of America
“Vendors”	Goldfield and Pernanga
“Vital BioTech (Hong Kong)”	Vital BioTech (Hong Kong) Company Limited, a company incorporated in Hong Kong on 17th November, 2000, a wholly-owned subsidiary of the Company
“Vitapharm Research”	Vitapharm Research Pty. Ltd, a company incorporated in the State of Victoria, Australia on 1st April, 1998, a wholly-owned subsidiary of the Company
“Vital (Sichuan)”	Vital (Sichuan) Biotech Co., Ltd. (維奧(四川)生物技術有限公司), a wholly foreign owned enterprise established in the PRC on 25th July, 2001, a wholly-owned subsidiary of the Company
“WTO”	World Trade Organisation
“Weiao”	Sichuan Weiao Pharmacy Co., Ltd. (四川維奧製藥有限公司), (formerly known as Sichuan Kangbai Pharmacy Co., Ltd.) a sino-foreign equity joint venture established in the PRC on 8th January, 1998, a subsidiary owned as to 76.7% by the Company
“Yugofoil”	Yugofoil Holdings Limited, a company incorporated in BVI on 11th May, 1993, a wholly-owned subsidiary of the Company
“AUD” or “Australian dollars”	Australian dollars, the lawful currency of Australia
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“USD”, “US\$” or “US dollars”	United States dollars, the lawful currency of the US
“sq. m.”	square metres

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## DEFINITIONS

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“sq. ft.” square feet

“%” per cent.

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

*AUD 1.00 = HK\$4.00*

*RMB 106 = HK\$100*

*US\$ 1.00 = HK\$7.80*

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

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## GLOSSARY

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

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## GLOSSARY

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“GLP”	Good Laboratory Practice – when applied to the pharmaceutical industry, Good Laboratory Practice is a set of statutory quality system requirements concerned with the organisational process and the conditions under which drug research studies are planned, performed, monitored, recorded, archived and reported. In the PRC, the regulation is administrated by the SDA under the 1999 Measures for the Management of Registration of Drug Research Institutions (藥品研究機構登記備案管理辦法) and Guide on Qualitative Management of Non-Clinical Research on Drugs (藥品非臨床研究質量管理規範). It is one of the prerequisite qualifications for all institutes in submitting to or preparing data for the SDA for clinical study or drug registration
“glycoprotein”	an organic compound composed of both a protein and a carbohydrate joined together in covalent chemical linkage. These structures occur in many life forms; they are prevalent and important in mammalian tissues. The attached carbohydrate may have several effects: it may help the protein to fold in the proper geometry, stabilise the protein, affect physical properties such as solubility or viscosity, helps it to orient correctly in a membrane, or make it recognisable to another biochemical or cell
“GMP”	Good Manufacturing Practice, which are guidelines and regulations from time to time issued pursuant to the law of the local health authority on the administration of pharmaceuticals as part of quality assurance to ensure that pharmaceutical products subject to those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use. The detail standard varies from countries to countries depending on available resources
“Human Genome Program”	an international co-ordinated programme aimed at characterising all human genetic materials by determining the complete sequence of the DNA in the human genome and rendering such information accessible for further biological studies
“IU”	International Unit
“interferon”	a glycoproteins, classified as cytokines, which contribute to the body's natural defenses against foreign substances. They are produced and secreted naturally by human cells in response to viruses and other microbes, tumours, and antigens (foreign substances which can cause the production of antibodies). Interferons bind to specific receptors on cell surfaces. This binding initiates a series of events, including induction of specific proteins, which produce antiviral, antiproliferative, and other actions controlling the immune system. Four major classes of human interferons have been identified: alpha, beta, gamma, and omega



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## GLOSSARY

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“Internet”	an international network that links together computers and allows data to be transferred between each computer. These computers are called the servers and individual users can use a modem to connect to the server computer and have access to the international network. No one person or company controls the Internet. Historically, the Internet was developed by the US Department of Defense
“lactobacillus”	milk bacteria, normally found in the mouth, intestinal tract and vagina
“medicine”	the art and science of preventing, diagnosing and treating disease, as well as the maintenance of health
“micro bio-encapsulation”	the formation of encapsulated particulars in microscopic scale with biological activity
“Opin”	the brandname of an interferon based vaginal pessary produced by the Company with indication for chronic viral cervicitis
“Osteoform”	the brandname of a calcium amino acid chelate based capsule with indication for osteoporosis and calcium deficiency. Osteoform is a supplement of calcium, trace mineral vitamin D3 and vitamin C
“OTC”	over-the-counter
“OTC products”	health or pharmaceutical products that can be purchased over-the-counter without prescription
“PCR”	Polymerase Chain Reaction
“peptide”	refers to organic compound composed of amino acids linked together chemically by peptide bonds. Small peptides with fewer than about ten constituent amino acids are called oligopeptides, and peptides with more than ten amino acids are termed polypeptides. Compounds with molecular weights of more than 10,000 (50-100 amino acids) are usually termed proteins
“pharmaceutical”	the practice of producing drugs
“probiotics”	a type of health products for the purpose of allowing an individual to ingest live beneficial bacteria so that a stable intestinal microbial ecological environment can be maintained
“Protein Stabilisation and Delivery” or “PSD”	a platform technology jointly invented by Mr. Ko and Mr. Au Yeung and subsequently commercialised by the Group. It utilizes a micro bio-encapsulation process and allows protein products to be room temperature stable and deliverable via a non-injection route

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## GLOSSARY

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“Skin Drug Delivery System” or “SDDS”	a platform technology invented by Mr. Ko and subsequently commercialised by the Group. It is used for delivering chemical drugs through the skin surface by means of a polymer membrane
“Spray-On Bandage”	the name of a polymer based dermal delivery system product produced by the Company as a first-aid device. When sprayed on a wound surface, the product forms an artificial skin covering and disinfecting the wound
“tablets”	solid dosage forms of varying weight, size and shape which may be moulded or compressed, and which contain a medical substance in pure or diluted form
“therapeutic medication”	pharmaceutical preparation with a therapeutic indication
“vaccine”	suspensions of killed or attenuated micro-organisms (bacteria or viruses) or, of antigenic proteins derived from them, administered for prevention, amelioration, or treatment of infectious diseases
“western drugs” or “drugs”	compounds that may be used or administered to human or animals as an aid in the diagnosis, treatment, or prevention of disease or other abnormal condition, for the relief of pain or suffering, or to control or improve any physiologic or pathological condition

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

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### **RULE 18.35**

Under Rule 18.35 of the GEM Listing Rules, where a listed issuer has caused any property assets to be valued (in accordance with Rule 8.01 of the GEM Listing Rules) and included such a valuation in the prospectus relating to the initial public offer of shares in the listed issuer, the property assets shall be stated in the issuer's financial statements at such valuation (or subsequent valuation) less the aggregate amount provided or written off for depreciation and diminution in value.

In addition, listed issuers are required to state, by way of a note in the financial statements, the additional depreciation charged against the profit and loss account as a consequence of complying with Rule 18.35 of the GEM Listing Rules.

The property assets of the Group were revalued as at 30th November, 2001, by the Company's property valuer, Vigers Hong Kong Limited, for the purpose of inclusion in this prospectus. According to the valuation as at 30th November, 2001 from the valuation report of Vigers Hong Kong Limited, the texts of which are set out in Appendix II to this prospectus, the valuation of the properties of the Group set out in paragraph headed "Group I - Properties owned by the Group in the PRC" was stated at RMB32,700,000. On the basis of the net book value of such property at RMB29,180,000 as included in the unaudited combined balance sheet of the Group as at 30th November, 2001, there is a revaluation surplus of approximately RMB3,520,000 (equivalent to HK\$3,321,000) arising on a revaluation of such properties which represents approximately 2% of the adjusted net tangible assets value of the Group (based on 1,200,000,000 Shares in issue or to be issued and assuming the Over-allotment Option is not exercised) as set out in the section headed "Financial information" in this prospectus.

The Company has applied to, and obtained from, the Stock Exchange a waiver from strict compliance with Rule 18.35 of the GEM Listing Rules so that the revaluation surplus will not be incorporated in the Group's financial statements for the year ended 31st December, 2001.

### **ACCOUNTANTS' REPORT FOR THE TWO FINANCIAL YEARS PRECEDING THE DATE OF THE PROSPECTUS**

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, inter alia, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Company during the two preceding years including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Company for two financial years immediately preceding the issue of the prospectus.

Rules 7.03(1) and 11.10 of the GEM Listing Rules requires the consolidated results of the Company and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Stock Exchange.

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

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The accountants' report for the period from 1st January, 1999 to 31st December, 2000 and the six months ended 30th June, 2001 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued shortly after 31st December, 2001, the accountants' report has not been prepared for the full year ended 31st December, 2001 as it would be unduly burdensome for the Company to do so.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and to the Securities and Futures Commission for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants report for the full year ended 31st December, 2001 in the prospectus. A waiver has been granted by the Stock Exchange and a certificate of exemption has been granted by the Securities and Futures Commission.

The Company confirmed that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus and save as disclosed in this prospectus, there has been no material adverse change in the financial or trading position of the Group since 30th June, 2001 and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

### **THE LATEST FINANCIAL PERIOD REPORTED ON BY THE REPORTING ACCOUNTANTS REQUIRED UNDER RULE 11.11 OF THE GEM LISTING RULES**

Pursuant to Rule 11.11 of the GEM Listing Rules, the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of the prospectus. As the latest financial period currently reported in the accountants' report set out in Appendix I to the prospectus is for the six months ended 30th June, 2001, the prospectus must be dated on or before 31st December, 2001 in order to comply with the six-month period as set out in Rule 11.11 of the GEM Listing Rules. Given that the prospectus is dated 30th January, 2002, the proposed date of the prospectus will be 30 days beyond the six-month period as set out in Rule 11.11 of the GEM Listing Rules.

The Company has sought and obtained from the Stock Exchange a waiver from strict compliance with the requirement of Rule 11.11 of the GEM Listing Rules on the basis of the Directors' confirmation that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus and save as disclosed in this prospectus, there has been no material adverse change in the financial or trading position of the Group since 30th June, 2001 and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

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## RISK FACTORS

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*This prospectus contain forward-looking statements that include, among other things, statements of business objectives concerning the Group's business, expectations as to funding its capital requirements, statements as to the revenue and profitability of the Company and other statements of expectation, belief, future plans and strategies, anticipated developments and other matters that are not historical facts. The Directors caution potential investors that there are risks and uncertainties associated with the Company and actual events or results may differ materially from those expressed or implied by the statements.*

*Potential investors should carefully consider all the information set out in this prospectus and, in particular, should evaluate the following risks and special considerations associated with an investment in the Company before deciding to invest in the Company.*

### RISKS RELATING TO THE GROUP

#### I. Trust arrangements in respect of Tianao and Vitapharm Research

Yugofoil, a wholly-owned subsidiary of the Company, has a 95% attributable interest in Tianao. In October 1998, Yugofoil acquired from Bright Future a 70% interest in Tianao for a consideration of HK\$500,000, which was paid by Mr. Tao in cash to Mr. Chan Chak Yeung, a shareholder of Bright Future until 1995 and director of Bright Future since 1994. The 70% interest was held by Bright Future on trust for Yugofoil pursuant to a trust agreement between Yugofoil and Bright Future dated 10th November, 1998 (the "Trust Agreement"). Subsequently in July and October 1999, Yugofoil, through Bright Future, further acquired in aggregate a 20% interest in Tianao from the PRC joint venture partners for a total consideration of RMB2,050,000. Since the 20% interest was acquired by Bright Future as its nominee, the consideration of RMB2,050,000 was therefore paid by Yugofoil direct to the respective PRC joint venture partners. As at 1st December, 1999, 90% of the interests in Tianao was held by Bright Future under the Trust Agreement, which was not stamped. Pursuant to the Trust Agreement and an agreement between Yugofoil and Bright Future dated 15th September, 2000, Bright Future transferred the 90% interest back to Yugofoil as the beneficial owner and no consideration was paid to Bright Future for the transfer, thereby terminating the Trust Agreement. The transfer was approved by the relevant PRC authorities. Yugofoil further acquired a 5% interest in Tianao from the PRC joint venture party in January, 2001.

Mr. Shen Song Qing and Mr. Huang Jian Ming were appointed as directors of Tianao representing Bright Future's interests in the board of Tianao in October 1996 and January 1997, respectively. After Yugofoil's acquisition of the 70% interest in Tianao, they continued to act as directors of Tianao representing the interests of Yugofoil. Further details of the directorship of Tianao are set out in the paragraph headed "Tianao" in the section headed "Business" of this prospectus.

Bright Future is a company incorporated in Hong Kong in which none of the Directors, their respective associates or, so far as the Directors are aware, shareholders who own more than 5% of the issued share capital of the Company (immediately following completion of the Placing and Capitalisation Issue and taking no account of any Shares which may be taken up under the Placing or allotted and issued pursuant to the exercise of the Over-allotment Option) has any interest during the Track Record Period. As shown in the public records of Bright Future filed with the Companies Registry of Hong Kong, as at 2nd September, 2001, the entire issued share capital of Bright Future was held as to 9,999 shares by Bright Future Pharmaceutical Holdings Limited and as to the remaining one share by Mr. Wong Cheong Moon, and Mr. Chan Chak Yeung and Mr. Wong Cheong Moon were directors of Bright Future. Bright Future is engaged in the sub-contracting and manufacture of pharmaceutical products. It owns and operates a GMP compliant manufacturing plant in Yuen Long, New Territories, Hong Kong which consists of either "a dedicated" or "one" building designed and constructed in accordance with the GMP standards.

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## RISK FACTORS

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The PRC legal advisers to the Company have confirmed that (a) although the Trust Agreement was not entered into under the laws of the PRC, which require that any changes in the shareholding of a foreign investment company should be approved by and registered with the relevant PRC authorities, the trust arrangement would normally be respected by the PRC authorities in the absence of disputes between the parties thereto, as it did not contravene any jus cogens of the laws of the PRC; (b) even if Bright Future now claims any entitlement to the interests in Tianao against Yugofoil, it would be time-barred under the laws of the PRC; and (c) therefore, under the laws of the PRC, there would not be any substantial legal risks in Yugofoil's interests obtained under such trust arrangement. The Group has also obtained a legal opinion from a leading counsel in Hong Kong that, on the basis of the facts set out in the prospectus and on the assumptions that Yugofoil's beneficial ownership in the shares of Tianao is recognised as valid and enforceable under the law of the PRC and that the various transfers of shares set out in this prospectus are valid and enforceable under the law of the PRC, the declaration of trust and the various transfers of interests in Tianao are, as a matter of Hong Kong law, valid and enforceable and that the declaration of trust is not chargeable to stamp duty. Each of the Directors has made a statutory declaration to confirm the following matters:

1. he was a director or proposed executive director of the Company incorporated in the Cayman Islands and having its head office and principal place of business at Units 1001 and 1002, 10th Floor, Kwai Hung Holdings Centre, No. 89 King's Road, Hong Kong.
2. he was duly authorised by the board of directors of the Company to make the statutory declaration for and on its behalf.
3. Tianao is an equity joint venture established in the PRC and is currently owned as to 95% by Yugofoil and as to 5% by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠).

The Company was undergoing certain corporate reorganisation pursuant to which Yugofoil would become a wholly-owned subsidiary of the Company.

On 30th October, 1998, Yugofoil acquired 70% equity interest in Tianao from Bright Future and pursuant to a declaration of trust dated 10th November, 1998 between Yugofoil and Bright Future, such interest was held by Bright Future on trust for Yugofoil until Bright Future transferred such interest back to Yugofoil in December 2000.

In July 1999 and November 1999, Yugofoil, through Bright Future acting as its trustee, acquired a further 10% and 10% interest in Tianao, respectively.

On 15th September, 2000, Bright Future, upon instructions from Yugofoil, transferred back to Yugofoil the 20% interest in Tianao which was acquired by it on behalf of Yugofoil. On 8th December, 2000, the original PRC approving authority approved the change of the registered holder of the 90% interest in Tianao from Bright Future to Yugofoil.

Yugofoil has at all times since October 1998 been the beneficial owner of the interest held by Bright Future in Tianao.

In turn, Yugofoil has, since April 1997, been beneficially owned by Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga as to 33%, 6%, 12%, 42%, 4% and 3%, respectively.

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## RISK FACTORS

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4. Vitapharm Research is a company incorporated in Australia. The Company was undergoing certain corporate reorganisation pursuant to which Vitapharm Research would become a wholly-owned subsidiary of the Company.

Since its incorporation on 1st April, 1998, the entire issued share capital of Vitapharm Research has been held by King Laboratories Pty. Ltd. and WB Nominees Pty. Ltd. on trust for Mr. Ko who in turn held such shares on trust for Farthinghoe. Accordingly, the entire issued share capital of Vitapharm Research has at all times since its incorporation been held by Farthinghoe beneficially.

The entire issued share capital of Farthinghoe has since its incorporation been held by each of Mr. Ko, Mr. Au Yeung and Mr. Liu as to one share of US\$1 each in Farthinghoe.

5. The business of Vitapharm Research has since its incorporation been managed by Mr. Ko, Mr. Au Yeung and Mr. Liu with the assistance of other management and supporting staff.
6. After the acquisition of equity interest in Tianao in 1998, Yugofoil has appointed its representatives including Mr. Huang Jian Ming and Mr. Shen Song Qing, directors of Yugofoil to the board of Tianao. Since 7th February, 1999, Mr. Shen Song Qing was relieved from his duties as a representative of Yugofoil on the board of Tianao but Mr. Huang Jian Ming remained as the representative of Yugofoil in Tianao. Subsequently, Yugofoil nominated another two of its directors, Mr. Au Yeung and Mr. Liu to be appointed as directors of Tianao respectively on 28th December, 2000.
7. Yugofoil, principally through Mr. Huang Jian Ming, Mr. Au Yeung and Mr. Liu, has been actively involved in the management of Tianao since the acquisition by Yugofoil of the equity interest in Tianao.

Notwithstanding the foregoing, in the event that the Trust Agreement is not recognised or is invalid or unenforceable under the PRC laws or any other applicable laws, the combined results of the Group would have to be adjusted to take into account the 90% interest held by Bright Future during the Track Record Period. The adjusted loss attributable to shareholders for the year ended 31st December, 1999 would have amounted to approximately HK\$676,000 and the adjusted profit attributable to shareholders for the year ended 31st December, 2000 would have amounted to approximately HK\$7,707,000. This would lead to a change in the results of the Group for the same period as reported in the accountants' report.

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

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## RISK FACTORS

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

Notwithstanding the foregoing, if the trust arrangement in respect of Vitapharm Research is not recognised or is invalid or unenforceable under any applicable laws, the results of Vitapharm Research could not be combined with the results of the Group during the Track Record Period. The adjusted profit attributable to shareholders for the years ended 31st December, 1999 and 2000 and the six months ended 30th June, 2001 would have amounted to approximately HK\$1,278,000, HK\$15,286,000 and HK\$13,822,000 respectively. This would lead to a change in the results of the Group for the same period as reported in the accountants' report.

The Directors have entered into a deed of indemnity with and in favour of the Company to provide indemnities on a joint and several basis, among other matters, against any depletion in value of assets, costs, fees, expenses, claims, losses, liabilities and proceedings which might be incurred or suffered by any member of the Group as a result of the Trust Agreement in respect of the Group's interests in Tianao or the trust arrangement in respect of Vitapharm Research being declared or determined by any court or relevant government authority to be illegal, invalid or unenforceable. Details of the deed of indemnity are set out in the paragraph headed "Estate duty, tax and other indemnities" in Appendix IV to this prospectus.

### **2. The Group may not succeed in its patent applications for its platform technologies**

To protect its platform technologies, the Group filed an Australian Provisional Patent Application No. PR2729 and the International Patent Application No. PCT/AU 00/01419. The Group has not yet obtained the patents for its platform technologies. To complete the application procedures, the Group will need to file formal applications in countries of interest and to go through searching and examination processes. The status of the applications is set out in the section headed "Business" of this prospectus. Patent application is a lengthy and complicated process, and there can be no guarantee as to success of the application. If the Group is not successful in its patent applications, other pharmaceutical manufacturers, if they get hold of the technologies, may use the technologies on their products and the Group will be subject to more intense market competition, which will materially affect its business performance.

### **3. Reliance on contract with Pharmco**

A substantial proportion of the Group's revenue is derived from the distribution of Osteoform. For the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the turnover generated from the sales of Osteoform was approximately nil, HK\$32.2 million and HK\$33.4 million respectively, representing approximately 0%, 50.5% and 63.3% respectively, of the Group's turnover. Currently, the Group has the exclusive distribution right of Osteoform in the PRC and East Asia for a term of 20 years under a marketing and distribution agreement entered into in December 2000 with Pharmco. Pursuant to the marketing and distribution agreement, the Group agreed to purchase Osteoform powder exclusively from Pharmco. Under the terms of the marketing and distribution, if the Group fails to purchase the minimum quantities as agreed, or



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## RISK FACTORS

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is otherwise in breach of the agreement, Pharmco may have a right to terminate the agreement. The minimum quantities of Osteoform material which Beshabar (HK) shall purchase from Pharmco each calendar year are as follows:

<b>Calendar Year</b>	<b>Quota</b>
2001	143,590 kilogrammes
2002	164,102 kilogrammes
2003	194,872 kilogrammes
2004	225,641 kilogrammes
2005	256,410 kilogrammes
2006 and each calendar year thereafter	287,180 kilogrammes

Hence, there is no assurance that the distribution agreement with Pharmco will not be terminated or will be renewed upon expiry. Furthermore, Pharmco has a unilateral discretion under the agreement to amend the schedule of territories within which the Group is entitled to the exclusive distribution right of Osteoform. The scheduled territories are currently Australia, Cambodia, Hong Kong, Indonesia, Japan, Laos, Macau, Malaysia, New Zealand, North Korea, the PRC, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand and Vietnam. In the event that the Group is unable to continue to secure the exclusive distribution right of Osteoform, or loses its exclusive distributorship right for the PRC, its business performance and profitability will be seriously affected.

#### **4. Reliance on major suppliers**

During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the largest supplier of the Group accounted for approximately 81%, 43% and 48% respectively of the Group's purchase. As the Group only produced and distributed Opin in 1999 and obtained its supply of interferon, which is the most important and most expensive material for the production of Opin, from one supplier for the year ended 31st December, 1999, the percentage of purchase from that particular supplier to the total purchase of the Group for the year ended 31st December, 1999 was relatively high. For the year ended 31st December, 2000 and the six months ended 30th June, 2001, the Group purchased Osteoform powder from Pharmco, and Pharmco became the largest supplier to the Group for these periods. Pursuant to the marketing and distribution agreement entered into between Beshabar (HK) and Pharmco on 26th December, 2000, the Group agreed to purchase Osteoform powder exclusively from Pharmco. The Group has not entered into any other exclusive purchase agreement with any of its suppliers, and has not entered into any long term contracts with its suppliers. In the past, the Group has not encountered any production disruption due to the shortage of supply of raw materials. The Directors believe that all the principal raw materials used by the Group can be purchased from a number of other suppliers at prices comparable to those paid to the Group's current suppliers. Nevertheless, if the Group encounters any production disruption due to a shortage of supply of major raw materials, the production and business performance of the Group will be seriously affected.

#### **5. Reliance on sub-contractor**

The Group currently sub-contracts the packaging process of Osteoform to an independent third party. For the year ended 31st December, 2000 and the six months ended 30th June, 2001, the Group paid sub-contracting charge amounting to HK\$4.4 million and HK\$4.3 million respectively, which accounted for approximately 11.7% and 14.8% of its total cost of sales. The Directors consider that the services provided by

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## RISK FACTORS

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the sub-contractor are material to the production process. However, there is no assurance that the relationship with the sub-contractor will not be terminated. Should this happen, the production and the business performance of the Group may be affected.

### 6. Reliance on major customers

During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group's largest customer accounted for approximately 95%, 45% and 23%, respectively of the Group's turnover; whilst the Group's five largest customers accounted for approximately 99%, 86% and 70% respectively of the aggregate turnover. The reason for such a high concentration of customers, especially in the year ended 31st December, 1999, is the reliance on sales to distributors. For the year ended 31st December, 1999, Wuhan Gao Zhuo Pharmaceutical Sales Limited (武漢高卓醫藥銷售有限公司) (formerly known as Wuhan Tianao Pharmaceutical Sales Limited (武漢天奧醫藥銷售有限公司)) was appointed as the sole distributor of Opin and it was, therefore, the Group's largest customer accounted for 95% of the Group's turnover. Since November 2000, the Group has been distributing Opin through independent distributors. In January 2001, the Group established its own distribution network in the PRC for Opin and since then, the Group has been distributing Opin to end-users through its own sales and marketing team and independent distributors. As regards Osteoform, the Group distributes this product in the PRC through two distributors located in Shenzhen and Shanghai. The Group has entered into a non-exclusive distribution agreement with each of the distributors for a term of 3 years from November 2000. However, there is no assurance that these distributors will achieve the required sales volume or that the distribution agreements will not be terminated or will be renewed upon expiry. In the event that these distribution agents fail to purchase products in sufficient volume or at all from the Group, the Group's business and profitability may be adversely affected.

### 7. Compliance with the GMP standards

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

In October 2001, the SDA announced various deadlines for different categories of pharmaceutical manufacturers to comply with the GMP standards. The Group's products fall into the general category of "pharmaceutical products and raw materials" for which the deadline with respect to the compliance with the GMP standards is 30th June, 2004. The Group has a production plant in Chengdu City, Sichuan Province, the PRC, which has obtained GMP certification. This production plant is expected to commence production in early 2002. However, the existing production plant in Wuhan, the PRC, is not fully in compliance with the GMP standards. The Group plans to gradually shift the current production of Opin in the Wuhan plant to the GMP compliant plant in Chengdu City, Sichuan Province, the PRC, which is owned by Weiao, before 30th June, 2004, and in this process, the Group will be faced with such tasks as locating a suitable site, renovating the premises, removing the production facilities and recruiting and training new staff. If the Group encounters any major problems in this process, the Group's production operations and business performance will be seriously affected.

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### **8. The business licence of a member of the Group may be revoked for not fulfilling the obligation of making full capital investment contribution within the prescribed time**

Vital (Sichuan), established in the PRC on 25th July, 2001, is a wholly-owned subsidiary of Vital BioTech (Hong Kong) principally engaged in the research and development projects of the pharmaceutical products. According to the business licence and the articles of association of Vital (Sichuan), Vital BioTech (Hong Kong) shall make full capital investment contribution in the amount of US\$1,400,000 on or before 24th July, 2003. According to the Foreign Owned Enterprise Law of the PRC, an enterprise with foreign capital shall make investments in the PRC within the period approved by the authorities in charge of examination and approval. If it fails to do so, the industry and commerce administration authorities may cancel its business licence. The industry and commerce administration authorities shall inspect and supervise the investment situation of an enterprise with foreign capital. Under the PRC law, Vital BioTech (Hong Kong), being the holding company of Vital (Sichuan) shall also be responsible for the outstanding amount of the investment. Out of the requisite total capital investment of US\$1,400,000, the Group has so far invested US\$210,000 into Vital (Sichuan) as capital contribution and the Group intends to fund the balance of the requisite investment by revenue generated from the ordinary course of business of the Group. Should Vital (Sichuan) fail to contribute full investment within the prescribed time and that its business licence be cancelled or Vital BioTech (Hong Kong) will be held responsible for the outstanding amount of the capital investment contribution, the profitability of the Group may be adversely affected.

### **9. Expiry of protection period**

One of the products of the Group, Opin, was registered as a new pharmaceutical product on 2nd June, 1998 and was protected from competition under the Regulations on the Protection of New Pharmaceutical Products and Technology Transfer (關於新藥保護及技術轉讓的規定) during the protection period from 2nd June, 1998 to 1st June, 2001. The protection period has already expired and currently, the Group is not entitled to any such protection. In May 2000, the Group applied for a new indication for Opin as a Class 5 new drug in relation to a project which involves the use of Opin for the treatment of herpes. The project is at the stage of clinical trial currently and the application is still being processed. The Directors believe that upon the application being approved, Opin will enjoy 6 years of regulatory protection for the new indication; however, there is no assurance that the application will be successful. If the application is approved, then, during the protection period, no pharmaceutical manufacturing enterprises other than the original manufacturer of the new pharmaceutical products approved by the SDA (i.e. Tianao), may engage in the manufacture of Opin unless it enters into a technology transfer agreement with the original manufacturer. The transferee must hold a Pharmaceutical Manufacturing Enterprise Permit (藥品企業生產許可證) and a Pharmaceutical GMP Certificate (藥品GMP證書) before such a technology transfer can become effective. Upon the expiry of the protection period, other manufacturers will be entitled to produce the same product as Opin but they will have to do so under a different brand name. This may adversely affect the profitability of this product for the Group.

### **10. There is no assurance that the plans of the Group will be achieved within the proposed time frame as set out in the section headed “Statement of business objectives” of this prospectus**

The future plans as set forth in this prospectus are based on the existing plans and intentions of the Group which are either at a conceptual or a preliminary stage. These intentions and plans are based on assumptions, which by their nature are uncertain, subject to changes, and may turn out to be inaccurate. The Group's actual course of action may therefore vary from the intentions and plans set forth herein.

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Although the Directors will endeavour to execute such plans within the proposed time frame as set out in the section headed “Statement of business objectives”, there is no assurance that the plans of the Group will be materialised resulting in the implementation of the plans within the time frame set out herein. Accordingly, there is no assurance that the objectives of the Group will be fully accomplished or can be accomplished at all. If the Group is not able to implement its business objectives effectively, the Group’s business operations and financial performance may be adversely affected.

The Directors will continue to review and closely monitor the feasibility of the proposed plans for fulfilment of the Group’s objectives and may, where necessary, adjust the future plans/business objectives accordingly in order to adapt to the changing circumstances.

### **11. Some statistics relating to the biotechnology and pharmaceutical industry in the PRC after 1997 are not available**

Part of the statistics stated in this prospectus refer to the year 1997, which the Directors believe to be the latest available information relating to the biotechnology and pharmaceutical industry in the PRC. The trend of the biotechnology and pharmaceutical industry in the PRC after 1997 may be substantially different from the trend indicated by such available statistics. As a result, future plans of the Group which are formulated on the basis of such statistics may not produce the desired results and the future profitability of the Group may be adversely affected as a result.

### **12. Limited track record**

The Group was established in 1998. Owing to the Group’s limited track record, it is difficult to assess the Group’s future prospects by reference to its historical record, as compared with those companies with longer track records. Whilst the Group has achieved growing profits during the Track Record Period, there is no guarantee that the Group’s operations will continue to be profitable in the future or that such profit growth can be sustained. The Group’s ability to make a profit or to achieve profit growth in the future will be dependent on a variety of factors, including the intensity of competition, the ability to respond to rapid changes in technology and the Group’s success in implementing its business strategies and objectives.

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

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

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

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

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

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

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

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

In 1994, the Law of the PRC on Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法) (the "Consumers' Rights Law") was promulgated to further protect the legal rights and interests of customers in connection with the purchase or use of goods and services. All business operations, including the Group, must observe and comply with the Consumers' Rights Law.

Accordingly, product liability claims may arise out of the Group's operations if counterfeit or harmful products are sold to the public. If there is any allegation that there are harmful effects from the consumption or use of the Group's products, product liability claims may arise.

The Directors believe that it is the industry practice in the PRC that biotechnology/pharmaceutical manufacturers do not have product liability insurance cover for the biotechnology/pharmaceutical products they manufacture. Presently, the Group does not carry product liability insurance in the PRC. If any product liability claim is brought against the Group, the Group's financial position or even operations may be adversely affected.

### **16. There is no assurance that new products will be successfully developed and/or approved by the relevant authority**

One of the principal factors for the Group's success is its senior management's experience in research and development in the pharmaceutical industry in the PRC. For the two years ended 31st December, 2000 and the six months ended 30th June, 2001 the research and development costs incurred by the Group were approximately HK\$21,000, HK\$216,000 and HK\$534,000 respectively. The Group will continue to invest in the research and development of new products.

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

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Moreover, in the event that the Group is unable to register its new biotechnology and pharmaceutical products as required by the Regulations on the Protection of New Pharmaceutical Products and Technology Transfer (關於新藥保護及技術轉讓的規定), the Group will not be able to recover the costs incurred in the development of such products. In addition, in the event other manufacturers are able to register earlier than the Group new pharmaceutical products similar to the products being developed by the Group, the Group might not be able to obtain the relevant registration under the same regulation. Accordingly, the Group's profitability may be adversely affected.

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

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

### **18. Reliance on the PRC market**

For the two years ended 31st December, 2000 and the six months ended 30th June, 2001, most of the sales of the Group took place in the PRC. Currently, all of the Group's products are sold in the PRC. The Directors expect that the PRC will continue to be the Group's major market. Changes in the monetary policy or any state policy of the PRC or any significant decline in the condition of the PRC economy may have an adverse impact on the Group's sales and hence, its profitability.

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

Most of the Group's products are distributed under registered trademarks in the PRC. The Group has developed two platform technologies, namely the PSD and the SDDS technologies and that the two platform technologies are in the process of applying for the patent registration. New drugs registered with the SDA may be protected by statutory legislation for various periods depending on the classification. However, third parties might produce counterfeit, copy or otherwise infringe the Group's intellectual property rights without obtaining authorisation from the Group. The Group's inability to protect its intellectual property may materially and adversely affect on the Group's reputation, business, financial condition and results of operations.

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

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

Since the commencement of its operation, the Group has successfully obtained all requisite certificates, permits and business licences for the manufacture of its pharmaceutical products. The Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證) of the Group have been renewed to 31st December, 2005. However, these certificates, permits and business licences held by the Group are subject to periodic

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renewal, reassessment by the relevant government authorities and the standards of compliance required in relation thereto may from time to time be changed. In addition, it may be costly for the Group to comply with any subsequent modification of, additions or new restrictions to, these compliance standards.

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

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

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

## **RISKS RELATING TO THE INDUSTRY**

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

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

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

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

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

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

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

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

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

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

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



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### RISKS RELATING TO THE PRC

#### 1. Currency conversion and exchange control

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

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

#### 2. Political, economic and social considerations

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

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

#### 3. Legal consideration

Since 1979, many laws and regulations dealing with economic matters with respect to general and foreign investment have been promulgated in the PRC. In 1982, the PRC National People's Congress amended the constitution to govern foreign investments and to guarantee the "lawful rights and interests" of foreign investors in the PRC. Since then, it has been the trend of legislation to provide more protection to foreign

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investors and to allow more active management and control by foreign investors in foreign investment enterprises in the PRC. Despite these developments, the Directors believe that the PRC does not have a comprehensive system of laws. The implementation of existing laws may also be uncertain and sporadic and their interpretation may be inconsistent. As the PRC legal system matures, there may be changes in its legislation or the related interpretation that may, in turn, adversely affect the business and prospects of the Group.

#### **4. Risk relating to war**

The recent attacks in Afghanistan by the U. S. has brought about economic uncertainty and this may have significant economical effects all around the world including the PRC. There is no assurance that these will not be any significantly direct or indirect effects on the Group. If the political and economical conditions of the PRC are adversely affected by international instability, the operating results of the Group may be negatively affected.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

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### **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, the Securities (Stock Exchange Listing) Rules 1989 of Hong Kong and the GEM Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (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.

### **EXCLUSION OF INFORMATION NOT IN THIS PROSPECTUS**

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, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Vendors, the Underwriters, their respective directors or any other person involved in the Placing or their respective directors, officers, employees and/or representatives.

### **PLACING SHARES ARE FULLY UNDERWRITTEN**

This prospectus sets out the terms and conditions of the Placing. This prospectus is published solely in connection with the Placing.

The Placing is an offer by the Company and the Vendors of initially 240,000,000 New Shares and 60,000,000 Sales Shares, respectively, to select professional and institutional investors and other investors anticipated to have a sizeable demand for the Placing Shares in Hong Kong under the Placing, at the Placing Price, payable in full on application.

The Placing is sponsored by CPY and managed by CPY International and fully underwritten by the Underwriters. For further information about the underwriting arrangements, see the section headed "Underwriting" of 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 any public offering of the Placing Shares or the distribution of this prospectus. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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### United States

The Placing Shares have not been and will not be registered under the US Securities Act of 1933 (as amended) (the "US Securities Act"). The Placing Shares may not be offered or sold, within the United States, or to, or for the account or benefit of, US person except in certain transactions exempt from, or not subject to, the registration requirements of the US Securities Act. The Shares under the Placing are being offered and sold outside of the United States in the offshore transactions to non-US persons in reliance on Regulation S under the US Securities Act. Terms used herein have the meanings given to them by Regulation S under the US Securities Act.

The Shares offered under the Placing may not be offered or sold (i) as part of a distribution at any time; or (ii) otherwise until 40 days after the latest of the commencement of the Placing and the closing date of the Placing and the closing date of any exercise of the Over-allotment Option, within the United States or to, or for the account or benefit of, US persons, and the Underwriters will send to each dealer to which it sells Shares during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Shares within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the later of the commencement of the Placing an offer or sale of Shares within the United States by any dealer (whether or not participating in the Placing) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such registration requirements.

The Shares offered under the Placing have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, not have any of the foregoing authorities passed upon or endorsed the merits of the Placing or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

### 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 and neither this prospectus nor any other publication or document relating to the Placing may be issued or be caused to be issued in the United Kingdom except to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, for the purpose of their business, or otherwise in circumstances which do not constitute an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended and except in compliance with the Financial Services Act 1986. In particular, this prospectus may not be issued or passed on to any person in the United Kingdom who does not fall within Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

### Canada

The Placing Shares may not be offered or sold, directly or indirectly, in Canada in contravention of the securities laws of Canada or any province or territory thereof.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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### Japan

The Placing Shares have not been and will not be registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration and prospectus delivery requirements of the Securities and Exchange Law of Japan; and (ii) in compliance with any other applicable requirements of Japanese law.

### Singapore

This prospectus has not been and will not be registered as a prospectus with the Registrar of Companies and Businesses in Singapore. The Placing Shares are not being offered or sold and may not be offered or sold, nor may this prospectus or any document or other material in connection with the Placing Shares be issued, circulated or distributed, either directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 106C of the Companies Act, Chapter 50 of Singapore (the "Singapore Companies Act"); or (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act; after the necessary conditions and filings for the respective exemptions under Section 106C and Section 106D have been satisfied.

### Cayman Islands

The Company is prohibited from making any invitation to the public in the Cayman Islands to subscribe for or purchase any of the Placing Shares.

### GENERAL

Each person acquiring the Placing Shares will be required to, or be deemed by this acquisition of Placing Shares to, confirm that he or she or it is aware of the restrictions on the offering of the Placing Shares described in this prospectus.

### APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal on GEM in, its existing Shares in issue, and to be issued as mentioned in this prospectus and any Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme, the exercise of the Over-allotment Option.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has not been applied for before the third day after the first issue of the prospectus or is not granted before the expiration of three weeks from the date of the closing of the subscription lists under the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company, then any allocation of Placing Shares made on application in pursuance of this prospectus shall, whenever made, be void.

No part of the share or loan capital of the Company is listed or dealt in on the Main Board or any other stock exchange. At present, the Company is not seeking or proposing to seek listing of or permission to deal in the Shares on the Main Board or any other stock exchange. All the Shares will be registered on the Hong Kong branch register of members of the Company in order to enable them to be traded on GEM.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

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### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on the GEM is expected to be commenced on 7th February, 2002 and Shares will be traded in board lots of 5,000 each.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are unsure about the taxation implications of subscribing for the Placing Shares, or about purchasing, holding, disposing of or dealing in the Shares, you should consult an expert.

The Company, the Vendors, CPY and the Underwriters, their respective directors, agents or advisers and any other person involved in the Placing do not accept any responsibility for any tax effects on, or liability of, any person resulting from subscribing for, or purchasing, holding or disposing of or dealing in the Shares.

### **SHARES WILL BE ELIGIBLE FOR CCASS**

Subject to the granting of the listing of, and permission to deal in, the Shares in issue and to be issued on GEM by the Stock Exchange and the compliance 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 Listing Date or on any other date the 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.

Investors should seek the advice of their stockbroker or other professional advisers for details of those settlement arrangements as such arrangements will affect their rights and interests.

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

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

### **HONG KONG BRANCH REGISTER AND STAMP DUTY**

All Shares to be issued pursuant to the Placing and the Capitalisation Issue and any Shares to be issued on an exercise of the Over-allotment Option will be registered on the Company's branch register of members to be maintained by Central Registration Hong Kong Limited in Hong Kong. The Company's principal register of members will be maintained by Bank of Bermuda (Cayman) Limited in the Cayman Islands. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on GEM.

