



李 氏 大 藥 廠

**Lee's Pharmaceutical Holdings Limited**

**李 氏 大 藥 廠 控 股 有 限 公 司\***

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

## PLACING

Joint Sponsors



**ASIA INVESTMENT CAPITAL LIMITED**



\* For identification purposes only

## IMPORTANT

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



李氏大藥廠

### Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司\*

*(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

Number of Placing Shares	:	90,000,000 Shares comprising 75,000,000 New Shares and 15,000,000 Sale Shares (subject to Over-allotment Option)
Placing Price	:	HK\$0.40 per Placing Share
Nominal value	:	HK\$0.05 each
Stock code	:	8221

#### Joint Sponsors



ASIA INVESTMENT CAPITAL LIMITED



#### Lead Manager



CM-CCS Securities Limited

#### Underwriters

<b>CM-CCS Securities Limited</b>	<b>Asia Investment Capital Limited</b>
<b>Shun Loong Securities Company Limited</b>	<b>Sanfull Securities Limited</b>
<b>Karl-Thomson Securities Company Limited</b>	

*The Stock Exchange and HKSCC take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.*

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

*\* For identification purposes only*

3rd July, 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies on GEM are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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## EXPECTED TIMETABLE

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2002

Allocation of the Placing Shares to placees on or before	Monday, 8th July
Announcement of the results of the Placing to be published on the GEM website on or before	Thursday, 11th July
Allotment of the New Shares and transfer of the Sale Shares on or before	Friday, 12th July
Share certificates to be despatched on or before ( <i>Note 1</i> )	Friday, 12th July
Dealings in the Shares on the GEM to commence on or about	Monday, 15th July

*Notes:*

1. Share certificates for the Placing Shares are expected to be deposited into CCASS on 12th July, 2002 for credit to the respective CCASS participants' stock accounts designated by the Underwriters, the placees or their agents (as the case may be). No temporary document or evidence of title will be issued.
2. All times refer to Hong Kong local time.

Details of the structure of the Placing, including its conditions, are set out in the sections headed "Information about this prospectus and the Placing" and "Structure of the Placing" in this prospectus.

Share certificates for the Placing Shares will be issued on 12th July, 2002 and will only become valid certificates of title at 10:00 a.m. on the business day immediately preceding the Listing Date when (i) the Placing has become unconditional; and (ii) the right of termination of the Underwriting and Placing Agreement as described in the section headed "Underwriting" in this prospectus has not been exercised by Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters).

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

*The Company and the Vendor have 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 Vendor, the Joint Sponsors, the Underwriters, any of their respective directors or any other person or party involved in the Placing.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Placing Shares.*

*There is greater risk associated with investment in companies listed on GEM. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors". You should read that section carefully before you decided to invest in the Placing Shares.*

### BUSINESS OVERVIEW

The Group is an integrated research-driven and market-oriented biopharmaceutical group engaged in the development, manufacturing and sales of quality biopharmaceutical products that focus on combating cardiovascular diseases and viral sexually transmitted diseases. The business activities of the Group are primarily carried out through Zhaoke, a sino-foreign equity joint venture established in the PRC in which the Group owns 70 per cent. equity interest. Located in Hefei, Anhui Province, the PRC, Zhaoke has two fully operational and GMP-compliant workshops for the production of (i) bulk pharmaceutical for injection and lyophilized powder for injection and (ii) gel. Since its establishment in 1994, Zhaoke has developed three technology platforms, namely, (i) the snake venom technology, (ii) the low molecular weight heparin technology and (iii) the water-based gel delivery system. As at the Latest Practicable Date, the Group manufactures and sells three self-developed biopharmaceutical products, namely Defibrase, Livaracine and Yallaferon, which are all Category 4 biopharmaceutical products, for the treatment of stroke, cardiovascular diseases and viral sexually transmitted diseases such as genital warts, respectively. In addition, the Group has a strong product pipeline as it has (i) three other products, the applications for clinical trials of which have been submitted and the relevant clinical trials are anticipated to be launched in 2002 and 2003 and (ii) five products identified for research and development with a view to eventual commercialisation. Currently, the Group's sales and distribution network is divided into three major districts covering approximately 28 provinces, cities or districts and over 500 major hospitals and clinics in the PRC. The Group carries out its sales and distribution activities through Zhaoke's sales offices located in Guangzhou and Hefei, the PRC and through appointing independent distributors in the PRC. The sales offices of Zhaoke, together with its branch offices in Beijing and Shanghai, are responsible for marketing and after-sales services in a designated region arranged in advance by the chief marketing officer of the Group. The Group's products are all sold in the PRC under the brandname of "ZHAOKE".

Since its establishment, Zhaoke, the Group's principal operating arm, has obtained a number of awards/accreditations, including but not limited to:

- a 高新技術企業 (New High Technology Enterprise) by 安徽省科學技術委員會 (Anhui Province Science and Technology Committee) in September 1995; and
- a 外商投資先進技術企業 (Foreign Investment Advanced Technology Enterprise) by MOFTEC in April 1999.



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## SUMMARY

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Furthermore, the research work and studies undertaken by Zhaoke have also been highly recognised by the academies and government officials:

- (i) 尖吻蝮蛇毒的生物化學研究 (Study of enzyme from snake venom of Agkistrodon Acutus) undertaken by Zhaoke was accredited 自然科學獎二等獎 (Second Prize in Natural Science) by 中國科學院 (Chinese Academy of Science) in November 1994;
- (ii) the study on the development and commercialisation of Defibrase was accredited by 中國國家科學技術委員會 (State Science and Technology Committee of the PRC), now known as 科學技術部 (Ministry of Science and Technology), as a 國家級火炬計劃 (National Torch Project) in March 1996; and
- (iii) Declotana, a new product of the Group under research and development, was approved as 1999 年國家重點技術創新項目 (Key National Technology and Innovation Project for the year 1999) by 中國國家經濟貿易委員會 (State Economic and Trade Commission of the PRC) in June 1999.

In May 2001, the Group co-operated with the Biological Research Institute of the Hong Kong University of Science and Technology to develop the project known as “Screening of Human Heparanase Inhibitors as Anti-Cancer Drugs from Traditional Chinese Medicine” which has been awarded a matching grant by the Hong Kong Government’s Innovation and Technology Fund.

The Group has an experienced, dynamic and professional management team which enables the Group to respond quickly to the customers’ needs and to meet the challenges of the biopharmaceutical industry both in the PRC and overseas. Moreover, the Group has established a scientific advisory board, comprising leading researchers from university faculties and research institutes in Hong Kong and the PRC, which provides consultation for the overall research and development activities of the Group. The Directors consider that the scientific advisory board can facilitate the Group to gain better access to the latest technological development in the biopharmaceutical field. Furthermore, the Group’s research and development team has close working relationship with the universities and research institutions in the PRC and Hong Kong (such as 中國藥科大學 (China Pharmaceutical University), 中國藥品生物製品檢定所 (China Drug Evaluation Institute) and the Biological Research Institute of Hong Kong University of Science and Technology) to leverage on their strengths in carrying out pre-clinical studies of new drugs of the Group. The Group will continue to focus its efforts on drug researches and innovation, based on its three in-house developed technology platforms, to further develop its new products in the pipeline.

Furthermore, the Group has established a strategic partnership with Zengen, a biotechnology company based in the United States which owns 2 patents issued in the United States and 1 patent issued in Europe and 6 patents in the United States, 3 patents in PCT countries and 2 patents in Japan pending-to-be-issued by relevant authorities on proprietary technologies (all are for treatment of inflammation and anti-infection of virus based on the peptide technology) as at the Latest Practicable Date, with a view to licensing certain proprietary technology for commercialisation in the PRC, Hong Kong and Taiwan.

# SUMMARY

The Directors believe that with a strong research and development team, two modernised GMP-compliant biopharmaceutical workshops, three in-house developed technology platforms and a pipeline of new products, the Group is in a strong position to capitalise and leverage on high standard of medical and scientific research and development that blend advanced technology with practical applications of the Group. The Group will focus its efforts on the patients' needs and deliver innovative and quality pharmaceutical products of value that combat diseases and improve health.

## EXISTING PRODUCTS

At present, the Group has obtained valid production permits in the PRC to manufacture and distribute the following products:

Product name	Generic name	Approval number	Medical category	Dosage form	Medical application	Launch date	Technology used
ZHAOKE Defibrase	Defibrase (降纖酶)	衛藥准字 (Weiyaozhunzi) XF-0032號	Category 4 chemical product (note)	Lyophilized powder for injection use (凍乾粉針劑)	Treatment for cerebral ischemic stroke (腦中風)	October 1997	Shake venom
ZHAOKE Livaracine	Low molecular weight heparin calcium (低分子量肝素鈣)	衛藥准字 (Weiyaozhunzi) X-187號	Category 4 chemical product (note)	Lyophilized powder for injection use (凍乾粉針劑)	Treatment for heart disease and other cardiovascular (心血管) diseases	July 1998	Low molecular weight heparin
ZHAOKE Yallaferon	Topical interferon (干擾素)	國藥准字 (Guoyaozhunzi) S20010054	Category 4 biopharmaceutical product (note)	Topical gel (凝膠劑)	Treatment for viral-infected venereal disease	July 2001	Water-based gel delivery

Note: Please refer to "Industry Overview" for details.

## MISSION

The aim of the Group is to become a successful biopharmaceutical group in the PRC providing innovative and high quality pharmaceutical products of value that combat diseases, in particular, for the treatment of cardiovascular diseases, stroke, viral-infected venereal diseases, cancer and vaginitis, and improve health. The Directors believe that the Group can accomplish its mission by: —

- focusing on patients' needs by caring for the genuine interest and welfare of its customers;
- making use of its medical and scientific research results for practical applications;
- having the support of its knowledgeable, experienced and professional management team with innovative spirit and strong research and development capabilities; and
- increasing the market share of its products through its existing marketing and distribution network in the PRC.

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## SUMMARY

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### COMPETITIVE STRENGTHS

The Directors believe that the Group has the following strengths over most of its competitors in the pharmaceutical industry in the PRC in particular:

- the Group's possession of three in-house developed technology platforms, namely (i) the snake venom technology, (ii) the low molecular weight heparin technology, and (iii) the water-based gel delivery system provides a gateway for the future business development of the Group, based on which the Group's pipeline of new products are gauged;
- the Group's successful launch of three self-developed biopharmaceutical products for the treatment of stroke, cardiovascular diseases and viral-infected venereal diseases in the PRC has enabled the Group to position itself to take up a share in the biopharmaceutical markets in the PRC for such diseases and has enhanced customers' awareness of the Group's products;
- the Group's proprietary intellectual property in respect of its self-developed snake venom technology and topical interferon in water-based gel delivery form for viral-infected sexual diseases have enhanced the Group's competitiveness in the biopharmaceutical industry in the PRC;
- the Group's two GMP-compliant pharmaceutical manufacturing workshops providing a quality assurance of the Group's products and an entry barrier for competitors in the PRC without GMP certification. As at 26th July, 2001, only 321 out of a total of 450 workshops for the production of lyophilized powder for injection and a total of less than five workshops for the production of gel nationwide in the PRC have been GMP certified;
- the Group's experienced dynamic and professional management team enables the Group to meet and respond quickly to the customers' needs and the challenges of the biopharmaceutical industry both in the PRC and overseas;
- the Group's scientific advisory board comprises 5 members who are mainly leading researchers from universities and research institutes in Hong Kong and the PRC has enabled the Group to have better access to the latest technological development in the biopharmaceutical field and, thus, to be better positioned to incorporate such development and technology in practical applications to meet the customers' needs and expectations. The board serves (i) to assist the Group in its overall research and development activities; (ii) to guide and evaluate the progress made by the Group on development projects; and (iii) to provide strategic direction to the Group's research projects;
- the Group's research and development team which has been working closely with universities and research institutions in the PRC and Hong Kong (namely 中國藥科大學 (China Pharmaceutical University), 中國藥品生物製品檢定所 (China Drug Evaluation Institute) and the Biological Research Institute of Hong Kong University of Science and Technology) to leverage on their strengths in carrying out pre-clinical studies of new products of the Group;

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## SUMMARY

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- the Group's strategic partnership with Zengen, a biotechnological company based in the United States which owns 2 patents issued in United States and 1 patent issued in Europe and 6 patents in United States, 3 patents in PCT countries and 2 patents in Japan pending-to-be-issued by relevant authorities on proprietary technologies (all are for treatment of inflammation and anti-infection of virus based on the peptide technology), enables the Group to have access to the latest information and development on biotechnology and biopharmaceutical products in the United States;
- the Group's effective and efficient distribution and marketing channels for its products in the PRC provides comprehensive marketing and distribution coverage of its products in the PRC;
- the Group's reputable brandname of "ZHAOKE" has gained customers' awareness given its market presence in the PRC since 1997; and
- the strong support and recognition from various PRC governmental authorities on the Group's business and products enables the Group to well position itself in the biopharmaceutical industry in the PRC.

### BUSINESS OBJECTIVES

To achieve its mission, the Group has formulated the following business objectives:

- Expansion of production capacity and capability
  - In line with the Group's business expansion plan, the Group will continue to upgrade, enhance and expand its existing production facilities for its further growth and development. The Group will also apply advanced technology on the production process in order to upgrade its production efficiency and to improve the quality of its existing products so as to achieve economies of scale and to enhance the competitiveness of its products in the marketplace.
- Further expansion on the distribution networks and sales teams
  - The Directors intend to further expand the Group's distribution network and sales teams to explore the customer base and broaden its market coverage of regional cities and rural areas in the PRC where there is a high growth potential for effective and high quality medicines such as the Group's products.
- Marketing and promotion of the Group's presence and its products
  - The Group will continue to promote and market its products as well as its presence in the PRC.

