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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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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;

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- 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:

<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)

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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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- **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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- **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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- 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

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



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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.

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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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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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### 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.