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

### **STRUCTURE AND CONDITIONS OF THE PLACING**

Details of the structure of the Placing, including conditions of the Placing, and information on stabilisation are set out in the section headed "Structure and Conditions of the Placing" of this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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### DIRECTORS

Name	Address	Nationality
<b>Executive Directors</b>		
Ko Sai Ying, Thomas	29 Cumberland Road Kowloon Tong Hong Kong	Australian
Au Yeung Ping Yuen, Terence	Flat B, 17th Floor Block 7 Braemar Hill Mansion 27 Braemar Hill Road North Point Hong Kong	Australian
Liu Jin, James	8P3/22 Ross Street Wollstonecraft NSW, 2065, Australia	Australian
Tao Lung	Flat G, 6th Floor Block 5, Chelsea Heights Shek Pai Tau Road Tuen Mun New Territories Hong Kong	Chinese
<b>Independent non-executive Directors</b>		
Lo Wa Kei	Flat D, 9th Floor Block 13 Laguna City Kwun Tong Kowloon Hong Kong	Chinese
Lee Kwong Yiu	Flat D, 8th Floor Tower 27 Parc Oasis 35 Grandeur Road Kowloon Tong Kowloon	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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### PARTIES INVOLVED IN THE PLACING

#### **Global coordinator and Sponsor**

Core Pacific - Yamaichi Capital Limited  
30th Floor  
Two Pacific Place  
88 Queensway  
Hong Kong

#### **Lead manager**

Core Pacific - Yamaichi International (H.K.) Limited  
30th Floor  
Two Pacific Place  
88 Queensway  
Hong Kong

#### **Underwriters**

Core Pacific - Yamaichi International (H.K.) Limited  
30th Floor  
Two Pacific Place  
88 Queensway  
Hong Kong

Guotai Junan Securities (Hong Kong) Limited  
27th Floor  
Grand Millennium Plaza  
181 Queen's Central  
Hong Kong

GC Capital (Asia) Limited  
Units 6501-06  
The Center  
99 Queen's Road Central  
Hong Kong

Celestial Capital Limited  
21st Floor  
The Center  
99 Queen's Road Central  
Hong Kong

First Shanghai Securities Limited  
19th Floor  
Wing On House  
71 Des Voeux Road Central  
Hong Kong

SBI E2-Capital Securities Limited  
20th Floor  
Henley Building  
5 Queen's Road Central  
Hong Kong



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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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Sun Hung Kai International Limited  
Level 12  
One Pacific Place  
88 Queensway  
Hong Kong

Taiwan Securities (Hong Kong) Company Limited  
Rooms 4001-03, 40/F,  
Tower Two  
Lippo Centre  
89 Queensway, Central  
Hong Kong

YF Securities Company Limited  
11th Floor  
CMA Building  
64-66 Connaught Road Central  
Hong Kong

### **Legal advisers on Hong Kong law**

*To the Company:*  
Chiu & Partners  
41st Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

*To the Sponsor and Underwriters:*  
Preston Gates & Ellis  
10th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

### **Legal advisers to the Company on the Cayman Islands law**

Conyers Dill & Pearman, Cayman  
Century Yard  
Cricket Square  
Hutchins Drive  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### **Legal advisers to the Company on PRC law**

Shu Jin & Co.  
21st Floor, Dongfeng Building  
Shennan Road Central  
Shenzhen  
the PRC

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## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

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**Auditors and reporting accountants**

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

**Property valuer**

Vigers Hong Kong Limited  
*International Property Consultants*  
1607-12 Miramar Tower  
132 Nathan Road  
Tsimshatsui  
Kowloon  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Century Yard Cricket Square Hutchins Drive George Town Grand Cayman Cayman Islands British West Indies
<b>Head office and principal place of business in Hong Kong</b>	Units 1001 and 1002 10th Floor Kwai Hung Holdings Center No. 89 King's Road Hong Kong
<b>Company website</b>	<a href="http://www.vitalbiotech.com">www.vitalbiotech.com</a>
<b>Company secretary</b>	Mr. Au Yeung Kwong Wah <i>AHKSA, CPA(Aust.)</i>
<b>Qualified accountant</b>	Mr. Au Yeung Kwong Wah <i>AHKSA, CPA(Aust.)</i>
<b>Compliance officer</b>	Mr. Au Yeung Ping Yuen, Terence
<b>Audit Committee</b>	Mr. Lo Wa Kei Mr. Lee Kwong Yiu
<b>Authorised representatives</b>	Mr. Tao Lung Mr. Ko Sai Ying, Thomas
<b>Cayman Islands principal share registrar and transfer office</b>	Bank of Bermuda (Cayman) Limited 36C Bermuda House 3rd Floor P. O. Box 513 G.T. Dr. Roy's Drive George Town Grand Cayman Cayman Islands British West Indies
<b>Hong Kong branch share and registrar and transfer office</b>	Central Registration Hong Kong Limited Rooms 1901-5, 19th Floor Hopewell Centre 183 Queen's Road East Hong Kong

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## CORPORATE INFORMATION

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### Principal bankers

The Hong Kong and Shanghai Banking  
Corporation Limited

Main Branch

1 Queen's Road Central

Hong Kong

and

Mongkok Branch

2nd Floor, 673 Nathan Road

Mongkok, Kowloon

Hong Kong

HSBC Bank Australia Limited

Box Hill Branch

23 Carrington Road

Box Hill

Melbourne

VIC 3128

Australia

The Agriculture Bank of China

Wuhan Wuchang Sub-branch

247 Zi Yang Road

Wuhan, Hubei

the PRC

The Industrial and Commercial Bank of China

Chengdu Branch, Caoshi Sub-branch

64 Caoshi Street, Chengdu

the PRC

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## INDUSTRY OVERVIEW

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

### **BIOTECHNOLOGY AND PHARMACEUTICAL SCIENCE**

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

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

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

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

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

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

### **PHARMACEUTICAL INDUSTRY IN THE PRC**

The total production value of the PRC pharmaceutical industry increased to RMB233.2 billion in 2000. The total production value of the PRC pharmaceutical industry grew by approximately 20% compared with that of first half-year in 1999.

The PRC has the largest population in the world. Further, according to a survey conducted by the SDA South Medicinal Economic Institution (國家藥品監督管理局南方醫藥經濟研究所), 80% of the population is living in villages, where the population only enjoy 20% of the total medical resources provided in PRC. It is therefore expected that the demand for pharmaceutical products will increase in the forthcoming years.

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## INDUSTRY OVERVIEW

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### The supervisory authority

In the PRC, the SDA is the authority which monitors and supervises the administration of pharmaceutical industry including pharmaceutical products and medical appliances and equipment. The SDA was established on 19th August, 1998 as an organisation under the State Council of the PRC to assume the responsibilities of the Ministry of Public Health of the PRC (中華人民共和國衛生部) (“MPH”), the State Pharmaceutical Administration Bureau of the PRC (中華人民共和國藥品管理局) and the State of Administration of Traditional Chinese Medicine of the PRC (中華人民共和國中醫藥管理局).

The primary responsibilities of the SDA are:

- (a) monitoring and supervising the pharmaceutical products and medical appliances and equipment;
- (b) formulating administrative rules and policies concentrating the supervision and administration of the pharmaceutical industry;
- (c) evaluating, registering and approving of new medicine, generic drugs, imported drugs and Chinese medicines; and
- (d) approving and permitting the manufacture and export of pharmaceutical products and medical appliances and equipment and the establishment of enterprises engaging in the manufacture and distribution of pharmaceutical products.

### The laws and regulations

The Law of the PRC on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) was promulgated on 20th September, 1984 and amended on 28th February, 2001 by the Peoples' National Congress of the PRC. The amendments have come into effect on 31st December, 2001 and the Implementing Regulations of the Law of the PRC on the Administration of Pharmaceuticals (中華人民共和國藥品管理法實施辦法) was promulgated on 27th February, 1989 by the MPH, both setting out the legal framework with respect to the manufacture, sale, purchase and distribution of pharmaceutical products in the PRC.

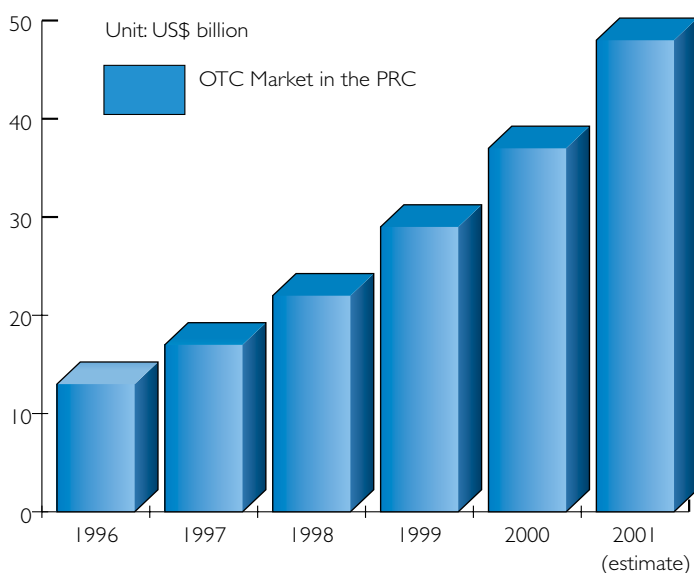
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## INDUSTRY OVERVIEW

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### Over-the-counter pharmaceuticals

In 1999, the sales of over-the-counter pharmaceuticals in the PRC market amounted to approximately US\$29 billion. In 2000, the sales of over-the-counter pharmaceuticals in the PRC market amounted to approximately US\$37 billion. In 2001, the sales of over-the-counter pharmaceuticals in the PRC market amounted to approximately US\$48 billion, representing an increase of approximately 66% from the year of 1999 and 30% increase from the year of 2000.



Source: SDA South Medicinal Economic Institution (國家藥品監督管理局南方醫藥經濟研究所), 26th September, 2001

### Manufacturer of Pharmaceutical Products

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

#### Production licences:

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

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## INDUSTRY OVERVIEW

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- From July 2000 onwards, the new Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證) issued by the relevant pharmaceutical administrative authorities and the relevant public health department at the provincial level where the enterprise is located is required for pharmaceutical manufacturing enterprises.

### **Business licences:**

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

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

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

### **Registration of pharmaceutical products**

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

### **GMP**

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

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

In 1999, the SDA passed the Guidelines on Good Manufacturing Practices (1998 revised) (藥品生產質量管理規範(1998年修訂)) which sets the basic guidelines on the manufacture of pharmaceuticals. Such guidelines cover issues such as the production facilities, the qualification of staff of management level, production plant and facilities, documentation, material packaging and labeling, inspection, production management, sales and return of products and complaints from customers, etc. The Guidelines came into effect on 1st August, 1999. Deadlines were laid down for the satisfaction of the standards. The SDA further issued the Notice on the Overall Acceleration of the Implementation and Supervision of Good Manufacturing Practice for Pharmaceuticals (關於全面加快監督實施藥品GMP工作進程的通知), which requires all the pharmaceutical manufacturing enterprises to comply with the GMP standards by the end 30th June, 2004. If the pharmaceutical



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## INDUSTRY OVERVIEW

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manufacturers fail to obtain a GMP compliance certificate within the specified deadline, their Pharmaceutical Manufacturing Enterprise Permits (藥品生產企業許可證) will not be renewed.

### New Medicines

New medicines are generally referred to those medicines which have not been produced in the PRC, and include modifying the dosage form, change of delivery system, new indication or new formulation of existing drugs. The development of new medicines is governed by the Regulations on the Examination and Approval of New Medicines (新藥審批辦法) promulgated by the SDA in 1999.

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

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

Under the new regulation in 1999, before a new medicine can be manufactured on a commercial basis, a manufacturer is required to obtain approval from the SDA.

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

Application for a new medicine should be submitted to the provincial pharmaceutical supervisory authority. Further, information on and samples of the new medicine for clinical testing and commercial production should also be submitted together with a completed application form to the provincial and state levels of the SDA. Clinical testing of the new medicine, as part of the application process, is required to be carried out at designated hospitals. Normally, a certificate of new medicine and a new approval number for the new medicine will be issued by the state level of the SDA upon completion of the third stage of clinical testing. Upon obtaining the certificate of new medicine from the SDA, a pharmaceutical manufacturer, having obtained a valid Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證), can, in compliance with the GMP standards, apply to the relevant authorities for an approval document regarding the production of the new medicine. After obtaining the approval document, the pharmaceutical manufacturer can commence production of the new medicine on a commercial basis.

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## INDUSTRY OVERVIEW

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

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

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

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

Class	Protection period (years)
1	12
2	8
3	8
4	6
5	6

During the protection period, an entity which is not the holder of the original certificate of new medicine granted by the SDA may not engage in the manufacture or simulation of such a product without entering into

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## INDUSTRY OVERVIEW

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any technology transfer agreement with such holder. A transferee must have first obtained the pharmaceutical manufacturing enterprise permit and the pharmaceutical GMP certificate. In the event that no production is undertaken for or no transfer is effected within two years from the date of the grant of the new medicine certificate without special reasons, the protection offered to that new product is liable to be revoked.

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

Save and except for the diagnostic reagent in vitro, a new biological medicine may undergo clinical tests only after the SDA approval has been obtained. After the third stage of the clinical tests has been completed, an application for approval of the new biological medicine can be submitted to the SDA. A new medicine certificate will be issued upon obtaining the SDA approval. If the products passed three consecutive trial productions during the sampling inspection by the PRC biopharmaceutical testing clinics, an application for an approved number can be submitted to the SDA. With the exception of category I new biological medicine which will be issued with an approved number bearing the words “國藥試字” (Guoyaoshizi), the other categories of new biological medicine will generally be issued with an approved number bearing the words “國藥准字” (Guoyaozhunzi).

New biological medicines with respect to which a “國藥試字” (Guoyaoshizi) approval number is issued are required to undergo a trial production period of two years. An application for commercial production of the new biological medicine may be submitted to the SDA within three months prior to the expiry of the trial production period. Upon obtaining the SDA approval, an approval number bearing the words “國藥准字” (Guoyaozhunzi) will be issued and the product can be manufactured on a commercial basis. If no application for commercial production is made within the prescribed time limit, the approval number will be revoked.

### Import and export

The PRC has a registration system for importing medicines into the PRC. The SDA is responsible for the control of imported medicine in their respective administrative areas. A Certificate of Registration of Imported Medicine (進口藥物註冊證) must be obtained before any foreign pharmaceutical manufacturers or agents can import medicines into the PRC.

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

### Distribution of pharmaceutical products

According to the Law of the PRC on the Administration of Pharmaceuticals (中華人民共和國藥品管理法) and the Implementing Regulations of the Law of the PRC on the Administration of Pharmaceuticals (關於貫徹(中華人民共和國藥品管理法)的有關暫行規定) and Regulation on the Administration of Distribution

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## INDUSTRY OVERVIEW

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of Pharmaceutical Products (藥品流通監督管理辦法), a manufacturer of pharmaceutical products in the PRC can only engage in the trading of the pharmaceutical products produced by it. Furthermore, such manufacturer of pharmaceutical products can only sell its products to the following:

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

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

### Price Control

Pharmaceutical products which are included in the price control list published by the state and provincial price administration authorities from time to time will be subject to price control with respect to their (a) ex-factory price; (b) wholesale price; and (c) retail price.

Pursuant to the existing law, the ex-factory price will be determined by adding a maximum gross profit margin to the production costs of the relevant pharmaceutical products. The rate of the gross profit margin to be added will depend upon (i) the category of the pharmaceutical products; (ii) whether the products are newly developed products; and (iii) the manufacturer's GMP system implementation status.

The wholesale price of a pharmaceutical product is determined by adding a further profit margin into the ex-factory price ceiling. The retail price is then determined by adding a further profit margin to the wholesale price. Sales of pharmaceutical products to overseas markets are not subject to any price control imposed by the PRC government. The price of Opin is subject to the price control policy of the PRC government pursuant to an approval issued by the Hubei Price Bureau in August 2000 and a notice issued by the State Planning Commission in July 1999.

### ENVIRONMENTAL CONTROL REGULATIONS

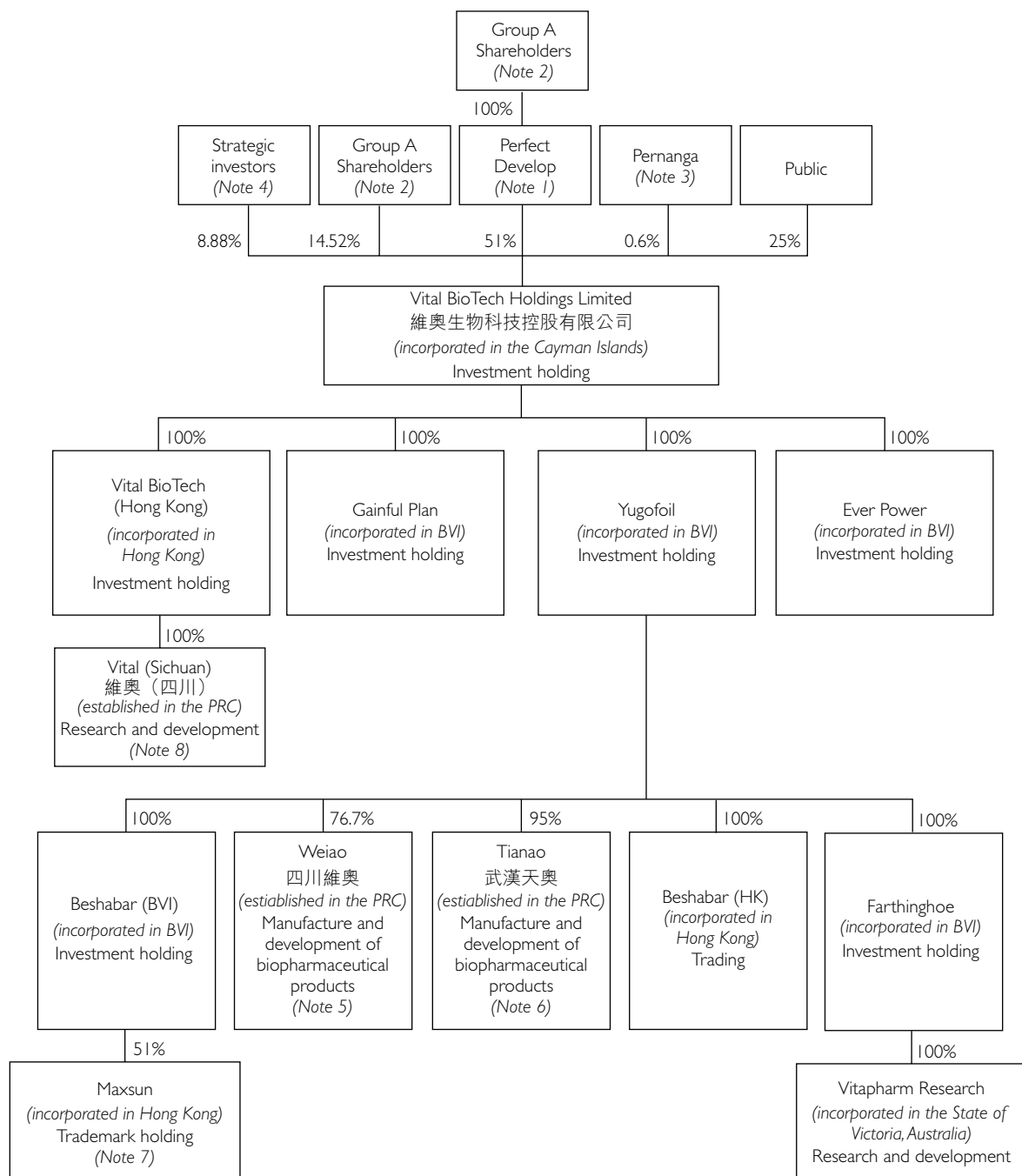
Manufacturing enterprises in the PRC are under the administration of the environmental protection department at the provincial level where the enterprise is located. Different manufacturing enterprises are required to obtain different certificates required under the environmental regulation in the PRC.

Under the environmental regulations in the PRC, manufacturing enterprises are required to apply for the relevant certificates from the local environmental protection authority. The Group has obtained all relevant certificates required under the environmental regulations in the PRC for its productions.

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## GROUP STRUCTURE

Set out below is the Group's corporate structure as at the date of this prospectus and upon completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme) and the principal activities of the members of the Group:



Notes:

- The entire issued share capital of Perfect Develop is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 12% by Mr. Liu and 6% by Mr. Au Yeung (collectively, the "Group A Shareholders").

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2. In addition to their attributable interest in Perfect Develop, each of the Group A Shareholders are the registered owners of certain Shares, the number and percentage of shareholding of which is set out below:

<b>Group A Shareholders</b>	<b>Number of Shares (%)</b>	
Mr. Tao	103,315,200 Shares	(8.61%)
Mr. Ko	48,422,400 Shares	(4.04%)
Mr. Au Yeung	7,852,800 Shares	(0.65%)
Mr. Liu	14,630,400 Shares	(1.22%)
	Total:	174,220,800 Shares (14.52%)

3. The entire issued share capital of Pernanga is owned by Mr. Yeung Wing Sang.
4. The names of the strategic investors and the respective number and percentage of holding of Shares beneficially owned by them is set out below:

<b>Strategic investors</b>	<b>Number of Shares (%)</b>	
Chu Kwok Ching David	30,441,600 Shares	(2.54%)
Diamond Clear Associates Limited (a)	15,225,600 Shares	(1.27%)
Active Device Co., Ltd. (b)	15,225,600 Shares	(1.27%)
Ho Louis Kok Hay & Ho Yue Lai Fong	15,225,600 Shares	(1.27%)
Chu Chan Sai Wah Grace	7,612,800 Shares	(0.63%)
Chu Wing Cheong	7,612,800 Shares	(0.63%)
Canterbury 2000 Limited (c)	4,569,600 Shares	(0.38%)
Lam Yiu Cheung	3,043,200 Shares	(0.25%)
Kenneth Walter Glynn	3,043,200 Shares	(0.25%)
Margaret Carmel D' Arcy-Evans	1,526,600 Shares	(0.13%)
Elizabeth Wong Tuen Yee (d)	1,526,300 Shares	(0.13%)
Angela Cutri	1,526,300 Shares	(0.13%)
	Total:	106,579,200 Shares (8.88%)

- (a) These Shares are registered in the name of Diamond Clear Associates Limited, the entire issued share capital of which is beneficially owned by Ms. Choi Shui Hing.
- (b) These Shares are registered in the name of Active Device Co., Ltd., the entire issued share capital of which is beneficially owned as to 50% by Mr. Fan Yok Hon and as to the remaining 50% by Ms. Kwok Sik Chun.
- (c) These Shares are registered in the name of Canterbury 2000 Limited, the entire issued share capital of which is beneficially owned as to 50% by Mr. Tong Kwong Ming and as to the remaining 50% by Mr. Lai Wai Man.
- (d) Dr. Wong Tuen Yee Elizabeth is a member of the senior management of the Company and an Initial Management Shareholder.
5. The remaining 23.3% of the registered capital of Weiao is beneficially owned by Sichuan Kangao Pharmaceutical Technology Development Co., Ltd. (四川康奧醫藥科技開發有限責任公司), a private enterprise in the PRC. Mr. Wu Qingjing, one of the shareholders and directors of Sichuan Kangao Pharmaceutical Technology Development Co., Ltd. holding 15% of the interest in that company, is a director of Weiao, a subsidiary of the Company. Apart from that, Sichuan Kangao Pharmaceutical Technology Development Co., Ltd. is an independent third party not connected with the Company, its Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

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6. The remaining 5% of the registered capital of Tianao is beneficially owned by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) which is a subsidiary of a state-owned enterprise in the PRC. Wuhan Tianao Pharmaceutical Factory and its holding company, Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所), are independent third parties not connected with the Company, its Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.
7. The remaining 49% of the entire issued capital of Maxsun is beneficially owned as to 24% by Ms. Betty Wei Bai and 25% by Mr. Tze-Rou Kuo. Ms. Betty Wei Bai and Mr. Tze-Rou Kuo are the beneficial owners of the entire issued share capital of Pharmco, one of the top 5 suppliers of the Group. Apart from their shareholding in Maxsun, each of Ms. Betty Wei Bai and Mr. Tze-Rou Kuo is an independent third party not connected with the Company, its Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.
8. The registered capital of Vital (Sichuan) is US\$1,400,000, (equivalent to approximately HK\$10,920,000) of which US\$210,000 (equivalent to approximately HK\$1,638,000) has been paid up by Vital BioTech (Hong Kong) as at the Latest Practicable Date. The balance of US\$1,190,000 (equivalent to approximately HK\$9,282,000) is expected to be fully paid up by Vital BioTech (Hong Kong) from internally generated source of funds on or before 24th July, 2003 pursuant to the Articles of Association of Vital (Sichuan). Vital BioTech (Hong Kong) has agreed not to consolidate the accounts of Vital (Sichuan) until the registered capital of Vital (Sichuan) is fully paid up, as required by the relevant PRC authorities.

## HISTORY AND ACTIVE BUSINESS PURSUITS

### History

The Group is principally engaged in the research and development, production and distribution of biopharmaceutical and conventional pharmaceutical products. With its research and development capabilities, the Group focuses on an advanced drug delivery system built on a unique micro bio-encapsulation process for the delivery of active ingredients for human and veterinary applications via non-injection methods (e.g. through the mucosal membrane). The Group has developed a distribution network for pharmaceutical products in the PRC and has established collaboration alliances with pharmaceutical companies worldwide. The current products of the Group are Opin, Osteoform and Spray-on Bandage.

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

### Yugofoil

In April 1997, Mr. Ko, together with the other three founders of the Group, Mr. Au Yeung, Mr. Liu and Mr. Tao, and two other investors, namely Pernanga and Goldfield, acquired 33%, 6%, 12%, 41%, 3% and 4% interest in Yugofoil. Mr. Ko, Mr. Au Yeung and Mr. Liu were also appointed as directors at the time in addition to Mr. Tao who was previously appointed as a director on 11th May, 1993. Yugofoil was incorporated in 11th May, 1993 by

Mr. Tao who held one issued share of Yugofoil before the investment in 1997. Yugofoil was an inactive company before April 1997. It was only after Mr. Ko, together with the above investors, acquired his interest in Yugofoil that Yugofoil commenced its investment projects in that year. The above acquisitions were, for a consideration of US\$33, US\$6, US\$12, US\$41, US\$3 and US\$4, respectively (approximately equal to HK\$257.4, HK\$46.8, HK\$93.6, HK\$319.8, HK\$23.4 and HK\$31.2, respectively) the value of which were equal to the registered capital of the relevant shares. Yugofoil became owned as to 33%, 6%, 12%, 3%, 4% and 42% by Mr. Ko, Mr. Au Yeung, Mr. Liu, Pernanga, Goldfield and Mr. Tao. Through Yugofoil, various investments in the PRC as set out below were subsequently acquired.

### **Vitapharm Research**

In April 1998, with a view to capturing the demand for high quality pharmaceutical products for human consumption, Vitapharm Research was incorporated in the State of Victoria, Australia with its entire issued share capital beneficially owned by Mr. Ko, Mr. Liu and Mr. Au Yeung as to 33.33%, 33.34% and 33.33% respectively. Such beneficial interests were held through trust arrangements which involved, first, declarations of trust dated 1st April, 1998 by King Laboratories Pty. Ltd. ("King Laboratories") and WB Nominees Pty. Ltd. ("WB Nominees") in favour of Mr. Ko in respect of the 20 issued shares of AUD1 (approximately HK\$4) each in Vitapharm Research and second, declarations of trust dated 1st April, 1998 by Mr. Ko in respect of those 20 issued shares (being the entire issued share capital of Vitapharm Research) in favour of Farthinghoe. King Laboratories is a company wholly-owned by Ms. Rosa Sau Kam Ko, wife of Mr. Ko, whereas WB Nominees is a nominee company controlled by William Buck, a professional business consultancy and chartered accountants' firm in Australia. Accordingly, the 20 issued shares in Vitapharm Research have at all times been held by the trustees, King Laboratories, WB Nominees and Mr. Ko upon trust for Farthinghoe, the ultimate beneficial owner. In this connection, the Group has obtained Australian legal advice confirming that under Victorian law, the declarations of trust are valid and binding in accordance with their terms and entitle Farthinghoe to require transfers of shares to it, and also that the declarations of trust are not chargeable with stamp duty under Victorian law. The transfers of shares pursuant to the declarations of trust have also been properly denoted by the State Revenue Office of the State of Victoria, Australia as not stampable. The reasons for having two trust arrangements were as follows:

- a) upon its establishment in 1998, Vitapharm Research was engaged in discussions with other pharmaceutical companies for co-operation in several projects, The arrangements of entrusting both King Laboratories and WB Nominees to hold the shares of Vitapharm Research on behalf of Mr. Ko were made to ensure that the name of Mr. Ko, who is instrumental in developing the concepts for such co-operation projects, would not be disclosed at that particular sensitive stage of development; and
- b) the two other shareholders of Farthinghoe, Mr. Au Yeung and Mr. Liu, considered that by using the name of Mr. Ko, who is renowned in the pharmaceutical industry, would be more persuasive in the discussions for co-operation with other pharmaceutical companies. Hence, the arrangement of entrusting Mr. Ko to hold the shares of Vitapharm Research on behalf of Farthinghoe was made.

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



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

On the other hand, Mr. Ko has at all times since the incorporation of Vitapharm Research been actively involved in the management of its business and operation. Mr. Au Yeung has also been involved in the operation of the research centre operated by Vitapharm Research since its incorporation. He was not appointed as a director of Vitapharm Research until September 1999 because there was no need to do so, given the scale of operation of Vitapharm Research at the time.

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

Vitapharm Research has principally been engaged in the research and development of biopharmaceutical and conventional pharmaceutical products, which include biological and OTC products. In August 1998, the Company rented a site to serve as the research and development pilot plant and a laboratory of Vitapharm Research in a suburb in Melbourne, the State of Victoria, Australia to conduct research and development and pilot production work relating to processing technologies for (a) biological protein stabilisation and (b) various drug delivery systems. The principles and procedures of the PSD technology was first invented by Mr. Ko together with Mr. Au Yeung on or about 25th January, 2001 and that the SDDS technology was first invented by Mr. Ko on or about 23rd November, 1999. The most important objective of setting up Vitapharm Research was to commercialise the two platform technologies of the Group. Vitapharm Research adopted two main modes of commercialisation: (i) by way of using the platform technologies to develop sales and income generating products and (ii) by way of technology co-operation with third parties with the objective of realising future revenue through licence fees, royalties or operation of business joint ventures. In order to support these activities, the Group took steps to secure patent rights in the two platform technologies. These steps involved the initial filing of patent applications for the technologies in Australia after the conception of each technology by Mr. Ko and Mr. Au Yeung. Generally, under Australian Patent Law (Section 15(1), Patents Act 1990), a patent may only be granted to a person who is the inventor of the invention, or a person who would, on the grant of a patent, be entitled to have the patent assigned to him, or a person who derives title to the invention from either of these people. In accordance with these provisions, the Group's patent advisors in Australia were instructed to file the patent applications in the name of either Mr. Ko, or Mr. Ko and Mr. Au Yeung, as inventors of the technologies. The Group made two primary patent applications, which are detailed below, and which may form the basis for filing associated applications in various countries of interest:

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

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In order to secure patent rights in respect of the invention described in the Australian Application, the Group is required to file one or more formal applications in countries of interest within one year from the date of the Australian Application, i.e. by 25th January, 2002. In filing said formal applications by 25th January, 2002, these applications may claim priority from the Australian Application, filed on 25th January, 2001. The Group's legal advisers on the Australian Application have been instructed to make such applications. Accordingly, preparation has been made for the filing of applications in Taiwan, United States of America, and an international application in accordance with the Patent Co-operation Treaty, which international application designates all countries presently a party to the Patent Co-operation Treaty. Following the filing of such applications each application will be subject to relevant searching and/or examination procedures as generally explained below.

In the case of the application filed in accordance with the Patent Co-operation Treaty, in order to secure patent rights in designated countries of interest, at a period of either 20 months or 30 months from the date of filing the Australian Application, namely either 25th September, 2002 or 25th July, 2003, the applicant must physically file applications in those designated countries of interest. Following such filing, the applications will be subject to standard searching and examination procedures. Following searching and examination procedures, individual applications may be accepted for grant of patent by the relevant authorities.

- The patent application for the SDDS technology was lodged with the Australian Patent Office acting as the receiving office for the World Intellectual Property Organisation on 22nd November, 2000 under application No. PCT/AU00/01419 (the "International Application"), claiming priority from an Australian Provisional Application (PQ4190) filed on 23rd November, 1999. Searching and examination of the International Application has been conducted in accordance with the Patent Co-operation Treaty. In order to secure rights in the invention the subject of the International Application, the Group is required to file applications in those countries of interest which were designated in the International Application at the time of its filing. The deadline for taking this action is 23rd May, 2002. It is the intention of the Group to take such action. Following the filing of applications in those designated countries of interest, each such application will generally be subject to searching and examination procedures. Following searching and examination procedures, individual applications may be accepted for grant of patent by the relevant authorities.

During searching and examination processes, a patent examiner will review published documentation, which will include previously filed patents or patent applications, to test the novelty, and often also the inventiveness, of the invention the subject of the relevant patent application. It is possible that the eventual scope of a patent application may be narrowed depending on its similarity with any prior published material. There is also the possibility that an application may be rejected all together. Typically the examination process may last for a year or two, depending on the country in which it takes place, the type of objections raised, and on how much work is required to be done to place the application in order. In some countries the examination process may exceed two years. Upon completion of the examination process, a patent may be granted with effect from the date of filing the application; for example, in the case of PCT/AU00/01419 from 22nd November, 2000. The grant of a patent has the effect of affording the registered owner with the exclusive rights to exclude others from practising the invention defined in the patent during the term of the patent.

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

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

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

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

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

After the above product registration, market trials of Spray-On Bandage were launched in Thailand, Australia, and Taiwan in January 2000, March 2000 and June 2000 respectively. After reviewing the market results, the Directors concluded that more marketing effort was required for promoting this product in the above markets, and the Directors at present do not consider it worthwhile to spend too much effort on promoting this product in those markets. The Group instead plans to allocate more resources to promote this product in the PRC. An application for registration of Spray-On Bandage in the PRC was lodged with the SDA in November 2001.

To protect the commercial interest of the Group in respect of the SDDS technology, Mr. Ko lodged a patent claim with the Australian Patent Office in November 1999. The Group subsequently applied for international patent in November 2000.

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

To protect the commercial interest of the Group in respect of the PSD technology, Mr. Ko and Mr. Au Yeung lodged a patent application with the Australian Patent Office in January 2001.

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

For the second mode of commercialisation of its platform technologies, Vitapharm Research has also engaged in soliciting contacts with potential technology co-operation partners, for co-operation in product testing, registration and other preliminary work for commercialisation. Vitapharm Research is discussing co-operation relationships with various international pharmaceutical companies. The Group has entered into confidentiality agreements for technological co-operation, some of which were prior to 2001. The work in this regard resulted in the Denmark based Chr. Hansen and the US based Alpharma signing technology cooperation confidentiality agreements with Vitapharm Research in January 2001, and Australian based Meditech in March 2001, PRC based Inner Mongolia Bio Products Factory in August 2001 and PRC based Sine in September 2001. Further details are set out in the paragraph headed "Strategic Alliance/Technology Transfer/Business Venture" of this section. These activities are also based on the two platform technologies of the Group. These two modes of commercialisation have been and will form the main pattern of the business activities of Vitapharm Research.

### **Tianao**

One of the major investments of the Group in the PRC was the acquisition of Tianao, a joint venture established in the PRC. In 1996, the entire issued share capital of Tianao was held as to 30% by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠), as to 37% by Wuhan Heng Yuan Decoration Company Limited (武漢恒源裝飾有限公司) and as to 33% by Bright Future. Tianao possesses a pharmaceutical production licence granted by the Hubei Pharmaceutical Regulatory Department and is a manufacturer of "Opin", which was a "Class 2 new drug" (classified under the pre-1999 regulations) and an interferon based pessary for the treatment of chronic cervicitis. Bright Future is a company incorporated in Hong Kong which is engaged in the sub-contracting and manufacture of pharmaceutical products and an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

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

The Group's relationship with Bright Future prior to the acquisition of the interest in Tianao can be traced back to the long-term working relationship between Mr. Huang Jian Ming ("Mr. Huang") and Mr. Shen Song Qing ("Mr. Shen"), who were appointed as directors of Yugofoil on 1st May, 1997, and Mr. Chan Chak Yeung ("Mr. Chan") and Mr. Wong Cheong Moon ("Mr. Wong"), who are the directors of Bright Future. Mr. Shen and Mr. Huang were appointed as the directors of Tianao in October 1996 and January 1997, respectively. Prior to their becoming directors of Tianao, both Mr. Huang and Mr. Shen had extensive experience in managing

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pharmaceutical business in the PRC. In particular, Mr. Shen had been closely involved in the sales and marketing of pharmaceutical products. Thus, they came to know Bright Future, which was promoting a pharmaceutical product quite successfully in the PRC at the time. In October 1996 and January 1997, Bright Future invited Mr. Huang and Mr. Shen to act as the directors of Tianao as nominees of Bright Future on the board of Tianao. Throughout the years, Mr. Huang and Mr. Shen developed a close working relationship with Mr. Chan.

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

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

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

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

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

- the creditors, in view of the change in controlling shareholder and in order to ensure recoverability of trade debts, might request for immediate settlement of debts (including undue debts) from Tianao. This would create an immediate cashflow problem to Tianao;

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- Yugofoil, as a new controlling shareholder, might not be able to maintain the business relationship between the former investment parties of Tianao and its suppliers. This might possibly affect the supply of raw materials to Tianao; and
- customers might lose their confidence in the quality and readiness in supply of products by Tianao under the new management by Yugofoil, and thus reduce their sales orders placed to Tianao which would exacerbate the operational loss of Tianao.

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

The PRC legal advisers to the Company have confirmed that (a) although the Trust Agreement was not entered into under the laws of the PRC, which require that any changes in the shareholding of a foreign investment company should be approved by and registered with the relevant PRC authorities, the trust arrangement would normally be respected by the PRC authorities in the absence of disputes between the parties thereto, as it did not contravene any jus cogens of the laws of the PRC; (b) even if Bright Future now claims any entitlement to the interests in Tianao against Yugofoil, it would be time-barred under the laws of the PRC; and (c) therefore, under the laws of the PRC, there would not be any substantial legal risks in Yugofoil's interests obtained under such trust arrangement. The Group has also obtained a legal opinion from a leading counsel in Hong Kong that, on the basis of the facts set out in the prospectus and on the assumptions that Yugofoil's beneficial ownership in the shares of Tianao is recognised as valid and enforceable under the law of the PRC and that the various transfers of shares set out in this prospectus are valid and enforceable under the law of the PRC, the declaration of trust and the various transfers of interests in Tianao are, as a matter of Hong Kong law, valid and enforceable and that the declaration of trust is not chargeable to stamp duty. Each of the Directors has made a statutory declaration to confirm the following matters:

1. he was a director or proposed executive director of the Company incorporated in the Cayman Islands and having its head office and principal place of business at Units 1001 and 1002, 10th Floor, Kwai Hung Holdings Centre, No. 89 King's Road, Hong Kong.
2. he was duly authorised by the board of directors of the Company to make the statutory declaration for and on its behalf.
3. Tianao is an equity joint venture established in the PRC and is currently owned as to 95% by Yugofoil and as to 5% by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠)..

The Company was undergoing certain corporate reorganisation pursuant to which Yugofoil would become a wholly-owned subsidiary of the Company.

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On 30th October, 1998, Yugofoil acquired 70% equity interest in Tianao from Bright Future and pursuant to a declaration of trust dated 10th November, 1998 between Yugofoil and Bright Future, such interest was held by Bright Future on trust for Yugofoil until Bright Future transferred such interest back to Yugofoil in December 2000.

In July 1999 and November 1999, Yugofoil, through Bright Future acting as its trustee, acquired a further 10% and 10% interest in Tianao, respectively.

On 15th September, 2000, Bright Future, upon instructions from Yugofoil, transferred back to Yugofoil the 20% interest in Tianao which was acquired by it on behalf of Yugofoil. On 8th December, 2000, the original PRC approving authority approved the change of the registered holder of the 90% interest in Tianao from Bright Future to Yugofoil.

Yugofoil has at all times since October 1998 been the beneficial owner of the interest held by Bright Future in Tianao.

In turn, Yugofoil has, since April 1997, been beneficially owned by Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga as to 33%, 6%, 12%, 42%, 4% and 3%, respectively.

4. Vitapharm Research is a company incorporated in Australia. The Company was undergoing certain corporate reorganisation pursuant to which Vitapharm Research would become a wholly-owned subsidiary of the Company.

Since its incorporation on 1st April, 1998, the entire issued share capital of Vitapharm Research has been held by King Laboratories Pty. Ltd. and WB Nominees Pty. Ltd. on trust for Mr. Ko who in turn held such shares on trust for Farthinghoe. Accordingly, the entire issued share capital of Vitapharm Research has at all times since its incorporation been held by Farthinghoe beneficially.

The entire issued share capital of Farthinghoe has since its incorporation been held by each of Mr. Ko, Mr. Au Yeung and Mr. Liu as to one share of US\$1 each in Farthinghoe.

5. The business of Vitapharm Research has since its incorporation been managed by Mr. Ko, Mr. Au Yeung and Mr. Liu with the assistance of other management and supporting staff.
6. After the acquisition of equity interest in Tianao in 1998, Yugofoil has appointed its representatives including, Mr. Huang Jian Ming and Mr. Shen Song Qing, directors of Yugofoil to the board of Tianao. Since 7th February, 1999, Mr. Shen Song Qing was relieved from his duties as a representative of Yugofoil on the board of Tianao but Mr. Huang Jian Ming remained as the representative of Yugofoil in Tianao. Subsequently, Yugofoil nominated another two of its directors, Mr. Au Yeung and Mr. Liu to be appointed as directors of Tianao respectively on 28th December, 2000.
7. Yugofoil, principally through Mr. Huang Jian Ming, Mr. Au Yeung and Mr. Liu, has been actively involved in the management of Tianao since the acquisition by Yugofoil of the equity interest in Tianao.

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In light of the considerations set out above, the trust agreement was entered into between Bright Future and Yugofoil in November 1998 and the 70% interest in Tianao acquired by Yugofoil from Bright Future was held by Bright Future as a nominee on trust for Yugofoil until about September 2000. Taking into account the mutual trust among the parties arising from the long term relationship and considering that Tianao was at that time in serious financial difficulties and was therefore considerably less valuable than it is at present, the Group took the view that the documents and the relationship between the parties provided sufficient comfort and protection of the interest of the Group in Tianao and therefore had not taken any other action to further protect the Group's interest in Tianao.