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## SUMMARY

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- Focusing on the development of biopharmaceutical products based on its own developed technology platforms to expand the existing product range
  - The Directors believe that the Group's expertise on the development and application of (i) the snake venom technology, (ii) the low molecular weight heparin technology, and (iii) the water-based gel delivery system on its biopharmaceutical products provides a strong foundation for the Group to further develop a product pipeline. The Group focuses on the research and development of biopharmaceutical products mainly for the treatment of (i) cardiovascular diseases and stroke, (ii) viral infection, (iii) cancer, and (iv) vaginitis.
- Further expansion on the Group's research and development capabilities
  - As a research-driven group, the Group commits to continue its investment in technology and research in the biopharmaceutical industry. Apart from the research and development of new products, the Group also works continuously on identifying new indications and new applications for its existing products. The Group believes that through continuously searching for new and better treatments for diseases, customers and patients will be benefited through improved health, longevity and lower societal costs. The Group plans to intensify its collaboration with outside institutes to accelerate the expansion of the Group's product development capabilities and to a certain extent, reduce research and development costs.
- Growth through acquisitions, strategic alliances, joint ventures and cooperative arrangements
  - The Directors are of the opinion that suitable acquisitions of and strategic alliances with overseas and PRC-based pharmaceutical companies will enable the Group to expand and strengthen its position in the biopharmaceutical industry or bring in synergistic benefits to the Group both in the PRC and overseas. In addition, the Group will aggressively pursue business opportunities to acquire latest technology or products to further develop the Group's pipeline.
- Staffing
  - To ensure a smooth operation of the business, the Group will continue to recruit and retain high calibre professionals and provide continuous training to its existing staff.

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## SUMMARY

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### Business strategies

The Group aims to achieve its business objectives through the implementation of the following strategies:

- Production
  - to upgrade and expand the existing production facilities;
  - to continue to apply advanced technology on its production process to upgrade its production efficiency and to improve the quality of its existing products in order to achieve economies of scale and to enhance the competitiveness of its products in the marketplace; and
  - to continue to provide training to existing staff;
- Sales and marketing
  - to continue to broaden its customer base and market coverage, in particular, to the regional cities and rural provinces of the PRC where there is a high growth potential for effective and high quality medicines such as the Group's products; and
  - to continue to promote and market the Group's products as well as its presence in the PRC;
- Research and development
  - to strengthen the Group's research and development capabilities;
  - to continue studies and trials on products approved for further testing prior to commercial production; and
  - to further develop a product pipeline based on the Group's in-house developed technology platforms and to acquire latest technology and products from the United States or Europe with focus on products mainly for the treatment of (i) cardiovascular diseases and stroke, (ii) viral infection, (iii) cancer, and (iv) vaginitis.

# SUMMARY

## Implementation plans

A graphical presentation of the implementation plans of the Group's specific business objectives from the Latest Practicable Date to the Forward Looking Period is set out below:

Areas of focus	Strategies	2002		2003				2004			
		LPD to Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Production</b>	upgrading and expanding the existing production facilities and equipment	^^	^^	^^	^^	^^	^^	^^	^^	^^	^^
	staff training	^^	^^	^^	^^	^^	^^	^^	^^	^^	^^
<b>Sales and marketing</b>	expansion of the PRC sales and distribution staff force	△	^^	^^	^^	^^	^^	^^	^^	^^	^^
	advertising and sales promotion of new products	^^	^^	^^	^^	^^	^^	^^	^^	^^	^^
	advertising and sales promotion of existing products	^^	^^	^^	^^	^^	^^	^^	^^	^^	^^
	setting up new branch/sales offices in Chengdu and Wuxi for expansion and strengthening of the distribution network	^^	△	^^	^^	^^	^^	^^	^^	^^	^^
<b>Research and development</b>	strengthening of the Group's research and development capabilities	^^	^^	^^	^^	^^	^^	^^	^^	^^	^^
	studies and trials of new products: ● Declotana ● Protein-free calf blood extract eye gelatin ● Livaracine for new indication (note) ● Hemocoagulase ● Anti-fungus peptide ● Topical gel Livaracine (note) ● Oral Livaracine (note) ● Heparanase inhibitor	* #	◆	# ◆		⊕ ◆	◆ ⊕	⊕ ◆	⊕ #	⊕ #	◆ ◆

**Legend:**

- |  |  |
|--|--|
| △ Initial completion stage   | ⊙ Commence pre-clinical study                          |
| ^^ Ongoing development   | ☆ Apply to commence clinical trials                    |
| LPD Latest Practicable Date  | * Commence first phase clinical trials (if applicable) |
| ◆ Conclude clinical trials   | # Commence second phase clinical trials                |
| Q1, Q2, Q3 and Q4 First, second, third and fourth quarter respectively | ⊕ Commercialise product                                |

**Note:** Although the three products are Livaracine (low molecular weight heparin calcium) in nature, it is the policy of SDA to require separate applications for three different New Medicine Certificates for each of the products existing in different dosage forms/with different medical indications. The details of the three products are set out in the section headed "Research and development" in the section headed "Business" to this prospectus.

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## SUMMARY

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### Warnings:

It should be noted that as the Group's aforesaid plans are based on the existing plans and intentions of the Group which are either in a conceptual stage or a preliminary stage and that the implementation plans have been formulated on the basis of the Directors' best estimate of market trend and demand and may be subject to changes should any material changes in market conditions arise. Furthermore, as such intentions and plans are based on assumptions of future events which by their nature are subject to uncertainty, the Group's actual course of action may vary from the intentions and plans. In addition, many if not all of these assumptions are untested and accordingly, may turn out to be invalid. This may result in any or all of the objectives not being achieved within the scheduled timeframe or at all. Although the Directors have taken due care in formulating the above objectives and will use their respective best endeavours to execute such objectives in accordance with the aforesaid timeframe, there is no assurance that the Group's plans will materialise, resulting from the conclusion of any strategic agreement or be executed in accordance with the aforesaid timeframe or that the objectives of the Group will be fully accomplished or accomplished at all. As a result, the above implementation plans should be read with caution. The Directors will closely monitor the situation and constantly review the response to the Group's development and may adjust its business objectives as and when appropriate as the case may be.

### USE OF PROCEEDS

The net proceeds from the New Issue will provide funding to the Group for its plans set out in the section headed "Business objectives and implementation plans". The net proceeds of the New Issue, after deducting related expenses (assuming the Over-allotment Option is not exercised), are estimated to be approximately HK\$20.0 million. The Directors presently intend to apply the net proceeds as follows:

- Production
  - as to approximately HK\$5.49 million on upgrading and expanding the existing production facilities and equipment;
  - as to approximately HK\$0.19 million on staff training;
- Sales and marketing
  - as to approximately HK\$1.80 million on expansion of the PRC sales and distribution staff force;
  - as to approximately HK\$5.12 million on advertising and sales promotion of new products;
  - as to approximately HK\$0.52 million on advertising and sales promotion of existing products;



## SUMMARY

- Research and development
  - as to approximately HK\$1.72 million on approved clinical trials of products prior to commercial production;
  - as to approximately HK\$1.17 million on in-house research and development of new products; and
- Others
  - as to approximately of HK\$2.98 million for repayment of third party loans;
  - as to the balance of approximately HK\$1.01 million as additional working capital of the Group.

A graphical presentation of the proposed use of proceeds by the Group from the Latest Practicable Date to the Forward Looking Period by quarter is set out below:

Areas of focus	Strategies	2002		2003				2004				Total
		LPD to Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Production</b>	upgrading and expanding the existing production facilities and equipment	1,097	66	820	1,492	2,011						5,486
	staff training	18	18	18	18	18	18	20	20	20	20	188
<b>Sales and marketing</b>	expansion of the PRC sales and distribution staff force	151	162	167	158	176	184	190	190	208	217	1,803
	advertising and sales promotion of new products					332	711	379	1,137	1,847	711	5,117
	advertising and sales promotion of existing products	379	142									521
<b>Research and development</b>	approved clinical trials of products prior to commercial production	337	99	483	95	445	76	71	95		19	1,720
	research and development of new products	247	285		195		223		223			1,173
<b>Others</b>	repayment of third party loans	2,302	682									2,984
	additional working capital	1,008										1,008
<b>Total</b>		5,539	1,454	1,488	1,958	2,982	1,212	660	1,665	2,075	967	20,000

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## SUMMARY

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**The Directors believe that the net proceeds from the New Issue together with the Group's internally generated cash flow will be sufficient to finance all planned and/or intended projects of the Group as described in the section headed "Business objectives and implementation plans" of this prospectus.**

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$5.40 million based on the Placing Price of HK\$0.40 per Share. The Directors intend to allocate approximately HK\$3.00 million of the additional net proceeds raised from the exercise of the Over-allotment Option for further repayment of third party loans and the remaining balance of approximately HK\$2.40 million as additional working capital of the Group.

To the extent that the net proceeds of the New Issue are not immediately required for the above purposes, the Company intends to place the net proceeds on short-term deposits with authorised financial institutions in Hong Kong.

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 to other business plans and/or to new projects of the Group and/or to hold it as short-term deposits so long as the Directors consider it to be in the best interest of the Company and its Shareholders as a whole.

### **RISK FACTORS**

The Directors consider that the business of the Group and investment in the Shares are subject to a number of risk factors which can generally be categorised into (i) risk factors relating to the Group; (ii) risk factors relating to the industry; (iii) risk factors relating to the PRC; (iv) risk factors relating to the Shares; (v) risk factor relating to investing in GEM; and (vi) issues to consider in relation to the statements contained in this prospectus, details of which are set out in the section headed "Risk factors" of this prospectus:

#### **Risk factors relating to the Group**

- Product protection
- Potential competition with High Knowledge
- History of losses during the Track Record Period, net current liabilities and financial support from the Group's shareholders
- Remuneration of Directors
- Relationship with the PRC partner of Zhaoke
- Injection of intangible assets by the PRC partner of Zhaoke as registered capital of Zhaoke

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## SUMMARY

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- Non-renewal of permits, certificates and business licenses in respect of the Group's pharmaceutical manufacturing plant in the PRC upon such expirations
- Change of the foreign party to Zhaoke
- Shareholding change in relation to a past shareholder who is bankrupt
- Non-compliance with the GMP standards
- Reliance on suppliers
- Reliance on distributors
- Reliance on the PRC market
- Properties leased by the Group in the PRC
- Credit risk
- Currency risk
- Preferential treatments and tax incentives
- Product liability
- Limited insurance coverage
- Reliance on key management and employees
- Research and development risk
- Intellectual property protection
- Inability to carry on business if failure to generate adequate revenues or raise further funds
- No assurance to declare future dividends
- Ability to implement successfully the business objectives and strategies for future growth

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## SUMMARY

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### **Risk factors relating to the industry**

- Medicare reforms in the PRC
- Product substitution
- Price controls
- Export of biopharmaceutical products
- Competition
- WTO
- Environmental liabilities

### **Risk factors relating to the PRC**

- Economic, political and social considerations
- Currency conversion and foreign exchange control
- Change in legal and regulatory considerations

### **Risk factors relating to the Shares**

- Pre-IPO Share Option Scheme
- Protection of the interests of minority shareholders under the laws of the Cayman Islands

### **Risk factor relating to investing in GEM**

### **Issues to consider in relation to statements contained in this prospectus**

- Unverifiable forward-looking statements contained in this prospectus

# SUMMARY

## TRADING RECORD

The following is a summary of the audited results of the Group for each of the three years ended 31st December, 2001 (extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus). The summary has been prepared on the assumption that the current corporate structure of the Group had been in existence since 1st January, 1999.

	<b>Year ended 31st December,</b>		
	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover ( <i>Note 1</i> )	6,253	6,852	10,346
Cost of sales	<u>(2,425)</u>	<u>(1,938)</u>	<u>(2,466)</u>
Gross profit	3,828	4,914	7,880
Other revenue	201	356	737
Selling and distribution expenses	(4,980)	(4,839)	(5,383)
Administrative expenses	<u>(5,456)</u>	<u>(5,635)</u>	<u>(5,232)</u>
Loss from operations	(6,407)	(5,204)	(1,998)
Gain on disposal of technology of a developing product	—	—	1,396
Finance costs	<u>(636)</u>	<u>(647)</u>	<u>(715)</u>
Loss before tax	(7,043)	(5,851)	(1,317)
Taxation	<u>—</u>	<u>—</u>	<u>—</u>
Loss before minority interest	(7,043)	(5,851)	(1,317)
Minority interest	<u>2,354</u>	<u>1,842</u>	<u>—</u>
Net loss for the year ( <i>Note 2</i> )	<u><u>(4,689)</u></u>	<u><u>(4,009)</u></u>	<u><u>(1,317)</u></u>
Dividend	<u>—</u>	<u>—</u>	<u>—</u>
Loss per Share (cents) ( <i>Note 3</i> )			
Basic	<u>(2.55)</u>	<u>(2.18)</u>	<u>(0.72)</u>
Diluted	<u>(2.53)</u>	<u>(2.16)</u>	<u>(0.71)</u>

*Notes:*

1. Turnover represents the net amount received and receivable for goods sold to customers during the year.

## SUMMARY

2. No emoluments were paid by the Group to any of the directors during the Track Record Period.

Subsequent to the Track Record Period, each of the executive Directors has entered into a service contract with the Company. In respect of Ms. Lee and Ms. Leelalertsuphakun, both of their service contracts commenced on 1st April, 2002. Such appointment will continue thereafter unless and until terminated by either party by serving not less than three months' prior written notice to the other party. The aggregate emoluments payable to them will amount to approximately HK\$1,050,000 per annum. Had the emoluments been paid to them for each of the three years ended 31st December, 2001 based on the above-mentioned service contracts, the charge to the combined results of the Group for the Track Record Period would have been as follows:

	Year ended 31st December,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss for the year	(4,689)	(4,009)	(1,317)
Notional Directors' remuneration	<u>(1,050)</u>	<u>(1,050)</u>	<u>(1,050)</u>
Adjusted net loss for the year	<u><u>(5,739)</u></u>	<u><u>(5,059)</u></u>	<u><u>(2,367)</u></u>

3. The calculation of basic loss per Share for the Track Record Period is based on the net loss for each of the three years during the Track Record Period and on the assumption that 184,000,000 Shares had been in issue throughout the Track Record Period, representing the 184,000,000 Shares in the Company issued pursuant to the share exchange agreements dated 4th February, 2002, as described more fully in subsections (vii) and (viii) under the paragraph headed "Corporate reorganisation" in Appendix IV to this prospectus.