Bright Future is a company incorporated in Hong Kong on 2nd September, 1993 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. As shown in the public records of Bright Future filed with the Companies Registry in Hong Kong, as at 2nd September, 2001, the entire issued share capital of Bright Future was held as to 9,999 shares by Bright Future Pharmaceutical Holdings Limited and as to the remaining one share by Mr. Wong, and Mr. Chan and Mr. Wong were directors of Bright Future. Bright Future is engaged in the sub-contracting and manufacture of pharmaceutical products. Bright Future is one of the pharmaceutical manufacturers operating a GMP compliant production plant, and the production plant of Bright Future, located in Yuen Long, New Territories, Hong Kong, consists of a dedicated building designed and constructed in accordance with the GMP standards.

On 30th December, 1998, Bright Future, acting as a trustee of Yugofoil and upon the instruction of Yugofoil, entered into a share transfer agreement with Shenzhen Jin Bei Sheng Investment Limited (深圳市金北聖投資有限公司) ("Jin Bei Sheng") to transfer a 45% equity interest in Tianao to Jin Bei Sheng at a consideration of RMB9,710,000. The reason for the disposal was that, Yugofoil considered that the consideration offered by Jin Bei Sheng for the 45% interest in Tianao was relatively high compared with that paid by Yugofoil for the acquisition of its 70% interest in October 1998 (having a return of approximately 30 times). Thus, Yugofoil considered it commercially appealing to dispose of certain of its interests in Yugofoil within a period of 2 months' time given such high rate of return while the Group would still be holding a 25% interest in Tianao. Further, Yugofoil considered at the time that the acquisition would be beneficial to Tianao and its then shareholders as a whole in that Jin Bei Sheng then appeared to be a company with solid financial background, Yugofoil believed Tianao's financial resources could be further improved for the benefit of the future development of Tianao. Taking these matters into consideration, Yugofoil thus agreed to sell 45% interest of Tianao to Jin Bei Sheng approximately 2 months after its initial acquisition. The transfer of the 45% interest in Tianao to Jin Bei Sheng was approved by the relevant authorities in January 1999. On or about 29th January, 1999 the appointment of four directors to the board of Tianao by Jin Bei Sheng was approved by the relevant authorities, the resignations of three of whom were approved on or about 2nd June, 1999 and the resignation of the remaining one was approved on or about 13th October, 1999. Jin Bei Sheng defaulted in payment of the purchase consideration and as a result, Bright Future, acting as a trustee of Yugofoil entered into a share transfer agreement with Jin Bei Sheng in May 1999, pursuant to which Jin Bei Sheng agreed to transfer the 45% equity interest in Tianao back to Bright Future. The transfer back of equity interest was considered a remedial action and no actual money changed hands. In June 1999, Yugofoil instructed Bright Future to acquire a 10% equity interest in Tianao from Jin Bei Sheng at a consideration of RMB1,000,000 (or approximately HK\$943,396.23) settled in cash pursuant to an agreement with Jin Bei Sheng and Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) entered into by Bright Future acting as a trustee of Yugofoil. The background of the above acquisition is as follows: in December 1998 when Jin Bei Sheng acquired the 45% interest in Tianao from Yugofoil, Jin Bei Sheng also acquired a 10% interest in Tianao from the other shareholder of Tianao, Wuhan Tianao Pharmaceutical Factory. When Jin Bei Sheng later defaulted in payment to both Yugofoil and Wuhan Tianao Pharmaceutical Factory, while Yugofoil was prepared to acquire the 45% interest back, Wuhan Tianao



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Pharmaceutical Factory was not prepared to do so and intended to dispose of the 10% interest which was due to be returned by repossession from Jin Bei Sheng. Following negotiation between Bright Future on behalf of Yugofoil with Wuhan Tianao Pharmaceutical Factory, Wuhan Tianao Pharmaceutical Factory agreed to allow Yugofoil to acquire that 10% interest from Jin Bei Sheng. On 7th December, 1999, Jin Bei Sheng made a declaration that it had not been involved in the management of Tianao and admitted that it was not entitled to any interest and right in Tianao thus far.

The approval for the above transfer was obtained in October 1999. On 20th October, 1999, Yugofoil, through its nominee, Bright Future, entered into an agreement with the PRC joint venture partner Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) for the acquisition of a further 10% interest in Tianao for a consideration of RMB1,050,000 (or approximately HK\$990,566.04). The approval for the transfer was obtained in December 1999.

To formalise the shareholding of Tianao, on 22nd November, 2000, Tianao applied to the PRC original approving authority for the approval of the transfer of 90% interest from Bright Future back to Yugofoil. In December 2000, the PRC original approval authority approved the transfer. Nothing untoward was noted during the period when Bright Future was holding Yugofoil's interest in Tianao on trust which suggested that Bright Future acted in breach of the trust Yugofoil placed in it, and the Directors consider the trust arrangement to be a commercially viable strategy for the holding of its interests in Tianao for the reasons mentioned above and that the overall arrangement made good commercial sense and was actually effective in achieving the goals of the Group.

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

<b>Remittance date</b>	<b>Amount</b> (USD)
21st June, 2001	70,000
26th June, 2001	73,000
29th August, 2001	171,630
	<hr/>
	<b>314,630</b>

The China Securities Regulatory Commission issued a no objection letter on 29th November, 2001 to the proposed listing of the Company. The letter contains a summary of submissions made by the PRC legal advisers on the trust arrangement and the circumstances under which the changes in shareholdings took place.

After the acquisition of interests in Tianao, the Group has exercised essential control over the management of that Company through the Group's management team led by Mr. Ko. When the Group acquired the 70% interest in Tianao on 30th October, 1998, the board of directors of Tianao consisted of seven directors, five of whom were appointees of Bright Future and two of whom were appointees of Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所). On the understanding that the five directors

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appointed by Bright Future would represent the interests of Yugofoil, there were no changes in the board of directors of Tianao immediately before or after the Group's acquisition of the 70% interest in Tianao.

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

While Mr. Huang and Mr. Shen were authorised by Yugofoil as its representatives in managing the daily business of Tianao, Mr. Ko assisted Tianao's technical staff in solving various technical problems with the objective of improving the stability of Opin. Since November 1998, Mr. Ko, Mr. Liu and Mr. Au Yeung had paid numerous visits to the PRC and communicated with Tianao's technical staff, resulting in steady general improvement of the business. In particular, since the Group acquired Tianao, Mr. Ko's primary direct involvement with Tianao has been the provision of advice on the production and improvement of Opin. For this purpose, Mr. Ko travelled to Tianao initially to develop an on-site understanding of the production process and facilities. Mr. Ko also supplied samples from Australia for testing in the PRC to prove the applicability of the PSD technology. Mr. Au Yeung played a similar role at the time advising principally on the research and development of the Group's platform technologies and the application of such technologies to Opin.

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

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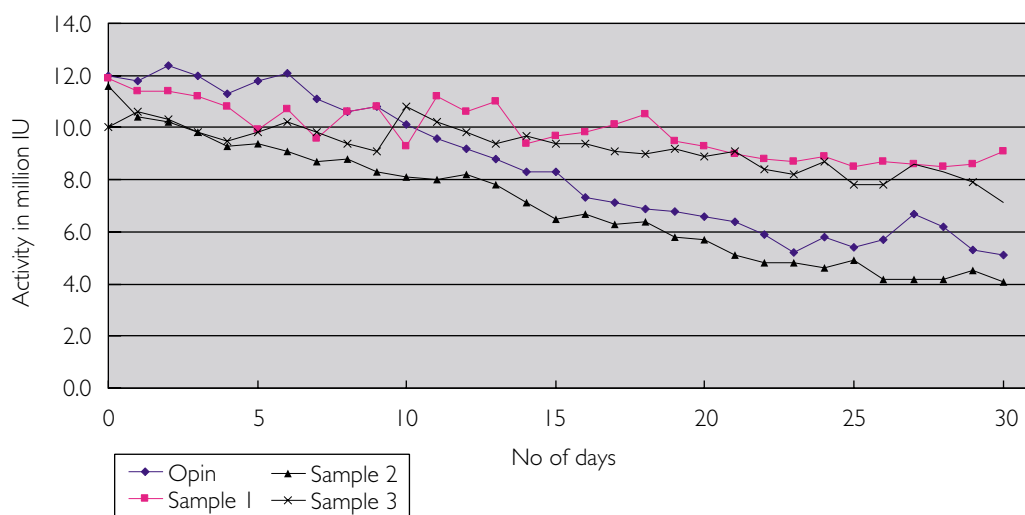
### A Summary of temperature stability study of Opin with and without PSD technology at 22°C to 25°C

#### Interferon activity in million IU

#### Time line in days

Sample Name	0	10	20	30
Opin	12.0	10.1	6.6	5.1
Sample 1: Opin with PSD technology	11.9	9.3	9.3	9.1
Sample 2: Opin with PSD technology	11.6	8.1	5.7	4.1
Sample 3: Opin with PSD technology	10.0	10.8	8.9	7.1

#### Temperature stability study of Opin



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

Mr. Ko travelled to Tianao initially to develop an on-site understanding of the production process and facilities. In the process, Mr. Ko identified that there was minimum pre-treatment to the active ingredient, interferon, which was added directly on to the base material unprotected and subject to unacceptable heat treatment in the subsequent process of manufacturing.

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

- pre-treating the interferon in the fluid bed using the bio-encapsulation process with a coating solution;
- the coating protects the interferon from excessive exposure to air;

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- treating the base material in a separate process because this process involves the application of excessive heat; and
- the pretreated interferon is then added back into the process afterwards just prior to pressing into a pessary.

This procedure's proposal was accepted and implemented by Tianao.

Wuhan Institute of Virology is a branch of the Chinese Academy of Sciences, one of the PRC's leading academic institution and comprehensive research and development centre in natural sciences, technological sciences and high-tech innovation. Other than having a 5% indirect interest in Tianao through its subsidiary Wuhan Tianao Pharmaceutical Factory, Wuhan Institute of Virology is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Except for the research report issued by Wuhan Institute of Virology, the Chinese Academy of Sciences, no other research report was issued regarding Opin.

During the implementation phase, Mr. Ko also travelled to Tianao frequently and provided training to production staff to improve the production process.

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

Another major PRC business developed by the Group is the marketing and distribution of Osteoform, an American amino acid chelate calcium supplement, in PRC. This was the main reason for the establishment of Beshabar (BVI). Beshabar (BVI) was incorporated in the BVI on 22nd April, 1997 as a wholly-owned subsidiary of Yugofol and is engaged in the business of marketing Osteoform. Beshabar (BVI) obtained the sole distribution right of Osteoform from Pharmco for the PRC market in May 1997. Pharmco is a Texas corporation carrying on business under the name of IMAX International, the entire issued capital of which is owned by Ms. Betty Bai and Mr. Tze-Rou Kuo. Save and except it is an associate (as defined in the GEM Listing Rules) of Ms. Betty Bai and Mr. Tze-Rou Kuo, it is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules).

Ms. Betty Bai and Mr. Tze-Rou Kuo are currently holding 24 and 25 shares of HK\$1 each in Maxsun. Save and except for their beneficial interests in Maxsun, each of Ms. Betty Bai and Mr. Tze-Rou Kuo is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules).

Taking into account the lack of experience and distribution network of the Group in the PRC at that time to promote pharmaceutical products, the Group entered into a co-operation agreement in June 1997 with Mas International (HK) Company Limited ("Mas"), a pharmaceutical trading company in Hong Kong and an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates. Pursuant to the co-operation agreement, Beshabar (BVI) agreed to procure that all the business of sales and distribution of Osteoform in the PRC would be done through the co-operation of Beshabar (BVI) and Mas and Mas agreed to assume all the costs of the said co-operation in the business of sales and distribution of

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Osteoform in the PRC. Should the total turnover/sales volume of Osteoform reach an agreed quantity of 10 million bottles within the three years ended 30th June, 2000, Mas was required to pay the Group a fixed fee of HK\$3.5 million. However, sales of Osteoform could not reach the quantity specified in the co-operation agreement up to August 2000 and the Group did not receive the fixed fee. Pursuant to the co-operation agreement, Beshabar (BVI) was responsible for, inter alia, ensuring the continuity of the sole distribution rights and the rights to use the trademark of Osteoform granted by Pharmco, participating in the determination of sales models, pricing, establishment of sales points and selection of distributors in the PRC in connection with the distribution of Osteoform, and providing training and introduction of the product to distributors in the PRC. Mas was responsible for, inter alia, providing all funds required for the co-operation in the business of sales and distribution of Osteoform in the PRC, handling of the whole process of import and export of Osteoform from the US and to the PRC. The co-operation agreement with Mas was extended by oral agreement between the parties for two months and was terminated in August 2000, as the Directors considered that the brand name of Osteoform was well established in the PRC market and the Group has also developed its own distribution network through the sales of Opin.

To delineate its investment holding activities from its trading activities, in August 2000, Beshabar (HK) (formerly known as Wise Shine Limited) entered into a sub-contracting agreement and a packaging agreement with Bright Future. Pursuant to the two agreements, Beshabar (HK) agreed to sub-contract the production and packaging process of Osteoform to Bright Future.

Pursuant to the marketing and distribution agreement entered into between the Group and Pharmco, the Group was granted the right to appoint any distributors for distributing Osteoform within the following specified territories: Australia, Cambodia, Hong Kong, Indonesia, Japan, Laos, Macau, Malaysia, New Zealand, North Korea, the PRC, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand and Vietnam. On 20th July, 2000, Beshabar (HK) entered into a non-exclusive distribution agreement with Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) for the distribution of Osteoform in the PRC. Shenzhen Foreign Trade Import and Export Transportation Company is an independent third party not connected with the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company and any of their respective associates. On 26th November, 2000, the two parties entered into a new non-exclusive distribution agreement for a term of 3 years for the distribution of Osteoform in the PRC. Subsequently, on 28th November, 2000, Beshabar (HK) entered into another non-exclusive distribution agreement for a term of 3 years with Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) with a view to expanding the market coverage of Osteoform in the PRC. Shanghai Pharmaceutical Company Limited is an independent third party not connected with the Director, the chief executive, Initial Management Shareholders and substantial shareholders of the Company and any of their respective associates.

On 26th December, 2000, Beshabar (HK) also entered into a new marketing and distribution agreement with Pharmco for a term of 20 years whereby Beshabar (HK) was granted an exclusive right to distribute Osteoform in the PRC and other markets consisting of Australia, Cambodia, Hong Kong, Indonesia, Japan, Laos, Macau, Malaysia, New Zealand, North Korea, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand and Vietnam. Beshabar (HK) was incorporated in Hong Kong on 25th August, 2000 as the Group's trading arm for Osteoform. The territories covered by the new marketing and distribution agreement can be amended by Pharmco unilaterally.

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With the well-established distribution network through the successful launch of Osteoform and the efficient sales and marketing team, the Directors are confident that the Group's products could be promoted and distributed extensively in the PRC.

### **Weiao**

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

### **Vital (Sichuan)**

In order to further strengthen the research and development work of the Group and to capture opportunities arising from the development of the North and Western regions PRC, Vital (Sichuan) was established in the PRC in July 2001 as a subsidiary of Vital BioTech (Hong Kong), a company of the Group incorporated in Hong Kong on 17th November, 2000. Vital (Sichuan) will be engaged in the research and development of biopharmaceutical products.

Vital (Sichuan) at present has not commenced any business apart from the planning of the construction of the Group's research and development centre in Chengdu City, Sichuan Province, the PRC. This research and development centre will be held by Vital (Sichuan). Apart from employing some management staff who are engaged in the planning work, Vital (Sichuan) has not employed any staff. As at the Latest Practicable Date, the unaudited net asset value of Vital (Sichuan) was approximately RMB1.4 million and unaudited loss for the period from the date of establishment up to the Latest Practicable Date was approximately RMB0.3 million.

Under the business licence and the articles of association of Vital (Sichuan), Vital BioTech (Hong Kong) is required to contribute the full amount of the registered capital of US\$1,400,000 (equivalent to approximately HK\$10,920,000) on or before 24th July, 2003. The registered capital of Vital (Sichuan) is US\$1,400,000, (equivalent to approximately HK\$10,920,000) of which US\$210,000 (equivalent to approximately HK\$1,638,000) has been paid up by Vital BioTech (Hong Kong) as at the Latest Practicable Date. The balance of

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US\$1,190,000 (equivalent to approximately HK\$9,282,000) is expected to be fully paid up by Vital BioTech (Hong Kong) from internally generated source of funds on or before 24th July, 2003 pursuant to the Articles of Association of Vital (Sichuan). Vital BioTech (Hong Kong) has agreed not to consolidate the accounts of Vital (Sichuan) until the registered capital of Vital (Sichuan) is fully paid up, as required by the relevant PRC authorities. Taking into account the due date for fulfilling the investment contribution by 24th July, 2003 and the financial resources of the Group after listing of the Company, the Directors are of the view that the risk to the Group resulting from failure to meet the requisite capital investment into Vital (Sichuan) on or before the required date is minimal.

### **Ever Power and Gainful Plan**

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

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

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

<b>Company</b>	<b>Shareholder</b>	<b>No. of share held</b>	<b>Amount paid per Share</b>	<b>Date of acquisition</b>
Ever Power	Mr. Ko	1	US\$1	16/6/2001
	Mr. Au Yeung	1	US\$1	16/6/2001
		<u>2</u>	<u>US\$2</u>	
Gainful Plan	Mr. Ko	1	US\$1	16/6/2001
	Mr. Au Yeung	1	US\$1	16/6/2001
		<u>2</u>	<u>US\$2</u>	

### **Strategic Alliance/Technology Transfer/Business Venture**

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

#### **a. Hengrui Project**

On 28th November, 2001, Weiao and Vitapharm Research entered into an agreement for the co-operative development of applied technology of drug delivery systems with Jiangsu Hengrui Pharmaceutical Company Limited (江蘇恒瑞醫藥股份有限公司) (“Hengrui”). Under the first part of the agreement, Hengrui would acquire from Weiao a non-exclusive right to use two trial formulations of anti-cancer drugs for a term of 3 years. Under the second part of the agreement, Hengrui agreed to provide up to six existing anti-cancer drugs for the purposes of initial research and development of formulations. Furthermore, Weiao and Hengrui will jointly select up to three formulations for further clinical trials. Hengrui will pay a consideration of RMB3,000,000 under the first part of the agreement and a further RMB3,000,000 under the second part. All the research results, intellectual property rights and/or patent applications arising from any inventions or creations completed in the process of the joint development shall be shared by Hengrui, Weiao and Vitapharm Research in the ratio of 5:3:2.

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

#### **b. Sine Project**

A confidentiality agreement was signed on 3rd September, 2001 between Vitapharm Research and Shanghai Sine Pharmaceutical Corp. Ltd., a PRC company engaged in the research and development, production and sales of biotechnology and pharmaceutical products, regarding a proposed joint development of a room temperature stable probiotic product based on a formulation of Shanghai Sine Pharmaceutical Corp. Ltd. which is listed as a “Class I new drug” in the PRC. Shanghai Sine Pharmaceutical Corp. Ltd. is an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

#### **c. Inner Mongolia Bio Products Factory Project**

A confidentiality agreement was signed on 13th August, 2001 between Inner Mongolia Jinyu Group Co. Ltd., (內蒙古金宇集團股份有限公司) a PRC company principally engaged in the research and development, production and sales of biotechnology and pharmaceutical products, and Vitapharm Research regarding a proposed joint development of room temperature stabilised drugs, including vaccines and veterinary drugs (疫苗及獸藥), such as enzyme based products (酶制劑) and probiotic (益生菌). Inner Mongolia Jinyu Group Co. Ltd. is an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.



### **d. Chr. Hansen Project**

A confidentiality agreement was signed on 25th January, 2001 between Chr. Hansen Pty. Ltd., and Vitapharm Research regarding a proposed joint development of a series of probiotic products. Chr. Hansen Pty Ltd. is a company of the Chr. Hansen, Inc. group. Chr. Hansen, Inc. is a Danish biotechnology company founded in 1874, and is principally engaged in the development of the natural biological and microbiological products for use in the agricultural and environmental industries.

### **e. Meditech Project**

A confidentiality agreement was signed on 5th March, 2001 between Vitapharm Research and Meditech Research Limited, a drug development company listed in Australia, regarding a proposed joint development of new formulations of anti-cancer drugs.

### **f. Alharma Project**

A confidentiality agreement was signed on 25th January, 2001 between Alharma Animal Health Pty. Ltd., a company principally engaged in the supply of human and animal pharmaceutical products and listed on the New York Stock Exchange, and Vitapharm Research regarding a proposed joint development project on room temperature stable protein formulation for pharmaceutical and veterinary applications.

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### Active Business Pursuits

The following is a statement of active business pursuits of the Group for the two years ended 31st December, 2000 and the period from 1st January, 2001 to the Latest Practicable Date:

		<b>Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999</b>	<b>Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000</b>	<b>Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date</b>
Research and development	Australia	<ul style="list-style-type: none"> <li>– Refinement of micro bio-encapsulation technology on the stabilisation of biological protein and drug delivery technology</li> <li>– Lodged Australian Provisional Patent PQ4190 application entitled “A propellant free spray-on skin patch composition for improving wound healing and for drug administration”</li> <li>– Australian Registration approval of Spray-On Bandage, Aust L68718</li> </ul>	<ul style="list-style-type: none"> <li>– Filed international patent PCT/AU00/01419 application entitled “A propellant free spray-on skin patch composition for improving wound healing and for drug administration”</li> </ul>	<ul style="list-style-type: none"> <li>– A confidentiality agreement was signed with Chr. Hansen Pty. Ltd.</li> <li>– A confidentiality agreement was signed with Meditech Research Limited</li> <li>– A confidentiality agreement was signed with Alpharma Animal Health Pty. Ltd.</li> <li>– A confidentiality agreement was signed with Shanghai Sine Pharmaceutical Corp. Ltd.</li> <li>– A co-operation agreement was signed with Inner Mongolia Jinyu Group Co. Ltd. (內蒙古金宇集團股份有限公司)</li> <li>– Filed Australian Provisional Patent PR2729 application entitled “Method for preparing biological materials and preparations produced using same”</li> </ul>

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**Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999**

**Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000**

**Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date**

Research and PRC  
development

- China Intellectual Property Bureau (中華人民共和國國家知識產權局) approved transfer of patent no. 94101255.7 of hard porous lossefoam body bolt and its manufacturing process (硬質多孔松泡體栓及其製造工藝) being transferred from Wuhan Tianao Pharmacy Factory (武漢天奧製藥廠) (formerly known as Wuhan Zhongke Kangyi Biology Medicine Factory (武漢中科康益生物製藥廠)) to Tianao

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	<b>Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999</b>	<b>Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000</b>	<b>Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date</b>
Business development	<ul style="list-style-type: none"> <li>– Continued marketing operation regarding sub-licensing to third party for launching Osteoform in the PRC under licence from Pharmco, including determination of sales models, pricing, establishment of sales points, selection of distributors in the PRC, and training to distributors</li> <li>– Continued improvement of Opin by implementing the Group's PSD technology</li> <li>– Obtained Technology Certificate (科學技術進步獎勵證書) from the People's Government of Hubei Province (湖北省人民政府)</li> </ul>	<ul style="list-style-type: none"> <li>– Tianao obtained Certificate of New High Technology Enterprise (高新技術企業證書) from the People's Government of Wuhan City (武漢市人民政府)</li> <li>– Beshabar (HK) was incorporated in Hong Kong</li> <li>– Trademark license agreement and marketing and distribution agreement for the distribution of Osteoform were entered into between Pharmco, Maxsun and Beshabar (HK)</li> <li>– Assignment of trademark of Osteoform was entered into between Pharmco and Maxsun</li> <li>– Yugofoil entered into a transfer agreement with Mas International (HK) Limited for the transfer of a 30% interest in Weiao</li> </ul>	<ul style="list-style-type: none"> <li>– Weiao obtained the Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證) for the production of oral liquid-dose, tablets, capsules, granules and compound medicine issued by the Drug Administration Bureau of Wubei Province (湖北省藥品監督管理局)</li> <li>– The agreement entered into between Yugofoil and Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) for the transfer of 5% interest of Tianao was approved by relevant authorities</li> <li>– Weiao obtained Land Use Certificate (國有土地使用證) in respect of a piece of land with an area of 12,288.50 sq.m. for the construction of the production facilities of Weiao</li> <li>– Weiao obtained Land Use Certificate (國有土地使用證) in respect of a piece of land with an area of 18,626.7 sq.m. for the construction of the production facilities of Weiao</li> </ul>

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**Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999**

**Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000**

**Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date**

- Leasing agreement was entered into between Weiao and Chengdu Hai Ke Investment Limited (成都海科投資有限責任公司) on 9th December, 2000 regarding the leasing of a piece of land with an area of 120 acres for further development of the Group
- 3 leasing contracts were entered into between Weiao and State Land Bureau of Wen Jiang County, Sichuan Province, the PRC (中華人民共和國四川省溫江縣國土局) for the lease of land with a total area of 26,666.7 sq. m.
- Tianao obtained the Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證) for the production of pessary issued by the Drug Administration Bureau of Wubei Province (湖北省藥品監督管理局)
- Tianao obtained Top ten business enterprises (十強企業) from Information Centre of the Statistical Bureau of Hubei Province (湖北省統計局信息中心)
- Weiao obtained the Building Ownership Certificate (房權證) issued by the People's Government of Wen Jiang County (溫江縣人民政府) for its new production facility
- Ever Power was incorporated in the BVI
- Gainful Plan was incorporated in the BVI
- The Company was incorporated in the Cayman Islands
- Vital (Sichuan) was established in the PRC
- Tianao obtained Star privately owned technology enterprises (明星民營科技企業) from the Science and Technology Committee of Wuchang District (武昌區科學技術委員會)
- Tianao obtained Certificate of New High Technology Enterprise (高新技術企業證書) from the People's Government of Wuhan City (武漢市人民政府)

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**Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999**

**Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000**

**Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date**

- Vitapharm Research was awarded “Finalist of the 2000 HSBC Business Award” by the Hong Kong Australia Business Association

- 3 land use right grant contracts were entered into between Weiao and the State Land Bureau of Wen Jiang County, Sichuan Province, the PRC (中華人民共和國四川省溫江縣國土局) for acquiring the land with a total area of 30,910.03 sq. m. The relevant land use right certificates were subsequently granted by the approving authorities.

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	<b>Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999</b>	<b>Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000</b>	<b>Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date</b>
Sales and marketing	<ul style="list-style-type: none"> <li>– Continued co-operation with Mas for distribution of Osteoform in PRC</li> <li>– Continued appointment of a sole distributor for distribution of Opin in the PRC</li> </ul>	<ul style="list-style-type: none"> <li>– preparation for the establishment of marketing team and representative offices</li> <li>– Tianao was approved by the Economic Technology Co-operation Committee Office of Wuhan City (武漢市經濟技術協作委員會辦公室) and the relevant Industrial and Commerce Administration Bureau (工商行政管理局) to set up representative offices, in various places in the PRC, including, inter alia, Huhhot, Changsha, Zhengzhou, Chongqing and Nanjing</li> <li>– Beshabar (HK) entered into an agency agreement with Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) which would act as an agent for distribution of Osteoform in the PRC</li> <li>– Beshabar (HK) entered into an agency agreement with Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) which would act as an agent for distribution of Osteoform in the PRC</li> </ul>	<ul style="list-style-type: none"> <li>– Tianao was approved by the Economic Technology Co-operation Committee Office of Wuhan City (武漢市經濟技術協作委員會辦公室) and/or the respective Industrial and Commerce Administration Bureau (工商行政管理局) to set up representative offices in various places in the PRC, including, inter alia, Lanzhou, Shenyang, Harbin, Xiangfan (襄樊), Urumqi and Tianjin</li> <li>– Continued appointment of Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) as an agent for distribution of Osteoform in the PRC</li> <li>– Representative offices for marketing and after sales services of the Group's products commenced operations</li> <li>– the production facilities of the Group in Sichuan received GMP approval</li> <li>– Shanghai Pharmaceutical Company Limited started to be an agent for distribution of Osteoform in the PRC</li> </ul>

### MISSION STATEMENT

The Group's objective is to become a world-class research and development based biotechnology group in the pharmaceutical industry with emphasis on biopharmaceutical products that can be distributed to the mass market at an affordable price.

The Directors believe that the Group can accomplish its mission in the following ways:

- (a) the Group's management are well-trained in either the PRC or overseas specialising in the biotechnology or pharmaceutical industry. The Directors believe that by applying the successful management philosophy and the capabilities of the Group to its research and development of biopharmaceutical products, the Group can effectively and successfully implement its expansion plan to match the anticipated growing trend of the biotechnology and pharmaceutical industry worldwide;
- (b) building on the skills and experience of its team of high calibre professionals and technologists in the biotechnology and pharmaceutical industry;
- (c) capitalising on the following strengths:
  - research and development capability: the Group has its own research centre in Australia where the Group commercialised and refined its PSD and SDDS technologies. The Directors expect that the research capability the Group will be further strengthened upon the completion of its proposed research and development centre in Chengdu City, Sichuan Province, the PRC;
  - quality assurance: GMP is a set of standards set for pharmaceutical companies for assurance of the quality of their products. The Company plans to gradually raise the current production standard in a structured manner to the PRC GMP standards and then to international GMP standards in preparation for the launching of the Group's products to international market in the near future;
  - established distribution channels: the Group has established various distribution channels through which its products are distributed to end-users, including hospitals, clinics and drug stores in major PRC cities. The Directors believe that the Group's experience in establishing distribution network in the PRC will serve as the base for the launching of its products to overseas markets, such as Taiwan, Singapore and Russia;
  - the Group's platform technologies: the Group applies the micro bio-encapsulation platform technology to stabilise biological protein products and to deliver them through non-injectable means (e.g. through various mucosal surface). The Group also uses a polymer based dermal drug delivery system for chemical drugs. These technologies can be applied to a broad range of biopharmaceutical and conventional pharmaceutical products which will in turn be released as mass-market products for the prevention and treatment of diseases. The Group's technologies aim at lowering production costs, improving drug efficiency, and making drug delivery more user-friendly. The technologies can be commercialised for new and existing pharmaceutical products via the Group's in-house manufacturing and distribution systems, through cooperation with strategic partners or through joint venture, licensing and other collaborative methods; and



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- strategic alliances: the Group has entered into co-operation and strategic alliances with various established pharmaceutical companies and research institutes in the PRC and abroad for the joint development and production of pharmaceutical products in a cost effective and timely manner. The Directors believe that the growth of the Group will be expedited by the synergy generated from the Group's research capabilities and its strategic alliances and co-operation with biotechnology and pharmaceutical research institutes in the PRC and abroad.

### DESCRIPTION OF THE BUSINESS

The Group is principally engaged in the research and development, production and distribution of biopharmaceutical and conventional pharmaceutical products. The research and development of the Group focuses on downstream value adding biotechnology processing systems. Downstream research and development work refers to processing technology, which tends to be industrially oriented and is usually performed in large scale in terms of quantity. The Group has commercialised and refined two platform technologies, namely the "Protein Stabilisation and Delivery (PSD)" and the "Skin Drug Delivery System (SDDS)" technologies. Further details of these two platform technologies are set out in the paragraph headed "Platform Technologies" in the section headed "Business" in this prospectus.

With its research and development capabilities, the Group focuses on advanced drug delivery system built on a unique micro bio-encapsulation platform for the delivery of active ingredients for human and veterinary applications via non-injection methods, such as through the mucosal membrane. The Group has also utilised the micro bio-encapsulation platform technologies and various other drug delivery systems to enhance or develop its own products, namely Opin and Spray-On Bandage. Details of the Group's products are set out in the paragraph headed "Products" in the section headed "Business" in this prospectus.

Equipped with these technologies, the Group has established alliances with biotechnology and pharmaceutical companies worldwide.

The Group co-operates with biotechnology and pharmaceutical companies to improve and expand the applications of their existing pharmaceutical products for existing and emerging markets. The co-operation can be in form of joint venture, licensing, services arrangement and joint development. Further details of the co-operative agreements are set out under the paragraph headed "Strategic alliance/technology transfer/business venture" in the section headed "History" in this prospectus.

The Group has also developed an extensive distribution network of pharmaceutical products in the PRC. Pending the commercialisation of the Group's products utilising its own developed platform technologies, the Group has, through its distributors, used Osteoform to establish distribution channels for its products to the consumer markets in the PRC. The sales of Osteoform also provides a stable income stream on which the research and development functions of the Company can flourish. Currently, the Group distributes Osteoform throughout the PRC through two distributors in Shenzhen and Shanghai respectively. Opin is distributed to end-users including hospitals, clinics and drug stores in the PRC through its own sales and marketing team and independent distributors not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

To enhance its sales and marketing efforts, the Group has established 22 marketing and liaison offices to promote its products and to provide after-sales services since April 2000.

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Opin is produced by the Group at its production facilities located at Wuhan, the PRC. Osteoform is produced at the production facility operated by an independent third party in Hong Kong. Detailed description of the production facilities are set out in the paragraph headed "Production facilities" in the section headed "Business" of this prospectus.

Sales generated by pharmaceutical products accounted for approximately 100%, 99.4% and 100% of the Group's turnover respectively for the two years ended 31st December, 2000 and for the six months ended 30th June, 2001.

The gross profit percentage for the sales of the Group's products were 36.9%, 40.9% and 45.1% respectively for the two years ended 31st December, 2000 and for the six months ended 30th June, 2001.

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

### RESEARCH AND DEVELOPMENT

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

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

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

Aiming to achieve a leading position in technology development, the Group actively participates in trade exhibitions and seminars of biotechnology industry. In 2001, Vitapharm Research was selected by the state government of the State of Victoria, Australia, as one of the 11 companies to receive financial support from the State government to participate in the exhibition display at Bio 2001. Bio 2001 was a biotechnology industry event held in San Diego, the US in June 2001 where 16,000 industry practitioners from around the world met to exchange views and explore business opportunities. The Group took this opportunity to expand its global networking and to fine-tune strategies to commercialise the platform technologies to other companies.

During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group spent approximately HK\$21,000, HK\$216,000 and HK\$534,000 respectively on research and development, representing approximately 0.1%, 0.3% and 1.0% of the Group's turnover respectively and approximately 0.1%, 0.5% and 1.4% of the Group's total expenses (including cost of sales) respectively.

### PLATFORM TECHNOLOGIES

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

#### (a) Protein Stabilisation and Delivery

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

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

The PSD technology makes peptide- and protein-based pharmaceuticals commercially viable and therapeutically useful.

Traditionally, the following two major problems have made the commercialisation of biological products unviable, such as the use of peptide- and protein-based pharmaceuticals as therapeutic agents.

##### (i) Protein stability

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

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

### (ii) Protein drug delivery

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

Different delivery systems are available.

#### *Oral delivery (ingestion):*

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

#### *Parenteral delivery (injections):*

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

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

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

### (iii) Protein stabilisation and delivery technology

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

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

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

One of the major developments of the Group was the application of this technology to interferon, a natural protein present in human body that has a modulating effect on human immunity and protects the human body from viral infection. With this technology, it is intended that a series of interferon based products will form a major product pipeline for the Group. Opin is a launched product using the technology to form interferon tablet designed for vaginal delivery for the treatment of chronic erosive cervicitis and was granted an award of "Class 2 New Drug" by the SDA in 1998 (classified under the pre-1999 regulations). Under development is a nasal interferon spray with an indication for upper respiratory tract viral infections including treatment of flu and cold. Taking advantage of this technology, many new products are under development; for example, sublingual EPO for the treatment of chronic anaemia and oral probiotics for harmonising intestinal microbial ecological environment.

### **(b) Skin Drug Delivery System**

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

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

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

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

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

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

SDDS is only manufacturing technologies. The technologies have no specific therapeutic claim or efficacy claim. Such claims are claims of the product that uses the technology. Clinical trails or empirical studies are conducted on the actual proposed products. Example in this case is Spray-On Bandage.

The most significant feature of products made from SDDS technology is that it can deliver drug through the polymer membrane. In the case of the Spray-On Bandage, the drug to be delivered is the disinfectants. This function was clearly demonstrated by a study conducted by a consultant microbiologist in Australia who is an independent third party. In the experiment, the product was spray on to a piece of paper and allowed to dry. This simulated the product spraying onto a skin surface. The loaded paper was then laid onto a lawn of live bacteria and left alone to grow. At the end of the experiment, a clear inhibition zone was clearly demonstrated around the paper. This indicated the disinfectant had been successfully released into its surround thus prohibiting bacterial growth in that clear neighborhood region.

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

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

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

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

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

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

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

SDDS and PSD are only manufacturing technologies. The technologies have no specific therapeutic claim or efficacy claim. Such claims are claims of the product that uses the technology. Clinical trials or empirical studies are conducted on the actual proposed products. No clinical study has been conducted on either platform technologies. These products' clinical trials or studies have been disclosed in the relevant sections of this prospectus on the specific products e.g. Opin and Spray-On Bandage.

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

(i) *Improved stability*

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

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

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

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

*(iii) Improve efficacy*

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

The Group is conducting research and development work to improve the efficacy of Opin, with the objective of reducing the dosage requirement.

*(iv) User friendly drug delivery systems*

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

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

### **COMMERCIALISATION OF THE PLATFORM TECHNOLOGIES**

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

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

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

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

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

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

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

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

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

### **(ii) Joint development and distribution arrangement**

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

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

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

The Group also plans to use the platform technologies as capital assets to form joint venture business with potential business partners. The Group has conducted initial discussion in this regard with the Shanghai Sine Pharmaceutical Group Ltd. Further details of the co-operative agreement are set out under the paragraph headed "Strategic alliance/technology transfer/business venture" in the section headed "History" of this prospectus.



**(iv) Licensing and services arrangement**

The Group has also entered into licensing agreements to license the two platform technologies to third parties to use these technologies to manufacture pharmaceutical products. This arrangement will form a new revenue stream for the Group without the traditional costs involved in the manufacturing of products.

The Group may also enter into services agreements with independent third parties. Services fees will be charged and the Group will provide its knowhow in the two platform technologies to assist such parties to solve their production problems or product stability problems. The Hengrui Project set out under the paragraph headed "Strategic Alliance/Technology Transfer/Business Venture", in the section headed "History and active business pursuits" of this prospectus is an example of this service arrangement.

During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group had spent approximately HK\$21,000, HK\$216,000 and HK\$534,000 respectively on research and development, representing approximately 0.1%, 0.3% and 1.0% of the Group's turnover respectively and representing approximately 0.1%, 0.5% and 1.4% of the Group's total expenses respectively.

As at the Latest Practicable Date, the Group has a total of 35 research and development staff members.

**PRODUCTS**

**A. Existing Products**

**(i) Opin**

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

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

Paper Title	Institute performing the study	Number of cases studied	% effective rate	Criteria for effectiveness
50 case studies of using Opin for erosive cervicitis	No. 2 Hospital of Wubei Medical University (湖北醫科大學附屬第二醫院)	50	98	Improvement by clinical observation after 2-3 post treatment examination
342 case studies of using Opin and metronidazole for the treatment of erosive cervicitis	Wunan Province Hengyang City Nuclear Industry No. 415 Hospital (湖南省衡陽市核工業415醫院)	342	77	Improvement by clinical observation

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Paper Title	Institute performing the study	Number of cases studied	% effective rate	Criteria for effectiveness
Investigation into the use of Opin in gynaecology practice	Chengdu City Birth Control Technique and Instruction Institute (成都市計劃生育技術指導所)	53	94	Improvement by clinical observation, reduction in discharge, PCR test
190 case studies of using Opin and laser treatment for chronic erosive cervicitis	Shanxi Province Taiyuan City Central Hospital (山西省太原市中心醫院)	190	83	Improvement by clinical observation
160 case studies of Opin for erosive cervicitis	Zhejiang Province Wuzhou City No. 2 People's Hospital (浙江省湖州第二人民醫院)	160	93	Improvement by clinical observation
30 case studies of using Opin (Interferon) for the treatment of erosive cervicitis	Shanxi Province Xi'an City No. 4 Hospital (陝西省西安市第四醫院)	30	83	Improvement by clinical observation
41 case studies of using Opin for the treatment of erosive cervicitis	Yunnan Province Kunming City Central Hospital (雲南省昆明市中醫醫院)	41	85	Improvement by clinical observation
73 case studies of using Opin (a-interferon) for the treatment of chronic cervicitis	Yunnan Province Kunming City Central Hospital (雲南省昆明市中醫醫院)	73	75	Improvement by clinical observation, reduction in discharge
Effective treatment observation of 50 cases of using Opin for the treatment of cervicitis	Guangdong Province Dongguan City Guancheng Hospital (廣東省東莞市莞城醫院)	50	88	Improvement by clinical observation, reduction in discharge, discomfort of lower limb, back pain
81 case studies of using Opin for the treatment of cervicitis	Guangdong Province Guangzhou City Skin Diseases Prevention Institute (廣東省廣州市皮膚病防治所)	81	88	Improvement by clinical observation
Observation of using Opin for the treatment of chronic cervicitis	Gansu Provincial People's Hospital (甘肅省人民醫院)	65	85	Improvement by clinical observation
116 case studies of using Opin for the treatment of chronic cervicitis	Yunnan Province Kunming City Yan'an Hospital (雲南省昆明市延安醫院)	116	93	Improvement by clinical observation
Observation of the clinical using Opin in 92 cases	Taiyuan City Xishan Mining Bureau Hospital (太原市西山礦務局醫院)	92	88	Improvement by clinical observation
Analysis of 126 case of using Opin for the treatment of erosive cervicitis	Studies on Skin Diseases (《皮膚性病學》)	126	96	Improvement by clinical observation, iodine staining on cervical surface
116 case studies of using a-interferon for the treatment of chronic cervicitis	Jiangxi Province Women & Children Healthcare Institute (江西省婦幼保健院)	116	93	Improvement by clinical observation
230 case studies of using Opin for the treatment of erosive cervicitis	Henan Province Zhengzhou City No. 3 People's Hospital (河南省鄭州市第三人民醫院)	230	98	Improvement by clinical observation

In June 1998, Opin was granted a drug registration certificate and an approval for manufacturing issued by the SDA entitled the new drug certificate (新藥證書) and new biological product manufacturing permit (新生物製品生產申請批件), and is currently registered and marketed in the PRC as a “Class 2 biological new drug” (classified under the pre-1999 regulations). By virtue of this registration, it was protected from competition during the period from 2nd June, 1998 to 1st June, 2001 under the Regulations on the Protection of New Pharmaceutical Products and Technology Transfer. A Class 2 classification under the pre-1999 regulations in general afforded a protection period of 6 years inclusive of a trial production period of 2 years. However, in the case of Opin, as Opin had already enjoyed a trial production period of approximately 3 years prior to the registration in 1998, it was granted a protection period of 3 years. Chronic erosive cervicitis is a very severe form of cervicitis that, to date cannot be treated through the use of antibiotics. Opin has a shelf life of 18 months and has been approved by the SDA.

In May 2000, the Group, having discovered that Opin can be generally used for the treatment of genital viral infections, applied for a new indication for Opin as a “Class 5 new drug” (classified under the pre-1999 regulations) in relation to a project which involves the use of Opin for the treatment of herpes. The Company has received the permit to conduct clinical trial in May 2000. The Directors believe that the product could be sold with new indication by mid 2002. The Directors believe that the approval of the application should be granted by mid 2002 upon which Opin will enjoy 6 years of regulatory protection for the new indication commencing from the date on which the new drug certificate (新藥證書) is obtained.

As an interferon based gynaecological medication, Opin has been monopolising the PRC market of such product with almost one hundred per cent. market share. Taking into account other products which contain active ingredients other than interferon and which are for the treatment of erosive cervicitis, Opin has an approximately 5% market share.

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

Anecdotal evidence shows that in the Wuhan City, the PRC, more than 50% of women who are of age from 21 to 65 are susceptible to chronic cervicitis. Given the population of women who were of childbearing age in the PRC was approximately 300 million as at 1999, the Directors believe that there is a substantial market for this product in the PRC.

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

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

In general, a pressurised can requires extra volume to hold the propulsion agent which is usually a liquefied gas under pressure. For the same effective product content, a pressurised can will be significantly bulkier than an un-pressurised can.

Being a pressurised can, there is always a risk of explosion. Furthermore, the manufacturing cost of pressurised can is higher than that of un-pressurised can due to its complicated manufacturing process.

The most significant feature of products made from the SDDS technology is that it can deliver drug through the polymer membrane. In the case of the Spray-On Bandage, the drug to be delivered is the antiseptic. This function was clearly demonstrated by a study conducted by a microbiologist consultant in Australia on 30th September, 1998 who is an independent third party. In the experiment, the product was sprayed on to a piece of paper and allowed to dry. This simulated the product sprayed onto a skin surface. The loaded paper was then laid onto a lawn of live bacteria and left alone to grow. At the end of the experiment, a clear inhibition zone was clearly demonstrated around the paper. This indicated the antiseptic had been successfully released through the polymer membrane into its surrounding thus prohibiting bacterial growth in that clear neighbourhood region. This thus demonstrated that the SDDS technology can deliver drug.

The Group is promoting this product to various overseas markets. The Spray-On Bandage was registered with the Australia TGA in April 1999, which marked the official acceptance by the health authority as a commercial product. One trial production batch was manufactured in Australia in February 2000 for market trial purposes. 5000 units of trial products were introduced to each of Thailand, Australia and Taiwan in January 2000, March 2000 and June 2000 through a different local agent in each market. After reviewing the marketing results, the Directors concluded that more marketing efforts were required for promoting this product in the above markets, and the Directors at present do not consider it worthwhile to spend too much effort on promoting this product in those markets. The Group plans to allocate more resources to promote this product in the PRC, and lodged an application in November 2001 for registration with the SDA.

Evidence from the SDA South Medicinal Economic Institution has valued the entire Chinese bandage market at RMB100 million annually.

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

Osteoform is a health supplement of calcium, trace mineral, vitamin D<sub>3</sub> and vitamin C. It contains calcium, several trace minerals that are necessary for bone formation, in addition to vitamin D<sub>3</sub> and vitamin C. Its ingredients include calcium amino acid chelate, copper amino acid chelate, calcium ascorbate, manganese amino acid chelate, calcium hydrogen phosphate, vanadium amino acid chelate, magnesium amino acid chelate, silicon amino acid chelate, zinc amino acid chelate, boron amino acid chelate and vitamin D<sub>3</sub>.

Osteoform has been approved by and registered with the SDA as OTC drug. The Group holds an exclusive right to process and distribute this technologically more advanced calcium supplement product in the Asian market for a term of 20 years pursuant to a marketing and distribution agreement entered into with Pharmco in December 2000, and has captured an approximately 4% share of the market of rare elements, minerals, and other nutrients in dollar term in the PRC. The Group entered into co-operation agreement with Mas in June 1997 in relation to the distribution of Osteoform. Based on the co-operation agreement, all revenues generated from the sales of Osteoform during the term of the co-operation were recognised by Mas. Should the sales volume reach an agreed level for the three years ended 30th June, 2000, Mas was required to pay a fixed fee to Beshabar (BVI). The agreement was extended to August 2000 by oral agreement between the parties and the Group began to generate revenue from the sales of Osteoform from October 2000. Further details of the above arrangement are set out in the paragraph headed "History" of this section.

Osteoform has not been distributed outside the PRC.

The formulation of Osteoform was developed by Pharmco, which is the owner of the formulation and the trademark Osteoform, and the sole supplier of the Osteoform powder. The Directors believe that the classification of Osteoform varies in different jurisdictions. In the PRC, it has been registered by Pharmco with the SDA as a drug for the prevention and treatment of diseases caused by calcium deficiency.

At present, the packaging process of Osteoform is sub-contracted to Bright Future and the distribution of Osteoform to the PRC is made through two distribution agents located in Shenzhen and Shanghai. The Group is responsible for the purchases of Osteoform material from Pharmco, the promotion of Osteoform within the territories permitted in the marketing and distribution agreement and the provision of after-sale services.

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

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

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

Osteoform has a shelf life of three years.

An investigation into the health of the Chinese population in 1998 revealed that, on average, the Chinese population has an average calcium level which is 50% less than the recommended amount. This led to an influx of calcium supplements into the PRC market. Evidence suggests that sales revenue in 2000 of calcium supplements in the PRC was approximately RMB250 million.

## **B. Products under development**

### **(i) Interferon nasal spray**

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

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

The Company has a 100% interest in the Interferon Nasal Spray Project. The active ingredient, interferon, is freely available on the open market.

### **(ii) Receptase**

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

Receptase is an oral medication for farm animals designed to prevent diarrhea. The research and development team applies the PDS technology to develop this enzyme-based drug. It has the effect of preventing the spread of E.coli bacteria by stopping the bacteria from attaching themselves onto the internal lining of the intestine. Under certain conditions, certain strains of E.coli can be a disease-causing micro-organism that is responsible for diarrhea, and potentially, if left untreated, will eventually lead to death.

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

The world pig population has been estimated to be in excess of 700 million, with an annual turnover of 1.2 billion animals. The estimated ratio of early pig deaths due to E.coli annually is approximately 1%. The State of Victoria has estimated this ratio to be as high as 5%.

The Directors believe that receptase can potentially capitalise on the trend towards green farming by helping to produce meat which is free from antibiotics residue arising from traditional E. coli treatments.

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

### **(iii) Probiotics**

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

The Group is negotiating with both Shanghai Sine Pharmaceutical Corp. Ltd. ("Sine"), a PRC company and Chr. Hansen Pty. Ltd. ("Chr. Hansen"), a company of a Denmark group in finalising the product strategy with the objective of launching a series of products within the next two years.

The project is in the concept stage. The Company is testing the application of the PSD technology on bacteria samples supplied from Sine and Chr. Hansen. The final commercialisation format is still to be decided. Under the current plans, the Company owns the PSD technology and Sine and Chr. Hansen own their bacterial culture.

### **(iv) EPO**

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

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The proposed product is a room temperature stable sublingual EPO tablet aiming at combating the wide spread chronic marginal anaemia among the Asian population. The Group has carried out preliminary studies on the stability of EPO and its effects on animals throughout 2001. Similar studies on a larger scale will be carried out in 2002. Target launch date in the PRC for EPO tablet is expected to be in 2004.

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

### **(v) Iron orotate**

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

The Company has a 100% interest in this iron orotate Project. The active ingredient, Ferrous Orotate, is freely available on the open market.

### **(vi) Hemorrhoid project**

The product involved in this project is a herb based oral capsule with the indication to relieve hemorrhoid. This product is undergoing the final stage of clinical trial in the PRC. The approval for registration with the SDA is expected to be granted by mid 2002. The Group expects to launch the product under a proposed commercial name "Depile" by mid to late 2002.

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

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### Turnover of the Group's marketed products

The table below sets out the respective sales of the Group's products as a percentage of the total sales of products of the Group for the two years ended 31st December, 2000 and the six months ended 30th June, 2001:

	<b>Years end 31st December,</b>		<b>2000</b>		<b>Six months</b>		<b>ended 30th June,</b>		<b>2001</b>	
	<i>approximate</i> <i>HK\$'000</i>	<i>approximate</i> <i>%</i>	<i>approximate</i> <i>HK\$'000</i>	<i>approximate</i> <i>%</i>	<i>approximate</i> <i>HK\$'000</i>	<i>approximate</i> <i>%</i>	<i>approximate</i> <i>HK\$'000</i>	<i>approximate</i> <i>%</i>	<i>approximate</i> <i>HK\$'000</i>	<i>approximate</i> <i>%</i>
Opin (in tablet form)	21,700	95	29,335	46	19,154	36				
Osteoform (in capsule form)	–	–	32,186	51	33,379	63				
Spray-on Bandage	–	–	1,621	2	–	–				
Other products (Note)	1,175	5	583	1	234	1				
	<u>22,875</u>	<u>100</u>	<u>63,725</u>	<u>100</u>	<u>52,767</u>	<u>100</u>				

Note: Other products comprise the residual OTC pharmaceutical products of Weiao and Vitapharm Research.

### Product liability

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



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### RECOGNITION AND AWARDS

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

<b>Awards/Certifications/ Recognition</b>	<b>Product/ company receiving award</b>	<b>Date of grant</b>	<b>Award granting/ issuing organisation</b>
Technology certificate (科學技術進步獎勵證書)	Opin	December 1999	the People's Government of Hubei Province (湖北省人民政府)
Finalist of the 2000 HSBC Business Award	Vitapharm Research	2000	Hong Kong Australia Business Association
Top ten business enterprises (十強企業)	Tianao	February 2000	Information Center of the Statistical Bureau of Hubei Province (湖北省統計局信息中心)
Star privately owned technology enterprises (明星民營科技企業)	Tianao	January 2001	the Science and Technology Committee of Wuchang District (武昌區科學技術委員會)
Certificate of New High Technology Enterprise (高新技術企業證書)	Tianao	February 2000 June 2001	the People's Government of Wuhan City (武漢市人民政府)

The Directors believe that the above awards and certifications have enhanced the public recognition and competitiveness of the Group and Opin. As such, the sales of Opin increased from approximately HK\$21.7 million for the year ended 31st December, 1999 to approximately HK\$29.3 million for the year ended 31st December, 2000, representing an increase of 35%. For the six months ended 30th June, 2001, the sales of Opin was approximately HK\$19.2 million, representing approximately 66% of the sales of Opin for the whole year of 2000.

### SALES AND MARKETING

Before 2000, the Group distributed Osteoform in PRC through one distribution agent in Shenzhen. Since 2000, the Group has been distributing Osteoform in the PRC through two distribution agents which are located in Shenzhen and Shanghai. All of these agents are independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

Before November 2000, the Group distributed Opin in many regions of the PRC through one sole distribution agent, Wuhan Gao Zhuo Pharmaceutical Sales Limited (武漢高卓醫藥銷售有限公司) (formerly known as Wuhan Tianao Pharmaceutical Sales Limited (武漢天奧醫藥銷售有限公司)), which is not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial

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shareholders of the Company or any of their respective associates. Since November 2000, the Group has been distributing Opin in the PRC to hospitals, clinics and drug stores through its own sales and marketing team and independent distributors not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates. Whilst the Group has established its own sales channels, the use of distribution agents is still an important means, and Wuhan Gao Zhuo Pharmaceutical Sales Limited (武漢高卓醫藥銷售有限公司) remains one of the distribution agents of the Group.

To enhance the sales and marketing efforts, the Group since November 2000 has also established new marketing and liaison offices to promote the Group's products and to provide after-sales services. The Directors consider that the establishment of more offices in PRC cities will attract more distributors which will, in turn, expand the distribution network for the Group's products. As at the Latest Practicable Date, the number of marketing and liaison offices was 22. The Group is in the process of setting up 17 more such marketing and liaison offices. The following map shows the cities where marketing and liaison offices of the Group have been established.



The Group also employs sales staff for specific functions, such as conducting seminars, point of sale promotion and customer survey. As at the Latest Practicable Date, the Group employed 212 staff in its sales and marketing team.

During the two years ended 31st December, 2000, the Group's largest customer, Wuhan Gao Zhuo Pharmaceutical Sales Limited (武漢高卓醫藥銷售有限公司), accounted for approximately 95% and 45% respectively of the Group's turnover. For the six months ended 30th June, 2001, the largest customer, Shenzhen Rui En Te Pharmaceutical Limited (深圳瑞恩特藥業有限公司) accounted for approximately 23% of the Group's turnover. The Group's five largest customers accounted for approximately 99%, 86% and 70% respectively of the aggregate turnover. The Group's major customers are principally distributors, hospitals,

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clinics and drug stores. None of the Directors and shareholders owning more than five per cent. of the issued share capital of the Company (immediately after completion of the Placing and the Capitalisation Issue) or their respective associates has any interest in any of the five largest customers of the Group.

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

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

### **Payment terms**

Payments for the Group's products are primarily settled in cash with open account ranging from 30 to 180 days, depending on the credit-worthiness of the customers. In order to assess the credit-worthiness of the Group's customers, the Group will take into account the length of relationship, past transaction records as well as reputation of each customer. For the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group is not aware of any bad debts. The Group has on average a relationship of one to three years with its customers. The credit period offered to customers ranges from 30 to 180 days.

The Directors confirmed that the Group does not have a general provisioning policy on trade debtors based on ageing analysis. However, the management reviews the long outstanding debtors and their recoverability on a regular basis. Provision is made on specific debtors with potential recoverability problem, if necessary.

### **SOURCING**

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

The Group's raw materials are supplied by over 15 suppliers and none of these raw materials are commodities in scarcity or are subject to price control. Interferon is the most important raw materials for the manufacturing of Opin. As at the Latest Practicable Date, the Group had entered into a non-exclusive purchase agreement with each of three local companies manufacturing interferon. In the PRC, there are at least over 20 suppliers of interferon while there are many more known international producers capable of supplying interferon to the Group.

As at the Latest Practicable Date, the Group had over 15 suppliers. During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the largest supplier, accounted for approximately 81%, 43% and 48% respectively of the Group's total purchase. The Group's five largest suppliers accounted for approximately 92%, 86% and 87% respectively of the Group's aggregate purchase for the two years ended 31st

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December, 2000 and the six months ended 30th June, 2001. As the Group only produced and distributed Opin in 1999 and obtained its supply of interferon, which is the most important and most expensive material for the production of Opin, from one supplier for the year ended 31st December, 1999, purchase from that particular supplier, being the largest supplier for the year ended 31st December, 1999 accounted for approximately HK\$10 million. For the year ended 31st December, 2000 and the six months ended 30 June 2001, the Group purchased Osteoform powder from Pharmco the amounts of which were HK\$13 million, and HK\$11 million, respectively, and hence, Pharmco became the largest supplier to the Group for the respective period. Pursuant to the marketing and distribution agreement entered into between Beshabar (HK) and Pharmco on 26th December, 2000, the Group agreed to purchase exclusively Osteoform powder from Pharmco. The Group has not entered into any other exclusive purchase agreement with any of its suppliers. None of the Directors and shareholders owning more than 5% of the issued share capital of the Company (immediately after completion of the Placing and the Capitalisation Issue) or the respective associates has any interest in any of the five largest suppliers of the Group. The Directors consider that the Group's relationship with its suppliers is good and the Group has not experienced any major difficulty in obtaining adequate supply of raw materials to meet its production requirements.

In the past, the Group has not encountered any production disruption due to the shortage of supply of raw materials. The Directors believe that all the principal raw materials used by the Group can be purchased from a number of other suppliers at prices comparable to those paid to the Group's current suppliers. The Group has not entered into any long term contracts with its suppliers.

The Group's purchases are mainly made in Australian dollars, Hong Kong dollars, Renminbi and US dollars. During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group did not engage in any foreign currency forward exchange contracts for investments or speculative purposes. As such, no profit/loss arising from those contracts was recorded in the two years ended 31st December, 2000 and the six months ended 30th June, 2001.

Payments to suppliers are primarily settled either in cash with open account basis with credit terms ranging from 15 days to 75 days or by letters of credit payable at sight or up to 30 days after sight.

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

The percentages of the Group's five largest suppliers set out in the preceding paragraph do not include the sub-contracting fee paid to Bright Future in connection with the packaging process of Osteoform. During the year ended 31st December, 2000 and the six months ended 30th June, 2001, the Group sub-contracted the packaging process of Osteoform to an independent third party and paid sub-contracting charge of HK\$4.4 million and HK\$4.3 million respectively, which accounted for approximately 11.7% and 14.8% of the total cost of sales for the respective period.

Furthermore, in November 2000, Beshabar (HK) entered into a non-exclusive distribution agreement with each of Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) and Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) for the distribution of Osteoform in the PRC, pursuant to which the two distributors can charge a distribution fee of 3% and 1%, respectively, on the customers, which are additional to the sales prices paid by the customers. The two distributors are responsible for collecting payments from customers. Pursuant to the distribution agreements, the two distributors are required to settle the trade debts by letters of credit within seven days after the delivery of goods. As regards delivery, all goods are delivered to ultimate customers by Bright Future upon

receiving confirmations from the distributors, and hence, no stocks were held by the distributors as at 30th June, 2001.

### RESEARCH AND DEVELOPMENT FACILITIES

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

#### **(a) Research and development centre in Melbourne, the State of Victoria, Australia**

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

This research and development centre is located at Unit 30, 65-67 Canterbury Road, Montrose VIC 3765, Australia which is approximately 50 km east of the city of Melbourne, the State of Victoria, Australia. The property had a gross floor area of approximately 290 sq.m. and a team of research and development staff of four as at the Latest Practicable Date. The facility has all the necessary equipment for carrying out the research and development of the Group. It commenced research and development work in April 1998.

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

Currently, another research and development centre to be owned by Vital (Sichuan) is proposed to be constructed at Chengdu City, Sichuan Province, the PRC. While the Australian research and development centre is designed for development of new platform technologies and product concept, the new research and development centre in Sichuan is designed to be a GLP/GMP compliant research and development centre for the later stage of product development and management of clinical trials of the Group's new products.

The proposed Sichuan research and development centre is located at Wen Jiang County which is approximately 25 km west of Chengdu City. Phase I of the construction is expected to be finished in 2003. Operation is expected to begin in 2004.

### PRODUCTION FACILITIES

The two pharmaceutical products of the Group, Opin and Osteoform, are produced by Tianao and through the production facilities operated by Bright Future, respectively. The relative percentages of the above two ways of production are 100% to nil, 47% to 53%, and 37% to 63%, for the two years ended 31st December, 2000 and the six months ended 30th June, 2001, respectively. Tianao, a 95% owned subsidiary of the Company, leases and operates a production plant in Wuhan, the PRC. This production plant is principally engaged in the production of Opin. Weiao, a 76.7% owned subsidiary of the Company, owns and operates a production plant which obtained GMP approval in December 2001. Weiao will be engaged in the production of the Group's existing products and products under development. The Group also sub-contracts the production of calcium capsule to Bright Future which owns a production plant in Yuen Long, New Territories, Hong Kong. The production plant obtained its GMP certification in 2001.

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## BUSINESS

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Set out below are detailed description of each of the production facilities of the Group:

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

The Wuhan production plant is leased by the Group and is situated in the city of Wuhan, PRC. It occupies a total gross area of approximately 2000 sq.m. which comprises production facilities and ancillary offices. The lease for the premises is for a term of 6 years commencing from 1st January, 2001 and expiring on 31st December, 2006 at a monthly rental of approximately RMB20,000 (equivalent to approximately HK\$18,868) exclusive of management fee and utility charges. The production plant currently has one production line with an annual production capacity of 20 million Opin tablets. The Wuhan production plant is not fully in compliance with the GMP standards which are required to be met by 30th June, 2004. The Group plans to gradually shift the current production of Opin in the Wuhan plant to the production facilities in Chengdu City, details of which are set out in the following paragraph.

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

The Chengdu production centre is located at Wen Jiang County which is approximately 25 km west of Chengdu City, Sichuan Province, the PRC. The property has a gross area of approximately 8103.93 sq.m. and is designed for a workforce of more than 200. Four production lines are expected to be installed in this production plant and an annual production capacity of RMB280 million is expected. This production plant obtained GMP certification in December 2001 and is expected to commence production in the first quarter of 2002.

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

The Group conducts monthly stock taking, with the objective of ensuring the accuracy of its inventory level. Investigation will be taken immediately should the Group discover any material discrepancy in its inventory level. During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group did not record any material discrepancy in its inventory level. Furthermore, should the Group discover any defectiveness in the quality of stock, the Group will take immediate action to write off those defective stocks.

## **PRODUCTION PROCESS**

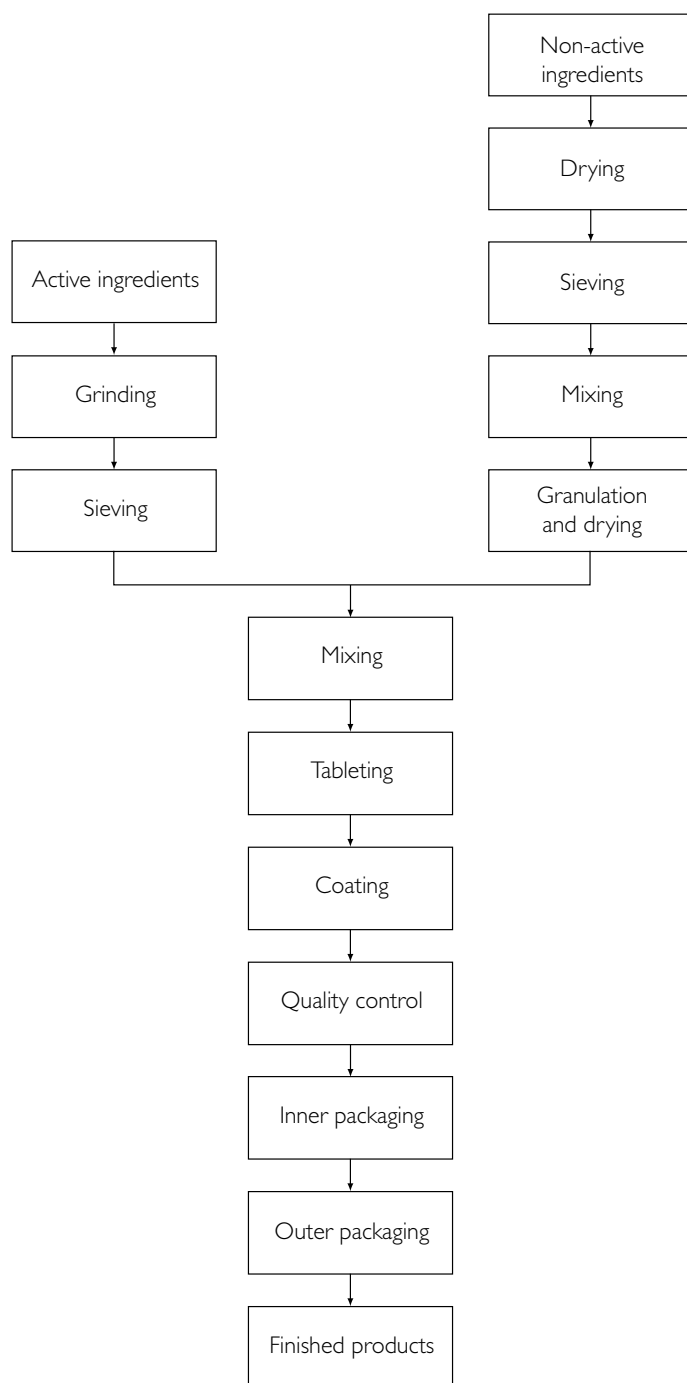
The Group imposes stringent quality control at each stage of production in order to ensure product safety and minimum wastage and failure rates. The Group's production facilities in Chengdu City, Sichuan Province, the PRC are constructed in accordance with GMP standards and obtained GMP certification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

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## BUSINESS

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



## EMPLOYEES

As at 31st December, 2001, the Group had 436 employees, comprising 35 in research and development, 128 in production, 212 in sales and distribution, and 61 in general administration and finance. 421 of these employees were located in the PRC, 8 in Australia and 7 in Hong Kong.

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## BUSINESS

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None of the Group's employees is represented by a labour union or is subject to a collective bargaining agreement, nor has the Group experienced any work disruption during the two years ended 31st December, 2000 and the six months ended 30th June, 2001. The Directors believe its relationship with the employees are good.

### COMPETITIVE ADVANTAGES

As living standard continues to improve, average life expectancy in the PRC is expected to improve. This has led to an increase in health consciousness and the demand for health care services and products is expected to grow significantly. With general availability of the genetic information from the Human Genome Program, the Directors believe that the demand for advanced technology and new methodologies for the production and development of effective and affordable biopharmaceutical products will increase.

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

- **Proven research and development capabilities**

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

- **Growing business**

Improvement in living standard and greater life expectancy have resulted in an increase in health consciousness among the general public, and an increasing demand for biopharmaceutical products in the PRC. The Group's research and development capabilities have attracted the co-operation of various manufacturers of pharmaceutical products and enable it to tap the potential growth of the biotechnology and pharmaceutical market in the PRC.

- **Established and extensive distribution network**

The Group is able to distribute its products through established channels, including its own marketing and liaison offices and distributors.

- **Production facilities constructed in accordance with GMP standards**

The Group has a production plant in Chengdu City, Sichuan Province, the PRC which obtained PRC GMP certification in December, 2001. The production plant is expected to commence commercial production in early 2002.



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## BUSINESS

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- **Effective business plans enabling the Group to benefit from the State policy of GMP certification**

The Group has obtained GMP certification of its production facilities, the Directors expect that this will create more business opportunities for the Group in the PRC.

- **Cost effectiveness**

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

- **A strong management team**

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

- **Strategical location**

The Group's research and development facilities are located in Melbourne, the State of Victoria, Australia. The State Government of Victoria has planned to invest at least AUD320 million (approximately HK\$1,280 million) over the four years to 2004-2005 to deliver key aspects of its biotechnology strategic plan, which aims to develop Melbourne, the State of Victoria, Australia, as one of the top five locations in the world for biotechnology research and development, commercialisation, production and marketing.

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

- **Monopoly position on certain products in the PRC**

In May 2000, the Group applied for a new indication for Opin as a Class 5 new drug in relation to a project which involves the use of Opin for the treatment of herpes. The project is at the stage of clinical trial currently. The new registration has not been approved as at the Latest Practicable Date. The Directors believe that upon the application being approved, Opin will enjoy 6 years of regulatory protection for the new indication. During the protection period, no pharmaceutical manufacturing enterprises other than the original manufacturer of the new pharmaceutical products approved by the SDA (i.e. Tianao), may engage in the manufacture of Opin unless it enters into a technology transfer agreement with the original manufacturer. The transferee must hold a the Pharmaceutical Manufacturing Enterprise Permit (藥品企業生產許可證) and a Pharmaceutical GMP Certificate (藥品GMP證書) before such a technology transfer can become effective.

- **Platform technologies under patent applications**

The PSD and SDDS are platform technologies either invented solely by Mr. Ko, a founder of the Group, or in conjunction with Mr. Au Yeung. Application for the registration of various patents for the two

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## BUSINESS

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platform technologies have been filed in the US and Australia, as has an international application in accordance with the Patent Co-operation Treaty, with further applications to follow as mentioned hereinafter. Although the patents have not been obtained by the Group, the Directors believe it is likely that patent registration may be completed in some countries by the end of 2003. Upon the granting of patents in the countries in which applications have been filed, the Group will be afforded with the exclusive right to exclude others from practising the invention in those countries in which the patent is granted. Once granted, the term of a particular patent is generally twenty years from the date of application for registration.

### INTELLECTUAL PROPERTY RIGHTS

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

### CONNECTED TRANSACTION

Following the listing of Shares on the Stock Exchange, the transaction set out below entered into by the Group will constitute an exempted continuing connected transaction for the Group under Rule 20.25(3) of the GEM Listing Rules.

#### Tenancy agreement between the Group and a connected person

Pursuant to a tenancy agreement dated 8th September, 2001 entered into between Mr. Tao as lessor and a member of the Group as lessee, the Group agreed to lease office premises in Shenzhen located at Rooms 1111-1117, Level 11, Jiang Su Building, Fu Zhong Yi Road, Futian District, Shenzhen, Guangdong Province, the PRC from Mr. Tao for a term of one year commencing from 8th September, 2001 at a monthly rental of RMB30,683.80 (exclusive of management fee and all outgoings), amounting to approximately RMB368,206 per year. The property is occupied by the Group as office.

Mr. Tao is an executive Director and, therefore, a connected person of the Company.

The tenancy agreement was negotiated on an arm's length basis between the Group and Mr. Tao. Further, the Directors (including the independent non-executive Directors) have confirmed that the connected transaction described above was entered into on normal commercial terms and in the ordinary and usual course of business of the Group and is fair and reasonable so far as the shareholders of the Company, as a whole are concerned.

In addition, Vigers, a firm of independent property valuers, has confirmed that the connected transaction out in the paragraphs above are on normal commercial terms and on terms that are fair and reasonable.

Since the annual rental amount payable by the Group is less than higher of the de-minimis threshold stipulated under Rule 20.25(3) of the Listing Rules, the transaction is therefore exempted from the reporting, announcement and shareholders' approval requirements set out in Rules 20.34 to 20.36 of the GEM Listing Rules. The Company will comply with the relevant requirements under Rules 20.34 to 20.36 of the GEM Listing Rules should the annual rental payable by the Group exceed the de-minimis threshold.

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## STATEMENT OF BUSINESS OBJECTIVES

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### OVERALL BUSINESS OBJECTIVES

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

#### Business objectives

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

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

<b>Proposed name of the products</b>	<b>Therapeutic indications</b>	<b>Active ingredient</b>	<b>Products form</b>	<b>Status</b>	<b>The Group's interest</b>
Interferon nasal spray	Upper respiratory tract viral infections e.g. cold & flu	Interferon	Spray	Preparing for clinical trials	100%
Receptase	Oral medication for farm animals e.g. prevention of diarrhea	Enzyme	Powder	Preparing for field trials	100%
Probiotic	Ingest live beneficial bacteria for healthy bowels	Probiotic bacteria	Capsule	Stability testing	100%
EPO	Increase red blood cell in chronic subclinical anemia	EPO	Tablet	Animal testing and stability testing	100%
Iron Orotate	Iron supplement for chronic anemia	Chelated iron supplement	Tablet	Protocol preparation	100%
Depile	Hemorrhoid	Herb	Capsule	Clinical trial/ Pilot production	100%

#### Strategic alliances

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

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## STATEMENT OF BUSINESS OBJECTIVES

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

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

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

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

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

Most of the sales channels of the Group so far are aiming at hospital outlets. The Directors believe there is a great potential in the OTC market through supermarkets and general drug stores. The Directors believe that, in view of the vast geographical span and population in the PRC, the Group will continue to expand its existing distribution networks and sales outlets from its present coverage to regional cities and rural areas in the PRC. In terms of products, the Group plans to launch the hemorrhoid product under a proposed commercial name “Depile” in the PRC market by mid to late 2002, the interferon nasal spray and Receptase in the PRC market during the second half of 2003, and the other products under development in the PRC market in 2004.

### **Expansion to international markets**

The Directors consider that the markets in the Asia Pacific region and Europe have vast business potential for the Group’s biopharmaceutical products. To explore such business potential, the Group will appoint local agents with established marketing networks for distribution of its products in selected countries in the Asia Pacific region and Europe. For the South East Asian region, the Group has commenced initial marketing work in Thailand, Taiwan, Singapore, Korea and the Philippines. For the European market, the Group has commenced initial marketing work in Russia and intends to subsequently develop other European markets.

## STATEMENT OF BUSINESS OBJECTIVES

### Research and development and production

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

### Establish the Group's websites

The Group has established several websites to enhance the biopharmaceutical business of the Group. The websites are used to advertise the Group's products and to promote the Group's image. The medium-term objective is to develop the websites into a sales channel and an e-commerce platform for the Group's pharmaceutical products.

### MILESTONES

In light of the business objectives and future plans of the Group, the Group intends to attain the following milestone achievements during the period from the Latest Practicable Date to 31st December, 2003.

Scheduled objectives and expenditure:  
(Unit: million HK\$)

	<b>Latest Practicable Date to 30-06-2002</b>	<b>6 months to 31-12-2002</b>	<b>6 months to 30-06-2003</b>	<b>6 months to 31-12-2003</b>	<b>Sub- total</b>
<b>Establishment of new production facilities of Weiao</b>					
<i>Establishment of new production facilities of Weiao</i>	Engage consultant for finalisation of proposal	Complete planning Permit application Commence construction	Structural phase of construction	Equipment installation Commissioning of GMP certification  Commence production	
	3	9	3	3	18
<b>Phase I Construction of Chengdu R&amp;D Centre</b>					
<i>Construction</i>	Finalise proposal Complete planning Permit application Commence construction	Structural phase of construction	Internal phase of construction		
<i>Equipment</i>	Turbo coater deposit Turbo coater progress payment Finalise miscellaneous equipment list	Confirm ordering of miscellaneous equipment Commissioning of Turbo coater	Commissioning of miscellaneous equipment		
<i>GLP Certification</i>	Engage consultant	GLP documentation	GLP implementation		
	3	14	10	-	27

## STATEMENT OF BUSINESS OBJECTIVES

	<b>Latest Practicable Date to 30-06-2002</b>	<b>6 months to 31-12-2002</b>	<b>6 months to 30-06-2003</b>	<b>6 months to 31-12-2003</b>	<b>Sub- total</b>
<b>Upgrading of the Research and Development Centre in Melbourne</b>					
	Lease of a GMP factory/ laboratory	GMP implementation			
	GMP construction work	Equipment commissioning			
	Documentary order equipment				
	5	6	-	-	11
<b>Product research and development</b>					
<i>Nasal Interferon Project</i>	Establish study protocol Toxicology study Stability study Animal study	Finalise dossier registration and clinical trial	Registration and clinical trial Marketing plan	Launch product	
<i>EPO Project</i>	Technical and marketing feasibility study Sample preparation Establish study protocol	Toxicology study Stability study Animal study	Finalise dossier Registration and clinical trial	Registration and clinical trial Marketing plan	
<i>Probiotic Project</i>	Confirm formulation Technical feasibility study Toxicology study Stability study	Efficacy study	Finalise registration dossier and submit application	Registration as health supplement	
<i>Receptase Project</i>	Establish study protocol Toxicology study Stability study	Finalise dossier registration and clinical trial	Registration and clinical trial Marketing plan	Launch product	
<i>Hemorrhoid Project</i>	Finalise dossier registration and clinical trial Registration and clinical trial Marketing plan	Launch product			
<i>Iron Orotate Project</i>	Preliminary investigation Toxicology study Stability study Efficacy study	Finalise registration dossier and submit application	Registration as health supplement		
	4	2	2	1	9

## STATEMENT OF BUSINESS OBJECTIVES

	Latest Practicable Date to 30-06-2002	6 months to 31-12-2002	6 months to 30-06-2003	6 months to 31-12-2003	Sub- total
<b>Market Expansion</b>					
<i>Network setup</i>	Set up infrastructure Staff training	Point of sales Local distributors Regional wholesalers Medical specialists	Staff training		
<i>Promotion</i>		Point of sales Local distributors Consumers	Point of sales Local distributors Consumers	Point of sales Local distributors Consumers	
<i>Market survey</i>		Market survey	Market survey	Market survey	
	4	5	5	5	19
<b>PERIOD TOTAL</b>	<b>19</b>	<b>36</b>	<b>20</b>	<b>9</b>	<b>84</b>

### BASES AND ASSUMPTIONS

The Directors have evaluated its market potential, implemented the Group's directions on active business pursuits, formulated the strategic plan, endeavoured to achieve the Group's business objectives in accordance with expected market demand, and also sought for future increase of product sales on the strength of experience and knowledge of the Directors. The Directors have made the following assumptions:

#### 1. Market situation

There will be continuous growth in the biopharmaceutical and conventional pharmaceutical market. In addition, there will be no material changes in the development of the PSD and SDDS technologies and the competition within the pharmaceutical industry.

#### 2. Funding

The business plan assumes that the Group will have sufficient financial resources to meet the proposed amount to be allocated for the schedule events to be achieved up to and including 2003.

#### 3. Taxation

There will be no significant change in the bases and rates of taxation in Hong Kong, Australia and the PRC where the Group operates in or its affiliates are incorporated.

#### 4. Human resources

- (a) There will be sufficient research experts and skilled staff in the pharmaceutical industry; and
- (b) The Group will be able to retain its staff as well as successfully recruit high caliber and capable personnel.

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## STATEMENT OF BUSINESS OBJECTIVES

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### 5. Business partnership

- (a) The Group will be able to form alliance with established biotechnology and pharmaceutical companies and research institutes to enable the Group to maintain a competitive edge; and
- (b) The Group will be able to maintain its business relationship with its existing distributors and marketing agents and to recruit additional distributors and marketing agents.

### 6. Time schedule

The Group will be able to (i) launch its research and development programmes; (ii) complete pre-clinical tests and clinical trials on its pharmaceutical products; (iii) obtain all the necessary approvals from government authorities such as the GMP and GLP certifications; (iv) obtain necessary approvals from the SDA for the commercial production of its pharmaceutical products; and (v) commence production within the scheduled time period.

### 7. Sales

The sales of the Group's pharmaceutical products will have a steady growth.

### 8. Other issues

- (a) There will be no significant adverse change in the existing political, legal, financial, foreign trade or economic conditions in Hong Kong, Australia and the PRC or countries in which the Group expands its business within the forward looking period; and
- (b) There will be no disaster, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss or damage.



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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### DIRECTORS

#### Executive Directors

*Mr. Ko Sai Ying, Thomas (高世英)*, aged 56, is the Chairman, an executive Director and a founder of the Group. Mr. Ko is responsible for the overall strategic planning and business development of the Group. Mr. Ko holds a bachelor's degree in pharmacy from the Victorian Institute of Colleges in Melbourne, the State of Victoria, Australia in 1968. In 1971, Mr. Ko established Vitapharm Pharmaceutical Pty. Ltd. in Melbourne. The company specialised in the research and development, production and distribution of a range of human and veterinary pharmaceutical products. Mr. Ko was the managing director of the company and was in charge of the research and development activities. The company was voluntarily liquidated in July 2001 owing to the possible conflict of interests with the Group. His special interest is in drug delivery system and immunology. Mr. Ko is currently a member of Pharmaceutical Society of Australia and International Society of Interferon and Cytokine Research.

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

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

Mr. Ko was involved in certain litigation proceedings some time in 1991 and 1992 in Australia and the Netherlands arising from disputes among the then partners to a joint venture established in Australia by Mr. Ko and others for the purposes of research and development of pharmaceutical products.

Prior to any trials in Australia and the Netherlands, all concerned parties resolved the disputes through mediation. Pursuant to the confidential terms of settlement dated 22nd October, 1993 entered into among all the parties to the proceedings, all proceedings in Victoria and the Netherlands were discontinued and all parties bore their own legal costs. There are no outstanding cost claims between the parties.

*Mr. Au Yeung Ping Yuen, Terence (歐陽炳源)* aged 49, is an executive Director and a founder of the Group. Mr. Au Yeung is responsible for overseeing the implementation of the corporate strategy on research and development and the production of the Group. Mr. Au Yeung obtained a bachelor's degree in Applied Science from Swinburne Institute of Technology in Melbourne, the State of Victoria, Australia.

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

*Mr. Liu Jin, James (劉津)* aged 39, is an executive Director and a founder of the Group. Mr. Liu is responsible for the overall strategic planning on sales and marketing of the Group. Mr. Liu holds a bachelor's degree in mechanical engineering from Chemistry Institute of Shandong in PRC (中國山東化工學院). Mr. Liu has years of experience in production and sales of medical products. In early 1990s, he set up Shandong North-Marigold Medical Co., Ltd., one of the largest and most advanced medical product manufacturing plant in the

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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PRC. Mr. Liu was the deputy chairman of the company and was responsible for overseeing the overall operations.

*Mr. Tao Lung (陶龍)*, aged 45, is an executive Director and a founder of the Group. Mr. Tao is responsible for overseeing the administration and finance functions of the Group. Graduated from Chengdu Chinese Medicine Institute of the PRC (中國成都中醫學院) in 1983 with a bachelor's degree in Chinese medicine, Mr. Tao also holds a Master's degree in Chinese medicine from Chengdu Chinese Medical University in 1989. After graduation, Mr. Tao was engaged as a doctor in an affiliated hospital of Chengdu Chinese Medical University, and a medical representative and a consultant of various companies in Hong Kong. Mr. Tao is an instructor of the Chinese Medicine Course of Baptist University and a committee member of the Hong Kong Chinese Medical Society (香港中醫學會).