The calculation of diluted loss per Share is based on the net loss for each of the three years during the Track Record Period and 185,500,000 Shares, being the 184,000,000 Shares as used in the calculation of basic loss per Share, and the 1,500,000 Shares assumed to have been issued at no consideration on the deemed exercise of the share options as set out in the section headed "Pre-IPO Share Option Scheme" in Appendix IV to this prospectus.

For the purpose of the calculation of diluted loss per Share, the fair value of the Shares assumed to have been issued upon the deemed exercise of these options was determined as the issue price of HK\$0.40 per Share in respect of the Company's initial public offering of its Shares. The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration.

### PLACING STATISTICS

Placing Price .....	HK\$0.40
Market capitalisation ( <i>Note 1</i> ) .....	HK\$115.7 million
Adjusted net tangible asset value per Share ( <i>Notes 2 and 3</i> ) .....	10.6 cents

*Notes:*

1. The calculation of market capitalisation is based on the Placing Price and 289,225,000 Shares expected to be in issue immediately after completion of the Placing but takes no account of any Shares which may fall to be

## SUMMARY

issued pursuant to the exercise of the Over-allotment Option or any options granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or which may be issued or repurchased by the Company pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the paragraph headed “Written resolutions of all Shareholders passed on 26th June, 2002” in Appendix IV.

2. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed “Adjusted net tangible assets” under the section headed “Financial information” in this prospectus and on the basis of 289,225,000 Shares expected to be in issue immediately after completion of the Placing, but takes no account of any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or any options granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or which may be issued or repurchased by the Company pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the paragraph headed “Written resolutions of all Shareholders passed on 26th June, 2002” and in the paragraph headed “Corporate reorganisation” under the section headed “Further information about the Company and its subsidiaries” in Appendix IV to this prospectus.
3. On the assumption that the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme had been exercised in full, the adjusted net tangible asset value per Share will become HK\$0.122 per Share.

### RESTRICTION ON DISPOSAL OF THE SHARES

Details of the Reorganisation in respect of the Group is set out in the paragraph headed “Corporate reorganisation” under the section headed “Further information about the Company and its subsidiaries” in Appendix IV to this prospectus. As a result of the Reorganisation, the existing Shareholders’ interests in the Company (assuming the Over-allotment Option is not exercised) are summarised as follows:

Name of Shareholders	Number of Shares held immediately after the Placing	Approximate percentage of shareholding immediately after the Placing	Approximate cost of investment per Share HK\$	Approximate cost of investment HK\$	Date of entry	Moratorium period from the Listing Date
<b>INITIAL MANAGEMENT SHAREHOLDERS</b>						
Huby Technology (Note 1)	155,290,625	53.7%	0.136	21,053,000	1st May, 1997	1 year
Dynamic Achieve (Note 2)	8,000,000	2.8%	0.039	313,525	30th June, 2000	1 year
Ms. Lee (Notes 1 & 2)	165,625,000	57.3%	0.134	22,113,525	1st May, 1997	1 year
Ms. Leelalertsuphakun (Notes 1 & 2)	163,290,625	56.5%	0.131	21,366,525	1st May, 1997	1 year
High Knowledge (Note 3)	16,000,000	5.5%	0.078	1,250,667	5th March, 1998	1 year
Ms. Lue (Note 3)	16,000,000	5.5%	0.078	1,250,667	5th March, 1998	1 year
<b>OTHER SHAREHOLDERS</b>						
Techfarm (Note 4)	8,000,000	2.8%	0.100	800,000	27th December, 2001	1 year
Ms. Yu Wa (Note 4)	8,000,000	2.8%	0.100	800,000	27th December, 2001	1 year
Zengen (Note 5)	9,600,000	3.3%	0.400	3,840,000	25th February, 2002	1 year

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### Notes:

1. Huby Technology is owned as to 50 per cent. by Ms. Lee and as to 50 per cent. by Ms. Leelalertsuphakun. Ms. Lee and Ms. Leelalertsuphakun are sisters and are the Directors.

On 1st May, 1997, Lee's Machinery, which is also owned as to 50 per cent. by Ms. Lee and as to 50 per cent. by Ms. Leelalertsuphakun, subscribed for 3,200,000 new shares of Lee's Pharmaceutical for a cash consideration of HK\$3,200,000. Such cash consideration was paid out of the internal resources of Lee's Machinery and was not funded by Mr. Lee Siu Fung, Siegfried. Mr. Lee Siu Fung, Siegfried is the brother of each of Ms. Lee and Ms. Leelalertsuphakun. On 29th March, 2000, Lee's Machinery disposed of its entire 3,200,000 shares of Lee's Pharmaceutical to Huby Technology.

On 31st December, 2001, Lee's Pharmaceutical, an indirect wholly owned subsidiary of the Company, capitalised part of the existing shareholders' loan of HK\$12,000,000 made by Huby Technology to Lee's Pharmaceutical by allotting and issuing 12,000,000 shares of HK\$1 each in Lee's Pharmaceutical to Huby Technology.

On 20th June, 2002, Lee's Pharmaceutical, an indirect wholly owned subsidiary of the Company, capitalised part of its existing indebtedness of HK\$3,653,000 owed to Huby Technology by procuring the Company to allot and issue 11,415,625 Shares, credited as fully paid, to Huby Technology. On 20th June, 2002, an additional 6,875,000 Shares were allotted and issued to Huby Technology at a price of HK\$0.32 per Share for cash of HK\$2,200,000.

On 20th June, 2002, Lee's Pharmaceutical, capitalised an amount of HK\$747,000 owed to Ms. Lee by procuring the Company to allot and issue 2,334,375 Shares, credited as fully paid, to Ms. Lee.

2. Dynamic Achieve is owned as to 50 per cent. by Ms. Lee and as to 50 per cent. by Ms. Leelalertsuphakun. Ms. Lee and Ms. Leelalertsuphakun are sisters and are the Directors.

On 30th June, 2000, Dynamic Achieve acquired 1,600,000 shares of HK\$1 each in Lee's Pharmaceutical for a cash consideration of HK\$313,525.

3. High Knowledge is wholly owned by Ms. Lue, who is the sister-in-law of each of Ms. Lee and Ms. Leelalertsuphakun.

On 5th March, 1998, High Knowledge acquired 1,600,000 shares of HK\$1 each in Lee's Pharmaceutical for an effective consideration of approximately HK\$1,250,667. High Knowledge and Ms. Lue have no involvement in management of the Group at present and both of them do not intend to have any involvement in management of the Group in future. However, the spouse of Ms. Lue, namely Dr. Li Xiao Yi, the brother of each of Ms. Lee and Ms. Leelalertsuphakun, is a technical consultant and adviser to the Group and is a member of the senior management of the Company.

4. On 27th December, 2001, Techfarm, which is wholly owned by Ms. Yu Wa, acquired 800,000 shares of HK\$1 each in Lee's Pharmaceutical from Dynamic Achieve at a cash consideration of HK\$800,000. The reason for acquisition by Ms. Yu Wa and Techfarm of Shares was for capital appreciation as passive investor.

Techfarm and Ms. Yu Wa are third parties not connected with and independent from the directors, chief executives, substantial shareholders of the Company and any of their respective associates. Techfarm and Ms. Yu Wa have no involvement in management of the Group at present and both of them do not intend to have any involvement in management of the Group in future.

5. On 25th February, 2002, the Company allotted and issued 9,599,999 Shares to Zengen as part of the terms in consideration of Zengen agreeing to give Lee's Pharmaceutical an exclusive license to commercialise the licensed subject matter as referred to in the patent application license agreement



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## SUMMARY

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dated 2nd February, 2002 made between Zengen and Lee's Pharmaceutical. On the same day, Huby Technology also transferred the one subscriber Share to Zengen at a consideration of US\$1. The Directors had assessed and agreed with Zengen the worth of the exclusive license at approximately HK\$3.84 million.

Zengen is a third party not connected with and independent from the directors, chief executives, substantial shareholders of the Company and any of their respective associates. Save for Dr. James Lipton, who is the Chief Scientific Officer of Zengen as well as a member of the scientific advisory board of the Group, the Directors confirm that none of the "Other Shareholders" as stated in the above table has (or ever has) any management role in the Company or has intention to have any future management role in the Company.

- Each of Huby Technology, Dynamic Achieve, High Knowledge, Ms. Lee, Ms. Leelalertsuphakun, Ms. Lue, Techfarm, Ms. Yu Wa and Zengen has undertaken to the Stock Exchange, the Company and Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) that for a period of 12 months from the Listing Date, it will not sell, transfer or dispose of (or enter into any agreement to do any of the above in respect of) any of his/her/its shareholding in the Company. Each of Ms. Lee, Ms. Leelalertsuphakun, Ms. Lue and Ms. Yu Wa has also undertaken to the Stock Exchange, the Company and Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) that for a period of 12 months from the Listing Date, she will not sell, transfer or dispose of (or enter into any agreement to do any of the above) her interests in Huby Technology, Dynamic Achieve, High Knowledge and Techfarm (as the case may be).

## RELATIONSHIP WITH PAST SHAREHOLDERS AND DIRECTORS OF THE GROUP

### Relationship with Mr. Lee Siu Fung, Siegfried and his spouse

In (i) December 1997 and (ii) March 1998, Mr. Lee Siu Fung, Siegfried, being brother of Ms. Lee, Ms. Leelalertsuphakun and Dr. Li Xiao Yi, disposed of his (i) 12.5 per cent. and (ii) 25 per cent. of the then total share capital of shareholding interest in Lee's Pharmaceutical to (i) Dr. Li Xiao Yi and (ii) Triumph Leader (which was wholly owned by Ms. Leelalertsuphakun Dusanee) respectively and has since then ceased to be a shareholder in any member of the Group. On the other hand, Ms. Leelalertsuphakun Dusanee (being the spouse of Mr. Lee Siu Fung, Siegfried) and Triumph Leader were shareholders of Lee's Pharmaceutical during the period from 28th December, 1993 to 30th June, 1994 and during the period from 5th March, 1998 to 30th June, 2000 respectively. Mr. Lee Siu Fung, Siegfried was a director of Lee's Pharmaceutical during the period from 15th April, 1994 to 4th January, 2000. Mr. Lee Siu Fung, Siegfried has never been the director of Zhaoke and Ms. Leelalertsuphakun Dusanee has never been a director of any member of the Group.

Mr. Lee Siu Fung, Siegfried had been involved in statutory-related matters such as share allotment and change of name during the period when Mr. Lee Siu Fung, Siegfried was a director and shareholder of Lee's Pharmaceutical. Further, Mr. Lee Siu Fung, Siegfried had made a personal guarantee in favour of Lee's Pharmaceutical's bank borrowings, which had been fully repaid subsequent to the investment of Lee's Machinery in Lee's Pharmaceutical in May 1997. The bank signatories of the Group have not included Mr. Lee Siu Fung, Siegfried since 30th December 1998. Ms. Lee and Ms. Leelalertsuphakun have full power to operate all bank accounts since November 1997. Ms. Leelalertsuphakun Dusanee has never had any cheque signing authority for the Group. During the Track Record Period, Ms. Lee and Ms. Leelalertsuphakun had been actively managing the business and daily operations of the Group and had spent a majority of time during the calendar years 2000 and 2001 to station in the Group's pharmaceutical plant in Hefei, the PRC.

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As evidenced by the fact that the daily operation and the overall management of the Group have been totally and directly supervised by Ms. Lee and Ms. Leelalertsuphakun, Mr. Lee Siu Fung, Siegfried and Ms. Leelalertsuphakun Dusanee have not taken any role in the management of the Group since 4th January, 2000. The Directors confirmed that neither Mr. Lee Siu Fung, Siegfried nor Ms. Leelalertsuphakun Dusanee will have any future involvement in the management of the business and operation of the Group. Both Ms. Lee and Ms. Leelalertsuphakun have confirmed that they will continue to manage the Group after the listing of Shares on GEM with the same primary responsibility, and will not relinquish their active management role in the Group.

In May 2001, a bankruptcy order was made against Mr. Lee Siu Fung, Siegfried. In this regard, the Directors had sought for an independent counsel opinion as to the impact of the bankruptcy of Mr. Lee Siu Fung, Siegfried on the two aforesaid transactions. According to the counsel opinion, there is a fairly strong case to contend that the two aforesaid transactions are not subject to the anti-avoidance provisions introduced by the Bankruptcy (Amendments) Ordinance 1996 (which came into force since 1st April, 1998) but are subject to the old “fraudulent preference” provision of the Bankruptcy Ordinance (Chapter 6 of the Laws of Hong Kong) (which was effective prior to 1st April, 1998). In that case, the counsel is of the opinion that since both transactions were entered into more than 6 months before the presentation of the bankruptcy petition against Mr. Lee Siu Fung, Siegfried in 2001, they are therefore not challengeable under the “fraudulence preference” provisions of the Bankruptcy Ordinance.