Each of Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao has entered into a service contract with the Company for an initial term of two years commencing from 1st December, 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 30th November, 2002 at the discretion of the Directors). In addition, the executive Directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 10% of the audited combined profits attributable to the shareholders of the Company (after taxation and minority interests but before extraordinary and exceptional items and the payments of such bonuses) in respect of the financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

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

For the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the total emoluments paid to the Directors were approximately HK\$506,000, HK\$1,251,000 and HK\$1,238,000 respectively.

### **Independent non-executive Directors**

*Mr. Lee Kwong Yiu (李廣耀)*, aged 39, is an independent non-executive Director of the Group. Mr. Lee has been a practicing solicitor in Hong Kong since 1994. Mr. Lee holds professional qualification as a solicitor of the High Court of Hong Kong and an associate of the Chartered Institute of Arbitrators. Mr. Lee is also a member of the advisory committee to Caritas Lok Heep Club. Mr. Lee is the company secretary of Gay Giano International Group Limited and Millennium Sense Holdings Limited, and an independent non-executive director of Sun Hing Vision Group Holdings Limited. Mr. Lee was appointed as an independent non-executive Director of the Group in January 2002.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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Mr. Lo Wa Kei (盧華基), aged 30, is an independent non-executive Director of the Group. Mr. Lo has eight years of experience in accounting and finance field. He is a practicing certified public accountant in Hong Kong. He is also a member of the Hong Kong Society of Accountants, a member of the Chartered Association of Certified Accountants and a member of the Hong Kong Securities Institute. Mr. Lo is also an independent non-executive director of Sun Hing Vision Group Holdings Limited. Mr. Lo was appointed as an independent non-executive Director of the Group in January 2002.

### AUDIT COMMITTEE

The Company established an audit committee on 26th January, 2002 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 and supervise the financial reporting process and internal control system of the Group.

The audit committee will have two members comprising Lee Kwong Yiu and Lo Wa Kei, both of them are independent non-executive Directors. Lo Wa Kei has been appointed as chairman of the audit committee.

### SENIOR MANAGEMENT

Mr. Huang Jian Ming (黃建明), aged 38, is a general manager overseeing the Group's business development in the PRC. He graduated from Sichuan Luzhou Chemical Engineering Institute in 1981. Mr. Huang was employed as a management staff of Sichuan Chengdu Fourth Pharmaceutical Plant (四川省成都市第四製藥廠) for eleven years since 1982 and participated in the planning of the construction of Hainan Huapu Pharmaceutical Factory (海南華埔製藥廠). Mr. Huang has accumulated over 15 years of management experience in the pharmaceutical industry. Mr. Huang joined the Group since its establishment in April 1998. He is currently the legal representative of Tianao.

Mr. Au Yeung Kwong Wah (歐陽廣華), aged 37, is the financial controller and the company secretary of the Company. He joined the Group in September 2001 and is responsible for overseeing the financial and the company secretarial functions of the Company. He has obtained a bachelor's degree in commerce from the Bond University in Australia and a master's degree in accountancy from the Chinese University of Hong Kong. Mr. Au-Yeung is a member of the Australian Society of Certified Public Accountants and an associate member of the Hong Kong Society of Accountants.

Ms. Guo Lin (郭琳) aged 38, is the manager of the Group's Investment Department and is responsible for its overall investment strategy of the Group. She holds a bachelor degree in Economics from Hunan Finance and Economics Institute (湖南財經學院) in 1984 and a master degree from Zhongnan Industrial University (中南工業大學) in 1993. Ms. Guo has been a lecturer in Hunan Finance and Economics Institute and Zhongnan Industrial University. She also worked as a manager of the investment banking division of Shenzhen Junshan Investment Limited (深圳市軍山投資有限公司) for over 3 years. Ms. Guo joined the Group in June 2001.

Mr. Shen Song Qing (沈松青), aged 41, is the marketing manager (Mainland China). He graduated from Chengdu Chinese Medicine Institute of the PRC (中國成都中醫學院) in 1983. He has experience of sales and marketing of drugs for more than 18 years, including working as the sales director of China Chengdu Chinese Pharmaceutical Factory (中國成都市中藥廠) and joined the Group since its establishment in April, 1998.

Mr. Jin Wei (金瑋), aged 29, is the Group's administration manager and is responsible for the general administrative functions of the Group. He graduated from Nantong Industrial College (南通工業學院) in 1994. He has over 4 years of working experience in export trading business. Mr. Jin joined the Group in May 1998.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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

Dr. Wong Tuen Yee Elizabeth (王端兒), aged 48, is the Principal Scientist of Vitapharm Research. She holds a Bachelor of Science (Biology) degree from Chinese University of Hong Kong in 1976 and a doctorate degree in Biochemistry from University of Louis Pasteur, Strasbourg, France (1980). Before joining the Group, Dr. Wong was engaged as a research assistant in the Centre of Neurochemistry of CNRS in France, research fellow of Institute of Neurology in London, research fellow of the Department of Surgery of University of Queensland and Research and Development scientist of CSL Limited in Australia. She is the author and co-author of numerous publications in international scientific journals and she has been awarded with various international and national research grants. Dr. Wong specialises in the development of biological products according to GMP and GLP standards and is experienced in project management and development and implementation of quality systems. Dr. Wong joined Vitapharm Research in September, 2000.

Mr. Wu Qing Jiang (吳慶江), aged 38, is the general manager of Weiao. Mr. Wu holds a bachelor's degree in Chinese medicine from Chengdu Chinese Medical Institute in the PRC (中國成都中醫學院). Mr. Wu was engaged as a management staff in charge of the technical operations of Sichuan Jisheng Pharmaceutical Factory (四川省濟生製藥廠) for over eleven years since 1983, manager of Chengdu Tenth Pharmaceutical Factory (成都市製藥廠十廠), deputy general manager of Sichuan Jinhui Pharmaceutical Limited (四川金輝藥業有限公司). He has 17 years of experience in managing production quality control of drugs and is familiar with the regulations regarding management of drugs and development of new drugs. Mr. Wu joined the Group in November 2000.

Mr. Guo Wei Ping (郭衛平), aged 43, is the general manager of Tianao. He graduated from Luzhou Industrial Chemical College (瀘州化工業專科學校) with a diploma in organic synthetics in 1982 and Huaxi Medical University (華西醫科大學) with a diploma in pharmacy. He worked for Chengdu Fourth Pharmaceutical Factory (成都製藥四廠) for almost 20 years since 1982 and the last position he held was deputy technical manager. He joined the Group in October 1998.

Dr. Zhang Mei (張梅), aged 34, is the manager of Vital (Sichuan) responsible for overseeing the daily operations of Vital (Sichuan). She is a registered doctor in the PRC and graduated from Sichuan Western Medical College (四川西醫學院) in 1989. Dr. Zhang has 6 years experience in surgery. In 1994, Dr. Zhang was granted a bachelor's degree of Business Administration in Xinan Communication University (西南交通大學). Dr. Zhang joined the Group in March 2001.

Dr. Zhang Guo Feng (張國豐), aged 36 is the research fellow of Vital (Sichuan). Dr. Zhang obtained his Ph.D from 中國協和醫科大學 in 1994. He was then engaged in the research and development of drugs. Dr. Zhang is also the person-in-charge of the drug bio-chemistry laboratory and the vice president of the 藥物信息室 of Jiangzhong Pharmaceutical Group (江中製藥集團) and the research fellow of 西南證券有限責任公司研究發展中心行業公司部. While working for Jiangzhong Pharmaceutical Group, he was responsible for the research and development of drugs. Dr. Zhang joined the Group in November 2000.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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Mr. Liu Jia Jian (劉家健), aged 58, is the principal scientist of Vital (Sichuan). He graduated from the faculty of Chemistry in University of Sichuan. Mr. Liu Jia Jian has been a director of a major antibiotic research institute in Chengdu City, Sichuan Province, the PRC since 1974. He is mainly responsible for the research and development work of new drugs and the restructuring of the structure of antibiotics. Mr. Liu is also the mentor of doctorate candidate, a Committee Member of the National New Drug Approval Committee (國家新藥評審委員會), 省政協委員 and receives a life subsidy from the State Council of PRC by virtue of his expert status in drug research (國務院終身津貼專家). Mr. Liu joined the Group in August 2001.

### STAFF

As at 31st December, 2001, the Group had employed 436 employees who were engaged in the following functions:

Function	31st December, 1999	31st December, 2000	31st December, 2001
Research and development	2	4	35
Production	73	68	128
Sales and distribution	59	53	212
Finance and accounting	6	7	12
General administration	20	17	49
	<hr/>	<hr/>	<hr/>
Total	160	149	436

### Relationship with staff

None of the Company's employees is represented by a labour union or is subject to a collective bargaining agreement, nor has the Group experienced any work stoppage. The Directors consider that the Group's relationship with its employees to be good.

### PENSION SCHEME

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

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

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

**SHARE OPTION SCHEME**

The Company has conditionally adopted the Share Option Scheme pursuant to which the classes of participants referred may be granted options which entitle them to subscribe for Shares subject to the terms and conditions of the Share Option Scheme. Further details of the Share Option Scheme are set out in the section headed “Share Option Scheme” in Appendix IV to this prospectus.

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## SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

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### INITIAL MANAGEMENT SHAREHOLDERS

The following persons are individually and/or collectively entitled to exercise or control the exercise of five per cent. or more of the voting power at the general meetings of the Company and are able, as a practical matter, to direct or influence the management of the Company immediately following completion of the Placing and the Capitalisation Issue (but without taking into account Shares which may be taken up under the Placing and assuming the Over-allotment Option is not exercised) and are therefore regarded as Initial Management Shareholders of the Company under the GEM Listing Rules:

<b>Name</b>	<b>Number or attributable number of Shares directly or indirectly held immediately following the Placing and the Capitalisation Issue</b>	<b>Approximate percentage shareholding or attributable percentage shareholding immediately following the Placing and the Capitalisation Issue</b>
Perfect Develop (Note 1)	612,000,000	51.00
Mr. Ko (Note 2)	250,382,400	20.86
Mr. Au Yeung (Note 3)	44,572,800	3.71
Mr. Liu (Note 4)	88,070,400	7.34
Mr. Tao (Note 5)	403,195,200	33.60
Dr. Wong Tuen Yee Elizabeth (Note 6)	1,526,300	0.13

Notes:

1. The entire issued share capital of Perfect Develop is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 6% by Mr. Au Yeung and 12% by Mr. Liu. Mr. Tao, Mr. Ko, Mr. Au Yeung and Mr. Liu are founders of the Group.
2. Perfect Develop is the registered holder of 612,000,000 Shares. Mr. Ko has an attributable interest in 33% of the Shares in which Perfect Develop is interested, amounting to 201,960,000 Shares. In addition, 48,422,400 Shares are registered in the name of Mr. Ko.
3. Perfect Develop is the registered holder of 612,000,000 Shares. Mr. Au Yeung has an attributable interest in 6% of the Shares in which Perfect Develop is interested, amounting to 36,720,000 Shares. In addition, 7,852,800 Shares are registered in the name of Mr. Au Yeung.
4. Perfect Develop is the registered holder of 612,000,000 Shares. Mr. Liu has an attributable interest in 12% of the Shares in which Perfect Develop is interested, amounting to 73,440,000 Shares. In addition, 14,630,400 Shares are registered in the name of Mr. Liu.
5. Perfect Develop is the registered holder of 612,000,000 Shares. Mr. Tao has an attributable interest in 49% of the Shares in which Perfect Develop is interested, amounting to 299,880,000 Shares. In addition, 103,315,200 Shares are registered in the name of Mr. Tao.
6. Dr. Wong Tuen Yee Elizabeth is a member of the senior management of the Company, further particulars of whom are set out in the section headed "Directors, Senior Management and Staff" of this prospectus. Apart from that, Dr. Wong Tuen Yee Elizabeth is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

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## SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Placing and the Capitalisation Issue (but without taking into account of Shares which may be taken up under the Placing and assuming the Over-allotment Option is not exercised), the following shareholders will be directly or indirectly interested in 10% or more of the Shares then in issue and are therefore regarded as substantial shareholders of the Company under the GEM Listing Rules:

<b>Name</b>	<b>Number of Shares directly or indirectly held immediately following the Placing and the Capitalisation Issue</b>	<b>Approximate percentage shareholding immediately following the Placing and the Capitalisation Issue</b>
Perfect Develop (Note 1)	612,000,000	51.00
Mr. Tao (Note 2)	715,315,200	59.61

Notes:

1. The entire issued share capital of Perfect Develop is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 6% by Mr. Au Yeung and 12% by Mr. Liu, respectively. All of Mr. Tao, Mr. Ko, Mr. Au Yeung and Mr. Liu are founders of the Group.
2. Mr. Tao owns in aggregate 49 shares in, representing approximately 49% of the issued share capital of Perfect Develop. Accordingly, Mr. Tao is deemed, by virtue of the SDI Ordinance, to be interested in all the Shares in which Perfect Develop is interested, amounting to 612,000,000 Shares immediately after the Placing and the Capitalisation Issue. Together with 103,315,200 Shares registered in his own name, Mr. Tao is deemed, by virtue of the SDI Ordinance, to be interested in, 715,315,200 Shares in aggregate, amounting to approximately 59.61% of the Shares in issue immediately after the Placing and the Capitalisation Issue.

### UNDERTAKINGS

Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor and the Stock Exchange that, save as provided in Rule 13.18 of the GEM Listing Rules, he/she/it will not sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of) any direct or indirect interest in the Relevant Securities of the Company held by him/her/it immediately following completion of the Placing and the Capitalisation Issue for a period of 12 months commencing from the Listing Date (the "Lock-up Period").

Each of the Initial Management Shareholders further undertakes to the Company, the Sponsor and the Stock Exchange that he/she/it will place the appropriate number of his/her/its Relevant Securities in escrow with an escrow agent acceptable to the Stock Exchange during the Lock-up Period.

Each of the Initial Management Shareholders has further undertaken to the Stock Exchange, the Company and the Sponsor that (i) in the event that he/she/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the Lock-up Period, he/she/it must inform the Company and CPY immediately thereafter, disclosing the relevant



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## **SUBSTANTIAL AND INITIAL MANAGEMENT SHAREHOLDERS**

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information specified in Rules 17.43(1) to (4) of the GEM Listing Rules and (ii) having pledged or charged any interest in the relevant Shares as in (i) above, he/she/it must inform the Company and CPY immediately in the event that he/she/it becomes aware that the pledgee or the chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

Immediately following completion of the Placing and the Capitalisation Issue and assuming that the Over-allocation Option is not exercised, the percentage of Shares to be held by the public will be 25%. If the Over-allotment Option is exercised in full, the percentage of Shares to be held by the public will be approximately 27.71%.

### **SIGNIFICANT SHAREHOLDERS**

Save as disclosed above in the paragraphs headed “Initial Management Shareholders” and “Substantial Shareholders”, so far as the Directors are aware, immediately following completion of the Placing and the Capitalisation Issue (without taking into account of Shares which may be taken up under the Placing and assuming the Over-allotment Option is not exercised), there will be no other shareholders which holds 5% or more of the issued share capital of the Company and should be regarded as significant shareholders under the GEM Listing Rules.

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## SHARE CAPITAL

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<i>Authorised share capital</i>		<i>HK\$</i>
<u>50,000,000,000</u>	Shares	<u>500,000,000.00</u>
<i>Issued Shares:</i>		
18,181,820	Shares in issue at the date of this prospectus	181,818.20
<i>Shares to be issued:</i>		
240,000,000	Shares to be issued pursuant to the New Issue	2,400,000.00
<u>941,818,180</u>	Shares to be issued pursuant to the Capitalisation Issue	<u>9,418,181.80</u>
<u>1,200,000,000</u>	Shares in issue and to be issued	<u>12,000,000.00</u>

The minimum level of public float to be maintained by the Company at all times after the listing of the Shares on GEM, under the GEM Listing Rules, is 25% of the share capital of the Company in issue from time to time.

Notes:

### 1. Assumptions

The table assumes the Placing become unconditional. It does not take into account any Shares which fall to be issued if the Over-allotment Option is exercised, or which may fall to be issued upon the exercise of any option which may be granted under the Share Option Scheme or which may be allotted and issued under the general mandate (see below).

### 2. Ranking

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

### 3. Share options

The Company has conditionally adopted the Share Option Scheme, a summary of the main terms of which is set out in the paragraph headed "Share Option Scheme" in Appendix IV to this prospectus.

### 4. General mandate to issue Shares

The Directors have been granted a general unconditional mandate to allot, issue and otherwise deal with Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal amount of the share capital of the Company issued and to be issued as mentioned herein (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- (b) the aggregate nominal amount of the share capital of the Company repurchased by the Company (if any).

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

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## SHARE CAPITAL

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This mandate will remain in effect until:

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

whichever is the earliest.

### **5. 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 an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of the Company issued and to be issued as mentioned in the prospectus (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the GEM, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the GEM for this purpose), and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing is set out in the paragraph headed "Repurchase by the Company of its own securities" in Appendix IV to this prospectus.

This mandate will remain in effect until:

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

whichever is the earliest.

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## FINANCIAL INFORMATION

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### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

#### Indebtedness

As at 30th November, 2001, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK\$46.2 million, comprising long-term bank loans of approximately HK\$14.3 million, short-term bank loans of approximately HK\$20.1 million, trust receipt loans of approximately HK\$3.1 million, other loans of approximately HK\$6.1 million, bank overdrafts of approximately HK\$1.2 million, amounts due to minority shareholders of subsidiaries of approximately HK\$0.5 million, amount due to a Director of approximately HK\$0.4 million, amount due to a related company of approximately HK\$0.2 million and obligations under finance leases of approximately HK\$0.3 million.

Long-term bank loans were secured by certain fixed assets of a subsidiary of the Group. Short-term bank loans of approximately HK\$12.5 million and approximately HK\$3.4 million were secured by the properties of a related party and certain bank deposits of a subsidiary respectively. Short-term bank loans of approximately HK\$2.7 million and HK\$1.5 million were guaranteed by a related party and an intermediate holding company of the minority shareholder of a subsidiary respectively. Other loan of approximately HK\$2.8 million is secured by the properties of a related party.

The bankers of short-term bank loans of approximately HK\$12.5 million and HK\$2.7 million respectively have agreed in principle that the securities and guarantees provided by a related party will be released and replaced by corporate guarantees to be given by Weiao upon the listing of the Shares. The Directors have undertaken to fully repay the short-term bank loan of approximately HK\$1.5 million guaranteed by the intermediate holding company of the minority shareholder of a subsidiary upon the listing of the Shares. Furthermore, the amounts due to minority shareholders of subsidiaries, a Director and a related company totalling approximately HK\$1.1 million have been fully repaid as at the date of this prospectus.

The lender of the other loan of approximately HK\$2.8 million has agreed in principle that the securities provided by a related party will be released and replaced by a corporate guarantee given by the Company upon the listing of the Shares.

As at 30th November, 2001, the Group had aggregate banking facilities for overdrafts and documentary credits of approximately HK\$7 million. The facilities were secured by the following:

- (a) a corporate guarantee of HK\$10 million of the Company;
- (b) an unlimited joint and several guarantee of Mr. Tao and Mr. Huang Jian Ming, a director of a subsidiary;
- (c) 5% of gross receipts from trade receivables as deposits pledged to a bank (the deposits pledged was approximately HK\$4.2 million at 30th November, 2001); and
- (d) all export documentary credits of a subsidiary.

The banker has agreed in principle that the guarantee provided by Mr. Tao and Mr. Huang Jian Ming will be released upon the listing of the Shares.

Banking facilities utilised as at 30th November, 2001 amounted to approximately HK\$3.1 million.

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## FINANCIAL INFORMATION

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### Contingent liabilities

As at 30th November, 2001, the Group and the Company did not have any significant contingent liabilities.

### Disclaimer

Save as aforesaid, none of the companies in the Group had outstanding at the close of business on 30th November, 2001 any mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, hire purchase or other finance lease commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, guarantees or other material contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has been no material change in the indebtedness or contingent liabilities of the Group since 30th November, 2001.

### Net current assets

As at 30th November, 2001, being the latest practicable date for the purpose of the disclosure of balance sheet items, the Group had net current assets of approximately HK\$18.7 million. The current assets comprised of inventories of approximately HK\$4.5 million, trade receivables of approximately HK\$23.4 million, other receivables of approximately HK\$5.0 million, prepayments and other deposits of approximately HK\$20.7 million, and bank balances and cash of approximately HK\$16.5 million. The current liabilities comprised of trade payables of approximately HK\$9.5 million, accrued charges and other payables of approximately HK\$7.4 million, amounts due to minority shareholders of subsidiaries of approximately HK\$0.5 million, amount due to a Director of approximately HK\$0.4 million, amount due to a related company of approximately HK\$0.2 million, tax payable of approximately HK\$0.1 million, value added tax payable of approximately HK\$0.9 million, bank overdrafts of approximately HK\$1.2 million, current portion of long-term bank loans of approximately HK\$1.9 million, short-term bank loans of approximately HK\$20.1 million, trust receipt loans of approximately HK\$3.1 million and other loans of approximately HK\$6.1 million.

### Financial resources

At the close of business on 30th November, 2001, the Group had bank balances and cash of approximately HK\$16.5 million. The Company intends to finance the Group's future operations and capital expenditures and other capital requirements with internally generated resources, existing bank balances and cash available and banking facilities, and net proceeds of the New Issue.

### Foreign exchange

The Group earns revenue and incurs costs and expenses mainly in RMB, HK\$, US\$ and AUD. 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. As at the date of this prospectus, there is no forecast or plan in relation to the distribution of dividends. However, taking into account the Group's operational and capital requirements and the balanced portfolio of assets and liabilities denominated in the aforesaid currencies, the Directors do not consider the Group will be subject to exchange rate risks in the event of the devaluation of RMB or fluctuation of the exchange rate of AUD. Moreover, the Directors believe that the Company has sufficient foreign exchange to meet its foreign currency liabilities when they become due.

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## FINANCIAL INFORMATION

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### Capital commitments

As at 30th November, 2001, the Group had capital commitments in respect of the fixed assets amounting to approximately HK\$5.5 million.

### Working capital

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

## PROPERTY

### Properties owned in the PRC

The Group owns a factory complex located in XiangYang Road, Liu Cheng Town, Wen Jiang, Chengdu City, Sichuan Province, the PRC with a total gross floor area of approximately 8,103.93 sq.m.

The Group also owns two parcels of land located in Cheng Nan Economic Zone, XiangYang Road, Liu Cheng Town, Wen Jiang, Chengdu City, Sichuan Province, the PRC with a total site area of approximately 30,915.2 sq.m. which is at present vacant.

### Properties rented in Hong Kong

The Group leases two office units 1001 and 1002 on the 10th floor, Kwai Hung Holdings Centre, 89 King's Road, North Point, Hong Kong with a gross floor area of approximately 146.88 sq.m.

The Group also leases a domestic unit in Tai Koo Shing, Quarry Bay, Hong Kong with a gross floor area of approximately 55.74 sq.m. which is used as staff quarter.

### Properties rented in the PRC

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

### Property rented in Australia

The Group leases a building located in Factory 30, 65-67 Canterbury Road, Montrose, the State of Victoria, Australia with a gross floor area of approximately 295 sq.m. which is used as a research and development centre.

### Property valuation

Vigers has valued the property interests of the Group as at 30th November, 2001. The texts of its letter and valuation certificate are set out in Appendix II to this prospectus.

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## FINANCIAL INFORMATION

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### DISTRIBUTABLE RESERVES

As at 30th November, 2001, there was no reserve available for distribution to the shareholders of the Company.

### ADJUSTED NET TANGIBLE ASSETS

The following is a pro forma statement of adjusted net tangible assets of the Group which is based on the combined net assets of the Group as at 30th June, 2001, as shown in the accountants' report set out in Appendix I, and adjusted as described follows:

	<i>HK\$'000</i>
Audited net assets of the Group as at 30th June, 2001	27,339
Less: Intangible assets	<u>(8,696)</u>
Net tangible assets of the Group as at 30th June, 2001	18,643
Unaudited combined profit of the Group as shown in the management accounts for the five months ended 30th November, 2001	19,850
Surplus arising on revaluation of the Group's properties as at 30th November, 2001 ( <i>note 1</i> )	3,321
Estimated net proceeds of the New Issue ( <i>note 2</i> )	<u>96,000</u>
Adjusted net tangible assets	<u><u>137,814</u></u>
Adjusted net tangible asset value per Share ( <i>note 3</i> ) (based on 1,200,000,000 Shares in issue and to be issued as mentioned herein)	<u><u>HK\$0.11</u></u>

Notes:

1. The surplus of approximately HK\$3,321,000 arising from revaluation of the Group's properties will not be incorporated into the Group's financial statements for the year ended 31st December, 2001. The texts of the letter, summary of valuations and valuation certificates issued by Vigers Hong Kong Limited in respect of such valuations are set out in Appendix II to this prospectus.
2. The estimated net proceeds of the New Issue is based on the Placing Price of HK\$0.45 per Share (being the mid-point of the stated range of the Placing Price between HK\$0.4 and HK\$0.5 per Placing Share) and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
3. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section but it takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or of any options 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 described in the paragraph headed "Resolutions in writing of all shareholders of the Company passed on 26th January, 2002" in Appendix IV to the prospectus.

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## FINANCIAL INFORMATION

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### **ADVANCES TO AN ENTITY AS DISCLOSED UNDER RULES 17.15 AND 17.17 OF THE GEM LISTING RULES**

According to Rules 17.15 and 17.17, a disclosure obligation arises where the relevant advance to an entity from the Group exceeds 25% of the Group's net tangible assets. As at 30th November, 2001, being the latest practicable date for the purpose of disclosure of balance sheet items, the amounts of HK\$1,368,900 and HK\$9,182,160 due from Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) and Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) respectively represent 1.0% and 6.7% of the adjusted net tangible asset value of the Group (as calculated in the subsection headed "Adjusted net tangible assets" under the section headed "Financial information" to this prospectus). The amounts as at 30th June, 2001 were HK\$16,817,000 and HK\$8,593,000 respectively which represent 90% and 46% of the net tangible asset value of the Group as at that date. Both amounts were trade receivables which were unsecured, interest free and had normal terms of settlement. They have been fully settled subsequent to 30th June, 2001.

### **DISCLAIMER**

Save as disclosed above in the prospectus, the Directors confirm that, as at the Latest Practicable Date, they were not aware of any other circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

### **NO MATERIAL ADVERSE CHANGE**

The Directors confirm that since 30th June, 2001, there has been no material adverse change in the financial or trading position of the Company or any of its subsidiaries.

### **DIVIDEND POLICY**

No dividends have been paid or declared by the Company since the date of its incorporation.

There is no assurance that dividends of similar amount or at similar rate will be made in the future and the past dividend payments referred to above should not be used as a reference or basis to determine the amount of dividend payable in the future.

The Directors at present do not intend to recommend any dividend in respect of the year ended 31st December, 2001. The amount of any dividend to be declared in the future will depend on, among other things, the Company's results of operations, cash flows and financial condition, operating and capital requirements. The Directors expect that interim and final dividends will be paid in or around August and April of each year respectively, and that in the event that a dividend will be proposed and declared for any one financial year, the dividend would represent approximately one-third of the profit after taxation for that particular year. It is also expected that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year should any dividend be declared.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### TRADING RECORD

The following is a summary of the combined results of the Group for the two years ended 31st December, 2000 and the six months ended 30th June, 2001, which, except for information relating to the earnings per share, have been extracted from the accountants' report set out in Appendix I to this prospectus. The combined results have been prepared on the basis of presentation set out in the same accountants' report.

	Year ended 31st December,		Six months ended 30th June,
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Turnover (Note 1)	22,875	64,128	52,767
Cost of sales	(14,435)	(37,921)	(28,953)
Gross profit	8,440	26,207	23,814
Other revenues	10	28	58
Selling and distribution expenses	(1,084)	(1,452)	(1,333)
Administrative expenses	(2,546)	(5,504)	(5,427)
Other operating expenses (net)	(1,441)	(2,146)	(2,195)
Operating profit	3,379	17,133	14,917
Finance costs	(2,233)	(1,836)	(1,220)
Profit before taxation	1,146	15,297	13,697
Taxation	–	(15)	(25)
Profit after taxation	1,146	15,282	13,672
Minority interests	(545)	(743)	(188)
Profit attributable to shareholders	<u>601</u>	<u>14,539</u>	<u>13,484</u>
Earnings per share (Note 2)	<u>HK0.06 cents</u>	<u>HK1.51 cents</u>	<u>HK1.40 cents</u>

Notes:

- (1) Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes, where applicable, and consultancy fee income.
- (2) The calculation of basic earnings per Share is based on the Group's profit attributable to shareholders for each of the two years ended 31st December, 2000 and the six months ended 30th June, 2001, and 960,000,000 Shares in issue and issuable, comprising 18,181,820 Shares in issue as at the date of this prospectus and 941,818,180 Shares to be issued pursuant to the Capitalisation Issue, throughout each of the respective financial periods on the assumption that the Group reorganisation had been completed on 1st January, 1999.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### FINANCIAL PERIOD

The accountants' report has been prepared for each of the two years ended 31st December, 2000 and the six months ended 30th June, 2001. As this prospectus is issued shortly after 31st December, 2001, the accountants' report has not been prepared for the full year ended 31st December, 2001 as it would be extremely burdensome and onerous for the Company to do so.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and to the Securities and Futures Commission for a certificate of exemption from strict compliance with paragraphs 27 and 31 of The Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31st December, 2001 in this prospectus. A waiver has been granted by the Stock Exchange and a certificate of exemption has been granted by the Securities and Futures Commission.

Pursuant to Rule 11.11 of the GEM Listing Rules, the Company is required to include the financial results which must not have ended more than six months before the date of this prospectus. However, as the issue date of this prospectus had been postponed to 30th January, 2002, the financial period reported on had ended more than six months before the issue date of this prospectus.

As this prospectus includes the combined results of the Group covering each of the two years ended 31st December, 2000 and the six months ended 30th June, 2001 only, the Company has applied for and has been granted a waiver from strict compliance with Rule 11.11 of the GEM Listing Rules by the Stock Exchange.

The Company has confirmed that they have performed sufficient due diligence work on the Group to ensure that, save as disclosed in this prospectus, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of the Company or any of its subsidiaries since 30th June, 2001 which would materially affect the information as shown in the accountants' report as set out in Appendix I to this prospectus.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview of the combined results

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

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

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Administrative expenses consist primarily of the salaries of administration staff, rental and electricity expenses.

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

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

Particulars of the Group's property interests are set out in the paragraph headed "Property" under the section headed "Financial information" of this prospectus.

Finance costs primarily represent the interests charged on bank loans.

### **Year ended 31st December, 1999 compared with year ended 31st December, 2000**

#### *Turnover*

The turnover of the Group increased from approximately HK\$22.9 million for the year ended 31st December, 1999 to approximately HK\$64.1 million for the year ended 31st December, 2000, representing an increase of approximately 179.9%. The increase was attributable to the enhancement of the sales and promotional efforts of the Group on the product Opin and the introduction of the new calcium supplement product, Osteoform, into the PRC market. The sales of Osteoform commenced in October 2000. For Opin, the sales increased from approximately HK\$21.7 million for the year ended 31st December, 1999 to approximately HK\$29.3 million for the year ended 31st December, 2000, accounting for an increase of approximately 35%. Sales of other products increased from approximately HK\$1.2 million for the year ended 31st December, 1999 to approximately HK\$2.2 million for the year ended 31st December, 2000. Such increase was mainly attributable to the trial product introduction of Spray-On Bandage to Thailand, Australia and Taiwan.

Besides, the Group also received a consultancy fee of HK\$0.4 million from an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

Osteoform is a capsule-based drug which has more advantages over traditional calcium supplement products. The Group owns the sole right to process and distribute this product in the Asian market, and has captured an approximately 0.4% share of the calcium supplements market in dollar term in the PRC. The introduction of Osteoform has provided a stable income stream to the Group. For the year ended 31st December, 2000, the turnover generated from the sales of Osteoform was approximately HK\$32.2 million, representing approximately 50.2% of the total turnover of the Group.

#### *Cost of sales*

Cost of sales comprised direct materials, direct labour, other production overheads and sub-contracting charges. Cost of sales increased from approximately HK\$14.4 million for the year ended 31st December, 1999 to approximately HK\$37.9 million for the year ended 31st December, 2000, representing an increase of approximately 163.2%. The Directors consider that the increase in cost of sales was in line with the growth in turnover.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Direct materials represented a substantial portion which accounted for approximately 82.6% and 81.4% of the total cost of sales for the two years ended 31st December, 2000 respectively. The Group also sub-contracted the packaging process of Osteoform to an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or their respective associates during the year ended 31st December, 2000, which gave rise to a sub-contracting charge of approximately HK\$4.4 million. Besides, saving on raw material costs was achieved by volume discount because of the increase in turnover. The Directors believe that costs of raw materials will continue to drop as a result of the intense competition among interferon suppliers.

### *Gross profit*

The overall gross profit margin increased from approximately 36.9% for the year ended 31st December, 1999 to approximately 40.9% for the year ended 31st December, 2000. Gross profit margin for Opin increased from approximately 34.2% for the year ended 31st December, 1999 to approximately 44.8% for the year ended 31st December, 2000. Such increase was attributable to the increase in selling price and the reduction of the costs of raw materials consumed for production from approximately 52.1% to 48.4% of the total sales of the respective years. Gross profit margin for Osteoform, which was introduced in 2000, was approximately 38.6% for the year ended 31st December, 2000.

### *Selling and distribution expenses*

The distribution and selling expenses of the Group increased from approximately HK\$1.1 million for the year ended 31st December, 1999 to approximately HK\$1.5 million for the year ended 31st December, 2000, representing an increase of approximately 36.4%. The increase was attributable to the new introduction of Osteoform to the PRC market and the increase in the advertising and promotion expenses incurred for promotion of Opin. The Directors consider that the increase in the distribution and selling costs of Osteoform was much smaller than its growth rate in turnover.

### *Administrative Expenses*

The administrative expenses consisted mainly of staff's salaries, remuneration paid to the Directors, travelling, management fee and rental expenses. The administrative expenses of the Group increased from approximately HK\$2.5 million for the year ended 31st December, 1999 to approximately HK\$5.5 million for the year ended 31st December, 2000, representing an increase of approximately 120%. The Directors consider that such an increase was mainly due to the establishment of the Hong Kong office in the 2nd half of the year 2000 which incurred additional administrative expenses such as staff costs and rental expenses. Furthermore, additional remuneration paid to the Directors of the Group and additional staff costs incurred in Australia due to an increase of employees from one in 1999 to eight in 2000 was also attributable to the increase of administrative expenses.

### *Other Operating Expenses*

The other operating expenses consisted mainly of amortisation of intangible assets, depreciation expenses and provision for bad debts. The other operating expenses of the Group increased from approximately HK\$1.4 million for the year ended 31st December, 1999 to approximately HK\$2.1 million for the year ended 31st December, 2000, representing an increase of approximately 50%. The Directors consider

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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that such an increase was mainly attributable to the increase of research and development expenses of approximately HK\$0.2 million, a provision for bad debt of approximately HK\$0.2 million, and an increase of depreciation and amortisation expenses.

### *Finance Costs*

The finance costs consisted mainly of the interests expenses on bank and other loans. The finance costs decreased from HK\$2.2 million for the year ended 31st December, 1999 to HK\$1.8 million for the year ended 31st December, 2000. The Directors considered that the decrease in finance costs was mainly due to the reduction of market interest rates.

### *Net profit*

The net profit of the Group increased from approximately HK\$0.6 million for the year ended 31st December, 1999 to approximately HK\$14.5 million for the year ended 31st December, 2000, representing an increase of approximately 2,316.7%. The net profit margin also increased from approximately 2.6% to 22.7%. The increase in the net profit and the net profit margin was mainly due to the fact that the growth in turnover was at a much higher rate than the increase in distribution and selling costs as well as administrative and other operating expenses.

## **For the six months ended 30th June, 2001**

### *Turnover*

For the six months ended 30th June, 2001, the Group's total turnover amounted to approximately HK\$52.8 million, of which approximately 36.3% and 63.3% were attributable to the respective sales of Opin and Osteoform. The turnover for the six months ended 30th June, 2001 was almost as high as 82.3% of the total turnover for the whole year ended 31st December, 2000. The Directors consider that the increase in popularity of Opin and Osteoform reflected a high market demand for these products, which resulted in a substantial growth in the Group's turnover. The Group intended to concentrate its promotional resources in the PRC market, hence, sales of Spray-On Bandage to Thailand and Taiwan, which might require more substantial promotional efforts, was terminated for the six months ended 30th June, 2001. This termination resulted in a decrease of sales of other products from approximately HK\$2.2 million for the year ended 31st December, 2000 to approximately HK\$0.2 million for the six months ended 30th June, 2001.

### *Cost of sales*

The total cost of sales for the six months ended 30th June, 2001 was approximately HK\$29.0 million. The cost of sales/turnover ratio was approximately 54.9% which was lower than the approximately 59.1% for the whole year ended 31st December, 2000. The Directors consider that such decrease was attributable to the faster pace of growth rate in turnover than in the cost of sales. Direct materials continued to be the major element of the total cost of sales accounted for approximately 82.3% of the total cost of sales for the six months ended 30th June, 2001.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### *Gross profit*

For the six months ended 30th June, 2001, the gross profit of the Group was approximately HK\$23.8 million, representing an overall gross profit margin of approximately 45.1%. Osteoform was well-received in the PRC market. The unit cost of production was constant during the six months ended 30th June, 2001. The increase in the overall gross profit margin was mainly attributable to the increase in the selling price of Osteoform by approximately 17% from approximately HK\$9.36 to HK\$10.92 per box.

### *Selling and distribution expenses*

For the six months ended 30th June, 2001, the selling and distribution expenses of the Group were approximately HK\$1.3 million which was similar to that for the whole year ended 31st December, 2000. The increase was mainly attributable to the establishment of 16 new marketing and liaison offices in the PRC aiming to improve the sales and marketing activities during the period.

### *Administrative Expenses*

The administrative expenses for the six months ended 30th June, 2001 amounted to approximately HK\$5.4 million which consisted mainly of staff's salaries, remuneration paid to the Directors, travelling, entertainment and rental expenses.

### *Other Operating Expenses*

The other operating expenses consisted mainly of amortisation of intangible assets, depreciation expenses and research and development costs. The other operating expenses of the Group for the six months ended 30th June, 2001 was approximately HK\$2.2 million which was close to the amounts incurred for the whole year ended 31st December, 2000. The Directors consider that such an increase was mainly attributable to the increase of research and development cost.

### *Finance Costs*

The finance costs consisted mainly of the loan interest expenses on bank and other loans. The finance costs for the six months ended 30th June, 2001 was approximately HK\$1.2 million. As the Group commenced to distribute Osteoform since October 2000, the Directors hence consider that the incurrence of more finance costs was in line with the increase of the Group's turnover.

### *Net Profit*

During the six months period, the Group's net profit was approximately HK\$13.5 million, representing a net profit margin of approximately 25.6%. Such an increase, as compared to approximately 22.7% for the year ended 31st December, 2000, was again because of the increase in turnover at a much higher rate than the increase in distribution and selling costs as well as administrative and other operating expenses.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### TAX

For the year ended 31st December, 2000 and the six months ended 30th June, 2001, Hong Kong profits tax of HK\$15,000 and HK\$25,000 respectively has been provided for Yugofoil. The Hong Kong profits tax rate has been provided at the rate of 16% on its assessable profit for these periods. No Hong Kong profits tax was provided for the year ended 31st December, 1999 as the Group had no estimated assessable profit for that year.

No Australian income tax has been provided for Vitapharm Research as it had no estimated assessable profit for the two years ended 31st December, 2000 and for the six months ended 30th June, 2001.

No provision for any income tax has been made for the other subsidiaries of the Group in China mainland as these subsidiaries are entitled to exemptions from PRC income tax for two years commencing from their first year of profitable operations after setting off accumulated losses brought forward and thereafter, they are entitled to a 50% relief from PRC income tax for the following three years. Tianao reported its first year of retained profits in 2000 and therefore it is under the tax exemption period as at 30th June, 2001. Weiao has accumulated loss up to 30th June, 2001 and therefore the tax exemptions period of Weiao has not yet commenced.

The Group did not have significant unprovided deferred tax in respect of the Track Record Period.

### DIVIDENDS

No dividend was paid or declared by the Company or its subsidiaries during the Track Record Period.

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## USE OF PROCEEDS

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Based on the Placing Price of HK\$0.45 per Share (being the mid-point of the stated range of the Placing Price between HK\$0.40 and HK\$0.50 per Placing Share), the net proceeds of the New Issue (on the basis that the Over-allotment Option is not exercised), after deducting related expenses to be borne by the Company, are estimated to amount to about HK\$96 million. It is presently intended that the net proceeds will be applied in the following manner:

- as to about HK\$18 million for the establishment of new production lines in the production facilities of Weiao situated in Chengdu City, Sichuan Province, the PRC;
- as to about HK\$27 million for construction of Phase I of the Chengdu research and development centre in Chengdu City, Sichuan Province, the PRC;
- as to about HK\$9 million for the research and development of the biopharmaceutical and conventional pharmaceutical products;
- as to about HK\$11 million for construction of the GMP standard research and development centre in Melbourne, the State of Victoria, Australia;
- as to about 19 million for the expansion of the Group's distribution network with focus on expanding the existing OTC distribution network in the PRC and reaching out to regional cities and rural areas in the PRC to be applied in the following manner:
  - as to HK\$4 million on the setting up of infrastructure and staff training for the 6 months ending 30th June, 2002;
  - as to HK\$5 million on network setup (for points of sales, local distributors, regional wholesalers and medical specialists), promotion (for points of sales, local distributors and consumers) and market survey for the 6 months ending 31st December, 2002;
  - as to HK\$5 million on staff training, promotion (for points of sales, local distributors and consumers) and market survey for the 6 months ending 30th June, 2003; and
  - as to HK\$5 million on promotion (for points of sales, local distributors and consumers) and market survey for the 6 months ending 31st December, 2003.
- as to the remaining balance of about HK\$12 million as additional general working capital. The Group does not currently have any specific plan for the use of such general working capital. The Directors intend that approximately HK\$7 million of the general working capital may be used as a buffer for the establishment of new production lines in the production facilities of Weiao and the recruitment of more staff.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of about HK\$20.25 million based on a Placing Price of HK\$0.45 per Share (being the mid-point of the stated range of the Placing Price between HK\$0.4 and HK\$0.5 per Placing Share). The Directors intend to allocate the additional net proceeds raised from the Over-allotment Option to the projects and matters set out above on a pro rata basis.