Mr. Lee Siu Fung, Siegfried and Dr. Li Xiao Yi were directors of Siu-Fung Ceramics Holdings Limited. Mr. Lee Siu Fung, Siegfried and Dr. Li Xiao Yi were publicly criticised by the Stock Exchange on 5th December, 2000 in respect of the failure to publish financial results of Siu-Fung Ceramics Holdings Limited within the required time frame. In addition, Mr. Lee Siu Fung, Siegfried and Ms. Leelalertsuphakun Dusanee had been under investigation and/or subject to hearings by the Insider Dealing Tribunal since February 2001.

### **Relationship with Siu-Fung Ceramics Holdings Limited**

Pursuant to the Joint Venture Agreement, Siu-Fung Ceramics Holdings Limited was the foreign party to Zhaoke. The approval letter for the establishment of Zhaoke as a sino-foreign equity joint venture was issued by Hefei City Commission for Foreign Trade and Economic Cooperation on 5th February, 1994 with the foreign party being Siu-Fung Ceramics Holdings Limited. Pursuant to a supplemental joint venture agreement dated 17th May, 1994, Siu-Fung Ceramics Holdings Limited was substituted by Lee’s Pharmaceutical as the foreign party to Zhaoke. Although no approval letter for the change to Lee’s Pharmaceutical as the new foreign party to Zhaoke has ever been obtained from Hefei City Commission for Foreign Trade and Economic Cooperation, the PRC legal adviser to the Company is of the opinion that the aforesaid change of foreign party to Zhaoke was legal and proper under the PRC law on the basis that (i) a formal supplemental agreement was entered into between the parties in respect of such change; (ii) the board of directors of Zhaoke had duly approved the change; and (iii) the Certificate of Approval for the establishment of Zhaoke with Lee’s Pharmaceutical being the new foreign party to Zhaoke was duly issued by the Anhui Provincial Government on 1st June, 1994. In addition, an explanatory note and an opinion were issued by Hefei City Commission for Foreign Trade and Economic Cooperation on 26th December, 2001 and 24th

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## SUMMARY

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May, 2002, respectively and the explanatory note and the opinion clearly recognise that the change of foreign party to Zhaoke from Siu-Fung Ceramics Holdings Limited to Lee's Pharmaceutical took place on 1st June, 1994, the date when the Certificate of Approval referred to in (iii) above was issued.

Siu-Fung Ceramics Holdings Limited was a company once listed on the Main Board but was subsequently liquidated in May 2000 and delisted in December 2001. As set out in the section headed "Risk factors" in this prospectus, the liquidator of Siu-Fung Ceramics Holdings Limited may seek to void or challenge the change of foreign party to Zhaoke from Siu-Fung Ceramics Holdings Limited to Lee's Pharmaceutical. The Hong Kong legal adviser to the Company was of the view that, based on the fact that (i) Zhaoke is a validly and legally established enterprise; (ii) Siu-Fung Ceramics Holdings Limited had never made any capital contribution to Zhaoke; and (iii) the change took place approximately eight years ago and the change did not result in Siu-Fung Ceramics Holdings Limited becoming insolvent, there does not exist any solid basis for the liquidator of Siu-Fung Ceramics Holdings Limited to make any claim against the Group.

As set out in the section headed "History and development" in this prospectus, each of Mr. Lee Sheung Yam, Dr. Li Xiao Yi and Mr. Philip Erdoes was once a director of Siu-Fung Ceramics Holdings Limited. As elaborated in the same section in this prospectus, (i) Mr. Lee Sheung Yam was (a) a shareholder and (b) a director of Lee's Pharmaceutical during the respective periods (a) from 30th June, 1994 to 13th February, 1996 and (b) from 15th April, 1994 to 23rd January, 1996; (ii) Dr. Li Xiao Yi was (a) a shareholder and (b) a director of Lee's Pharmaceutical during the respective periods (a) from 30th June, 1994 to 6th March, 1998 and (b) from 9th February, 1994 to 16th January, 2002; and (iii) Mr. Philip Erdoes was a shareholder of Lee's Pharmaceutical during the period from 13th February, 1996 to 9th January, 1998. In addition, the late Mr. To-Aramrut Chiewchan, being an elder brother of each of Mr. Lee Siu Fung, Siegfried, Ms. Leelalertsuphakun, Ms. Lee and Dr. Li Xiao Yi, was once a director of Siu-Fung Ceramics Holdings Limited. The late Mr. To-Aramrut Chiewchan was a director of Zhaoke during the period from 27th December, 1993 to 26th April, 1997.

## SHARE OPTIONS

### Share Option Scheme

The principal terms of the Share Option Scheme conditionally approved and adopted by all Shareholders on 26th June, 2002 are set out in Appendix IV to this prospectus under the section headed "Share Option Scheme".

### Pre-IPO Share Option Scheme

The principal terms of the Pre-IPO Share Option Scheme are set out in Appendix IV to this prospectus under the section headed "Pre-IPO Share Option Scheme". The Pre-IPO Share Option Scheme was conditionally approved and adopted by all Shareholders on 26th June, 2002 in respect of the share options with an exercise price per Share at 70 per cent. of the Placing Price for an aggregate of 5,000,000 Shares granted to 2 executive Directors and 2 employees of the Group, representing approximately 1.73 per cent. of the issued share capital of the Company, without taking into account any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option. Each of the Directors and the

## SUMMARY

employees is granted the share options under the Pre-IPO Share Option Scheme in recognition of his/her past contributions to the Group and the number of options granted is proportionate to his/her respective extent of contributions and performances made and expected potential of future contribution to the Group. **The options granted under the Pre-IPO Share Option Scheme will, in respect of not more than 50 per cent. thereof, be exercisable not less than two years but not more than 10 years from the date of grant, and in respect of the balance thereof, be exercisable not less than three years but not more than 10 years from the date of grant.**

Upon (and assuming) the exercise in full of the outstanding options granted under the Pre-IPO Share Option Scheme at the exercise price per Share at 70 per cent. of the Placing Price, a total of 5,000,000 new Shares representing approximately 1.73 per cent. of the issued share capital of the Company, without taking into account any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option, will fall to be issued (the "Option Shares"). Based on a total of 289,225,000 Shares in issue and to be issued at the Placing Price per Placing Share immediately after completion of the Placing (but assuming the Over-allotment Option is not exercised), the shareholding structure of the Company following the issue of the Option Shares would be as follows:

Name of Shareholders	Number of Shares directly held before the issue of the Option Shares	Approximate percentage of shareholding before the issue of the Option Shares %	Number of Shares directly held immediately following the issue of the Option Shares	Approximate percentage of shareholding immediately following the issue of the Option Shares %
Huby Technology	155,290,625	53.69	155,290,625	52.78
Dynamic Achieve	8,000,000	2.77	8,000,000	2.72
High Knowledge	16,000,000	5.53	16,000,000	5.44
Zengen	9,600,000	3.32	9,600,000	3.26
Techfarm	8,000,000	2.77	8,000,000	2.72
Public shareholders	90,000,000	31.11	90,000,000	30.59
Lau Tai Wai	—	—	3,000,000	1.02
Ms. Lee	2,334,375	0.81	3,934,375	1.33
Mok Sau Man, Joanna	—	—	350,000	0.12
Tsui Shui Man	—	—	50,000	0.02
<b>Total</b>	<b>289,225,000</b>	<b>100.00</b>	<b>294,225,000</b>	<b>100.00</b>

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## DEFINITIONS

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

“Appendix(ices)”	appendix(ices) to this prospectus
“Asia Investment Capital”	Asia Investment Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance, an approved sponsor for listing on GEM and one of the Joint Sponsors to the Placing
“associate”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	the board of the Directors
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CM-CCS”	CM-CCS Securities Limited, a dealer registered under the Securities Ordinance and the lead manager and one of the Underwriters to the Placing
“Companies Law”	the Companies Law (2001 Second Revision) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended)
“Company”	Lee’s Pharmaceutical Holdings Limited (李氏大藥廠控股有限公司*), a company incorporated in the Cayman Islands with limited liability on 17th December, 2001
“CSC Asia”	CSC Asia Limited, an investment adviser registered under the Securities Ordinance, an approved sponsor for listing on GEM and one of the Joint Sponsors to the Placing
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission)
“Director(s)”	the director(s) of the Company for the time being
“Dynamic Achieve”	Dynamic Achieve Investments Limited, a company incorporated in BVI on 10th May, 2000 and the particulars of which are set out under the section headed “Substantial Shareholders and Initial Management Shareholders” in this prospectus

\* For identification purposes only

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## DEFINITIONS

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“Environmental Laws”	Environmental Protection Law of the PRC and the PRC environmental protection regulations which are promulgated by the Standing Committee of the National People’s Congress, the State Council and relevant authorities in the PRC
“Estate Duty Ordinance”	Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) as in force from time to time
“Forward Looking Period”	the period commencing on the Latest Practicable Date and ending on 31st December, 2004
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended by the Stock Exchange from time to time
“GEM website”	<a href="http://www.hkgem.com">http://www.hkgem.com</a> , being the internet website operated by the Stock Exchange for the purposes of GEM
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company becomes the holding company of its present subsidiaries, the present subsidiaries of the Company or some or any of them, and member of the Group shall mean any one of the above
“High Knowledge”	High Knowledge Investments Limited, a company incorporated in BVI on 2nd January, 1998 and the particulars of which are set out under the section headed “Substantial Shareholders and Initial Management Shareholders” in this prospectus
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huby Technology”	Huby Technology Limited, a company incorporated in BVI on 23rd November, 1999 and the particulars of which are set out under the section headed “Substantial Shareholders and Initial Management Shareholders” in this prospectus
“IMS”	IMS Health Inc., a company based in the United States which provides worldwide pharmaceutical information including statistics and reports on current affairs of the pharmaceutical and healthcare industry

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## DEFINITIONS

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“Initial Management Shareholders”	Huby Technology, Dynamic Achieve, High Knowledge, Ms. Lee, Ms. Leelalertsuphakun and Ms. Lue
“IPB”	中華人民共和國知識產權局 (Intellectual Property Bureau of the PRC)
“Joint Sponsors”	Asia Investment Capital and CSC Asia
“Joint Venture Agreement”	the sino-foreign equity joint venture agreement dated 27th December, 1993 (as supplemented by a supplemental agreement dated 17th May, 1994) for the establishment of Zhaoke between Lee’s Pharmaceutical and USTC Biotech
“Latest Practicable Date”	28th June, 2002, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Lee’s China”	Lee’s Pharmaceutical (China) Limited, a company incorporated in BVI on 20th October, 2000 and is wholly owned by Lee’s Pharmaceutical
“Lee’s International”	Lee’s Pharmaceutical International Limited, a company incorporated in BVI on 1st August, 2001 and a wholly owned subsidiary of the Company
“Lee’s Machinery”	Lee’s Machinery Limited, a limited liability company incorporated in Hong Kong on 17th December, 1991 which is owned as to 50 per cent. by Ms. Lee and 50 per cent. by Ms. Leelalertsuphakun
“Lee’s Pharmaceutical”	Lee’s Pharmaceutical (HK) Limited (formerly known as Siu-Fung Pharmaceutical Holdings Limited), a limited liability company incorporated in Hong Kong on 28th December, 1993 and a wholly owned subsidiary of the Company
“Listing Date”	the date on which dealings in the Shares first commence on GEM
“Main Board”	the stock market operated by the Stock Exchange, which excludes GEM and the options market
“MOFTEC”	中華人民共和國對外經濟貿易合作部 (the Ministry of Foreign Trade and Economic Cooperation of the PRC)
“MOH”	中華人民共和國衛生部 (the Ministry of Health of the PRC)
“Ms. Lee”	Ms. Lee Siu Fong, the Chairman of the Company and the younger sister of Ms. Leelalertsuphakun

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## DEFINITIONS

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“Ms. Leelalertsuphakun”	Ms. Leelalertsuphakun Wanee, the Managing Director and chief executive officer of the Company and the elder sister of Ms. Lee
“Ms. Lue”	Ms. Lue Shuk Ping, Vicky, who has no participation in the management or business operation of the Group, the sister-in-law of each of Ms. Lee and Ms. Leelalertsuphakun and spouse of Dr. Li Xiao Yi, the technical consultant and adviser to the Group
“New Issue”	the issue of the New Shares at the Placing Price under the Placing
“New Shares”	75,000,000 new Shares initially being offered by the Company for subscription at the Placing Price in Hong Kong under the Placing and, where applicable, any additional Shares to be issued pursuant to the Over-allotment Option
“Over-allotment Option”	the option granted by the Company to the Underwriters pursuant to the Underwriting and Placing Agreement (exercisable by CM-CCS for and on behalf of the Underwriters) whereby the Company may be required to allot and issue up to an aggregate of 13,500,000 additional Shares, representing 15 per cent. of the total number of Shares initially available under the Placing, at the Placing Price to cover over-allotments in the Placing, if any
“Placing”	the conditional placing of the Placing Shares by the Company to professional and institutional and individual investors at the Placing Price, details of which are described in the section headed “Structure of the Placing” in this prospectus
“Placing Price”	HK\$0.40 per Placing Share (exclusive of brokerage fee, Stock Exchange trading fee and SFC transaction levy)
“Placing Shares”	the New Shares and the Sale Shares
“PRC” or “China”	The People’s Republic of China, which for the purpose of this prospectus only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Pre-IPO Share Option Scheme”	the share option scheme approved and adopted by the Company on 26th June, 2002, the principal terms of which are summarised in the section headed “Pre-IPO Share Option Scheme” in Appendix IV to this prospectus
“Relevant Securities”	has the meaning ascribed thereto in the GEM Listing Rules



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## DEFINITIONS

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“Reorganisation”	the corporate reorganisation of the group of companies which formed the Group in preparation for the listing of the Shares on GEM, details of which are set out in the paragraph headed “Corporate reorganisation” under the section headed “Further information about the Company and its subsidiaries” in Appendix IV to this prospectus
“SAIC”	中國國家工商行政管理局 (the State Administration for Industry and Commerce of the PRC)
“Sale Shares”	the 15,000,000 existing Shares being offered for sale by the Vendor at the Placing Price under the Placing
“SATCM”	中國國家中醫藥管理局 (the State Administration of Traditional Chinese Medicine of the PRC)
“SDA”	中國國家藥品監督管理局 (the State Drug Administration of the PRC)
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“SFC”	Securities and Futures Commission of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 26th June, 2002, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix IV to this prospectus
“SPAB”	中國國家藥品管理局 (the State Pharmaceutical Administration Bureau of the PRC)
“State”	the national government of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholders”	Huby Technology, Ms. Lee and Ms. Leelalertsuphakun
“Techfarm”	Techfarm Investment Limited, a limited liability company incorporated in BVI on 31st October, 2001 and wholly owned by Ms. Yu Wa who is an individual investor and who had not and will not have any management role in the Company and aims for capturing good investment opportunity for profit

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## DEFINITIONS

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“Track Record Period”	the period comprising the three years ended 31st December, 2001
“Triumph Leader”	Triumph Leader Limited, a limited liability company incorporated in Hong Kong whose entire issued share capital at the time of transfer was beneficially owned by Ms. Lealertsuphakun Dusanee who is the sister-in-law of each of Ms. Lee and Ms. Lealertsuphakun
“Underwriter(s)”	CM-CCS, Asia Investment Capital, Shun Loong Securities Company Limited, Sanfull Securities Limited and Karl-Thomson Securities Company Limited
“Underwriting and Placing Agreement”	the conditional underwriting and placing agreement dated 3rd July, 2002 entered into between, amongst others, the Company, the Vendor, the Joint Sponsors and the Underwriter(s) relating to the Placing
“United States” or “US”	United States of America
“USTC”	中國科學技術大學 (University of Science and Technology of China), which beneficially owns the entire interest in 科大實業總公司, which in turn is the major shareholder holding 42.85 per cent. shareholding interest of USTC Biotech
“USTC Biotech”	中國科學技術大學生物技術公司 (University of Science and Technology of China Biotechnology Company), an associate of USTC which is owned as to 42.85 per cent. by USTC, 22.00 per cent. by 劉競 (a professor from the College of Life Science of USTC), 22.15 per cent. by 翁屹 (an assistant researcher from the College of Life Science of USTC) and 13.00 per cent. by 呂選忠 (a professor from the College of Life Science of USTC), all are independent third parties not connected with the chief executives, directors, management shareholders, substantial shareholders of the Company and their respective associates
“Vendor”	Huby Technology
“WTO”	World Trade Organisation
“Zengen”	Zengen Inc., a biotechnology company incorporated in the United States on 18th May, 1999, an independent third party not connected with the directors, chief executives, substantial shareholders of the Group and any of their respective associates

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## DEFINITIONS

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“Zhaoke”	合肥兆峰科大藥業有限公司 (Hefei Siu-Fung USTC Pharmaceutical Company Limited), a sino-foreign equity joint venture established in the PRC on 7th February, 1994, the registered capital of which is held as to 70 per cent. by Lee’s Pharmaceutical and as to 30 per cent. by USTC Biotech
“HK\$” or “HK Dollar(s)” and “cents”	Hong Kong dollar(s) and cents respectively, the lawful currency of Hong Kong
“RMB” or “Renminbi”	the lawful currency of the PRC
“US\$” or “US Dollar(s)”	United States dollar(s), the lawful currency of the US
“%”	per cent.
“kg”	kilogram(s)
“mg”	milligram(s)
“ml”	milliliter(s)
“sq.ft.”	square foot (feet)
“sq.m.”	square meter(s)

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## GLOSSARY

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*The glossary contains explanations of terms used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of such terms by others.*

“agent”	any substance capable of producing an effect, whether physical, chemical or biological
“Agkistrodon Acutus”	a kind of venomous snakes which can usually be found in Asia, also known as hundred-pace viper
“biopharmaceutical products”	pharmaceutical products produced by biotechnological processes, including biochemical medicines and biological products
“biotechnology”	application of organisms, biological systems or biological processes to the production and service industries, including genetic engineering, cell engineering, enzymatic engineering and fermentation engineering
“DNA”	deoxyribonucleic acid, basic constituent of gene
“Erythropoietin”	a naturally occurring biological protein naturally produced by kidney acting as a biological signal for the body to produce red blood cell
“fibrinogen”	soluble plasma protein, composed of 6 peptide chains and present at about 2-3 mg/ml
“formulation”	drug composition that includes active and inactive ingredients
“GMP”	Good Manufacturing Practice (藥品生產質量管理規範) promulgated by SDA pursuant to the Law of the PRC on the Administration of Pharmaceutical Products as part of the quality assurance efforts to ensure that pharmaceutical products are consistently manufactured and controlled to the quality and standard appropriate for their intended uses in the PRC
“Heparanase”	an enzyme that has been indicated to be involved in cancer metastases and autoimmune reaction
“heparin”	sulphated mucopolysaccharide, found in granules of mast cells which inhibits the action of thrombin on fibrinogen by potentiating antithrombin, thereby interfering with the blood clotting cascade
“HPV”	Human Papilloma Virus, a virus that is responsible for the sexually transmitted disease Genital Warts

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## GLOSSARY

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“Interferon”	a family of proteins derived from human cells which normally has a role in fighting viral infections by preventing virus multiplication in cells
“low molecular heparin”	sodium heparin with low molecular weight having the biological functions of anti-coagulation, anti-thrombus and anti-inflammation
“over-the-counter drugs”	drugs which can be purchased without any professional doctor’s prescriptions and can be (as far as the law permits) safely consumed by users based on drugs’ labels and instructions (非處方藥)
“PCT countries”	countries to the Patent Cooperation Treaty signed in 1970 at Washington, the United States
“peptide”	a compound of two or more amino acids linked together chemically by peptide bonds
“prescription drugs”	drugs which are normally available only on a professional doctor’s prescription (處方藥)
“topical”	external use
“vaginitis”	inflammation of the vaginal mucosa that results from infection with <i>Candida</i> (yeast), <i>Trichomonas</i> or <i>Gardnerella vaginalis</i> , with symptoms including vaginal pain, itching and a foul discharge

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## RISK FACTORS

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***Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.***

***This prospectus contains forward-looking statements relating to, among other things, the Group's plan, objectives, expectations and intentions. The cautionary statements in this prospectus should be read as applicable to all forward-looking statements herein. The Group's future financial results or operations could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this prospectus.***

### **RISK FACTORS RELATING TO THE GROUP**

#### **Product protection**

For the year ended 31st December, 2001, the sales of Yallaferon to the total turnover was 17.9 per cent. The administrative protection period for the Group's product, Yallaferon, will expire in October 2006. During the administrative protection period, production of any imitation of the aforesaid product is prohibited and the relevant drug administration authorities will not process the application for clinical trials of such imitated products unless the necessary technology is transferred to the applicant. However, upon expiry of the protection period of Yallaferon, other pharmaceutical manufacturers may engage in the production of such imitation pharmaceutical products upon the approval for commercial production being granted by the relevant drug administration authorities without prior consent of the Group. In such cases, this may have a negative impact on the Group's turnover and profitability.

During the Track Record Period, the sales of Defibrase to the total turnover were 56.1 per cent., 30.9 per cent. and 19.5 per cent. respectively. On the other hand, the sales of Livaracine to the total turnover were 41.2 per cent., 69.1 per cent. and 62.6 per cent. respectively during the Track Record Period. As the protection periods for Defibrase and Livaracine have already expired, other pharmaceutical manufacturers can engage in the production of any imitation of Defibrase and Livaracine upon the approval for commercial production being granted from the relevant drug administration authorities. In such cases, the turnover and profitability of the Group may be adversely affected.

#### **Potential competition with High Knowledge**

The Group has disposed of a technology of developing product to High Knowledge, one of the Initial Management Shareholders, on 15th September, 2001 for a consideration of RMB1,600,000 (equivalent to approximately HK\$1,516,000 translated at the then prevailing exchange rate of HK\$1 to RMB1.0555) and realised a gain on disposal of approximately HK\$1,396,000 for the year ended 31st December, 2001. The potential product to be manufactured based on the technology disposed of to High Knowledge is for treatment of osteoporosis of menopausal women. The principal activity of High Knowledge is investments in pharmaceutical technologies which it considers to have potential for development and growth. Currently, there is no direct competition between the Group and High Knowledge. However, as High Knowledge continues to invest in other pharmaceutical technologies, it is

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## RISK FACTORS

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possible that High Knowledge will invest in technologies which may be in competition with the Group's existing products. Save as disclosed above, High Knowledge does not hold any other investments which compete or may compete with the business of the Group. At present, High Knowledge has no intention to inject the technology acquired from the Group back into the Group. Given the present circumstances, including that High Knowledge is looking for partners to move the technology forward into clinical study phase, High Knowledge has no intention to inject the technology acquired from the Group back into the Group in the foreseeable future. In the event that any competition between the Group and High Knowledge occurs, the Group's profitability and prospects may be adversely affected. Had the disposal of the said technology not taken place, the net loss of the Group for the year ended 31st December, 2001 would have increased by the said sum of gain on disposal of approximately HK\$1,396,000 from HK\$1,317,000 to HK\$2,713,000 (ignoring any tax impact).

### **History of losses during the Track Record Period, net current liabilities and financial support from the Group's shareholders**

During the Track Record Period, the Group has incurred net losses of approximately HK\$4.7 million, HK\$4.0 million and HK\$1.3 million respectively. In addition, the Group recorded net current liabilities of approximately HK\$1.6 million as at 31st December, 1999, HK\$8.6 million as at 31st December, 2000 and HK\$2.7 million as at 31st December, 2001 respectively. Since its incorporation, the Group's operations were mainly financed by equity funding, operating cash flows and loans from Huby Technology. Prior to the completion of the Reorganisation and on 30th April, 2002, loans due from the Group to Huby Technology and to Ms. Lee (both being the major shareholders of the Company) amounted to HK\$5.3 million and HK\$0.8 million respectively. Such loans were obtained on normal commercial terms. Nevertheless, the financial information as set out in sections 1 to 8 in the accountants' report (the full text of which is set out in Appendix I to this prospectus) has been prepared on a going concern basis, which the Directors believe to be appropriate because:

- (a) Out of the amount due to a major shareholder, Ms. Lee, of HK\$827,000 as at 30th April, 2002 (outstanding amount at 31st December, 2001: HK\$325,000), an amount of HK\$747,000 was capitalised on 20th June, 2002;
- (b) Out of the amount due to a major shareholder, Huby Technology, of HK\$5,319,000 as at 30th April, 2002 (outstanding amount at 31st December, 2001: HK\$4,893,000), an amount of HK\$3,653,000 was capitalised on 20th June, 2002; and
- (c) On 20th June, 2002, Huby Technology (being the major shareholder of the Company) injected an additional cash amount of HK\$2,200,000 to the Group in the form of share capital contribution.

There is no assurance that the Group will start to make a profit in the near future. If the Group is unable to generate sufficient revenue to meet its operating expenditure, such operations will have to be funded by the proceeds from the Placing and other financing activities. In the event that the Group is unable to obtain adequate financing to fund its operations and for the pursuit of its business plan, the existing operations, performance and prospects of the Group as well as its ability to implement its business plan will be adversely affected.

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## RISK FACTORS

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### **Remuneration of Directors**

During the Track Record Period, certain Directors, namely Ms. Lee and Ms. Leelalertsuphakun, did not draw any salary from the Group. Pursuant to their respective service contracts both dated 14th January, 2002, Ms. Lee and Ms. Leelalertsuphakun will draw an annual salary (subject to an annual review by the Board) of HK\$600,000 and HK\$450,000 respectively. Had the said level of annual salaries under the aforementioned service contracts been paid to Ms. Lee and Ms. Leelalertsuphakun during the Track Record Period, the combined results of the Group would be reduced by the aggregate amount of HK\$1,050,000 per annum (or such other amount as approved by the Board from time to time). Potential investors should note that the Group's future net profit (or loss) will be further reduced (or increased) by the aforesaid aggregate amount of HK\$1,050,000 per annum (or such other amount as approved by the Board from time to time).

### **Relationship with the PRC partner of Zhaoke**

The Group's operations are mainly carried out through Zhaoke in which the Group has a 70 per cent. equity interest. The term of the Business License granted to Zhaoke is for a period of 20 years. Pursuant to the Joint Venture Agreement, the board of directors of Zhaoke consists of seven members, four of which were nominated by the Group with the remaining three were nominated by the PRC partner of Zhaoke. The chairman of the board of directors of Zhaoke was nominated by the Group whilst the deputy chairman of the board of directors of Zhaoke was nominated by the PRC partner. According to the articles of association of Zhaoke, the quorum for a general meeting shall be two-thirds of all the directors of Zhaoke present in person or by proxy. Ordinary resolutions can be passed by votes cast by two-thirds of the directors of Zhaoke attending the board meeting. Unanimous consent of all the directors of Zhaoke attending the board meeting is required for the following matters: (i) amendment to the articles of association of Zhaoke; (ii) termination of the joint venture or dissolution of Zhaoke; (iii) increase or transfer of the registered capital of Zhaoke; (iv) merger of Zhaoke with other economic organisation; and (v) any other issues which the board of directors of Zhaoke considers material to Zhaoke.

The Company is able to exercise control over the board of directors and management of Zhaoke. However, there is no assurance that any disputes or disagreements which may arise between the Company and the PRC partner of Zhaoke would not affect the operation of the Group's business. In the event that there are disputes between the Group and the PRC partner of Zhaoke in respect of the operations of Zhaoke, the business and the profitability of the Group may be adversely affected.