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## **USE OF PROCEEDS**

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To the extent that the net proceeds of the New Issue are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds be placed on short-term deposits with authorised financial institutions.

In the event that any part of the business plans of the Group does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding and the proceeds of the New Issue to other business plans and/or to new projects and/or hold such funds as short-term deposits so long as the Directors consider it to be in the interest of the Company and shareholders taken as a whole. The Company will make an announcement accordingly if this happens.

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## SPONSOR'S INTEREST

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Under a sponsor's agreement to be entered into between CPY and the Company, the Company will appoint CPY and CPY will agree to act as sponsor of the Company for the purpose of the GEM Listing Rules for a fee from the date on which dealings in the Shares on GEM commence to 31st December, 2004 or until the sponsor's agreement is otherwise terminated upon the terms and conditions set out therein.

Save as provided for under the Underwriting Agreement and save as disclosed in the paragraph headed "Agency fees or commissions received" in Appendix IV to this prospectus or otherwise disclosed in this prospectus, neither CPY nor any of its associates has or may, as a result of the Placing, have any interest in any class of securities of the Company or any other companies in the Group (including options or rights to subscribe for such securities).

No director or employee of CPY who is involved in providing advice to the Company has or may, as a result of the Placing, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing).

Neither CPY nor any of its associates has accrued any material benefit as a result of the successful outcome of the Placing, including by way of example, the repayment of material outstanding indebtedness or success fees other than the following:

- (i) by way of underwriting commission to be paid to CPY International for acting as one of the Underwriters pursuant to the Underwriting Agreement;
- (ii) by way of brokerage to be paid to CPY International or its associates by places of the Placing Shares;
- (iii) the documentation and financial advisory fees to be paid to CPY as sponsor of the Placing;
- (iv) by way of a sponsor's agreement as described above; and
- (v) certain associates of CPY, whose ordinary business involves the trading of and dealing in securities, may be involved in the trading of and dealing in the securities in the Company or providing margin financing in connection thereto or the subscription or purchase of the Placing Shares.

No director or employee of CPY nor any of its associates has a directorship in the Company or any other company in the Group.

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## UNDERWRITING

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### UNDERWRITERS

Core Pacific – Yamaichi International (H.K.) Limited  
Guotai Junan Securities (Hong Kong) Limited  
GC Capital (Asia) Limited  
SBI E2-Capital Securities Limited  
Taiwan Securities (Hong Kong) Company Limited  
First Shanghai Securities Limited  
Sun Hung Kai International Limited  
Celestial Capital Limited  
YF Securities Company Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Underwriting agreement

Pursuant to an Underwriting Agreement dated 30th January, 2002 (described as material contract (c) in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus), the Company is offering 240,000,000 New Shares and the Vendors are offering 60,000,000 Sales Shares pursuant to the Placing subject to the terms and conditions of this prospectus, at the Placing Price.

Subject to, inter alia, the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares on or before 1st March, 2002, the Underwriters have severally agreed to subscribe or procure subscription on the terms and conditions of this prospectus, for the Shares which are not taken up under the Placing.

#### Grounds for termination

The obligations of the Underwriters under the Underwriting Agreement to apply and procure applicants for the subscription for and/or placement for the Placing Shares offered under the Placing, are subject to termination if the following events occur prior to 6:00 p.m. on the day immediately before the date on which trading in the Shares commences on the Stock Exchange:

- (a) if it has come to the notice of CPY International:
  - i. that any statement, which CPY International (for itself and on behalf of the Underwriters) in its sole and absolute discretion considers to be material, contained in the documents relating to the Placing was when such documents were issued, or has become, untrue, incorrect or misleading in any material respect; or
  - ii. that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the documents relating to the Placing, constitute an omission therefrom which CPY International (for itself and on behalf of the Underwriters) in its sole and absolute discretion considers to be material; or

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## UNDERWRITING

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- iii. any breach of the representations and warranties contained in the Underwriting Agreement by any party to the Underwriting Agreement other than the Sponsor, CPY International or any of the Underwriters, which CPY International (for itself and on behalf of the Underwriters) in its sole and absolute opinion considers to be material; or
  - iv. any event, act or omission which gives or is likely to give rise to any liability of the Company, the Vendors, the executive Directors or the Initial Management Shareholders pursuant to the indemnities contained in the Underwriting Agreement which CPY International (for itself and on behalf of the Underwriters) in its sole and absolute discretion considers to be material; or
  - v. any breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than on any of the Underwriters, CPY or CPY International) which CPY International (for itself and on behalf of the Underwriters) in its sole and absolute discretion considers to be material; or
  - vi. any adverse change in the business or in the financial or trading position or prospects of any member of the Group which CPY International (for itself and on behalf of the Underwriters) in its sole and absolute discretion considers to be material in the context of the Placing; or
  - vii. any of the obligations or undertakings expressed to be assumed by or imposed on any of the Company, the executive Directors or the Initial Management Shareholders under the Underwriting Agreement has not been complied with or observed by any of them in any respect which CPY International (on behalf of the Underwriters) in its sole and absolute opinion considers to be material; or
- (b) if there develops, occurs or comes into effect:
- i. any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, acts of terrorism, flooding, civil commotion, acts of war, acts of God, public disorder or economic sanctions accident or interruption or delay in transportation); or
  - ii. any change (whether or not forming part of a series of changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs) in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory or market conditions and matters or currency exchange rates or exchange controls and/or the occurrence of any disasters; or
  - iii. any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the PRC, Hong Kong, the Cayman Islands, the British Virgin Islands, Australia or any other jurisdictions relevant to the Company and its subsidiaries; or
  - iv. the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the United States of America or by the European Union (or any member thereof) on the PRC; or

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## UNDERWRITING

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- v. a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the PRC, Hong Kong, the Cayman Islands, the British Virgin Islands, Australia or any other jurisdictions relevant to the Company and its subsidiaries; or
- vi. any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group; or
- vii. any change in conditions of the local, national or international securities or commodities markets (or in conditions affecting a sector only of such market) including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or
- viii. the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise;

which, in the reasonable opinion of CPY International (on behalf of itself and the other Underwriters):

- (1) is or will or is likely to be materially adverse to the business, financial or other condition or prospects of the Group or to any present or prospective shareholders of the Company in his capacity as such; or
- (2) has or will have or is likely to have a material adverse effect on the success of Placing or the level of the Placing Shares being applied for or accepted or the distribution of the Placing Shares; or
- (3) makes it inadvisable or inexpedient to proceed with the Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by the preliminary document for the Placing and this prospectus.

### Undertakings

- A. Each of the Initial Management Shareholders undertakes to and covenants with the Company, the Sponsor, CPY International (on behalf of the Underwriters) and the Stock Exchange that, save as permitted under the GEM Listing Rules and the Underwriting Agreement, he/she/it shall not, and shall procure that none of his/her/its associates, nominees or trustees holding in trust for him/her/it shall during the period of twelve months following the Listing Date or such shorter period as required by GEM Listing Rules:
  - (a) sell, transfer or otherwise dispose of or create any rights (including but not limited to the creation of any options, rights or interests or entering into any swap agreements or other arrangements that transfers or otherwise disposes of, in whole or in part, any of the economic consequence of ownership of) in any Shares, save pursuant to a pledge or charge to an authorised institution under the Banking Ordinance as security for a bona fide commercial loan in respect of any of the Shares held by him/her/it or his/her/its associates, nominees or trustees on the date on which dealings in the Shares on GEM commence (the "Relevant Shares"); or

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## UNDERWRITING

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- (b) sell, transfer or otherwise dispose of (or enter into an agreement to do any of the foregoing), save pursuant to a pledge or charge to an authorised institution under the Banking Ordinance as security for a bona fide commercial loan, any interest in any shares in any company controlled by any of them which is directly, or through another company indirectly, the beneficial owner of any of the Relevant Shares.
- B. Each of the Company, the executive Directors and the Initial Management Shareholders jointly and severally undertakes to and covenants with the Sponsor and CPY International (on behalf of the Underwriters) to procure that the Company and its subsidiaries shall not, without the prior written consent of the Sponsor and CPY International, within the period commencing on the date of the Underwriting Agreement and ending six months from the Listing Date:
- (a) allot or issue or agree to allot or issue any securities in the Company or any subsidiary (including warrants or other convertible securities (and whether or not of a class already listed)); or
- (b) grant or agree to grant any options or other rights carrying any right to subscribe for or otherwise acquire any securities of the Company or any of its subsidiaries; or
- (c) offer to or agree to do any of the foregoing or announce any intention to do so;
- other than any Shares which may fall to be issued pursuant to the Placing, the Capitalisation Issue, the exercise of the Over-allotment Option or the grant or the exercise of options under the Share Option Scheme, or by way of scrip dividend schemes or similar arrangement in accordance with the articles of association of the Company, or otherwise approved by the Stock Exchange.
- C. The Company undertakes to and covenants with each of the Sponsor and the Underwriters, and each of the executive Directors and the Initial Management Shareholders jointly and severally undertakes to the Sponsor and the Underwriters to procure that save with the prior written consent of CPY International (such consent shall not be reasonably withheld or delayed), no member of the Group shall within the period of six months from the Listing Date purchase any securities of the Company.

### Commission and expenses

The Underwriters will receive a commission of 4.5% of the total Placing Price of all the Placing Shares, out of which they will pay any sub-underwriting commissions. In addition, CPY International will receive a documentation and financial advisory fee. Such commission and fee, together with the Stock Exchange trading fee and SFC transaction levy, legal and other professional fees, and printing and other expenses relating to the Placing, which are estimated to be in aggregate approximately HK\$15 million, will be payable as to 80% by the Company and as to 20% by the Vendors provided that the Stock Exchange trading fee and the SFC transaction levy in respect of the New Shares shall be borne by the Company solely, The Vendors shall be solely responsible for any fixed transfer duty, ad valorem seller's stamp duty in respect of the sale and transfer of the Sales Shares (if any), the Stock Exchange trading fee and the SFC transaction levy in respect of the Sales Shares.

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## UNDERWRITING

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### **Underwriters' interest in the Company and its subsidiaries**

Save for the obligations of the Underwriters under the Underwriting Agreement, none of the Underwriters or any of their respective holding companies, or any of their respective subsidiaries was beneficially interested, directly or indirectly, in any shareholding in the Company or any of its subsidiaries or has any right or options (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group nor any interest in the Placing.

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## STRUCTURE AND CONDITIONS OF THE PLACING

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### DETERMINING THE PLACING PRICE

The Placing Price will not be more than HK\$0.50 per Placing Share and is expected to be not less than HK\$0.40 per Placing Share although CPY International (on behalf of the Underwriters) and the Company may agree to a lower price. The final Placing Price is expected to be fixed by agreement between CPY International (on behalf of the Underwriters) and the Company on or before 5:00 p.m. on 30th January, 2002. In the case that the Placing Price is lower than the above price range, notices of the reduction in the indicative Placing Price range will be published on the GEM website no later than 31st January, 2002. If CPY International (on behalf of the Underwriters) and the Company are unable to reach agreement on the Placing Price by 5:00 p.m. on 30th January, 2002, or such later date as may be agreed between CPY International (on behalf of the Underwriters) and the Company (but in any event not later than 5:00 p.m. on 1st February, 2002), the Placing will not become unconditional and will lapse. In such case, an announcement will be made immediately on the GEM website.

### THE PLACING

The Placing Shares, comprising an offer of 240,000,000 New Shares and 60,000,000 Sales Shares (subject to the Over-allotment Option), are being offered for subscription or sale under the Placing. The Placing Shares will represent approximately 25% of the Company's enlarged issued share capital immediately after completion of the Placing and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised).

Pursuant to the Placing, it is expected that the Underwriters, on behalf of the Company will conditionally place the Placing Shares at the Placing Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.007% transaction levy. The amount payable for one board lot of 5,000 Placing Shares together with 1% brokerage, 0.005% trading fee and 0.007% transaction levy will be in the range of HK\$2,020.24 to HK\$2,525.30 provided that the Placing Price is between HK\$0.4 to HK\$0.5 per Share. The Placing is arranged by CPY International and fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement and this prospectus.

Pursuant to the Placing, the Underwriters or selling agents nominated by the Underwriters on behalf of the Company shall place the Placing Shares at the Placing Price with selected professional and institutional investors and other investors anticipated to have a sizeable demand for the Placing Shares. 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.

### CONDITIONS OF THE PLACING

The Placing is conditional upon:

#### (a) Listing

The GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue, the Placing, the exercise of the Over-allotment Option and the exercise of options granted under the Share Option Scheme; and



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## STRUCTURE AND CONDITIONS OF THE PLACING

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### **(b) Underwriting Agreement**

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms or otherwise.

If the above conditions are not fulfilled or, where applicable, waived by CPY International (on behalf of the Underwriters) on or before 1st March, 2002, the Placing will lapse.

### **OVER-ALLOTMENT OPTION**

Pursuant to the Underwriting Agreement, the Company has granted to the Underwriters (exercisable by CPY International on behalf of the Underwriters) the right but not the obligation of the Over-allotment Option, exercisable within 30 days from the date of this prospectus, to require the Company to issue up to an aggregate of 45,000,000 additional Shares, representing 15% of the number of Shares initially available under the Placing. These Shares will be issued at the Placing Price for the purpose of covering over-allocations in the Placing. In the event that the Over-allotment Option is exercised, the additional Shares issued will be allocated to the Placing at the discretion of CPY International who may, at its option, also cover any over-allocations through stock borrowing arrangements with Perfect Develop under the Securities Lending Agreement and the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws.

### **STABILISATION**

In connection with the Placing, CPY International (on behalf of the Underwriters) may over-allot up to an aggregate of 45,000,000 additional Shares (such over-allotment may be covered by exercising the Over-allotment Option in full or in part, at any time up to the thirtieth day from the date of this prospectus or by purchasing Shares in the secondary market) and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Placing Price. Any such over-allocation purchase transactions will be made in compliance with all applicable laws.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid 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 initial public offer prices of the securities. 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.

In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocation in the relevant offer. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the absolute discretion of CPY International. The stabilisation price to cover the over-allocation will not normally be higher than the Placing Price.

Relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

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## **STRUCTURE AND CONDITIONS OF THE PLACING**

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### **TRANSFER OF SALE SHARES**

All transfer of the Sale Shares to placee(s) or their designated person(s) will be effected on the Company's principal register of members in the Cayman Islands. Completion of the acknowledgement form in a placing letter or, as the case may be, of an application form in the Placing Shares shall constitute an irrevocable instruction by the placee(s) that the transfer of all the Sale Shares in respect of which the relevant application is accepted will be carried out in the Caymen Islands to be followed by a removal of the Sale Shares from the Company's principal register of members in the Cayman Islands to the Company's Hong Kong branch register of members prior to the issue of share certificate(s) to placee(s) or such other person as instructed by the relevant placee(s).

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



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor Prince's Building  
Central Hong Kong

30th January, 2002

The Directors  
Vital BioTech Holdings Limited  
Core Pacific - Yamaichi Capital Limited

Dear Sirs

We set out below our report on the financial information relating to Vital BioTech Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the two years ended 31st December, 1999 and 2000 and the six months ended 30th June, 2001 (the "Relevant Periods") and as at 30th June, 2001 for inclusion in the prospectus of the Company dated 30th January, 2002 (the "Prospectus") in connection with the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 30th May, 2001 under the name of Vital\*BioTech Holdings Limited as an exempted company with limited liability under the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 16th July, 2001, the Company changed its name to Vital BioTech Holdings Limited. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "Group reorganisation" in Appendix IV to the Prospectus, which was completed on 26th January, 2002, the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section VI below.

No audited accounts have been prepared by the Company, Farthinghoe Enterprises Limited, Vital BioTech (Hong Kong) Company Limited, Ever Power Holdings Inc., Gainful Plan Limited, Vital (Sichuan) Biotech Limited and Maxsun International Limited since their respective dates of incorporation/establishment or dates of effective acquisition by the Group. These companies were either newly incorporated/establishment and/or have not been involved in any material transactions since their respective dates of incorporation/establishment or dates of effective acquisition by the Group other than the Reorganisation referred to herein. We have, however, reviewed the unaudited management accounts or, where appropriate, major transactions of these companies since their respective dates of incorporation/establishment or dates of effective acquisition by the Group.

We have acted as auditors of other companies comprising the Group for the Relevant Periods (or from their respective dates of incorporation/establishment or dates of effective acquisition by the Group to 30th June, 2001, where this is a shorter period), except for the following companies in respect of the specified financial periods:

<b>Company</b>	<b>Financial periods</b>	<b>Auditors</b>
Sichuan Weiao Pharmacy Co., Ltd. ("Weiao", formerly Sichuan Kangbai Pharmacy Co., Ltd.)	Year ended 31st December, 2000	Sichuan Tianzheng Certified Public Accountants Limited Certified Public Accountants
Wuhan Tianao Pharmaceuticals Co., Ltd. ("Tianao")	Two years ended 31st December, 2000	Hubei Hongda Certified Public Accountants Limited Certified Public Accountants
Vitapharm Research Pty. Ltd. ("Vitapharm Research")	Two years ended 31st December, 2000 and the six months ended 30th June, 2001	William Buck Chartered Accountants

On 23rd January, 2002, Yugofoil Holdings Limited ("Yugofoil"), a subsidiary of the Group, acquired the entire share capital of Farthinghoe Enterprises Limited ("Farthinghoe"), which directly holds a 100% interest in Vitapharm Research, through a share exchange of Yugofoil's shares to Mr. Ko Sai Ying, Thomas ("Mr. Ko"), Mr. Au Yeung Ping Yuen, Terence ("Mr. Au Yeung") and Mr. Liu Jin, James ("Mr. Liu"), shareholders of Farthinghoe. Yugofoil and Farthinghoe are companies under common control by Mr. Ko, Mr. Au Yeung and Mr. Liu, who are directors and initial management shareholders of the Company, and accordingly the financial information of Farthinghoe and Vitapharm Research for the Relevant Periods and as at 30th June, 2001 has been included in the Group on a combined basis as a reorganisation of companies under common control.

For the purpose of this report, we have undertaken independent audits of the accounts of Weiao and Tianao for the year ended 31st December, 2000 and the six months ended 30th June, 2001 and of the accounts of Vitapharm Research for the Relevant Periods in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. The accounts of Tianao, prepared in accordance with accounting principles generally accepted in Hong Kong, for the year ended 31st December, 1999 were audited by K. L. Lee & Partners CPA Limited, Certified Public Accountants in Hong Kong.

All companies now comprising the Group have adopted 31st December as their financial year end date throughout the Relevant Periods.

We have examined the audited accounts or, where appropriate, the management accounts of the companies now comprising the Group for the Relevant Periods or from their respective dates of incorporation/establishment or dates of effective acquisition by the Group to 30th June, 2001, where this is a shorter period, and carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summary of the combined results of the Group for the Relevant Periods and the summary of the combined net assets of the Group as at 30th June, 2001 (the "Summaries") as set out in this report, have been prepared based on the audited accounts or, where appropriate, management accounts of all companies now comprising the Group, on the basis set out in Section III(1) below, after making such adjustments as are appropriate. The directors of the respective companies of the Group are responsible for preparing these accounts which give a true and fair view. In preparing these accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company (the "Directors") are responsible for the Summaries. It is our responsibility to form an independent opinion on the Summaries.

In our opinion, the Summaries, together with the sections thereto, for the purpose of this report, and prepared on the basis set out in Section III(1) below, give a true and fair view of the combined results of the Group for the Relevant Periods and of the combined net assets of the Group as at 30th June, 2001.

## I. COMBINED RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods, prepared on the basis set out in Section III(1) below, and after making such adjustments as are appropriate:

		Year ended 31st December,		Six months ended 30th June,
	Section	1999	2000	2001
		HK\$'000	HK\$'000	HK\$'000
Turnover	III (3)	22,875	64,128	52,767
Cost of sales		<u>(14,435)</u>	<u>(37,921)</u>	<u>(28,953)</u>
Gross profit		8,440	26,207	23,814
Other revenues	III (3)	10	28	58
Selling and distribution expenses		(1,084)	(1,452)	(1,333)
Administrative expenses		(2,546)	(5,504)	(5,427)
Other operating expenses (net)		<u>(1,441)</u>	<u>(2,146)</u>	<u>(2,195)</u>
Operating profit	III (5)	3,379	17,133	14,917
Finance costs	III (6)	<u>(2,233)</u>	<u>(1,836)</u>	<u>(1,220)</u>
Profit before taxation		1,146	15,297	13,697
Taxation	III (7)	<u>—</u>	<u>(15)</u>	<u>(25)</u>
Profit after taxation		1,146	15,282	13,672
Minority interests		<u>(545)</u>	<u>(743)</u>	<u>(188)</u>
Profit attributable to shareholders		<u>601</u>	<u>14,539</u>	<u>13,484</u>
Dividends	III (11)	<u>—</u>	<u>—</u>	<u>—</u>

## II. COMBINED NET ASSETS

The following is a summary of the combined net assets of the Group as at 30th June, 2001, prepared on the basis set out in Section III(1) below, and after making such adjustments as are appropriate:

	<i>Section</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Intangible assets	<i>III (13)</i>		8,696
Fixed assets	<i>III (14)</i>		<u>26,305</u>
			35,001
<b>Current assets</b>			
Inventories	<i>III (15)</i>	5,898	
Trade receivables		38,321	
Other receivables	<i>III (16)</i>	4,963	
Prepayments and other deposits	<i>III (17)</i>	15,238	
Value added tax recoverable		2	
Bank balances and cash	<i>III (18)</i>		
– pledged		5,081	
– unpledged		<u>15,964</u>	
		85,467	
<b>Current liabilities</b>			
Trade payables		19,692	
Accrued charges and other payables	<i>III (19)</i>	13,122	
Amounts due to minority shareholders of subsidiaries	<i>III (20)</i>	6,127	
Amounts due to Directors	<i>III (21)</i>	4,772	
Amount due to a related company	<i>III (21)</i>	210	
Tax payable		40	
Value added tax payable		2,942	
Current portion of long-term bank loans	<i>III (24)</i>	1,887	
Short-term bank loans	<i>III (22)</i>	20,566	
Trust receipt loans		3,794	
Other loans	<i>III (23)</i>	<u>6,009</u>	
		79,161	
<b>Net current assets</b>			6,306
<b>Non-current liabilities</b>			
Long-term bank loans	<i>III (24)</i>		(12,264)
<b>Minority interests</b>			
			<u>(1,704)</u>
<b>Net assets</b>			<u><u>27,339</u></u>

### III. NOTES TO THE FINANCIAL INFORMATION

#### (1) Basis of preparation

The summary of the combined results includes the results of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment or dates of effective acquisition by the Group, whichever is a shorter period.

Weiao and Tianao were acquired by the Group during the Relevant Periods (refer Section VI notes (c) and (d)) and accordingly the Group includes the results of these companies under acquisition accounting from the respective dates of effective acquisition. Farthinghoe and Vitapharm Research were acquired by the Group through a share exchange on 23rd January, 2002 (refer Section VI note (a)) and their financial information for the Relevant Periods and as at 30th June, 2001 has been included in the Group on a combined basis as a reorganisation of companies under common control as disclosed above.

The summary of the combined net assets of the Group as at 30th June, 2001 has been prepared to present the assets and liabilities of the Group as at that date as if the current group structure had been in existence at that date.

All significant inter-company transactions and balances within the Group have been eliminated on combination.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

#### (2) Principal accounting policies

The financial information is prepared under the historical cost convention. The principal accounting policies adopted in the preparation of the financial information in this report are set out below. These policies conform with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

##### (a) Subsidiaries

A subsidiary is an entity in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations.

##### (b) Intangible assets

Intangible assets comprise goodwill and patent.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition is included in intangible assets and is amortised using the straight-line method over its estimated useful life, which is generally 10 to 13 years.



Amount paid or payable on acquired patent is capitalised in the balance sheet and is amortised by equal annual instalments over the estimated useful life of fifteen years.

The carrying amount of each intangible asset is reviewed when there is an indication that an asset is impaired. An asset is considered to be impaired when its carrying amount exceeds its recoverable amount. The loss as a result of impairment is recognised in the operating profit.

### **(c) Construction in progress**

Construction in progress is investment in buildings where construction work has not been completed. The investment is carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses.

No depreciation is provided for construction in progress.

### **(d) Fixed assets**

Fixed assets consist of construction in progress (Section III (2)(c)), land use rights and other tangible fixed assets.

Land use rights are stated at cost and are amortised over the unexpired period of rights granted on a straight-line basis.

Other tangible fixed assets are stated at cost less accumulated depreciation and are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are summarised as follows:

Leasehold improvements	20% or over lease term, whichever is shorter
Plant and machinery	6.67% – 12.5%
Motor vehicles	20%
Furniture and fixtures	10 – 20%
Office equipment	10 – 20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the operating profit. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amount of a fixed asset is reviewed when there is an indication that an asset is impaired. An asset is considered to be impaired when its carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's net selling price and its value in use. The loss as a result of impairment is recognised in the operating profit.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the operating profit.

**(e) Assets under operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the operating profit on a straight-line basis over the lease term.

**(f) Inventories**

Inventories mainly represent pharmaceutical products, which comprise stocks and work in progress, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(g) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(h) Government grants**

Government grants relating to monetary assets that become receivable as compensation for expenses or losses already incurred or for the purpose of providing financial assistance to the Group with no future related costs are recognised as income in the period in which they become receivable.

The monetary assets received or receivable under the government grants are recorded as assets of the Group at fair value at the date of the grants.

**(i) Revenue recognition**

The Group recognises revenue on the following bases:

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.
- (ii) Consultancy fee income is recognised when the services are rendered.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iv) Operating lease rental income is recognised on a straight-line basis over the period of each lease.

**(j) Retirement benefit costs**

The subsidiaries in Hong Kong and Australia operate defined contribution schemes which are available to qualified employees. The assets of the schemes are held separately from those of the subsidiaries in independently administered funds. Monthly contributions made by the subsidiaries are calculated based on certain percentages of the applicable payroll costs. Contributions under the defined contribution schemes are charged to the operating profit as incurred.

Pursuant to the relevant regulations of the municipal governments in China mainland, the subsidiaries of the Group in this country participate in respective government retirement benefit schemes (the "Schemes") whereby the subsidiaries are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated based on certain percentages of the applicable payroll costs, as stipulated under the requirements in China mainland. The municipal governments of China mainland are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to the operating profit as incurred.

**(k) Research and development costs**

Research and development costs are expensed as incurred, except where it is expected that the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. During the Relevant Periods, all research and development costs incurred have been expensed to the operating profit as no such costs satisfied the criteria for capitalisation as an asset.

**(l) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

**(m) Pre-operating costs**

Pre-operating costs are expensed in the period in which they are incurred.

**(n) Deferred taxation**

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(o) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the operating profit.

The accounts of subsidiaries expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

**(p) Related parties**

For the purpose of this report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

**(3) Revenues and turnover**

The Group is principally engaged in the trading and manufacturing of pharmaceutical products and the provision of consultancy services in connection with pharmaceutical business. Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes, where applicable, and consultancy fee. The amounts of each significant category of revenues during the Relevant Periods are as follows:

	<b>Year ended</b>		<b>Six months</b>
	<b>31st December,</b>		<b>ended</b>
	<b>1999</b>	<b>2000</b>	<b>30th June,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2001</b>
			<i>HK\$'000</i>
Turnover			
Sale of goods	22,875	63,725	52,767
Consultancy fee	—	403	—
	<u>22,875</u>	<u>64,128</u>	<u>52,767</u>
Other revenues			
Interest income	10	28	20
Rental income from hire of plant and machinery	—	—	38
	<u>10</u>	<u>28</u>	<u>58</u>
Total revenues	<u><u>22,885</u></u>	<u><u>64,156</u></u>	<u><u>52,825</u></u>

**(4) Segmental information**

No segmental information analysed by principal activity is separately presented as the Group's segment revenue, expenses, results, assets and liabilities are primarily attributable to the trading and manufacturing of pharmaceutical products.

No segmental information analysed by geographical area is separately presented as the Group's principal market is China mainland.

**(5) Operating profit**

	<b>Year ended</b>		<b>Six months</b>
	<b>31st December,</b>		<b>ended</b>
	<b>1999</b>	<b>2000</b>	<b>30th June,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2001</b>
			<i>HK\$'000</i>
Operating profit is stated after crediting and charging the following:			
Crediting:			
Grants and subsidy from governments (note)	<u>—</u>	<u>16</u>	<u>200</u>
Charging:			
Amortisation of intangible assets	566	692	416
Auditors' remuneration	83	104	94
Cost of inventories sold	11,920	30,602	23,534
Depreciation and amortisation of fixed assets	720	669	468
Operating lease rental expense on land and buildings	621	712	405
Provision for trade receivables	126	221	—
Provision for other receivables	—	286	95
Provision for inventories	—	259	292
Research and development costs	21	216	534
Staff costs	<u>2,150</u>	<u>3,843</u>	<u>4,267</u>

Note:

During the six months ended 30th June, 2001, the Group received a subsidy of HK\$142,000 from the People's Government of Wuhan City, the People's Republic of China (the "PRC"), in respect of finance costs of a subsidiary as assistance for the Group's development of the pharmaceutical business in that region.

The grants and subsidy have been deducted from other operating expenses.

**(6) Finance costs**

	<b>Year ended</b>		<b>Six months</b>
	<b>31st December,</b>		<b>ended</b>
	<b>1999</b>	<b>2000</b>	<b>30th June,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2001</b>
			<i>HK\$'000</i>
Interest expense on:			
– amount due to a minority shareholder of a subsidiary ( <i>Section III(20)</i> )	–	16	255
– bank loans	1,608	1,289	723
– other loans wholly repayable within five years	398	313	153
– trade payables	212	165	–
– loans due to staff	–	–	53
– trust receipt loans	–	69	444
– finance leases	15	–	–
	<hr/>	<hr/>	<hr/>
Total borrowing costs incurred	2,233	1,852	1,628
Less: Interest capitalised on construction in progress	–	(16)	(408)
	<hr/>	<hr/>	<hr/>
Total borrowing costs charged to the profit and loss account	<u>2,233</u>	<u>1,836</u>	<u>1,220</u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is between 6.63% and 18% per annum (2000: 7.56% per annum; 1999: nil).

**(7) Taxation**

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits in Hong Kong for the year ended 31st December, 2000 and the six months ended 30th June, 2001. No Hong Kong profits tax was provided for the year ended 31st December, 1999 as the Group had no estimated assessable profits for that year.

The subsidiaries of the Group in China mainland have been granted tax exemption from income tax for two years starting from the first year of profitable operations after setting off accumulated losses brought forward, followed by a 50% reduction in income tax for the next three years. These subsidiaries were still under the tax holiday during the Relevant Periods.

No Australian income tax has been provided as the subsidiary operating in Australia had no estimated assessable profits during the Relevant Periods.

The amount of taxation charged to the combined profit and loss account represents:

	<b>Year ended</b>		<b>Six months</b>
	<b>31st December,</b>		<b>ended</b>
	<b>1999</b>	<b>2000</b>	<b>30th June,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2001</b>
			<i>HK\$'000</i>
Hong Kong profits tax	—	15	25
	<u>—</u>	<u>15</u>	<u>25</u>
	<u>—</u>	<u>15</u>	<u>25</u>

For the Relevant Periods, deferred taxation in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts has not been accounted for as the effect of timing differences is not material.

#### **(8) Retirement benefit costs**

	<b>Year ended</b>		<b>Six months</b>
	<b>31st December,</b>		<b>ended</b>
	<b>1999</b>	<b>2000</b>	<b>30th June,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2001</b>
			<i>HK\$'000</i>
Retirement benefit costs	48	172	170
	<u>48</u>	<u>172</u>	<u>170</u>

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated by the municipal governments of China mainland and the defined contribution schemes operated in Hong Kong and Australia (collectively the "Retirement Schemes"). Contributions totalling HK\$56,000 payable to the Retirement Schemes as at 30th June, 2001 are included in accrued charges and other payables. There were no forfeited contributions throughout the Relevant Periods.



**(9) Directors' and senior management's emoluments**

- (i) Details of the emoluments paid and payable to the Directors during the Relevant Periods are as follows:

	<b>Year ended 31st December,</b>		<b>Six months ended 30th June,</b>
	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	–	–	–
Salaries, allowances and benefits in kind	473	1,175	1,164
Bonuses	–	–	–
Retirement scheme contributions	33	76	74
	<u>506</u>	<u>1,251</u>	<u>1,238</u>

Each of the four executive directors of the Company received emoluments from subsidiaries of approximately HK\$Nil, HK\$337,000, HK\$169,000 and HK\$Nil for the year ended 31st December, 1999, approximately HK\$200,000, HK\$529,000, HK\$325,000 and HK\$197,000 for the year ended 31st December, 2000, and approximately HK\$240,000, HK\$408,000, HK\$295,000 and HK\$295,000 for the six months ended 30th June, 2001.

No emoluments were paid to non-executive directors of the Company during the Relevant Periods.

The emoluments of the Directors fall into the following bands:

	<b>Number of Directors</b>		
	<b>Year ended 31st December,</b>		<b>Six months ended 30th June,</b>
	<b>1999</b>	<b>2000</b>	<b>2001</b>
Emolument bands			
Nil to HK\$1,000,000	<u>6</u>	<u>6</u>	<u>6</u>

- (ii) The five individuals whose emoluments were the highest in the Group for the years ended 31st December, 1999 and 2000 and the six months ended 30th June, 2001 include two, four, and four directors of the Company respectively whose emoluments are reflected in the analysis presented above. The five individuals whose emoluments were the highest in the Group were as follows:

	Year ended		Six months
	31st December,		ended
	1999	2000	30th June,
	HK\$'000	HK\$'000	2001
			HK\$'000
Directors	506	1,251	1,238
Employees	217	209	294
	<u>723</u>	<u>1,460</u>	<u>1,532</u>

- (iii) Details of the emoluments paid by the Group to the highest paid employees as mentioned in Section III(9)(ii) above are as follows:

	Year ended		Six months
	31st December,		ended
	1999	2000	30th June,
	HK\$'000	HK\$'000	2001
			HK\$'000
Salaries, allowances and benefits in kind	217	209	281
Bonuses	—	—	—
Retirement scheme contributions	—	—	13
	<u>217</u>	<u>209</u>	<u>294</u>

The emoluments of these highest paid employees fall into the following bands:

	Number of individuals		
	Year ended		Six months
	31st December,		ended
	1999	2000	30th June,
			2001
Emolument bands			
Nil to HK\$1,000,000	<u>3</u>	<u>1</u>	<u>1</u>

- (iv) During the Relevant Periods, no emoluments have been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No Directors waived or agreed to waive any emoluments during the Relevant Periods.

### (10) Earnings per share

No earnings per share information is presented as its inclusion would not be meaningful due to the Reorganisation and preparation of the results on a combined basis, as disclosed in Section III(1) above.

### (11) Dividends

No dividends have been paid or declared by the Company since its incorporation or by companies now comprising the Group to their then shareholders during the Relevant Periods.

### (12) Related party transactions

In addition to those transactions and balances with related parties disclosed in Section III (6), (13), (16), (20), (21), (22), (23) and (30) and Section V of this report, the following significant related party transactions have been entered into by the Group during the Relevant Periods:

#### Non-continuing transactions

	Year ended		Six months
	31st December,		ended
	1999	2000	30th June,
	HK\$'000	HK\$'000	2001
			HK\$'000
(a) Management fee paid to Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所)	425	425	—

Management fee was paid to Wuhan Institute of Virology, the Chinese Academy of Sciences ("Wuhan Institute of Virology"), an immediate holding company of the minority shareholder of Tianao, at a lump sum of RMB450,000 (equivalent of approximately HK\$425,000) per annum as set out in an agreement entered into between Tianao and Wuhan Institute of Virology dated 26th January, 1997 for the period from February 1997 to December 2000. No management fee was charged by Wuhan Institute of Virology for the six months ended 30th June, 2001.

- (b) As at 31st December, 1999 the Group had an amount of approximately HK\$4,290,000 due by a company of which two of its directors are also the directors of Tianao. The balance was interest free, unsecured and had no fixed terms of repayment. The balance was fully settled as at 31st December, 2000.

If interest was charged on this balance at best lending rate in the PRC for the year ended 31st December, 1999, the amount of notional interest would not be significant to the Group's combined results.

- (c) On 26th December, 2000, Maxsun International Limited ("Maxsun"), a subsidiary of the Group, purchased a trademark of Osteoform from Pharmco International, Inc., a company wholly owned by the minority shareholders of Maxsun, at a consideration of US\$1.

- (d) No interest was charged on certain amounts due to minority shareholders of subsidiaries, amounts due to Directors and a related company during the Relevant Periods. If interest was charged on the amounts due to minority shareholders of subsidiaries, Directors and a related company at best lending rates in the PRC, Hong Kong Interbank Offered Rate, or best lending rates in Australia, where appropriate, for each of the Relevant Periods, the amount of notional interest would not be significant to the Group's combined results.

The Directors consider that the above transactions were conducted in the ordinary course of the Group's businesses. The Directors have confirmed that these transactions will not continue after the listing of the Company's shares.

### Continuing transactions

		Year ended		Six months
	Note	31st December,	2000	ended
		1999	2000	30th June,
		HK\$'000	HK\$'000	2001
				HK\$'000
Rental expense paid to				
Wuhan Institute of Virology	(e)	208	226	113
Rental and renovation expenses paid to				
Wuhan Maxin Industrial Company				
Limited (武漢馬新實業有限公司)	(f)	329	329	78
Raw materials purchased from				
Pharmco International Inc.	(g)	<u>—</u>	<u>12,928</u>	<u>11,221</u>

Notes:

- (e) Rental expense was paid to Wuhan Institute of Virology at a lump sum of RMB220,000 (equivalent of approximately HK\$208,000) and RMB240,000 (equivalent of approximately HK\$226,000) per annum for the years ended 31st December, 1999 and 2000 respectively as set out in an agreement entered into between Tianao and Wuhan Institute of Virology dated 26th January, 1997. Rental expense was paid to Wuhan Institute of Virology at a lump sum of RMB240,000 (equivalent of approximately HK\$226,000) per annum for the year ending 31st December, 2001 as set out in an agreement entered into between Tianao and Wuhan Institute of Virology dated 20th December, 2000 and an addendum dated 20th January, 2001.
- (f) Pursuant to agreements entered into between Tianao and Wuhan Maxin Industrial Company Limited (武漢馬新實業有限公司) ("Wuhan Maxin"), a company of which Mr. Huang Jian Ming, one of its directors, is also the director of Tianao, rental expenses of RMB30,680 (equivalent of approximately HK\$29,000) and renovation expenses of RMB666,400 (equivalent of approximately HK\$629,000) were paid to Wuhan Maxin for the two years ended 31st December, 2000. The total expenses incurred as aforementioned of HK\$658,000 was amortised on a straight-line basis over the lease term during 1999 and 2000.

Rental expense was paid to Wuhan Maxin at an amount of RMB13,800 (equivalent of approximately HK\$13,000) per month for a term of six years commencing on 1st January, 2001 as set out in an agreement entered into between Tianao and Wuhan Maxin dated 15th March, 2001. The rental expense for the six months ended 30th June, 2001 was HK\$78,000.

- (g) Beshabar Trading Limited ("Beshabar (HK)"), a company incorporated in Hong Kong and a wholly owned subsidiary of the Group, purchased raw materials from Pharmco International Inc at prices and terms as set out in the agreement entered into between Beshabar (HK) and Pharmco International Inc.

The Directors consider that the above transactions were conducted in the ordinary course of the Group's businesses. The Directors have confirmed that these transactions will continue after the listing of the Company's shares.

### (13) Intangible assets

	<b>Cost</b>	<b>Accumulated amortisation</b>	<b>Net book value</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Goodwill	7,960	(1,246)	6,714
Patent	2,831	(849)	1,982
	<u>10,791</u>	<u>(2,095)</u>	<u>8,696</u>

The goodwill arose from the acquisitions of Tianao and Weiao by the Group during the Relevant Periods.

The patent represented the right in respect of knowledge knowhow and related manufacturing process of a pharmaceutical product acquired from Wuhan Institute of Virology upon establishment of Tianao in 1996. The cost of the patent to the Group was determined by reference to a valuation conducted by Wuhan Zhong Hua Certified Public Accountants.

### (14) Fixed assets

	<b>Cost</b>	<b>Accumulated depreciation/ amortisation</b>	<b>Net book value</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction in progress	14,405	–	14,405
Land use rights	7,999	(63)	7,936
Leasehold improvements	1,523	(756)	767
Plant and machinery	3,253	(1,194)	2,059
Motor vehicles	1,553	(1,028)	525
Furniture and fixtures	595	(320)	275
Office equipment	367	(29)	338
	<u>29,695</u>	<u>(3,390)</u>	<u>26,305</u>

Notes:

- (a) The Group's land use rights are held outside Hong Kong under leases of 10 to 50 years.
- (b) At 30th June, 2001, the net book value of fixed assets pledged as security for the Group's long-term bank loans amounted to approximately HK\$22,341,000.
- (c) The aggregate cost and accumulated depreciation of the plant and machinery held for use in operating leases as at 30th June, 2001 amounted to approximately HK\$344,000 and HK\$157,000 respectively.