### **Injection of intangible assets by the PRC partner of Zhaoke as registered capital of Zhaoke**

The Group's operations are mainly carried out through Zhaoke in which the Group has a 70 per cent. equity interest. Pursuant to the Joint Venture Agreement, the PRC partner of Zhaoke injected an intangible asset (namely, technology of protein extraction and purification technology from snake venom with enzymatic activities) for its 30 per cent. equity interest in



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## RISK FACTORS

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Zhaoke. The current PRC regulation which was promulgated and became effective on 4th July, 1997 however limits the level of capital injection by way of intangible asset to a maximum of 20 per cent. of the total registered capital in a given sino-foreign joint venture, unless the intangible asset injected is categorised as “new high technology”.

In relation to such provision of the current PRC law, the PRC legal adviser to the Company was of the opinion that Zhaoke was duly established under the then PRC laws and regulations in 1994 and the relevant 20 per cent. injection limit promulgated on 4th July, 1997 was not applicable on the then asset injection by the PRC partner into Zhaoke in 1994. However, in the event that the relevant PRC government authority holds a different view from that of the PRC legal adviser (such as by applying the limit on the capital injection on a retrospective basis), there is no absolute assurance that the Group will not be subject to claims or recourse by the relevant PRC government authority (which may include the revocation of the approval letter, the Certificate of Approval or such other approvals already given in respect of Zhaoke). On occurrence of such events, the business and the profitability of the Group may be adversely affected.

### **Non-renewal of permits, certificates and business licenses in respect of the Group’s pharmaceutical manufacturing plant in the PRC upon expiration**

For the operations of pharmaceutical manufacturing businesses in the PRC, pharmaceutical manufacturing enterprises are required to obtain appropriate permits, certificates and business licenses from the relevant PRC regulatory authorities. Details on such permits, certificates and business licenses are described under the section headed “Industry overview” in this prospectus.

The PRC legal adviser to the Company was of the opinion that Zhaoke has obtained all the required permits, certificates and business licenses for its pharmaceutical manufacturing operations, amongst others, the 藥品生產企業許可證 (Pharmaceutical Manufacturing Enterprise Permit). Such permits and licenses are to be renewed upon their expiry and the issuing authorities may conduct examination and assessment before renewal. The relevant regulatory authorities may impose changes on the standards of compliance required in connection with such permits, certificates and business licenses from time to time. In the event that such changes cannot be complied with by the Group, renewal of these permits, certificates and business licenses may not be granted and the Group’s pharmaceutical manufacturing operation which relies on such permits, certificates and business licenses will be affected.

Pursuant to “中外合資經營企業合營各方出資的若干規定”(Rules on capital contribution of parties to a Sino-foreign equity joint venture enterprise) promulgated by MOFTEC and SAIC on 1st January, 1988, parties to any joint venture which joint venture agreement requires one-time capital contribution should contribute their respective capital within six months from the date of the Business License; parties to any joint venture which joint venture agreement requires capital contribution by instalments should contribute their first instalment of not less than 15 per cent. of their respective capital contribution within three months from the date of the Business License. In the event any party to such joint venture violating the relevant rules, such joint venture would be considered as automatically terminated and the Certificate of Approval of such joint ventures will automatically be revoked. For Zhaoke, the Joint Venture Agreement was entered into on 7th February, 1994 and both parties to Zhaoke did not fulfill their respective responsibility to contribute their respective capital within the timeframe as stated

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## RISK FACTORS

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above. Eventually, the registered capital of Zhaoke was fully paid up in 1997. The PRC legal adviser to the Company was of the opinion that Zhaoke was duly incorporated and based on the fact that (i) Zhaoke has obtained the Business License from Hefei City Division of SAIC in June 1994; (ii) Zhaoke has duly passed the annual inspections carried out by the same governmental authority thereafter; and (iii) Zhaoke was not penalised at that time, the legality of Zhaoke has not and will not be affected. However, there is no absolute assurance that SAIC would not take any action in this regard or to penalise Zhaoke by way of revoking the Certificate of Approval and Business License of Zhaoke. On occurrence of such event, the business and the profitability of the Group may be adversely affected.

### **Change of the foreign party to Zhaoke**

The approval letter for the establishment of Zhaoke as a sino-foreign equity joint venture was issued by Hefei City Commission for Foreign Trade and Economic Cooperation on 5th February, 1994 with the foreign party being Siu-Fung Ceramics Holdings Limited (which was liquidated in May 2000 and delisted from the Main Board in December 2001). Pursuant to a supplemental joint venture agreement dated 17th May, 1994, Siu-Fung Ceramics Holdings Limited was substituted by Lee's Pharmaceutical as the foreign party of Zhaoke.

Although no approval letter for the change to Lee's Pharmaceutical as the new foreign party to Zhaoke has ever been obtained from Hefei City Commission for Foreign Trade and Economic Cooperation, the PRC legal adviser to the Company is of the opinion that the aforesaid change of foreign party to Zhaoke was legal and proper under the PRC law on the basis that (i) a formal supplemental agreement was entered into between the parties in respect of such change; (ii) the board of directors of Zhaoke had duly approved the change; and (iii) the Certificate of Approval for the establishment of Zhaoke with Lee's Pharmaceutical being the new foreign party to Zhaoke was duly issued by the Anhui Provincial Government on 1st June, 1994. In addition, an explanatory note and an opinion were issued by Hefei City Commission for Foreign Trade and Economic Cooperation on 26th December, 2001 and 24th May, 2002, respectively and this explanatory note and the opinion clearly recognise that the change of foreign party to Zhaoke from Siu-Fung Ceramics Holdings Limited to Lee's Pharmaceutical took place on 1st June, 1994, the date when the Certificate of Approval referred to in (iii) above was issued. However, there is no absolute assurance that interpretations different from that of the PRC legal adviser may not arise should the PRC laws and regulations change or otherwise. Furthermore, the liquidator of Siu-Fung Ceramics Holdings Limited may seek to void or challenge the change of the foreign party to Zhaoke from Siu-Fung Ceramics Holdings Limited to Lee's Pharmaceutical. The Hong Kong legal adviser to the Company was of the view that, based on the fact that (i) Zhaoke is a validly and legally established enterprise; (ii) Siu-Fung Ceramics Holdings Limited had never made any capital contribution to Zhaoke; and (iii) the change took place approximately eight years ago and the change did not result in Siu-Fung Ceramics Holdings Limited becoming insolvent, there does not exist any solid basis for the liquidator of Siu-Fung Ceramics Holdings Limited to make any claim against the Group. Nevertheless, on occurrence of such events, the business and the profitability of the Group may be adversely affected.

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## RISK FACTORS

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### **Shareholding change in relation to a past shareholder who is bankrupt**

As set out in the section headed “History and development” to this prospectus, Mr. Lee Siu Fung, Siegfried was himself once a shareholder in Lee’s Pharmaceutical from May 1994 to March 1998. In (i) December 1997 and (ii) March 1998, Mr. Lee Siu Fung, Siegfried disposed of his (i) 12.5 per cent. and (ii) 25 per cent. of the then total share capital of shareholding interest in Lee’s Pharmaceutical to (i) Dr. Li Xiao Yi and (ii) Triumph Leader respectively.

In May 2001, a bankruptcy order was made against Mr. Lee Siu Fung, Siegfried. In this regard, the Directors had sought for an independent counsel opinion as to the impact of the bankruptcy of Mr. Lee Siu Fung, Siegfried on the two aforesaid transactions. According to the counsel opinion, there is a fairly strong case to contend that the two aforesaid transactions are not subject to the anti-avoidance provisions introduced by the Bankruptcy (Amendments) Ordinance 1996 (which came into force since 1st April, 1998) but are subject to the old “fraudulent preference” provision of the Bankruptcy Ordinance (Chapter 6 of the Laws of Hong Kong) (which was effective prior to 1st April, 1998). In that case, the counsel is of the opinion that since both transactions were entered into more than 6 months before the presentation of the bankruptcy petition against Mr. Lee Siu Fung, Siegfried in 2001, they are therefore not challengeable under the “fraudulence preference” provisions of the Bankruptcy Ordinance. However, there is no absolute assurance that interpretations different from that of the counsel opinion may not arise, in which case the shareholding change under the two aforesaid transactions may be subject to challenge and if successful, become void. On occurrence of such events, the shareholding composition of the Company may be distorted and different from that set out in the paragraph headed “Corporate structure” in the section headed “Business” to this prospectus, which may in turn affect the overall management and direction of the Group.

### **Non-compliance with the GMP standards**

The PRC legal adviser to the Company was of the opinion that the Group has obtained, including but not limited to, the GMP certificates for its workshops on the production of (i) bulk pharmaceutical for injection and lyophilized powder for injection and (ii) gel issued by the SDA on 20th September, 1999 and 22nd May, 2001 respectively. The certificate for workshop on the production of bulk pharmaceutical for injection and lyophilized powder for injection will expire on 20th September, 2004. On the other hand, the certificate for workshop for production for gel has expired on 22nd May, 2002. The relevant certificate is in the process of being renewed. There is no assurance that the Group may be able to renew its 藥品生產企業許可證 (Pharmaceutical Manufacturing Enterprise Permit) when the GMP certificates expire. In the event that its 藥品生產企業許可證 (Pharmaceutical Manufacturing Enterprise Permit) and the GMP certificates are not renewed upon their expiry, the Group’s production will have to be terminated. Furthermore, the compliance requirements of GMP certification may change from time to time, which may give rise to substantial compliance burdens and increase the operation costs of the Group. In the event that the Group is not able to comply with such requirements, and has the GMP certificates renewed, all or part of the manufacturing operations of the Group may have to be ceased which, in turn, may have an adverse impact on the Group’s business and profitability.

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## RISK FACTORS

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Moreover, the Group has to obtain the necessary GMP certification for the production facilities of other forms of its future biopharmaceutical products such as oral formulation. The Group may incur substantial capital expenditure on the application for such certification before the generation of any profit from such future biopharmaceutical products. In such cases, there may have an adverse impact on the Group's operations and profitability.

### **Reliance on suppliers**

During the Track Record Period, purchases from the five largest suppliers accounted for approximately 52.0 per cent., 70.4 per cent. and 63.9 per cent., respectively, of the Group's total purchases. Apart from the raw recombinant human  $\alpha$ -2b interferon for its biopharmaceutical products, the Group did not enter into any long term supply contracts with any of the suppliers of the Group for the sake of flexibility in sourcing quality supplies with competitive prices. In the event that any of its major suppliers cease to supply to the Group and the Group is not able to find suitable replacements, the Group's production and trading activities may be disrupted. The Group's operations and profitability may, therefore, be adversely affected.

### **Reliance on distributors**

Apart from having its own sales and marketing team, the Group has entered into formal distribution agreements with over 40 distributors. During the Track Record Period, turnovers derived from the sales to these distributors accounted for approximately 62.1 per cent., 72.7 per cent. and 85.7 per cent. respectively. Under those distribution agreements, the Group's distributors are appointed as agents of the Group in designated regions in the PRC. Those distribution agreements generally have terms ranging from 1 year to 3 years. The terms of such agreements are described in the paragraph headed "Sales and marketing" under the section headed "Business" in this prospectus. As the Group's business relationship with the distributors are at an early stage of development, there is a risk that such relationship may not be successfully maintained. There is also a risk that these distributors may not be able to meet their respective obligations under the distribution agreements or have economic or business interests that are not consistent with those of the Group. In the event that such distribution agreements are terminated or are not renewed upon their expiry and the Group fails to find any suitable replacements, the Group may need to expand its own sales and marketing team to substitute these distributors and marketing agents and the Group's business and profitability may be adversely affected.

### **Reliance on the PRC market**

During the Track Record Period, the Group's sales were all carried out in the PRC. The Directors anticipate that the sales of the Group's products in the PRC will still represent a significant proportion of the Group's total turnover in the near future. In this connection, the Group is exposed to changes in economic, political and social conditions in the PRC as well as changes in the domestic demands for the Group's products in the PRC. There is no assurance that such changes will not adversely affect the performance and the profitability of the Group.

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## RISK FACTORS

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### **Properties leased by the Group in the PRC**

The Group has leased several properties in the PRC as offices and dormitory (as set out in Appendix II to this prospectus). To the best knowledge of the Directors, the house leasing certificates of these leased properties were not obtained by the respective landlords as at the Latest Practicable Date. As a result, the PRC legal adviser to the Company is of the opinion that the Group's rights and interest as a tenant of such leased properties may not be fully protected under the PRC law. There is no assurance that the Group can occupy such leased properties in the PRC throughout the tenure of the respective lease agreements.

The Directors believe that any relocation of such offices and dormitory, if so necessary, would not be unmanageable or prohibitively costly. In cities like Beijing, Shanghai, Guangzhou and Hefei, there is a good supply of comparable properties for lease and therefore in the case of early termination or non-renewal of such leases, the Directors consider that there will not be any significant interruption caused to the business. The Directors estimate that the aggregate expenses for relocating such properties would be less than RMB100,000. Ms. Lee and Ms. Leelalertsuphakun, being the controlling Shareholders have each given an indemnity to the Underwriters and the Group against any losses and damages which includes payments, costs, expenses, penalties or fines which may be incurred by the Group as a result of (i) any of the landlords leasing these offices and dormitory to the Group not obtaining relevant licenses, permits or title document; (ii) the early termination or non-renewal of the use of these offices and dormitory; and/or (iii) the provision of alternative offices and accommodation for staff so affected.

### **Credit risk**

During the Track Record Period, approximately 55.6 per cent., 69.0 per cent. and 69.2 per cent. respectively of the Group's total credit sales were received by the Group from its debtors within 180 days. The trade receivables of the Group as at 31st December, 2001 was HK\$2,435,000, net of specific provision of HK\$153,000 and general provision of HK\$542,000, with subsequent settlement up to 30th April, 2002 amounting to HK\$1,518,000. The bad debts written off by the Group during the Track Record Period amounted to approximately HK\$167,000, HK\$369,000 and HK\$312,000 respectively. There is no assurance that the Group's financial position and profitability will not be adversely affected by any deterioration in the credit-worthiness of its customers.

### **Currency risk**

The Group's production facilities and sales activities are located in the PRC and its sales are also mainly derived from the PRC market. As such, the Group's revenue and expenditures are mainly denominated in RMB. In the event that there is any devaluation or appreciation of RMB, the profitability of the Group may be materially affected.

### **Preferential treatments and tax incentives**

As advised by the PRC legal adviser to the Company, under the current PRC tax laws and regulations, the normal income tax rate for Zhaoke is 33 per cent. However, being designated by the 安徽省科學技術委員會 (Anhui Province Science and Technology Committee) as a 高新技術企業

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## RISK FACTORS

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(New High Technology Enterprise) in September 1995, Zhaoke is entitled to a number of preferential treatments, including in particular, various tax incentives and a maximum income tax rate of 15 per cent. in the PRC. The availability of some of the preferential treatments is of limited duration.

Under the “Certain Regulations for the Further Encouragement of Foreign Investment” (《進一步鼓勵外商投資的若干規定》) issued by The Government of New and High-Tech Industrial Development Zone of Hefei City, enterprises with foreign investment which conduct manufacturing business operation for 10 years or above are exempt from the enterprise income tax for two years starting from the first year of profitable operations after offsetting their tax losses of the prior years, followed by a 50 per cent. relief on the applicable tax rate for a period of three years. Zhaoke was established in 1994 and if it ceased its operation within 10 years from the date of commencement of operation, the tax relief previously granted would have to be repaid to the local tax bureau.

There can be no assurance that these preferential treatments, including tax incentives, will not be withdrawn or amended by the relevant regulatory authorities in the PRC in future especially after the PRC’s accession into the WTO. In the event that such preferential tax treatments be withdrawn or changed, the profitability of the Group will be adversely affected. Further information in relation to the tax treatment of the Group is set out in the paragraph headed “Taxation” in the section headed “Financial information” in this prospectus.

### **Product liability**

Under the current PRC laws, counterfeit or defective products sold to the public may render the manufacturer or vendor of such products to product liability claims. The Group does not maintain any insurance against liability for products sold by the Group or against indirect losses of business arising from product liability claims as this is not a statutory requirement under the current PRC laws and regulations. In the event that any product liability claim is brought against the Group, there is no assurance that it would not have any negative impact on the operations or the financial position of the Group. Any such claim may also have an adverse impact on the reputation of the Group.

### **Limited insurance coverage**

Although the Group maintains insurance policies which covers its fixed assets and against loss and damage caused by accidents and natural disasters (including fire hazards and explosions), it does not have any product liability insurance, business interruption insurance (other than by reason of natural disaster) or any third party liability insurance (other than motor vehicle). Accordingly, there may be circumstances in which the Group will not be fully covered or compensated for such losses, damages and liabilities which may, in turn, result in the interruption of its business and loss of revenue due to reasons other than natural disasters. These events could adversely affect the Group’s profitability. Further information relating to the Group’s insurance is set out in the paragraph headed “Insurance” in the section headed “Business” in this prospectus.

### **Reliance on key management and employees**

The Group’s success depends, to a significant extent, upon the substantial contribution of its executive Directors, its senior management and the scientific advisory board to the

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## RISK FACTORS

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development and daily operations of the Group. In the event that such senior management and key employees cease to serve the Group and the Group cannot find suitable replacements, the operations of the Group may be adversely affected.

### **Research and development risk**

It is one of the Group's business strategies to continue to invest in the research and development of biopharmaceutical products, in particular, the snake venom technology, the water-based gel delivery technology and the low molecular weight heparin technology. The Directors will normally initiate any research project after considering, amongst other things, the cost, the time required for such research, the commercial and financial viability of such project, scientific merit of the technology and its likelihood of a successful outcome. However, there is no assurance that the research project initiated or undertaken by the Group itself and/or the Group jointly with third parties would be completed within the anticipated timeframe or that the results of such research projects would lead to viable commercial production. In the event that such research projects do not contribute to viable commercial production of marketable products, the sunk deployment of the Group's resources in pursuit of such projects may have a material adverse impact on the Group's performance. Furthermore, the future growth of the business of the Group, which is expected to rely on the successful development and sales of such products, may be adversely affected.

### **Intellectual property protection**

The Group has entered into, and may from time to time enter into, confidentiality agreements with its technological partners who would have access to the Group's know-how under research, pre-clinical studies, clinical trials and other development process arrangements. However, there is no assurance that these confidentiality provisions will be honoured. In addition, the Group's competitors, both domestic and overseas, may develop technologies, processes, techniques and products that are similar or superior to that of the Group. These parties may seek to have their discoveries, inventions or processes patented or registered as their own intellectual property rights. These patented or registered technologies, processes, techniques or products may overlap with those developed or to be developed by the Group. Under such circumstances, there may be infringement claims against the Group by these competitors. Any of these claims may result in costly litigation and the Group's profits may be adversely affected.

One of the Group's products, namely Yallaferon, is currently under the administrative protection pursuant to the “新藥保護和技術轉讓的規定” (Rules on the Protection and Technology Transfer of New Medicines). Details of intellectual property rights of the product are set out in the paragraph headed “Intellectual property” in the section headed “Business” in this prospectus. However, it may be possible for other pharmaceutical manufacturers to use or imitate the Group's intellectual property rights without authorisation. In this connection, the Group may require to incur significant expenses on the enforcement of its intellectual property rights. Infringement of the Group's intellectual property rights and its resulting diversion of resources may have an adverse impact on the business and future growth of the Group.

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### **Inability to carry on business if failure to generate adequate revenues or raise further funds**

During the Track Record Period, the Group has been incurring net losses. It is anticipated that the Group may incur further losses for the foreseeable future. In the event that the Group is not able to generate adequate revenues or raise further funds for the operations of the Group, the business and operations of the Group may be adversely affected.

### **No assurance to declare future dividends**

During the Track Record Period, no dividends had been declared by the Group. As set out in the section headed “Business objectives and implementation plans” of this prospectus, the Group will commit considerable spending on (i) upgrading and expansion of production facilities and equipment, (ii) sales and marketing, and (iii) research and development. There is no assurance that the Company will declare any dividend payment to the Shareholders in the future.

### **Ability to implement successfully the business objectives and strategies for future growth**

The business plan of the Group as described in the section headed “Business objectives and implementation plans” in this prospectus is based on circumstances currently prevailing and the bases and assumptions that certain circumstances will or will not occur, as well as the risks and certainties inherent in various stages of development. There is no assurance that the Group will be successful in implementing its strategies or that its strategies, even if implemented, will materialise as intended. If the Group is unable to accomplish its objectives and/or execute its plans within the timeframe and on the terms contemplated, the Group’s business, operating results and financial condition may be adversely affected.

## **RISK FACTORS RELATING TO THE INDUSTRY**

### **Medicare reforms in the PRC**

In view of the medicare reforms in the PRC, since 1997, 中國國家發展計劃委員會 (the State Development Planning Commission of the PRC) had, on several occasions, reduced the price of various pharmaceutical products. Such implementation of policy may affect the profitability of the Group. In particular, 中國國家發展計劃委員會 (the State Development Planning Commission of the PRC) had lowered the price of various pharmaceutical products including applications for anti-cancer, nervous system and mental illness in December 2001. Approximately 80 per cent. of the price of these pharmaceutical products have been cut by 20 per cent.. In addition, hospitals in the PRC have started to use auction as a way of purchasing pharmaceutical products. Such bidding may cause depression of pricing and increase uncertainty, which in turn may have adverse effect on the Group’s revenue and profitability.



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# RISK FACTORS

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## Product substitution

Pharmaceutical products in the PRC are generally under patent granted by 中華人民共和國專利局 and/or administrative protection granted by SDA for a period of time during which no other pharmaceutical manufacturers can produce the same products. At present, one of the Group's pharmaceutical products, namely Yallaferon, is under administrative protection period which will expire in October 2006. However, other pharmaceutical manufacturers may produce products similar to Defibrase, Livaracine and Yallaferon in terms of having similar treatment or therapeutic effects during (or after) the protection periods of the Group's pharmaceutical products. The introduction and sales of these substitutes with prices comparable to or lower than those distributed or manufactured by the Group may have an adverse impact on the Group's turnover and profitability.

## Price controls

The prices of the pharmaceutical products manufactured and distributed by the Group in the PRC are subject to the price control instituted from the State or provincial price administration authorities. Particulars are set forth in the sections headed "Industry overview" and "Business" in this prospectus. If the costs of the Group's pharmaceutical products shall increase and applications for upward adjustments of the selling price of such products are not approved and/or the selling price of such products has to be reduced pursuant to any order or directive by the relevant price administration authorities and the Group is not able to reduce its production cost, the profitability of the Group may be adversely affected.

## Export of biopharmaceutical products

Currently, the PRC government and its authorised departments do not have stringent restrictions on the export of pharmaceutical products manufactured in the PRC. As set out in the section headed "Business objectives and implementation plans" in this prospectus, the Directors intend to develop the overseas markets of the Group's products such that export sales are expected to launch in future. If additional conditions are imposed on the Group by the PRC government and/or the governments of the countries to which the Group intends to export its pharmaceutical products, the future export sales of the Group may be affected. Under such circumstances, they may have an adverse impact on the business and profitability of the Group.

## Competition

Pharmaceutical industry in the PRC is subject to intensive competition amidst the vast potential in the market. The SDA has issued the "藥品生產質量管理規範的通知" (Notice on the Guideline on Quality Control in the Production of Medicine) which requires, amongst other things, the pharmaceutical manufacturers in the PRC to comply with the GMP standard by certain time limits. In 2001, SDA issued "關於全面加快監督實施藥品 GMP工作進程的通知" (Notice on the Overall Acceleration of the Implementation and Supervision of Progress for Good Manufacturing Practice for Pharmaceutical Products), and required all pharmaceutical manufacturing enterprises to comply with the GMP Standards by 30th June, 2004. Pharmaceutical manufacturers which are unable to obtain GMP certifications within the stipulated time limit will be forced to cease their businesses and operations. As a result, competition in future will be likely to concentrate among pharmaceutical manufacturers with

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## RISK FACTORS

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GMP certifications. The number of pharmaceutical manufacturers in the PRC attaining GMP standard is expected to rise in the future. In the event that the Group is not able to maintain its competitive advantage against such increase in competition from other pharmaceutical manufacturers who have been accredited with GMP certifications, the profitability and financial position of the Group will be adversely affected.

Whilst entry barriers to the pharmaceutical industry are high in terms of the heavy capital investment and the strong research and development capabilities, there are many pharmaceutical and chemical companies and academic and research institutions that are engaging in the development and manufacture of pharmaceutical products, including the applications targeted by the Group, and those entities have more capital, better research and development resources and support, as well as sophisticated manufacturing and production facilities, than the Group. Such competitors stand better chances in the successful development of pharmaceutical products that are more effective and at a lower cost than those developed by the Group. In the event that the Group is unable to cope with the changing market conditions by improving its competitiveness, the market share and profitability of the Group may be adversely affected.

### WTO

The PRC has successfully entered into the WTO. It is expected that the competition in the pharmaceutical industry will be intensified. With lower import tariffs, it is expected that imported biopharmaceutical products manufactured overseas will become more comparable to the domestic products in the PRC. If the Group fails to maintain its competitive advantages against keen competition from the foreign pharmaceutical manufacturers, the Group's profitability may be adversely affected.

### Environmental liabilities

The PRC government has promulgated laws and regulations, such as Environmental Laws, on environmental protection in the PRC. Any businesses which discharge pollutants are required to have approvals from the relevant environmental protection agencies on the precautionary measures for pollutant treatment and to pay additional pollutant discharge fees if the pollutants discharged are over the standard limits. Companies not complying with the relevant rules and regulations are subject to penalty charges. The Directors consider that the biopharmaceutical products of the Group under current production do not create any pollutants and wastes to the environment. Based on the current portfolio of biopharmaceutical products under research and development by the Group, the Directors anticipate that Zhaoke will not be required to implement environmental protection plans and install facilities for waste treatments and disposal. However, if there are new requirements introduced under the Environmental Laws, it may give rise to substantial compliance burdens and increase the operation costs of the Group. In the event that the Group is not able to comply with such requirements, the Group may not be able to continue some of its business or operations, which in turn have an adverse impact on the Group's business and profitability.

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## RISK FACTORS

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### RISK FACTORS RELATING TO THE PRC

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

#### **Economic, political and social considerations**

Since the late 1970s, the PRC government has undertaken substantial economic reforms in order to transform the PRC economy into a more market-oriented "socialist market economy". These reforms have resulted in significant economic growth and social progress. There can be no assurance that any change in economic conditions as a result of the economic reforms and macro-economic measures adopted by the PRC government will have positive effect on the economic development in the PRC in general or in the pharmaceutical industry in particular. In addition, there can be no assurance that such reform and measures will be consistent and effective or that the Group will benefit from or be able to capitalise on all such reforms and measures.

#### **Currency conversion and foreign exchange control**

During the Track Record Period, the Group receives substantially all of its revenues and makes substantially all of its payments in Renminbi. After the listing of the Shares on GEM, the Group's accounts will be stated in HK Dollars. In addition, as the Group intends to develop its overseas market, part of the sales will be denominated in foreign currency. Therefore, the Group's profitability, its asset value and its ability to pay dividend in HK Dollars (if any) will be adversely affected by the fluctuation of Renminbi to HK Dollars or US Dollars or other foreign currencies as the case may be.