### (15) Inventories

	<i>HK\$'000</i>
Raw materials	3,055
Work in progress	221
Finished goods	2,576
Packing materials	46
	5,898
	5,898

At 30th June, 2001, all inventories were carried at cost.

### (16) Other receivables

- (a) Included in other receivables was a short-term loan of approximately HK\$2,830,000 to Sichuan Zhongwei Biotechnology Development Company Limited (四川中維生物技術開發有限公司) ("Sichuan Zhongwei"), an independent third party. The loan was to finance the research and development activities undertaken by Sichuan Zhongwei which the Directors believe would be beneficial to the Group. The loan has been settled subsequent to 30th June, 2001.
- (b) Included in other receivables were amounts of approximately HK\$1,733,000 due from two directors of subsidiaries as at 30th June, 2001. These amounts are unsecured, interest free and have no fixed terms of repayment. The amounts have been settled subsequent to 30th June, 2001.

### (17) Prepayments and other deposits

Prepayments and other deposits mainly related to the purchases of fixed assets and raw materials amounting to approximately HK\$5,441,000 and HK\$7,344,000 respectively.

### (18) Bank balances and cash

Included in bank balances and cash as at 30th June, 2001 were amounts of approximately HK\$18,033,000 denominated in Renminbi not freely convertible to other currencies.

Included in bank balances and cash as at 30th June, 2001 were deposits of approximately HK\$3,577,000 and HK\$1,504,000 pledged as collateral for short-term bank loans (Section III(22)) and trust receipt loans (Section III(30)) respectively.

### **(19) Accrued charges and other payables**

Accrued charges and other payables mainly represented outstanding payables of approximately HK\$6,895,000 for purchases of land use rights.

Included in accrued charges and other payables were also loans from staff amounting to approximately HK\$947,000. These loans were interest bearing at a fixed interest rate of 18% per annum, and repayable within six months from date when the loans were granted. These loans have been fully repaid subsequent to 30th June, 2001.

### **(20) Amounts due to minority shareholders of subsidiaries**

The amounts due to minority shareholders of subsidiaries mainly represented a loan from Sichuan Kangao Pharmaceutical Technology Development Co., Ltd. (四川康奧醫藥科技開發有限責任公司), a minority shareholder of Weiao, of approximately HK\$4,387,000 and the outstanding payable to Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠), a minority shareholder of Tianao, for purchase of equity interest in Tianao of approximately HK\$1,193,000. The amounts are unsecured, interest free and have no fixed terms of repayment, except for the loan from Sichuan Kangao Pharmaceutical Technology Development Co., Ltd. of approximately HK\$4,387,000 which is interest bearing at 7.56% per annum.

### **(21) Amounts due to Directors and a related company**

Amounts due to Mr. Tao Lung and Mr. Ko, Directors, and a related company which is owned by the spouse of Mr. Au Yeung, a Director, of approximately HK\$4,352,000, HK\$420,000 and HK\$210,000 respectively are unsecured, interest free and have no fixed terms of repayment. The amounts have been settled subsequent to 30th June, 2001.

### **(22) Short-term bank loans**

As at 30th June, 2001, short-term bank loans of approximately HK\$12,547,000 and approximately HK\$3,396,000 were secured by properties of Wuhan Maxin and certain bank deposits of Weiao respectively. Short-term bank loans of approximately HK\$2,830,000 and approximately HK\$1,793,000 were guaranteed by Wuhan Maxin and The Chinese Academy of Sciences, Wuhan Branch (中國科學院武漢分院), an intermediate holding company of the minority shareholder of Tianao, respectively.

The bankers of short-term bank loans have agreed in principle that the securities and guarantees provided by Wuhan Maxin will be released and replaced by corporate guarantees to be given by Weiao upon the listing of the Company's shares. The Directors have undertaken to fully repay the short-term bank loan guaranteed by The Chinese Academy of Sciences, Wuhan Branch, upon the listing of the Company's shares.

**(23) Other loans**

As at 30th June, 2001, other loan of approximately HK\$2,830,000 was secured by properties of Wuhan Maxin and was wholly repayable within one year. The lender has agreed in principle that the securities provided by Wuhan Maxin will be released and replaced by a corporate guarantee to be given by the Company upon the listing of the Company's shares.

Included in other loans are also loans of approximately HK\$693,000 from certain strategic investors. These loans are unsecured, interest free and have been fully repaid subsequent to 30th June, 2001.

**(24) Long-term bank loans**

	<i>HK\$'000</i>
Secured bank loans wholly repayable within five years	14,151
Current portion of long-term bank loans	(1,887)
	<hr/>
Long-term portion	<u>12,264</u>

The maturity of the long-term bank loans is as follows:

	<i>HK\$'000</i>
Within one year	1,887
In the second year	2,830
In the third to fifth years inclusive	9,434
	<hr/>
	<u>14,151</u>

The loans are secured by certain fixed assets of Weiao.

**(25) Deferred taxation**

At 30th June, 2001, the Group had no material unprovided deferred taxation.



**(26) Movement in reserves**

Movements in reserves of the Group for the Relevant Periods are set out as follows:

	<b>Year ended</b>		<b>Six months</b>
	<b>31st December,</b>		<b>ended</b>
	<b>1999</b>	<b>2000</b>	<b>30th June,</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2001</b>
			<i>HK\$'000</i>
Reserve fund ( <i>note</i> )			
Transfer from retained profits	—	42	—
	<u>          </u>	<u>          </u>	<u>          </u>
Enterprise development fund ( <i>note</i> )			
Transfer from retained profits	—	21	—
	<u>          </u>	<u>          </u>	<u>          </u>
Retained profits			
Profit for the year/period	601	14,539	13,484
Transfer to various funds	—	(63)	—
	<u>          </u>	<u>          </u>	<u>          </u>

*Note:*

In accordance with the relevant government regulations and the articles of association of Tianao in the PRC, it is required to appropriate at each year end 10% and 5% respectively of the profit for the year, after setting off accumulated losses brought forward, (based on figures reported in the statutory accounts) to reserve fund and enterprise development fund respectively. The appropriation is made only at the year end.

**(27) Capital commitments**

As at 30th June, 2001, the Group had the following capital commitments which related to the construction in progress.

	<i>HK\$'000</i>
Authorised but not contracted for	—
Contracted but not provided for	20,321
	<u>          </u>
	<u>20,321</u>

**(28) Lease commitments**

At 30th June, 2001, the Group had total future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	<i>HK\$'000</i>
Within one year	1,258
In the second to fifth year inclusive	1,208
After the fifth year	191
	<hr/>
	<u>2,657</u>

**(29) Contingent liabilities**

As at 30th June, 2001, the Group had no significant contingent liabilities.

**(30) Banking facilities**

The Group had aggregate banking facilities for overdrafts and documentary credits of approximately HK\$7,000,000 as at 30th June, 2001. The facilities were secured by the following:

- (i) a personal guarantee of US\$400,000 from a third party;
- (ii) an unlimited joint and several guarantee of Mr. Tao Lung, a Director, and Mr. Huang Jian Ming, a director of a subsidiary;
- (iii) 5% of gross receipts from trade receivables as deposits pledged to a bank (the deposits pledged was approximately HK\$1,504,000 at 30th June, 2001); and
- (iv) all export documentary credits of a subsidiary.

Subsequent to 30th June, 2001, the guarantee provided by the third party has been released and the banker has agreed in principle that the guarantee provided by Mr. Tao Lung and Mr. Huang Jian Ming will be released upon the listing of the Company's shares.

**(31) Distributable reserve of the Company**

The Company was incorporated on 30th May, 2001 and there was no reserve available for distribution to its shareholders at 30th June, 2001.

**(32) Net assets of the Company**

The Company was incorporated in the Cayman Islands on 30th May, 2001. On the basis set out in Section III(1) above, the net asset value of the Company as at 30th June, 2001 would have been approximately HK\$27,339,000, representing its investments in subsidiaries.

**IV ULTIMATE HOLDING COMPANY**

The Directors regard Perfect Develop Holding Inc., a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Group.

**V SUBSEQUENT EVENTS**

The following significant events took place subsequent to 30th June, 2001:

- (1) The companies in the Group underwent a group reorganisation in preparation for a listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Details of the reorganisation and the alterations in the share capital of the Company are set out in the subsections headed "Group reorganisation" in Appendix IV to the Prospectus.
- (2) On 21st December, 2001, Mr. Ko, Mr. Au Yeung and Mr. Liu, Directors of the Company lent to the Company an amount of AUD475,000 (equivalent of approximately HK\$1,900,000) for settlement of amounts due to Mr. Ko, and a related company as disclosed in Section III (21) and other loans of approximately HK\$1,270,000 as included in Section III (23) above.

On 23rd January, 2002, the Company allotted and issued, at the joint direction of the three Directors, one share of HK\$0.10 each to Mr. Ko for the settlement of the amount of AUD475,000 due to the Directors.

## VI PARTICULARS OF SUBSIDIARIES

Immediately following the completion of the Reorganisation as described in Appendix IV to the Prospectus and for the purpose of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies or, if incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company. All subsidiaries have adopted 31st December as their financial year end date. Details of these companies are as follows:

Company	Place and date of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Attributable equity interest	Principal activities
<b>Direct subsidiaries:</b>				
Ever Power Holdings Inc.	British Virgin Islands ("BVI") 25th May, 2001	2 ordinary shares of US\$1 each	100%	Investment holding
Farthinghoe Enterprises Limited ( <i>note a</i> )	BVI 1st September, 1997	3 ordinary shares of US\$1 each	100%	Investment holding
Gainful Plan Limited	BVI 25th May, 2001	2 ordinary shares of US\$1 each	100%	Investment holding
Yugofoil Holdings Limited	BVI 11th May, 1993	100 ordinary shares of US\$1 each	100%	Investment holding and provision for management services
Vital BioTech (Hong Kong) Limited ( <i>note b</i> )	Hong Kong 17th November, 2000	2 ordinary shares of HK\$1 each	100%	Investment holding
<b>Indirect subsidiaries:</b>				
Beshabar Trading Limited	BVI 22nd April, 1997	1 ordinary share of US\$1	100%	Investment holding
Beshabar Trading Limited (formerly Wise Shine Limited)	Hong Kong 25th August, 2000	100 ordinary shares of HK\$1 each	100%	Trading of pharmaceutical products
Maxsun International Limited	Hong Kong 29th March, 2000	100 ordinary shares of HK\$1 each	51%	Investment holding

Company	Place and date of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Attributable equity interest	Principal activities
<b>Indirect subsidiaries:</b>				
Sichuan Weiao Pharmacy Co., Ltd. (formerly Sichuan Kangbai Pharmacy Co., Ltd.) (note c)	PRC 8th January, 1998	RMB9,000,000	76.7%	Manufacturing and trading of pharmaceutical products in the PRC
Wuhan Tianao Pharmaceuticals Co., Ltd. (note d)	PRC 30th October, 1996	RMB7,140,000	95%	Manufacturing and trading of pharmaceutical products in the PRC
Vitapharm Research Pty. Ltd. (note a)	Australia 1st April, 1998	20 ordinary shares of AUD\$1 each	100%	Research and development of pharmaceutical products in Australia
Vital (Sichuan) Biotech Limited	PRC 25th July, 2001	US\$1,400,000 (note e)	100%	Research and development of pharmaceutical products in the PRC

## Notes:

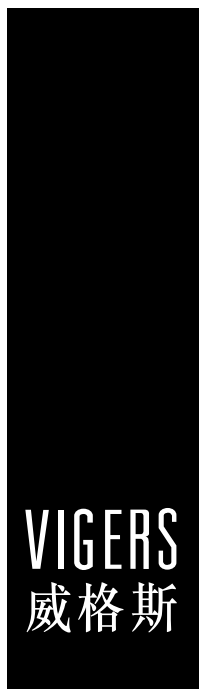
- (a) Farthinghoe Enterprises Limited and Vitapharm Research Pty. Ltd. are under common control of Mr. Ko, Mr. Au Yeung and Mr. Liu. These companies were acquired by the Group through a share exchange on 23rd January, 2002 and their financial information for the Relevant Periods and as at 30th June, 2001 has been included in the Group on a combined basis.
- (b) Vital BioTech (Hong Kong) Limited was acquired by the Group on 19th June, 2001.
- (c) Sichuan Weiao Pharmacy Co., Ltd. was acquired by the Group on 16th November, 2000 and its results are included in the Group since that date.
- (d) Equity interests of 70%, 10%, 10% and 5% in Wuhan Tianao Pharmaceuticals Co., Ltd. were acquired by the Group on 10th November, 1998, 3rd November, 1999, 27th December, 1999 and 1st April, 2001 respectively. The results of this subsidiary are accounted for by the Group since its respective dates of acquisitions.
- (e) On 18th October, 2001, the capital of Vital (Sichuan) Biotech Limited was paid up to the extent of US\$210,000.

**VII SUBSEQUENT ACCOUNTS**

No audited accounts have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 30th June, 2001.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

The following is the text of a letter and a valuation certificate, prepared for the purpose of incorporation in the prospectus dated 30th January, 2002 issued by the Company, received from Vigers Hong Kong Limited, an independent property valuer, in connection with its valuation as at 30th November, 2001.



1607-12 Miramar Tower  
132 Nathan Road  
Tsimshatsui  
Kowloon  
Kong Kong

30th January, 2002

The Directors  
Vital BioTech Holdings Limited  
Units 1001 and 1002, 10th Floor  
Kwai Hung Holdings Centre  
89 King's Road  
North Point  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value of the property interests of Vital BioTech Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC"), 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 open market value of such property interests as at 30th November, 2001.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in property might reasonably be expected to 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 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 special purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

In valuing the property no. 1 in Group I which is owned by the Group in the PRC, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portions of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portions, reference has been made to the standard land price in Sichuan Province and the sales evidence as available to us in the locality. Due to the nature of the buildings and structures cannot be valued on the basis of open market value, they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

In valuing the property no. 2 in Group I, reference has been made to the standard land price in Sichuan Province and the sales evidence as available to us in the locality.

The properties in Group II, III and IV have no commercial value due to the short term nature of the tenancy or lack of substantial profit rent.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests.

We have not provided with extracts from title documents relating to such property interest. We have not, however, searched the original documents to verify ownership or to verify existence of any lease amendment which do not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions measurements and areas are approximations.

In undertaking our valuation of the property Nos. 1-2, we have relied on the legal opinion provided by the Group's PRC legal adviser (the "PRC Legal Opinion").



For the PRC Legal Opinion, we understand the current status of titles, grant of major approvals, licences and documents of property Nos. 1-2 are as follows:

	<b>1</b>	<b>2</b>
(a) State-owned Land Use Rights Grant Contract	Yes	Yes
(a) State-owned Land Use Rights Certificate	Yes	Yes
(b) Building Ownership Certificate	Yes	N/A

Key: N/A means not applicable

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property interests are free from defect.

We are relied to a considerable extent on information provided by you and have accepted advise given to us by you on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of those property interests in which the Group has a valid interest.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property 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 outgoings of an onerous nature which could affect their values.

Unless otherwise stated, all money amounts stated are in Renminbi. The exchange rate used in valuing the property interests in the PRC on at 30th November, 2001 was HK\$1 = RMB1.06. There has been no significant fluctuation in exchange rate between that date and the date of this letter.

We enclose herewith a summary of our valuation and the valuation certificate.

Yours faithfully,  
For and on behalf of  
**VIGERS HONG KONG LTD.**  
**Raymond Ho Kai Kwong,**  
Registered Professional Surveyor  
MRICS, AHKIS  
Director

*Note:* Raymond K.K. Ho, Chartered Surveyor, MRICS, AHKIS has extensive experience in undertaking valuations of properties in Hong Kong and Macau and has over eight years' experience in the valuation of properties in the PRC.

## SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th November, 2001
<b>Group I – Properties owned by the Group in the PRC</b>	
1. A factory complex located in Xiang Yang Road, Liu Cheng Town, Wen Jiang, Chengdu, Sichuan Province, the PRC	RMB25,000,000  (equivalent to HK\$23,585,000)
2. Two parcels of land located in Xiang Yang Road, Cheng Nan Economic Zone, Liu Cheng Town, Wen Jiang, Chengdu, Sichuan Province, the PRC	RMB7,700,000  (equivalent to HK\$7,264,000)
<b>Sub-total:</b>	<b>RMB32,700,000</b> <b>(equivalent to HK\$30,849,000)</b>
<b>Group II – Properties rented by the Group in Hong Kong</b>	
3. Units 1001 and 1002, 10th Floor, Kwai Hung Holdings Centre, 89 King's Road, North Point, Hong Kong	No commercial value
4. Flat E, 8th Floor, Wai Sing Mansion, Sing Fai Terrace, Taikoo Shing, No. 12 Taikoo Shing Road, Quarry Bay, Hong Kong	No commercial value
<b>Group III – Property rented by the Group in Australia</b>	
5. Factory 30, 65-67 Canterbury Road, Montrose, the State of Victoria, Australia	No commercial value
<b>Group IV – Properties rented by the Group in the PRC</b>	
6. A building located in 44 Xiao Hong Shan, Wuchang, Wuhan, Hebei Province, the PRC	No commercial value
7. Level 9, 232 Pang Liu Yang Road, Wuchang, Hebei Province, the PRC	No commercial value
8. Rooms 1111-1117, level 11, Jiang Su Building, Fu Zhong Yi Road, Futian District, Shenzhen, Guangzhou Province, the PRC	No commercial value

Property	Capital value in existing state as at 30th November, 2001
9. No. 1705, Block No. 2, Chun Shu Xiao Qu, Xuan Wu District, Beijing, the PRC	No commercial value
10. No. 8-1-2, Nan Wu Tan, Da Xue Road, Xin Cheng District, Huhehaote, Neimonggol, the PRC	No commercial value
11. No. 16-1, Yi Dan Yuan, Ju Xing Cun, Shang Qing Si, Yuzhong District Chongqing, Sichuan Province, the PRC	No commercial value
12. Room 5, Level 1, Unit 1, Block 1, No. 74 Dong Feng Street, Daoli District, Harbin, Heilongjiang Province, the PRC	No commercial value
13. No. 4, Level 2, Da Yuan, No. 10 Shan Xi Road, Guiyang, Guizhou Province, the PRC	No commercial value
14. No. 724, Min Guang Commercial Building, Ying Men Kou Road, Chengdu, Sichuan Province, the PRC	No commercial value
15. 2A, Block No. B, Fu Ming Yuan, Tai Jiang District, Fuzhou, Fujian Province, the PRC	No commercial value
16. Room 131, No. 59 Kun Shan Road, Huanggu District, Shenyang, Liaoning Province, the PRC	No commercial value
17. No. A1-3-4, Dong Hao Cun Xiao Ou, Han Ping Men Wai, Huan Nan Road, Xian, Shanxi Province, the PRC	No commercial value
18. No. 417, Sheng Jin Ta Road, Nanchang, Jiangxi Province, the PRC	No commercial value
19. Room 6-4-201, Tan Hou Street, Tan Cun, Shijiazhuang, Hebei Province, the PRC	No commercial value
20. Room 301, Yi Dan Yuan, Block 26, No. 20-1 Jiao Yu Road, Nanning, Guangxi Province, the PRC	No commercial value
21. Unit 301, No. 129 Yu Zhong Street, Lanzhou, Gansu Province, the PRC	No commercial value

<b>Property</b>	<b>Capital value in existing state as at 30th November, 2001</b>
22. No. 1-2-34, Yong On Street, Zhengzhou, Henan Province, the PRC	No commercial value
23. Room 807, No. 219 Zhongshan Nan Road, Nanjing, Jiangsu Province, the PRC	No commercial value
24. No. 701, Gate 1, Block 3, Factory 233, No. 27 Shu Guang Zhong Road, Changsha, Hunan Province, the PRC	No commercial value
25. 503-504, Gate 1, No. 3 Ti Bei Li, Wang Ding Ti Cun, Xi Ying Men Xiang, Tianjin, the PRC	No commercial value
26. Room 108, South Tower No. 27 Men Bei Lane, Mo Gan Shan Road, Xihu District, Hangzhou, Zhejiang Province, the PRC	No commercial value
27. A room, No. 58 Xin Hua Nan Road, Urumqi, Xinjiang Province, the PRC	No commercial value
28. No. 1, Level 6, Block 4, Feng Shen Building, Xiangfan, Hubei Province, the PRC	No commercial value
29. Room 514, No. 35 Tong Hua Road, Changchun, Jilin Province, the PRC	No commercial value
30. Unit 102, Block 3, Group 3, Xi Hua Xiao Qu, Kunming, Yunnan Province, the PRC	No commercial value
31. Level 2, Block 10, No. 232 Yi Ling Da Road, Wu Jia District, Yichang, Wuchang, Wuhan, Hebei Province, the PRC	No commercial value
32. Room A, Level 5, Ke Ji Fu Hua Building, Si Xia Liang An Ke Ji Chan Ye Kai Fa Yuen, Chengdu, Sichuan Province, the PRC	No commercial value

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**Sub-total: No commercial value**

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**Total: RMB32,700,000  
(equivalent to HK\$30,849,000)**

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## VALUATION CERTIFICATE

## Group I – Properties owned by the Group in the PRC

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
I. A factory complex located in Xiang Yang Road, Liu Cheng Town, Wen Jiang, Tian Fu Town, Chengdu, Sichuan Province, the PRC	<p>The property comprises a parcel of land (lot no.: 1/23/34) with a site area of approximately 26,657.50 sq.m. and seven buildings and structures erected thereon.</p> <p>The buildings and structures of the property was completed in 2001.</p> <p>The buildings and structures of the property has a total gross floor area of approximately 8,103.93 sq.m.</p> <p>The land use rights term of the property is expiring on 25th December, 2050.</p>	The property is occupied by the Group as workshop and office.	RMB25,000,000 (equivalent to HK\$23,585,000)

## Notes:

- Pursuant to two State-owned Land Use Rights Grant Contracts (document nos.: Wen Guo Tu (2000) Grant Contracts Nos. 103-105) entered into between State-owned Land Bureau of Wen Jiang County (Party A) and Sichuan Kangbai Pharmacy Co., Ltd. (now known as Sichuan Weiao Pharmacy Co., Ltd.) (Party B), Party B agreed to purchase the subject site for the consideration of RMB3,738,671.17.
- Pursuant to the State-owned Land Use Rights Certificate (document no.: Wen Guo Tu (2000) No. 3309), the land use rights of the property having a site area of approximately 26,657.50 sq.m. for a term of 50 years expiring on 25th December, 2050 for office and industrial use has been granted to Sichuan Kangbai Pharmacy Co., Ltd.
- Pursuant to two Building Ownership Certificates (document nos.: Wen Fang Quan Zheng Jian Quan Zi Nos. 0013949 and 0013950), the building ownership of the property with a total gross floor area of 8,103.93 sq.m. is vested in Sichuan Kangbai Pharmacy Co., Ltd.
- Pursuant the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the property are as follows:
 

(a) State-owned Land Use Rights Grant Contract	yes
(b) State-owned Land Use Rights Certificate	yes
(c) Building Ownership Certificate	yes
- The PRC legal opinion states that:
  - Sichuan Kangbai Pharmacy Co., Ltd. has the rights to transfer, lease and mortgage the property.
  - the property is subject to a mortgage in favour of the Sales Department of Industrial and Commercial Bank, Caoshi Branch, Sichuan Province.

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
2. Two parcels of land located in Cheng Nan Economic Zone, Xiang Yang Road, Liu Cheng Town, Wen Jiang, Chengdu, Sichuan Province, the PRC	The property comprises two parcels of land (lot nos.: 1-23-20 and 1-23-25) with a total site area of approximately 30,915.2 sq.m. and the property No. 1 is situated in between these parcels of land. The land use right term of the property is 50 years commencing from 19th February, 2001.	The property is at present vacant and covered by grass and tree overgrowth.	RMB7,700,000 (equivalent to HK\$7,264,000)

## Notes:

1. Pursuant to the two State-owned Land Use Rights Grant Contracts (document nos.: Wen Guo Tu (2001) Grant Contracts Nos. 16 and 44) entered into between State-owned Land Bureau of Wen Jiang County (Party A) and Sichuan Kangbai Pharmacy Co., Ltd. (Party B), Party B agreed to purchase a site (lot no.: 1-23-20) of the property for the consideration of RMB2,977,896.12.
2. Pursuant to the State-owned Land Use Rights Certificate (document no.: Wen Guo Yong (2001) Nos. 3403) dated 19th February, 2001, the land use rights of a site (lot no.: 1-23-20) of the property with site area of approximately 18,626.7 sq.m. has been granted to Sichuan Kangbai Pharmacy Co., Ltd. for 50 years for industrial use.
3. Pursuant to the State-owned Land Use Rights Grant Contract (document no.: Wen Guo Tu (2000) Grant Contracts Nos. 20) entered into between State-owned Land Bureau of Wen Jiang County (Party A) and Sichuan Kangbai Pharmacy Co., Ltd. (Party B), Party B agreed to purchase a site (lot no.: 1-23-35) of the property for the consideration of RMB1,762,657.8.
4. Pursuant to the State-owned Land Use Rights Certificate (document no.: Wen Guo Yong (2001) Nos. 3404) dated 19th February, 2001, the land use rights of a site (lot no.: 1-23-35) of the property with site area of approximately 12,288.5 sq.m. has been granted to Sichuan Kangbai Pharmacy Co., Ltd. for 50 years for industrial use.
5. Pursuant the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the property are as follows:
 

(a) State-owned Land Use Rights Grant Contract	yes
(b) State-owned Land Use Rights Certificate	yes
(c) Building Ownership Certificate	N/A

N/A mean not applicable

6. The PRC legal opinion states that:
  - (i) Sichuan Kangbai Pharmacy Co., Ltd. has the rights to transfer, lease and mortgage the property.
  - (ii) the property is subject to a mortgage in favour of the Sales Department of Industrial and Commercial Bank, Caoshi Branch, Sichuan Province.

**Group II – Properties rented by the Group in Hong Kong.**

<b>Property</b>	<b>Description</b>	<b>Particulars of occupancy</b>	<b>Capital value in existing state as at 30th November, 2001</b>
3. Units 1001 and 1002, 10th Floor, Kwai Hung Holdings Centre, No. 89 King's Road, North Point, Hong Kong	<p>The property comprises two office units on the 10th floor of a 30-storey office building completed in 1997.</p> <p>The property has a total gross floor area of approximately 146.88 sq.m.</p>	<p>The property is leased to the Group for a term from 1st September, 2001 to 31st August, 2003 at a monthly rent of HK\$18,972.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
4. Flat E, 8th Floor, Wai Sing Mansion, Sing Fai Terrace, Taikoo Shing, No. 12 Taikoo Shing Road, Quarry Bay, Hong Kong	<p>The property comprises a domestic unit on the 8th floor of a 26-storey residential building erected on a podium completed in 1981.</p> <p>The property has a gross floor area of approximately 55.74 sq.m.</p>	<p>The property is leased to the Group for a term from 20th January, 2001 to 19th January, 2003 at a monthly rent of HK\$12,500.</p> <p>The property is occupied by the Group as staff quarter for directors.</p>	No commercial value

**Group III – Property rented by the Group in Australia**

5. Factory 30, 65-67 Canterbury Road, Montrose, the State of Victoria, Australia	<p>The property comprises a factory/warehouse complex completed in the early of 1990s' and it is used as a research and development facility.</p> <p>The property has a gross floor area of approximately 295 sq.m.</p> <p>The land and buildings are leased from the owner.</p>	<p>The property is leased to the Group for a two years term from 6th March, 2001 to 5th March, 2003 at a monthly rent of AUD1,450.</p> <p>The property is occupied by the Group as a Research and Development facility.</p>	No commercial value
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Property	Description	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
<b>Group IV – Properties rented by the Group in the PRC.</b>			
6. A building located in 44 Xiao Hong Shan, Wuchang, Wuhan, Hebei Province, the PRC	<p>The property comprises a 4-storey composite building completed in 1985.</p> <p>The property has a gross floor area of approximately 2,000 sq.m.</p>	<p>The property is leased to the Group for a term from 1st January, 2001 to 31st December, 2006 at a monthly rent of RMB20,000.</p> <p>The property is occupied by the Group as workshop and office.</p>	No commercial value
7. Level 9, 232 Pang Liu Yang Road, Wuchang, Wuhan, Hebei Province, the PRC	<p>The property comprises two office units on the 9th level of a 9-storey office building completed in 1995.</p> <p>The property has a total gross floor area of approximately 766.65 sq.m.</p>	<p>The property is leased to the Group for a term from 1st January, 2001 to 31st December, 2006 at a monthly rent of RMB13,799.7.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
8. Rooms 1111-1117, Level 11, Jiang Su Building, Fu Zhong Yi Road, Futian District, Shenzhen, Guangdong Province, the PRC	<p>The property comprises an office unit of a 53-storey office building completed in 2001.</p> <p>The property has a gross floor area of approximately 438.34 sq.m.</p>	<p>The property is leased to the Group for a term from 8th September, 2001 to 7th September, 2002 at a monthly rent of RMB30,683.8.</p> <p>The property is occupied by the Group as office.</p>	No commercial value



Property	Description	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
9. No. 1705, Block No. 2, Chun Shu Xiao Qu, Xuan Wu District, Beijing, the PRC	<p>The property comprises an office unit of a 17-storey building completed in 1999.</p> <p>The property has a gross floor area of approximately 65.7 sq.m.</p>	<p>The property is leased to the Group for a term from 28th July, 2001 to 28th July, 2002 at a monthly rent of RMB2,100.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
10. No. 8-1-2, Nan Wu Tan, Da Xue Road, Xin Cheng District, Huhehaote, Neimonggol, the PRC	<p>The property comprises an office unit of a 6-storey building completed in 1990.</p> <p>The property has a gross floor area of approximately 64.11 sq.m.</p>	<p>The property is leased to the Group for a term from 30th June, 2001 to 1st July, 2002 at a monthly rent of RMB500.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
11. No. 16-1, Yi Dan Yuan, Ju Xing Cun, Shang Qing Si, Yuzhong District Chongqing, Sichuan Province, the PRC	<p>The property comprises an office unit of a 20-storey building completed in 1996.</p> <p>The property has a gross floor area of approximately 68.56 sq.m.</p>	<p>The property is leased to the Group for a term from 13th October, 2000 to 13th January, 2002 at a monthly rent of RMB1,100.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
12. Room 5, Level 1, Unit 1, Block 1, No. 74 Dong Feng Street, Daoli District, Harbin, Heilongjiang Province, the PRC	<p>The property comprises an office unit of a 7-storey building completed in 1985.</p> <p>The property has a gross floor area of approximately 37 sq.m.</p>	<p>The property is leased to the Group for a term from 31st April, 2001 to 31st October, 2002 at a monthly rent of RMB800.</p> <p>The property is occupied by the Group as office.</p>	No commercial value

Property	Description	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
13. No. 4, Level 2, Da Yuan, No. 10, Shan Xi Road, Guiyang, Guizhou Province, the PRC	The property comprises an office unit of a 9-storey building completed in 2000.  The property has a gross floor area of approximately 95 sq.m.	The property is leased to the Group for a term from 20th April, 2000 to 20th April, 2002 at a monthly rent of RMB1,800.  The property is occupied by the Group as office.	No commercial value
14. No. 724, Min Guang Commercial Building, Ying Men Kou Road, Chengdu, Sichuan Province, the PRC	The property comprises an office unit of a 7-storey building completed in 1996.  The property has a gross floor area of approximately 36 sq.m.	The property is leased to the Group for a term from 5th January, 2001 to 4th January, 2003 at a monthly rent of RMB720.  The property is occupied by the Group as office.	No commercial value
15. 2A, Block B, Fu Ming Yuan, Tai Jiang District, Fuzhou, Fujian Province, the PRC	The property comprises a 19-storey building completed in 1992.  The property has a gross floor area of approximately 124 sq.m.	The property is leased to the Group for a term from 1st January, 2001 to 31st December, 2002 at a monthly rent of RMB1,150.  The property is occupied by the Group as office.	No commercial value
16. Room 131, No. 59 Kun Shan Road, Huanggu District, Shenyang, Liaoning Province, the PRC	The property comprises an office unit of a 6-storey building completed in 2001.  The property has a gross floor area of approximately 67.82 sq.m.	The property is leased to the Group for a term from 10th January 2000 to 10th January 2002 at a monthly rent of RMB1,500.  The property is occupied by the Group as office.	No commercial value

Property	Description	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
17. No. A1-3-4, Dong Hao Cun Xiao Ou, Han Ping Men Wai, Huan Nan Road, Xian, Shanxi Province, the PRC	<p>The property comprises an office unit of a 7-storey building completed in 1996.</p> <p>The property has a gross floor area of approximately 81.04 sq.m.</p>	<p>The property is leased to the Group for a term from 20th February, 2000 to 19th December, 2002 at a monthly rent of RMB1,000.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
18. No. 417, Sheng Jin Ta Road, Nanchang, Jiangxi Province, the PRC	<p>The property comprises an office unit of a 7-storey building completed in 1983.</p> <p>The property has a gross floor area of approximately 264.8 sq.m.</p>	<p>The property is leased to the Group for a term from 1st August, 2001 to 31st July, 2002 at a monthly rent of RMB900.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
19. Room 6-4-201, Tan Hou Street, Tan Cun, Shijiazhuang, Hebei Province, the PRC	<p>The property comprises an office unit of a 6-storey building completed in 1990.</p> <p>The property has a gross floor area of approximately 55.51 sq.m.</p>	<p>The property is leased to the Group for a term from 1st October, 2000 to 1st October, 2002 at a monthly rent of RMB700.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
20. Room 301, Yi Dan Yuan, Block 26, No. 20-1 Jiao Yu Road, Nanning, Guangxi Province, the PRC	<p>The property comprises an office unit of a 7-storey building completed in 1990.</p> <p>The property has a gross floor area of approximately 91.36 sq.m.</p>	<p>The property is leased to the Group for a term from 9th February, 2001 to 8th September, 2002 at a monthly rent of RMB900.</p> <p>The property is occupied by the Group as office.</p>	No commercial value

Property	Description	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
21. Unit 301, No. 129 Yu Zhong Street, Lanzhou, Gansu Province, the PRC	<p>The property comprises an office unit of a 5-storey building completed in 1978.</p> <p>The property has a gross floor area of approximately 40.63 sq.m.</p>	<p>The property is leased to the Group for a term from 16th March, 2001 to 15th March, 2003 at a monthly rent of RMB600.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
22. No. 1-2-34, Yong On Street, Zhengzhou, Henan Province, the PRC	<p>The property comprises an office unit of a 7-storey composite building completed in 1999.</p> <p>The property has a gross floor area of approximately 120 sq.m.</p>	<p>The property is leased to the Group for a term from 1st February, 2001 to 1st May, 2002 at a monthly rent of RMB1,000.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
23. Room 807, No. 219 Zhongshan Nan Road, Nanjing, Jiangsu Province, the PRC	<p>The property comprises an office unit of a 9-storey building completed in 1985.</p> <p>The property has a gross floor area of approximately 38.5 sq.m.</p>	<p>The property is leased to the Group for a term from 1st September, 2001 to 31st August, 2002 at a yearly rent of RMB32,000.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
24. No. 701, Gate 1, Block 3, Factory 233, No. 27 Shu Guang Zhong Road, Changsha, Hunan Province, the PRC	<p>The property comprises an office unit of a 9-storey composite building completed in 1995.</p> <p>The property has a gross floor area of approximately 67.26 sq.m.</p>	<p>The property is leased to the Group for a term from 18th July, 2001 to 18th July, 2002 at a monthly rent of RMB1,200.</p> <p>The property is occupied by the Group as office.</p>	No commercial value

Property	Description	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
25. 503-504, Gate I, No. 3 Ti Bei Li, Wang Ding Ti Cun, Xi Ying Men Xiang, Tianjin, the PRC	The property comprises two office units of a 6-storey building completed in 1998.  The property has a gross floor area of approximately 95 sq.m.	The property is leased to the Group for a term from 1st August, 2001 to 31st July, 2002 at a monthly rent of RMB800.  The property is occupied by the Group as office.	No commercial value
26. Room 108, South Tower No. 27 Men Bei Lane, Mo Gan Shan Road, Xihu District, Hangzhou, Zhejiang Province, the PRC	The property comprises an office unit of a 6-storey building completed in 1987.  The property has a gross floor area of approximately 40 sq.m.	The property is leased to the Group for a term from 10th June, 2001 to 9th June, 2002 at a monthly rent of RMB1,500.  The property is occupied by the Group as office.	No commercial value
27. A room No. 58 Xin Hua Nan Road, Urumqi, Xinjiang Province, the PRC	The property comprises an office unit of a 6-storey building completed in 1998.  The property has a gross floor area of approximately 60 sq.m.	The property is leased to the Group for a term from 25th February, 2001 to 25th June, 2002 at a monthly rent of RMB700.  The property is occupied by the Group as office.	No commercial value
28. No. 1, Level 6, Block 4, Feng Shen Building, Xiangfan, Hubei Province, the PRC	The property comprises an office unit of a 7-storey building completed in 1994.  The property has a gross floor area of approximately 65.38 sq.m.	The property is leased to the Group for a term from 1st March, 2001 to 28th February, 2003 at a monthly rent of RMB500.  The property is occupied by the Group as office.	No commercial value

Property	Description	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
29. Room 514, No. 35 Tong Hua Road, Changchun, Jilin Province, the PRC	<p>The property comprises an office unit of a 7-storey building completed in 1996.</p> <p>The property has a gross floor area of approximately 73.99 sq.m.</p>	<p>The property is leased to the Group for a term from 1st July, 2001 to 30th June, 2002 at a monthly rent of RMB1,200.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
30. Unit 102, Block 3, Group 3, Xi Hua Xiao Qu, Kunming, Yunnan Province, the PRC	<p>The property comprises an office unit of a 7-storey building completed in 1996.</p> <p>The property has a gross floor area of approximately 69.07 sq.m.</p>	<p>The property is leased to the Group for a term from 30th September, 2001 to 30th September, 2002 at a monthly rent of RMB800.</p> <p>The property is occupied by the Group as office.</p>	No commercial value
31. Level 2, Block 10, No. 232 Yi Ling Da Road, Wu Jia District, Yichang, Wuchang Hebei Province, the PRC	<p>The property comprises an office floor of a 7-storey building completed in 1994.</p> <p>The property has a gross floor area of approximately 65.38 sq.m.</p>	<p>The property is leased to the Group for a term from 31st July, 2001 to 31st July, 2002 at a monthly rent of RMB 500.</p> <p>The property is occupied by the Group as office.</p>	No commercial value

Property	Description	Particulars of occupancy	Capital value in existing state as at 30th November, 2001
32. Room A, Level 5, Ke Ji Fu Hua Building, Si Xia Liang An Ke Ji Chan Ye Kai Fa Yuen, Chengdu Sichuan Province, the PRC	<p>The property comprises an office unit of a multi-storey building completed in 1997.</p> <p>The property has a gross floor area of approximately 211.6 sq.m.</p>	<p>The property is leased to the Group for a term of 4 years from 6th July, 2001 to 5th July, 2005 with a rent free period from the 1st to 3rd years and if the Group requires to lease the floor area over 211.6 sq.m., then the rent for an additional floor area will be at RMB 6 per sq.m. per month from the 1st to 3rd years.</p> <p>For the period from 6th July, 2004 to 5th July, 2005, the rent is fixed at RMB9 per sq.m. per month.</p> <p>The property is occupied by the Group as office.</p>	No commercial value

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

### I. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

### 2. ARTICLES OF ASSOCIATION

The articles of association of the Company (the "**Articles**") were adopted on 26th January, 2002. The following is a summary of certain provisions of the Articles.

#### (a) Directors

##### (i) *Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

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

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of Cayman Islands to be exercised or done by the Company in general meeting.



*(iii) Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company at general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred, for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80% of the fair market value of such residence nor 5% of the consolidated net asset value of the Company as shown in its latest audited accounts, provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence or (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

*(v) Financial assistance to purchase shares of the Company or its holding company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

*(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum

on any resolution of the Directors concerning his own appointment as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Directors after he knows that he is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors in respect of any contract or arrangement in which he is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director of any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company which the Director has himself guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;

- (ee) any contract or arrangement in which the Director is interested by virtue only of his interest in shares or debentures or other securities of the Company and/or his being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any company in which he is interested directly or indirectly whether as a director and/or an employee and/or a member, other than a company in which the Director together with any of his associates owns five per cent. or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through the Company;
- (gg) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates both to Directors and employees of the Company or any of its subsidiaries and does not give the Director any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director may benefit; and
- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, officer or employee pursuant to the Articles.

(vii) *Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

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**APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of chairman, deputy chairman, managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

*(viii) Retirement, appointment and removal*

At each annual general meeting one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest but not exceeding one third) will retire from office save for any chairman, deputy chairman, managing director and joint managing director. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). The Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

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## **APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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The Directors may from time to time entrust to and confer upon the chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

*(ix) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

*(x) Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

*(xi) Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

### **(b) Alterations to constitutive documents**

The memorandum of association of the Company may be altered by the Company at general meeting. The Articles may also be amended by the Company at general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles or to change the name of the Company.

**(c) Alterations of capital**

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the board (the "Board") of Directors may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are 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;
- (vi) change the currency of denomination of its share capital;
- (vii) make provision for the allotment and issue of shares which do not carry any voting rights; and
- (viii) reduce its share premium account in any manner authorised, and subject to any conditions prescribed by law.

The Company may by special resolution reduce its authorised or issued share capital, any capital redemption reserve fund or any share premium account or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law.

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

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

**(e) Special resolutions – majority required**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or by proxy, at a general meeting of which not less than 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given.

**(f) Voting rights and right to demand a poll**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a shareholder which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by (i) the Chairman of the meeting; or (ii) by at least three members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) for the time being entitled to vote at the meeting; or (iii) by any member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or (iv) by a member or members present in person

or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee) in respect of the number and class of shares specified in the relevant authorisation.

### **(g) Requirements for annual general meetings**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

### **(h) Accounts and audit**

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal place of business of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Accounting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Board by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company



under the Companies Law or of the Articles. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

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

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by giving at least 21 days' notice in writing and any other extraordinary general meeting shall be called by giving at least 14 days' notice in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business.

**(j) Transfer of shares**

All transfers of shares must be effected by transfer in writing in the usual or common form or in any other form acceptable to the Board and may be under hand only or if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or

not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reason(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

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

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

#### **(l) Power of any subsidiary to own securities in the Company**

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

#### **(m) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

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

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared or remitted may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared or remitted may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

#### **(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote on a poll instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting where voting is by a show of hands or by poll, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same power on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

**(o) Corporate representatives**

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a show of hands and on a poll on any resolution put at such meeting.

**(p) Calls on shares and forfeiture of shares**

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of 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 Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

**(q) Inspection of register of members**

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and is subject to the Company Ordinance (Cap. 32) of the Laws of Hong Kong.

**(r) Inspection of register of Directors**

There are no provisions in the Articles relating to the inspection of the register of Directors of the Company as the matter is dealt with in the Companies Law (as to which see paragraph 4(k) below).

**(s) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

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

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

**(u) Procedures on liquidation**

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how

such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

**(v) Untraceable members**

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

**(w) Stock**

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

**(x) Other provisions**

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

**3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION**

Subject to the rights of the Company set out in paragraph (c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

**4. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine, including but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law;

- (iv) in writing off:
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (v) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

**(b) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances, be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

**(c) Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its articles of association, issue redeemable shares and purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.



A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

**(d) Dividends and distributions**

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

**(e) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a class action against or derivative actions in the name of a company to challenge (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, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

**(f) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(g) Accounting and auditing requirements**

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(h) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(i) Taxation**

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1995 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of twenty years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Cayman Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

**(j) Stamp duty**

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

**(k) Inspection of corporate records**

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

**(I) Winding up**

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum of association expires, or the event occurs on the occurrence of which the memorandum of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

**5. GENERAL**

Conyers Dill & Pearman, Cayman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. 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 AND ITS SUBSIDIARIES****1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 30th May, 2001 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each and on the same day, one share of HK\$0.10 each was allotted and issued to Trident Nominees (Cayman) Limited for cash at par. On 31st May, 2001, Trident Nominees (Cayman) Limited transferred the one share of HK\$0.10 each to Mr. Ko. On the same day, two shares of HK\$0.10 each were allotted and issued by the Company as to one share of HK\$0.10 each to Mr. Au Yeung and one share of HK\$0.10 each to Mr. Liu for cash at par.

The Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of Cayman Islands company law is set out in Appendix III to this prospectus.

**2. Changes in share capital of the Company**

Immediately following completion of the Placing and the Capitalisation Issue but not taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options granted or may be granted under the Share Option Scheme, the authorised share capital of the Company will be HK\$500,000,000 divided into 50,000,000,000 Shares of which 1,200,000,000 Shares will be allotted and issued, fully paid or credited as fully paid, and 48,800,000,000 Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, 1,245,000,000 Shares will be allotted and issued, fully paid or credited as fully paid, and 48,755,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or the options granted or which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the shareholders of the Company at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in paragraphs 3 and 4 of this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

**3. Resolutions in writing of all shareholders of the Company passed on 26th January, 2002**

On 26th January, 2002 pursuant to resolutions in writing passed by all shareholders of the Company:

- (a) the then issued and unissued shares having a par value of HK\$0.10 each in the capital of the Company were sub-divided into ten Shares;
- (b) the Company adopted its existing articles of association;
- (c) conditional on the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the day following 30 days after the date of this prospectus:

- (i) the authorised share capital was increased from HK\$390,000 to HK\$500,000,000 by the creation of a further 49,961,000,000 Shares;
- (ii) the Placing and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Placing Shares and to approve the transfer of the Sale Shares pursuant thereto and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;
- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 16 of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme;
- (iv) conditional on the share premium account being credited as a result of the Placing, the Directors were authorised to capitalise HK\$9,418,181.80 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 941,818,180 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 26th January, 2002 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing shareholding;
- (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights, scrip dividend schemes or similar arrangements in accordance with the articles of association of the Company, or pursuant to the grant of options under the Share Option Scheme or the exercise of any options which may be granted under the Share Option Scheme or under the Placing or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned in this prospectus (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and (bb) the nominal amount of the share capital of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (vi) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable Cayman Islands law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first; and
- (vi) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of the Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned in this prospectus (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable Cayman Islands law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first.

#### 4. Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on GEM which involved the following:

(a) The Company

- (i) On 17th December, 2001, the Company allotted and issued an aggregate of 909,087 new shares of HK\$0.10 each, nil paid, as to 303,080 shares of HK\$0.10 each to Mr. Ko, 53,953 shares of HK\$0.10 each to Mr. Au Yeung, 106,599 shares of HK\$0.10 each to Mr. Liu, 381,818 shares of HK\$0.10 each to Mr. Tao, 36,364 shares of HK\$0.10 each to Goldfield and 27,273 shares of HK\$0.10 each to Pernanga.
- (ii) On 23rd January, 2002, each of Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga transferred to the Company 103 shares of US\$1 each, in aggregate, being the entire issued share capital in Yugofoil, in consideration of and exchange for which the Company (aa) allotted and issued, credited as fully paid, 909,090 new shares of HK\$0.10 each, as to 303,081 shares of HK\$0.10 each to Mr. Ko, 53,954 shares of HK\$0.10 each to Mr. Au Yeung, 106,600 shares of HK\$0.10 each to Mr. Liu, 381,818 shares of HK\$0.10 each to Mr. Tao, 36,364 shares of HK\$0.10 each to Goldfield and 27,273 shares of HK\$0.10 each to Pernanga; and (bb) credited as fully paid at par the 909,087 nil paid shares of HK\$0.10 each (as referred to in the preceding sub-paragraph (i)) held by Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga.
- (iii) On 23rd January, 2002, an aggregate of 201,836 shares of HK\$0.10 each in the Company were transferred from Mr. Ko as to 131,942 shares of HK\$0.10 each in the Company, Mr. Au Yeung as to 23,487 shares of HK\$0.10 each in the Company and Mr. Liu as to 46,407 shares of HK\$0.10 each in the Company to the following persons at the consideration of AUD2.3534 (approximately HK\$9.4136) per share, with the number of shares of HK\$0.10 each in the Company transferred set opposite their respective names:

<b>Name</b>	<b>Number of shares of HK\$0.10 each in the Company</b>
David Kwok Ching Chu	57,655
Diamond Clear Associates Limited	28,836
Active Device Co., Ltd.	28,836
Ho Louis Kok Hay & Ho Yue Lai Fong	28,836
Chu Chan Sai Wah, Grace	14,418
Chu Wing Cheong	14,418
Canterbury 2000 Limited	8,652
Lam Yiu Cheung	5,764
Kenneth Walter Glynn	5,764
Margaret Carmel D'Arcy-Evans	2,891
Elizabeth Wong Tuen Yee	2,883
Angela Cutri	2,883

- (iv) On 23rd January, 2002, the Company allotted and issued, at the joint direction of Mr. Ko, Mr. Au Yeung and Mr. Liu, one share of HK\$0.10 each to Mr. Ko for the settlement of a loan of AUD475,000 (approximately HK\$1,900,000) due from the Company to Mr. Ko, Mr. Au Yeung and Mr. Liu.

(v) On 26th January, 2002, an aggregate of 1,159,092 shares of HK\$0.10 each in the Company were transferred from Mr. Ko as to 382,500 shares of HK\$0.10 each in the Company, Mr. Au Yeung as to 69,545 shares of HK\$0.10 each in the Company, Mr. Liu as to 139,091 shares of HK\$0.10 each in the Company and Mr. Tao as to 567,956 shares of HK\$0.10 each in the Company to Perfect Develop in consideration of and exchange for which Perfect Develop allotted and issued, credited as fully paid, an aggregate of 100 new shares of US\$1 each in the capital of Perfect Develop, as to 33 shares to Mr. Ko, 6 shares to Mr. Au Yeung, 12 shares to Mr. Liu and 49 shares to Mr. Tao.

(b) Farthinghoe

On 23rd January, 2002, each of Mr. Ko, Mr. Au Yeung and Mr. Liu transferred one share of US\$1 each in the capital in Farthinghoe to Yugofoil in consideration of and exchange for which Yugofoil allotted and issued, credited as fully paid, one share of US\$1 each to each of Mr. Ko, Mr. Au Yeung and Mr. Liu respectively.

(c) Ever Power and Gainful Plan

(i) On 16th June, 2001, a deed of assignment was entered into between Ever Power, as assignee and Mr. Ko, as assignor, for the assignment of all right, title and interest in the International Patent Application No. PCT/AU00/01419, entitled "Novel compositions and methods".

(ii) On 16th June, 2001, a deed of assignment was entered into between Gainful Plan, as assignee and Mr. Ko and Mr. Au Yeung, as assignors, for the assignment of all right, title and interest in the Australian Provisional Patent Application No. PR2729, entitled "Method of preparing biological materials and preparations produced using the same".

(iii) On 1st November, 2001, a deed of assignment was entered into between Ever Power, as assignee and Mr. Ko, as assignor, for the assignment of all right, title and interest in the US Patent Application No. 09/717,088, entitled "Novel compositions and methods".

(iv) On 17th December, 2001, each of Mr. Ko and Mr. Au Yeung transferred one share of US\$1 each in Everpower and one share of US\$1 each in Gainful Plan to the Company in consideration of and exchange for which the Company allotted and issued, credited as fully paid, one Share, at the joint direction of Mr. Ko and Mr. Au Yeung, to Mr. Au Yeung.

## 5. Changes in share capital of subsidiaries

The subsidiaries of the Company are listed in the accountants' report 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 29th March, 2000, Maxsun was incorporated in Hong Kong with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1 each.

(b) On 23rd August, 2000, two subscriber's shares of HK\$1 each in Maxsun were acquired by each of Beshabar (BVI) and Pharmco, respectively, for cash at par.

- (c) On 23rd August, 2000, 50 shares of and 48 shares of HK\$1 each in Maxsun were allotted and issued to Beshabar (BVI) and Pharmco, respectively, for cash at par.
- (d) On 15th September, 2001, Pharmco transferred an aggregate of 49 shares of HK\$1 each in Maxsun as to 24 shares to Ms. Betty Wei Bai and as to 25 shares to Mr. Tse-Ruo Kuo, respectively, at the consideration of HK\$1 each.
- (e) On 25th August, 2000, 99 shares and one share of HK\$1 each in Beshabar (HK) were allotted and issued to Yugofoil and its nominee for cash at par.
- (f) On 8th November, 2000, the registered capital of Weiao was increased from RMB3,000,000 to RMB9,000,000.
- (g) On 17th November, 2000, Vital BioTech (Hong Kong) was incorporated with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1 each.
- (h) On 19th June, 2001, two subscriber's shares of HK\$1 each in Vital BioTech (Hong Kong) were acquired by each of the Company and its nominee for cash at par.
- (i) On 25th May, 2001, Ever Power was incorporated in BVI with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1 each.
- (j) On 16th June, 2001, one share of US\$1 each in Ever Power was allotted and issued to each of Mr. Ko and Mr. Au Yeung for cash at par.
- (k) On 25th May, 2001, Gainful Plan was incorporated in BVI with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1 each.
- (l) On 16th June, 2001, one share of US\$1 each in Gainful Plan was allotted and issued to each of Mr. Ko and Mr. Au Yeung for cash at par.
- (m) On 25th July, 2001, Vital (Sichuan) was established with a registered capital of US\$1,400,000.

Save as disclosed herein and in paragraph 4 of this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

## **6. Repurchase by the Company of its own securities**

This paragraph 6 includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.



(a) *Stock Exchange Rules*

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:

Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Company's memorandum and articles of association and the Companies Law. A listed company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under Cayman Islands law, repurchases by the Company may only be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have general authority from the shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) *Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 1,200,000,000 Shares in issue immediately after the listing of the Shares on GEM (assuming the Over-allotment Option is not exercised), would result in up to 120,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

In the event the Over-allotment Option is exercised in full, 1,245,000,000 Shares will be in issue immediately after the listing of the Shares on GEM. The exercise in full of the Repurchase Mandate on such basis would result in up to 124,500,000 Shares being repurchased by the Company during the same period.

(d) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the GEM Listing Rules) currently intends to sell any Shares to the Company or its subsidiaries if the Repurchase Mandate is exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

## **7. Registration under Part XI of the Companies Ordinance**

The Company has established a place of business in Hong Kong at Units 1001 and 1002, 10th Floor, Kwai Hung Holdings Centre, 89 King's Road, North Point, Hong Kong. On 23rd November, 2001, the Company was registered as an oversea company under Part XI of the Companies Ordinance. Mr. Ko and Mr. Tao, both being Directors, were appointed as agents of the Company for the acceptance of service of process in Hong Kong.

## **FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP**

### **8. 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) a share purchase agreement dated 23rd January, 2002 and entered into among (i) each of Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga as vendors, (ii) Ip Yu Chak and Yeung Wing Sang as warrantors and (iii) the Company as purchaser for the acquisition of the entire issued capital of Yugofoil, in consideration of and exchange for which the Company (aa) allotted and issued, credited as fully paid, 909,090 new shares of HK\$0.10 each, as to 303,081 shares of HK\$0.10 each to Mr. Ko,



53,954 shares of HK\$0.10 each to Mr. Au Yeung, 106,600 shares of HK\$0.10 each to Mr. Liu, 381,818 shares of HK\$0.10 each to Mr. Tao, 36,364 shares of HK\$0.10 each to Goldfield and 27,273 shares of HK\$0.10 each to Pernanga; and (bb) credited as fully paid at par the 909,087 nil paid shares of HK\$0.10 each held by Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga;

- (b) a deed of indemnity dated 30th January, 2002 and executed by Perfect Develop, Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, in favour of the Company containing the indemnities more particularly referred to in paragraph 17 of this Appendix;
- (c) the Underwriting Agreement;
- (d) a capital transfer agreement dated 15th August, 2000 entered into between Yugofoil and Mas International (HK) Company Limited in respect of the acquisition of 30% of the registered capital in Weiao from Mas International (HK) Company Limited by Yugofoil at the consideration of RMB900,000 (approximately HK\$849,057);
- (e) an agreement dated 15th September, 2000 entered into between Yugofoil and Bright Future in connection with the termination of the trust arrangement between the parties pursuant to which Bright Future transferred 90% of the registered capital in Tianao back to Yugofoil, the beneficiary, at nil consideration;
- (f) a deed of assignment dated 16th June, 2001 entered into between Ever Power, as assignee, and Mr. Ko, as assignor, for the assignment of all right, title and interest in the International Patent Application No. PCT/AU00/01419, entitled "Novel compositions and methods";
- (g) a deed of assignment dated 16th June, 2001 entered into between Gainful Plan, as assignee, and Mr. Ko and Mr. Au Yeung, as assignors, for the assignment of all right, title and interest in the Australian Provisional Patent Application No. PR2729 entitled "Method of preparing biological materials and preparations produced using the same"; and
- (h) a deed of assignment dated 1st November, 2001 entered into between Ever Power, as assignee, and Mr. Ko, as assignor, for the assignment of all right, title and interest in the US Patent Application No. 09/717,088, entitled "Novel compositions and methods".

## 9. Intellectual property rights of the Group

### Trade marks





The Group is the registered proprietor and beneficial owner of the following trade marks:

Trade marks	Class	Registration number	Duration of validity	Place of registration
	5 (note 1)	1092945	10 years from 7th September, 1997 to 6th September, 2007	PRC
	5 (note 2)	1218332	10 years from 28th October, 1998 to 27th October, 2008	PRC
"VITAPHARM MEDIKO"	3 (note 3)	768659	10 years from 28th July, 1998 to 27th July, 2008	Australia
"VITAPHARM MEDIKO"	5 (note 4)	768659	10 years from 28th July, 1998 to 27th July, 2008	Australia

Notes:

1. The products covered under this class include Western medicine.
2. The products covered under this class include injection and suppository medicine.
3. The products covered under this class include cosmetics preparations including anti-wrinkle preparations, anti-ageing preparations, skin lightening compositions and emollient creams.
4. The products covered under this class include pharmaceutical and cosmetic preparations including anti-acne preparations, compositions for preventing hair loss, depilatory compositions, anti-psoriasis creams, topical anti-microbial and anti-viral preparations including topical cold sore treatment compositions, blackhead and/or whitehead removing preparations.

As at the Latest Practicable Date, the Group had applied for registration of the following trade marks, the registration of which has not yet been granted:

Trade marks	Place of application	Class	Application date	Application number
	Hong Kong	5 (note 1)	29th September, 2001	2001 15862
	Hong Kong	10 (note 2)	29th September, 2001	2001 15863
	Hong Kong	42 (note 3)	29th September, 2001	2001 15861
美迪高	PRC	5 (note 4)	18th December, 2000	2000198269
VITAPHARMMEDIKO	PRC	5 (note 4)	18th December, 2000	2000200488
	PRC	5 (note 4)	11th June, 2001	2001098786

Notes:

- The products covered under this class include pharmaceutical, veterinary and sanitary preparations; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides; all included in class 5.
- The products covered under this class include surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials; all included in class 10.
- The products covered under this class include providing of food and drink, temporary accommodation; medical, hygienic and beauty care; veterinary and agricultural services; legal services; scientific and industrial research; computer programming; services that cannot be placed in other classes; all included in class 42.
- The products covered under this class include medicines for human purposes; biological preparations for pharmaceutical purposes; nurture for medical purposes; dietetic foods adapted for medical purposes; sterilising preparations; biochemical medicines; pilatory for medical purposes; medicines for veterinary purposes; diagnostic preparations for medical purposes; medical preparations

**Patents**

The Group is the registered proprietor and beneficial owner of the following patents:

<b>Title of inventions</b>	<b>Place of registration</b>	<b>Approving date</b>	<b>Registration number</b>	<b>International patent classification</b>
Hard porous loose-foam body bolt and its manufacturing process	PRC	22nd January, 2000	941012557	A61K9/02
Frozen dry bolt and its manufacturing process	PRC	5th February, 2000	941076695	A61K9/02

As at the Latest Practicable Date, the Group had applied for registration of the following patents, the registration of which has not yet been granted:

<b>Title of inventions</b>	<b>Place of application</b>	<b>Application date</b>	<b>Application number</b>	<b>International patent classification</b>
Method of preparing biological materials and preparations produced using the same	Australia	25th January, 2001	PR2729	A61K 9/00, 9/50, 9/52 A61K 35/66, 37/00 A61K 37/00, 37/24, 37/48
A propellant free spray-on skin patch composition for improving wound healing and for drug administration	Geneva	22nd November, 2000	PCT/AU00/01419	A61L 26/00, 27/60, A61K 9/12, 9/70, A61P 17/02, 31/02, 31/04, 31/10
Novel compositions and methods	US	22nd November, 2000	09/717,088	A61F 13/00+

**Domain names**

The Group is the registered proprietor and beneficial owner of the domain names specified below:

<b>Domain names</b>	<b>Date of registration</b>
vitapharm.com.au	23rd February, 1999
etianao.com	16th November, 2000
osteofarm.com	15th December, 2000

## 10. Further information about the Group's PRC equity joint ventures and wholly foreign-owned enterprise

The Group has established two Sino-foreign equity joint ventures in the PRC. Summaries of corporate information and the principal terms of the joint venture contract in respect of each of the joint venture enterprises are as follows:

### (a) Sichuan Weiao Pharmacy Co., Ltd.

Corporate nature	:	Sino-foreign equity joint venture enterprise
Joint venture partners	:	(i) 四川康奧醫藥科技開發有限責任公司 (Sichuan Kangao Pharmaceutical Technology Development Co., Ltd.) (the PRC joint venture partner); and (ii) Yugofoil
Total investment	:	RMB9,000,000
Total registered capital	:	RMB9,000,000
Attributable interest of the Company	:	76.7%
Term of joint venture	:	30 years
Scope of business	:	Production, sales and marketing of western and Chinese pharmaceutical preparations and raw materials

The board of directors of Weiao consists of five directors, two of whom are appointed by the PRC joint venture partner and the remaining three are appointed by Yugofoil.

The profit of Weiao is shared between the Group and the PRC joint venture partner in proportion to their respective equity interests in Weiao. Upon the termination of the joint venture contract, the assets of Weiao will be distributed to the Group and the PRC joint venture partner in proportion to their respective equity interests in Weiao.

### (b) Wuhan Tianao Pharmaceuticals Co., Ltd.

Corporate nature	:	Sino-foreign equity joint venture enterprise
Joint venture partners	:	(i) 武漢天奧製藥廠 (Wuhan Tianao Pharmaceutical Factory) (the PRC joint venture partner); and (ii) Yugofoil
Total investment	:	RMB10,200,000

Total registered capital	:	RMB7,140,000
Attributable interest of the Company	:	95%
Term of joint venture	:	15 years
Scope of business	:	Research, development, production, sales and marketing of broad spectrum anti-viral and biological line of pharmaceutical products

The board of directors of Tianao consists of seven directors, two of whom are appointed by the PRC joint venture partner and the remaining five are appointed by Yugofoil.

The profit of Tianao is shared between the Group and the PRC joint venture partner in proportion to their respective equity interests in Tianao. Upon the termination of the joint venture contract, the assets of Tianao will be distributed to the Group and the PRC joint venture partner in proportion to their respective equity interests in Tianao.

The Group has also established a wholly foreign-owned enterprise, namely, Vital (Sichuan) BioTech Co., Ltd., in the PRC. Summary of corporate information of Vital Sichuan is as follows:

Corporate nature	:	Wholly foreign-owned enterprise
Total investment	:	US\$2,000,000
Total registered capital	:	US\$1,400,000
Term of operation	:	15 years
Scope of business	:	Research and development of biotechnology

## **FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF**

### **11. Directors**

#### *Disclosure of interests of Directors*

- (i) Save as disclosed in this prospectus, none of the Directors or their respective associates was engaged in any dealings with the Group during the two years preceding the date of this prospectus.
- (ii) Each of Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao is interested in the corporate reorganisation referred to in paragraph 4 of this Appendix and changes in share capital of subsidiaries of the Group referred to in paragraph 5 of this Appendix.

#### *Particulars of service contracts*

Each of Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao, being all the executive Directors, has entered into a service contract with the Company for an initial term of two years commencing from 1st December,



2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 30th November, 2002 at the discretion of the Directors). In addition, the executive Directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 10% of the audited combined profits attributable to the shareholders of the Company (after taxation and minority interests but before extraordinary and exceptional items and the payments of such bonuses) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

<b>Name</b>	<b>Amount</b>
Mr. Ko	HK\$720,000
Mr. Au Yeung	HK\$720,000
Mr. Liu	HK\$720,000
Mr. Tao	HK\$720,000

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

#### *Directors' remuneration*

- (a) The Company's policies concerning remuneration of executive Directors are as follows:
- (i) the amount of remuneration payable to the executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to the Group by the relevant Director;
  - (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 the remuneration package.
- (b) During the year ended 31st December, 2000, the aggregate emoluments paid by the Group to the Directors was approximately HK\$1,251,000. Details of the Directors remuneration are set out in note (9) to section II of the accountants' report set out in Appendix I to this prospectus.
- (c) During the year ended 31st December, 2001, the aggregate emoluments paid by the Group to the Directors was approximately HK\$2,278,000.
- (d) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 31st December, 2002 are estimated to be approximately HK\$2,880,000.
- (e) No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments.

- (f) Save for directors' fees, none of the non-executive Directors is expected to receive any other remuneration for holding his office as a non-executive Director.

*Interests of Directors in the share capital of the Company and its associated corporations*

Immediately following completion of the Placing and the Capitalisation Issue, the interests of the Directors in the share capitals of the Company and 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 in 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 which will be required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, once the Shares are listed, or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

Director	Number of Shares				Total interests
	Corporate interests	Personal interests	Family interests	Other interests	
Mr. Ko	–	48,422,400	–	–	48,422,400
Mr. Au Yeung	–	7,852,800	–	–	7,852,800
Mr. Liu	–	14,630,400	–	–	14,630,400
Mr. Tao	612,000,000 (Note)	103,315,200	–	–	715,315,000

Note: These Shares are registered in the name of Perfect Develop. Mr. Tao is the beneficial owner of 49% of the entire issued share capital of Perfect Develop. Under the SDI Ordinance, Mr. Tao is deemed to be interested in all the Shares registered in the name of Perfect Develop.

## 12. Substantial shareholders

So far as the Directors are aware, immediately upon completion of the Placing and the Capitalisation Issue and taking no account of Shares which may be taken up under the Placing or upon the exercise of the Over-allotment Option, the following persons will be interested in more than 10% of the Shares then in issue:

Name	Number of Shares directly or indirectly held immediately after the Placing and the Capitalisation Issue	Approximate percentage shareholding in the Company held immediately after the Placing and the Capitalisation Issue
Perfect Develop	612,000,000 (Note 1)	51
Mr. Tao	715,315,000 (Note 1(d))	59.61

Notes:

1. The issued share capital of Perfect Develop is beneficially owned by the following persons:

Name of shareholders	Number of shares	Approximate percentage of shareholding
Mr. Ko (a)	33	33
Mr. Au Yeung (b)	6	6
Mr. Liu (c)	12	12
Mr. Tao (d)	49	49
Total	<u>100</u>	<u>100</u>

- (a) Mr. Ko, one of the executive Directors, owns in aggregate 33 shares in, representing approximately 33% of, the issued share capital of Perfect Develop. Perfect Develop is an investment holding company with no assets other than the Shares. Mr. Ko has an attributable interest in 33% of the Shares in which Perfect Develop is interested, amounting to 201,960,000 Shares, and together with 48,422,400 Shares registered in his own name, immediately after the Placing and the Capitalisation Issue, representing 20.86% of the issued share capital of the Company. On this basis, Mr. Ko is deemed to be an Initial Management Shareholder for the purpose of Rules 13.15 to 13.21 of the GEM Listing Rules.
- (b) Mr. Au Yeung, one of the executive Directors, owns in aggregate 6 shares in, representing approximately 6% of, the issued share capital of Perfect Develop. Perfect Develop is an investment holding company with no assets other than the Shares. Mr. Au Yeung has an attributable interest in 6% of the Shares in which Perfect Develop is interested, amounting to 36,720,000 Shares, and together with 7,852,800 Shares registered in his own name, immediately after the Placing and the Capitalisation Issue, representing 3.71% of the issued share capital of the Company. On this basis, Mr. Au Yeung is deemed to be an Initial Management Shareholder for the purpose of Rules 13.15 to 13.21 of the GEM Listing Rules.
- (c) Mr. Liu owns in aggregate 12 shares in, representing approximately 12% of, the issued share capital of Perfect Develop. Perfect Develop is an investment holding company with no assets other than the Shares. Mr. Liu has an attributable interest in 12% of the Shares in which Perfect Develop is interested, amounting to 73,440,000 Shares, and together with 14,630,400 Shares registered in his own name, immediately after the Placing and the Capitalisation Issue, representing 7.34% of the issued share capital of the Company. On this basis, Mr. Liu is deemed to be an Initial Management Shareholder for the purpose of Rules 13.15 to 13.21 of the GEM Listing Rules.
- (d) Mr. Tao owns in aggregate 49 shares in, representing approximately 49% of the issued share capital of Perfect Develop. Accordingly, Mr. Tao is deemed, by virtue of the SDI Ordinance, to be interested in all the Shares in which Perfect Develop is interested, amounting to 612,000,000 Shares immediately after the Placing and the Capitalisation Issue. Together with 103,315,200 Shares registered in his own name, Mr. Tao is deemed, by virtue of the SDI Ordinance, to be interested in, 715,315,000 Shares in aggregate, amounting to approximately 59.61% of the Shares in issue immediately after the Placing and the Capitalisation Issue. On this basis, Mr. Tao is deemed to be an Initial Management Shareholder for the purpose of Rules 13.15 to 13.21 of the GEM Listing Rules.
2. Assuming the Over-allotment Option is not exercised.

### 13. Agency fees or commissions received

The Underwriters will receive a commission of 4.5% of the aggregate Placing Price per Placing Share in respect of all the Placing Shares, out of which they will pay any sub-underwriting commissions and selling concessions. CPY International will receive a documentation and financial advisory fee. Such commissions, selling concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Placing, which are estimated to amount in aggregate to approximately HK\$15 million, will be payable as to 80% by the Company and as to 20% by Vendors.

### 14. Related party transactions

During the two years preceding the date of this prospectus, the Group had engaged in dealings with certain Directors and their associates as described in:

- (a) note 12 to section III of the accountants' report set out in Appendix I to this prospectus; and
- (b) paragraphs 4 and 5 of this Appendix.

### 15. Disclaimers

Save as disclosed in this prospectus:

- (i) and taking no account of any Shares which may be taken up or acquired under the Placing or upon the exercise of the Over-allotment Option or the options granted or which may be granted under the Share Option Scheme, the Directors are not aware of any person who immediately following completion of the Placing and the allotment and issue of the Over-allotment Option Shares will hold either directly or indirectly, or be beneficially interested in, Shares representing 10% or more of the share capital of the Company in issue and to be issued as mentioned in this prospectus;
- (ii) none of the Directors has for the purpose of section 28 of the SDI Ordinance or the GEM Listing Rules, 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 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 will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules once the Shares are listed on GEM;
- (iii) none of the Directors or the experts named in paragraph 22 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (iv) none of the Directors or the experts named in paragraph 22 of 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 taken as a whole; and

- (v) none of the experts named in paragraph 22 of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

## OTHER INFORMATION

### 16. Share option scheme

(a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all shareholders of the Company on 26th January, 2002:

(i) Purposes of the scheme

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

(ii) Who may join

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants to take up options to subscribe for Shares:

- (aa) any employee or proposed employees (whether full-time or part-time) of the Company or any of its subsidiaries or any entity (the "**Invested Entity**") in which any member of the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (bb) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of the Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- (ff) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants at sole discretion of the Company.

The eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group.

(iii) Subscription price for Shares

The subscription price for Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares on GEM as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of Shares on the date of the offer of grant, which must be a business day; or (ii) the average closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of shares for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(iv) Maximum number of Shares

- (aa) The maximum number of securities to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant shares of securities of the Company (or the subsidiary) in issue from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30,000,000 Shares, representing 10% of the Shares in issue upon completion of the Placing and the Capitalisation Issue (the "**General Scheme Limit**").
- (cc) Subject to (aa) above but without prejudice to (dd) below, the Company may seek approval of its Shareholders at general meeting to refresh the General Scheme Limit (a circular containing information required by the GEM Listing Rules to be despatched to Shareholders for that purpose) provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of the Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted.
- (dd) Subject to (aa) above and without prejudice to (cc) above, the Company may seek separate Shareholders' approval at general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by the Company (a circular containing information required by the GEM Listing Rules to be despatched to Shareholders for that purpose) before such approval is sought.

(v) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the “**Individual Limit**”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to Shareholders' approval at general meeting of the Company (a circular containing information required by the GEM Listing Rules to be despatched to Shareholders for that purpose) with such participant and his associates abstaining from voting.

(vi) Grant of options to connected persons

(aa) Any grant of options under the Share Option Scheme to a Director, the chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associate is also the grantee of the options).

(bb) Where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders at the general meeting. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director, or any of their respective associates must be approval by the Shareholders at general meeting.

(vii) Time of acceptance and exercise of option

An option may be accepted by a participant at a nominal consideration of HK\$1 within 21 days from the date of the offer of grant of the options.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end in any event not later than ten years from the date on which the offer for grant of the option is made subject to the provisions for early termination thereof.

Unless the Directors otherwise determine and state in the offer of the grant of options to a grantee, a grantee is not required to hold an option for any minimum period before any options granted under the Share Option Scheme can be exercised.

(viii) Rights are personal to grantee

An option is personal to a grantee and shall not be transferable or assignable save as provided under the rules of the Share Option Scheme.

(ix) Performance targets

Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(x) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

Eligible Employee means any employee or proposed employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity.

(xi) Rights on ceasing employment

If a grantee of an option is an Eligible Employees and ceases to be an Eligible Employee of the Group by reason other than death, ill-health or retirement in accordance with his contract of employment or any of the events specified in paragraphs (xii) and (xiii) below before exercise his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option in whole or in part within such period as the Directors may determine following the date of cessation which will be taken to be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.



(xii) Rights on dismissal, bankruptcy or insolvency

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of persistent or serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xiii) Rights on voluntary winding up

In the event of an effective resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his option, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution.

(xiv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (i) the grantee of any option (other than an Eligible Employee) or his associates has committed any breach of any contract entered into between the grantee or his associates on the one part and the Group or any Invested Entity on the other or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; and (ii) the option granted to the grantee under the Share Option scheme shall lapse, his option will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

(xv) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer). Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(xvi) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of Shares the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price and/or the method of exercise of the option concerned, provided that (i) such adjustment will be made on the basis that the aggregate subscription price payable by the grantee upon the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) it was before such event; (ii) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (iii) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (iv) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the GEM Listing Rules.

(xvii) Ranking of Shares

Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until completion of the registration of the grantee as the holder thereof.

(xviii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Share Option Scheme becomes unconditional.

(xix) Alterations to terms and conditions

The Share Option Scheme may be altered in any respect by a resolution of the Directors except that any material alteration to its terms and conditions of the Share Option Scheme including matters contained in Rule 23.03 of the GEM Listing Rules and set out below:

- (i) the terms and conditions of the Share Option Scheme relating to the matters set out in Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees of the options except with the prior approval of the shareholders of the Company at general meeting;

- (ii) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of option granted must be approved by the shareholders of the Company at general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme;
- (iii) amended terms of the Share Option Scheme or the options must comply with the relevant requirements in Chapter 23 of the GEM Listing Rules; and
- (iv) any change of the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by shareholders of the Company at general meeting.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be approved by shareholders of the Company at general meeting, with participants and their associates abstaining from voting. Any vote taken at the general meeting to approve such cancellation shall be taken by poll.

Where the Company cancels options and issues new ones to the same grantees, the issue of such new options may only be made under a scheme with available unissued options (excluding the cancelled options) within the limit approved by shareholders of the Company at general meeting as referred to in paragraph (iv) above.

(xxi) Termination of the Share Option Scheme

The Company may by resolution at general meeting at any time terminate the Share Option Scheme and in such event no further options shall be granted or offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. Upon such termination, details of the options granted (including options exercised or outstanding) under the Share Option Scheme are required under the GEM Listing Rules to be disclosed in the circular to shareholders seeking approval of the first new scheme established thereafter.

(xxii) General

Unless the context otherwise requires, references to "Shares" in this paragraph 16 include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a sub-division, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(b) *Present status of the Share Option Scheme*

(i) Approval of GEM Listing Committee required

The Share Option Scheme is conditional on the GEM Listing Committee of the Stock Exchange granting 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.

- (ii) Application for approval

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.

- (iii) Grant of option

As at the date of this prospectus, no options has been granted or agreed to be granted under the Share Option Scheme.

## 17. Estate duty, tax and other indemnities

Each of Perfect Develop, Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao (collectively the "**Indemnifiers**") has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract referred to in paragraph 8(b) of this Appendix) and all its present subsidiaries to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the Placing becomes unconditional. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands.

Under the deed of indemnity, the Indemnifiers have also given indemnities to the Group in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Placing becomes unconditional.

The Indemnifiers shall be under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the consolidated audited accounts of the Company and its subsidiaries made up to 30th June, 2001; or
- (b) to the extent of any provisions or reserve made for taxation in the consolidated audited accounts of the Company and its subsidiaries made up to 30th June, 2001 is finally established to be an over-provision or an excessive reserve; or
- (c) where liability for such taxation arises as a result of transactions in the ordinary course of business of the Company or any of its subsidiaries after 30th June, 2001; or
- (d) where liability for such taxation 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 business after 30th June, 2001; or
- (e) to the extent that such taxation claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof coming into force after the Placing becoming unconditional or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after such date with retrospective effect.

Under the deed of indemnity, the Indemnifiers have also jointly and severally undertaken in favour of the Company to indemnify the Group for any depletion in value of assets, costs, fees, expenses, claims, losses, liabilities and proceedings which may be incurred or suffered by any of them as a result of the Trust Agreements in respect of the interests of Yugofoil, Mr. Ko and Farthinghoe in Wuhan Tianao Pharmaceuticals Co., Ltd. and Vitapharm Research Pty. Ltd. being declared or determined by any court or governmental authority of any jurisdiction to be illegal, invalid, unenforceable or otherwise have failed to create the trusts contemplated thereunder or as a result of claims or disputes in respect of any transfer pursuant thereto.

For the purpose of this paragraph, “Trust Agreements” means the following agreements/documents:

- (a) declaration of trust dated 10th November, 1998 and entered into between Yugofoil and Bright Future in respect of a 70% interest in Tianao and other trust agreement(s), written or unwritten, in respect of a further 20% interest in Tianao previously held by Bright Future in favour of Yugofoil;
- (b) declarations of trust dated 1st April, 1998 by King Laboratories Pty. Ltd. and WB Nominees Pty. Ltd. in favour of Mr. Ko in respect of 20 issued shares of AUD20 each in Vitapharm Research; and
- (c) declaration of trust dated 1st April, 1998 by Mr. Ko in respect of the said 20 issued shares in Vitapharm Research in favour of Farthinghoe.

## **18. Litigation**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

## **19. Sponsor**

The Sponsor has made an application for and on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Share that may be issued upon the exercise of the Over-allotment Option or of any option which may be granted under the Share Option Scheme on GEM.

## **20. Preliminary expenses**

The estimated preliminary expenses of the Company are approximately US\$2,500 (equivalent to HK\$19,500) and are payable by the Company.

## **21. Promoter**

- (a) The promoters of the Company are Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao.
- (b) Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoters named in paragraph 21(a) above in connection with the Placing or the related transactions described in this prospectus.

**22. Qualification of experts**

The qualification of the experts who have given opinions in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Acuity Technology Management Pty. Ltd.	Professional consultant
Core Pacific – Yamaichi Capital Limited	Registered investment adviser and securities dealer
Chan, Warren C.H., S.C.	Senior Counsel
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
Nevett Ford	Legal financial consultant
PricewaterhouseCoopers	Certified Public Accountants
Shu Jin & Co. Solicitors & attorneys	Licensed legal advisers on PRC securities law
Vigers Hong Kong Limited	Professional valuers and surveyors

**23. Consents of experts**

Each of Acuity Technology Management Pty. Ltd., CPY, Chan, Warren C.H., S.C., Conyers Dill & Pearman, Cayman, Nevett Ford, PricewaterhouseCoopers, Shu Jin & Co. Solicitors & attorneys and Vigers Hong Kong Limited have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, valuation, opinions or summaries of opinions (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they are respectively included.

**24. 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 so far as applicable.

**25. Taxation of holders of Shares**

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Placing accepts responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty the current rate of which is 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

## **26. Miscellaneous**

- (a) Save as disclosed herein:
  - (i) within two years preceding the date of this prospectus:
    - (aa) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
    - (bb) no commissions, discounts, brokerages (but not including commission to sub-underwriters) or other special terms have been granted for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions for, or in connection with the issue or sale of, any share or loan capital of the Company or any of its subsidiaries.
  - (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) The Directors confirm that:
    - (aa) there has been no material adverse change in the financial position or prospects of the Group since 30th June, 2001 (being the date to which the latest audited combined financial statements of the Group were made up); and
    - (bb) there has not been any interruption in the business of the Group which may have or has had a material adverse effect on the financial position of the Group in the twenty-four months preceding the date of this prospectus.
- (b) The Company has no founder shares, management shares or deferred shares.

- (c) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Bank of Bermuda (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Central Registration Hong Kong Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

## 27. Particulars of the Vendors

<b>Name</b>	<b>Description</b>	<b>Registered address</b>
Goldfield Farming Agents Limited	Corporation	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Pernanga Agents Limited	Corporation	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands

Goldfield Farming Agents Limited is a company incorporated in the BVI with limited liability, the entire issued share capital of which is owned by Mr. Ip Yu Chak.

Pernanga Agents Limited is a company incorporated in the BVI with limited liability, the entire issued share capital of which is owned by Mr. Yeung Wing Sang.

Save as disclosed herein, none of the Directors is interested in the Placing.



**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 the written consents referred to in the paragraph headed "Consents of experts" in Appendix IV to this prospectus, a statement of the name, address and description of the Vendors and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix IV to this prospectus and the statement of adjustments made by PricewaterhouseCoopers in arriving at the figures set out in the accountant's report in Appendix I to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Chiu & Partners, 41st Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including 15th February, 2002;

- (a) the memorandum and articles of association of the Company;
- (b) such audited accounts as have been prepared for the companies comprising the Group for the two years ended 31st December, 2000 and the six months ended 30th June, 2001 (or for the period since their respective dates of incorporation or dates of effective acquisition by the Group where it is shorter);
- (c) the accountants' report, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments;
- (d) the letter, summary of values and valuation certificate prepared by Vigers Hong Kong Limited, the text of which is set out in Appendix II to this prospectus;
- (e) the rules of the Share Option Scheme;
- (f) the letter of advice prepared by Conyers Dill & Pearman, Cayman referred to at the end of Appendix III to this prospectus;
- (g) the Companies Law;
- (h) the material contracts referred to in the paragraph headed "Summary of material contracts" of Appendix IV to this prospectus;
- (i) the written consents referred to in the paragraph headed "Consents of experts" of Appendix IV to this prospectus;
- (j) the service contracts referred to in the paragraph headed "Particulars of Directors' service contracts" of Appendix IV to this prospectus; and
- (k) statement of particulars of each of the Vendors.