Renminbi is not freely convertible into foreign currency. In accordance with the "外匯管理條例" (Foreign Exchange Control Regulations), foreign investment enterprises are allowed to convert Renminbi into foreign currencies out of its foreign exchange accounts or by the banks authorised to conduct foreign exchange transactions, for repatriation and distribution of its profits and/or dividends overseas. The conversion of Renminbi into foreign currencies in respect of capital account items (including direct investment, loan and guarantee investment) is still subject to limitations and require the approval of the State Administration of Foreign Exchange (under the authority of the People's Bank of China).

The Group's operations are mainly conducted through Zhaoke to which the above regulations are applicable. As advised by the PRC legal adviser to the Company, Zhaoke has obtained "外匯登記證" (Foreign Exchange Registration Licence), therefore Zhaoke is able to repatriate its profits and/or dividend to the Company under the relevant PRC laws. However, there is no assurance that the Group will be able to obtain sufficient foreign exchange to pay dividends or satisfy other foreign exchange requirements in the future.

The value of the Renminbi is subject to changes in the PRC government policies and the international economic and political developments. In 1994, the State adopted an unified exchange rate system under which the exchange rate is determined basically by the demand and supply in the market. Since then, the official exchange rate for the conversion of the Renminbi to the US Dollars has remained generally stable. However, there is no assurance

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## RISK FACTORS

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that the Renminbi will not become volatile against other currencies or that pressure to devalue the Renminbi will not increase in future. As the Group does not hedge its foreign exchange rate exposure, any devaluation of the Renminbi against the HK Dollars or US Dollars may have an adverse effect on the Group's results and operations.

### **Change in legal and regulatory considerations**

In recent decades, many laws and regulations governing economic matters have been promulgated in the PRC. Many laws and regulations in the PRC are promulgated in broad principles and the PRC government has gradually laid down rules for implementation and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or the refinement and modification of existing laws may affect foreign investment. The general effect of legislation has provided legal protection to foreign investment enterprises in the PRC. However, there can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon the Group.

### **RISK FACTORS RELATING TO THE SHARES**

#### **Pre-IPO Share Option Scheme**

The Group has adopted a Pre-IPO Share Option Scheme on 26th June, 2002, pursuant to which Ms. Lee and Mr. Lau Tai Wai, both executive Directors, were granted Pre-IPO Share Options whose exercise price is at a discount to the Placing Price. Although Ms. Lee is the controlling Shareholder and chairman of the Company, she has not received any remuneration during the Track Record Period. The Directors considered that granting of Pre-IPO Share Options to her may help to keep any cash remuneration at a minimum but at the same time provide attractive incentive to key staff with a direct economic interest. There are outstanding Pre-IPO Share Options entitling the holders thereof to subscribe for up to a total of 5,000,000 Shares, representing 1.73 per cent. of the existing issued share capital of the Company. The Pre-IPO Share Options outstanding will be exercisable at an exercise price equal to a 30 per cent. discount to the Placing Price during a period of not less than two years but not more than 10 years from the date of grant. Potential investors should note the potential dilution effect on both the shareholding interests and earnings per Share upon exercise of the Pre-IPO Share Options. Should the Pre-IPO Share Options be exercised in full, the loss per Share for the year ended 31st December, 2001 will be diluted from 0.72 cent to 0.71 cent, representing dilution effect of approximately 1.4 per cent. on the loss per Share.

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

The Company is a company incorporated under the laws of the Cayman Islands and its corporate affairs are governed by its memorandum and articles of association and by the Companies Law. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders and to the fiduciary responsibilities of directors may differ from the laws of Hong Kong and the corresponding remedies available to such shareholders may differ accordingly. A summary of certain provisions of the laws of the Cayman Islands relating to protection of minority shareholders is set forth in Appendix III to this prospectus.

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## **RISK FACTORS**

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### **RISK FACTOR RELATING TO INVESTING IN GEM**

Your attention is drawn to the section headed “Characteristics of GEM” in this prospectus which sets out the inherent risks associated with investing in companies whose shares are listed on GEM.

### **ISSUES TO CONSIDER IN RELATION TO STATEMENTS CONTAINED IN THIS PROSPECTUS**

#### **Unverifiable forward-looking statements contained in this prospectus**

There are certain forward-looking statements in this prospectus which can be identified by the use of certain words, such as “may”, “will”, “expect”, “anticipate”, “estimate”, “continue”, “believe” and other similar words. Such statements are made to the best knowledge of the Directors as of the Latest Practicable Date based on certain bases and assumptions in relation to the Group’s present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements cannot be verified. In the event of any unforeseeable factors and circumstances, the actual performance and results of the Group for the period so mentioned can be materially different from those made under the forward-looking statements.

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## **WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES**

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*For the purpose of the listing of the Shares on GEM, the Company has sought a waiver from the GEM Listing Division in relation to certain requirements under the GEM Listing Rules. Details of such waiver is described below.*

### **Waiver on the latest financial period reported on by the reporting accountants under Rule 11.11 of the GEM Listing Rules**

Rule 11.11 of the GEM Listing Rules requires that the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. As indicated in the accountants' report, the text of which is set forth in Appendix I to this prospectus, the financial information of the Group has been audited up to 31st December, 2001. In order to comply strictly with the GEM Listing Rules, this prospectus must be dated on or before 30th June, 2002.

Compliance with Rule 11.11 of the GEM Listing Rules would require substantial work to be carried out within a short period of time. The Directors consider additional work and expenses involved may not be justifiable given that there has been no material adverse change in the financial position of the Group since the expiry of the period reported by the reporting accountants of the Group, the text of which is set forth in Appendix I to this Prospectus.

The Company has sought and obtained a waiver from strict compliance with Rule 11.11 of the GEM Listing Rules from the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that since 31st December, 2001 and up to the date of this prospectus, there has been no material adverse change in the financial or trading position of the Group and they are not aware of any event which would arise prior to the issue of this prospectus that would result in such material adverse change.

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# INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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## DISCLOSURE OF INFORMATION ON THE PLACING SHARES

The Placing Shares are offered solely on the basis of the information contained and 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 Vendor, the Joint Sponsors, the Underwriters, any of their respective directors or any other person or party involved in the Placing.

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

- (i) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (ii) there are no other matters, the omission of which would make any statement in this prospectus misleading; and
- (iii) 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.

## FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing. The Placing initially involves 15,000,000 Sale Shares and 75,000,000 New Shares (assuming the Over-allotment Option is not exercised) at the Placing Price.

The Placing is sponsored by the Joint Sponsors and is fully underwritten by the Underwriters. For further information about the Underwriters and the underwriting and placing arrangements, see the section headed "Underwriting" in this prospectus.

## PLACING SHARES TO BE OFFERED IN HONG KONG ONLY

No action has been taken in any jurisdiction other than Hong Kong to permit any public offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, as an offer or invitation in any jurisdiction other than Hong Kong or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an unauthorised offer or invitation.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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**Each investor acquiring the Placing Shares is deemed by his or her or its acquisition of the Placing Shares to contract that he or she or it is aware of the restrictions relating to the Placing as described in this prospectus.**

### **APPLICATION FOR LISTING OF THE SHARES ON GEM**

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including the Placing Shares and any Shares which may fall to be allotted pursuant to (i) the exercise of the Over-allotment Option; and (ii) the exercise of any options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.

No part of the Company's share or loan capital 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, any of its Shares or loan capital on the Main Board or any other stock exchange.

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

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing of the Shares on GEM and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25 per cent. of the issued share capital of the Company in the hands of the public. Further, pursuant to Rule 11.23(2) of the GEM Listing Rules, the market capitalisation of the share capital of the Company in the hands of the public at the time of the listing of the Shares on GEM must be at least HK\$30 million. At the time of listing of the Shares on GEM, approximately 31 per cent. of the issued share capital of the Company will be in the hands of the public assuming that none of the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme are exercised. The share capital of the Company in the hands of the public should, as at the time of listing of the Shares on GEM, must be held among at least 100 persons.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential subscribers or purchasers for the Placing Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, disposing or holding of or dealing in the Shares or exercising their rights thereunder.

The Company, the Vendor, the Joint Sponsors, 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 liabilities of, any person resulting from subscribing for, purchasing, disposing or holding of or dealing in the Shares or the exercise of any rights thereunder.



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# INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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## REGISTRATION AND STAMP DUTY

All Shares in issue and to be issued as mentioned in this prospectus must be registered on the Company's register of members to be maintained by Computershare Hong Kong Investor Services Limited in Hong Kong. Only Shares registered on the Company's Hong Kong register of members may be traded on GEM.

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

## STRUCTURE OF THE PLACING

Details of the structure of the Placing, including its conditions, are set out in the section headed "Structure of the Placing" in this prospectus.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on GEM by the GEM Listing Committee as well as the compliance with the stock admission requirements of HKSCC by the Company, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

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.

## DEALINGS AND SETTLEMENT

Dealings in the Shares on GEM are expected to commence on 15th July, 2002.

Shares will be traded in board lots of 5,000 Shares each.

The Company will not issue any temporary documents of title.

The expected GEM stock code for the Shares is 8221.

Dealings in the Shares on GEM will be effected by participants of the Stock Exchange whose bid and offer quotations will be made available on the Stock Exchange's teletext page information system.

If you are unsure about the procedures for dealings and settlement arrangement on GEM on which Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

**EXCHANGE RATE CONVERSION**

In this prospectus, unless otherwise specifically provided, amounts in Renminbi have been converted into Hong Kong Dollars at the rate of HK\$1 to RMB1.06 and amounts in United States Dollars have been converted into Hong Kong Dollars at the rate of US\$1 to HK\$7.8. Such conversions are for the purpose of convenience and for indication and reference purposes only and should not be construed as any representation that the Renminbi amounts, the United States Dollar amounts and the Hong Kong Dollar amounts have been, could have been or could be converted into Hong Kong Dollars, United States Dollars and Renminbi, as the case may be, at that or any other rate or at all.

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## DIRECTORS

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<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Ms. Lee Siu Fong (李小芳)	Flat B, 13th Floor Penthouse, Somerset 67 Repulse Bay Road Hong Kong	Chinese
Ms. Leelalertsuphakun Wanee (李輝妮)	Flat B, 13th Floor Penthouse, Somerset 67 Repulse Bay Road Hong Kong	Thai
Mr. Lau Tai Wai (柳大偉)	Flat 5A, Block 11, Phase 4 Sea Crest Villa 44 Castle Peak Road New Territories Hong Kong	Chinese
<i>Independent Non-executive Directors</i>		
Dr. Chan Yau Ching, Bob (陳友正)	9 Hibiscus Paths Palm Spring Yuen Long New Territories Hong Kong	Chinese
Mr. Leung Yun Fai (梁潤輝)	Flat 15A, Block 5 Kornhill Garden Quarry Bay Hong Kong	Chinese

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## PARTIES INVOLVED IN THE PLACING

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### **Joint Sponsors**

Asia Investment Capital Limited  
12th Floor  
Asia Financial Centre  
120 Des Voeux Road  
Central  
Hong Kong

CSC Asia Limited  
28th Floor, COSCO Tower  
Grand Millennium Plaza  
183 Queen's Road Central  
Hong Kong

### **Lead Manager**

CM-CCS Securities Limited  
26th Floor, World Wide House  
19 Des Voeux Road Central  
Hong Kong

### **Underwriters**

CM-CCS Securities Limited  
26th Floor, World Wide House  
19 Des Voeux Road Central  
Hong Kong

Asia Investment Capital Limited  
12th Floor  
Asia Financial Centre  
120 Des Voeux Road  
Central  
Hong Kong

Shun Loong Securities Company Limited  
2202 Admiralty Centre Tower I  
18 Harcourt Road  
Hong Kong

Sanfull Securities Limited  
20th Floor, Far East Consortium Building  
121 Des Voeux Road  
Central  
Hong Kong

Karl-Thomson Securities Company Limited  
Room 801, Tower One, Lippo Centre  
89 Queensway  
Hong Kong

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## PARTIES INVOLVED IN THE PLACING

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**Legal advisers to the Company**

*As to Hong Kong law:*  
Arculli and Associates  
2012, Hutchison House  
Central  
Hong Kong

*As to the Cayman Islands law:*  
Maples and Calder Asia  
1504 One International Finance Centre  
1 Harbour View Street  
Hong Kong

*As to the PRC law:*  
W & H Law Firm  
7th Floor, Building 3  
Friendship Hotel  
3 Baishiqiao Road  
Beijing  
PRC

**Legal adviser to the Underwriters**

Iu, Lai and Li  
20th Floor  
Gloucester Tower  
The Landmark  
Central  
Hong Kong

**Auditors and reporting accountants**

HLM & Co.  
*Certified Public Accountants*  
Rooms 303-4, 3rd Floor  
Arion Commercial Centre  
2-12 Queen's Road West  
Hong Kong

**Property valuer**

Vigers Hong Kong Limited  
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>	M&C Corporate Services Limited P.O. Box 309 GT Ugland House South Church Street Grand Cayman Cayman Islands
<b>Head office and principal place of business in Hong Kong</b>	Room 1905 Grand Millennium Plaza (Lower Block) 181 Queen's Road Central Hong Kong
<b>Authorised representatives</b>	Lee Siu Fong Flat B, 13th Floor Penthouse, Somerset 67 Repulse Bay Road Hong Kong  Leelalertsuphakun Wanee Flat B, 13th Floor Penthouse, Somerset 67 Repulse Bay Road Hong Kong
<b>Company secretary</b>	Mok Sau Man, Joanna, <i>AHKSA, FCCA</i>
<b>Qualified accountant</b>	Mok Sau Man, Joanna, <i>AHKSA, FCCA</i>
<b>Compliance officer</b>	Lee Siu Fong
<b>Audit Committee</b>	Chan Yau Ching, Bob Leung Yun Fai
<b>Website address</b>	<a href="http://www.zhaoke.com">http://www.zhaoke.com</a>

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## CORPORATE INFORMATION

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**Principal bankers**

*In Hong Kong*

Nanyang Commercial Bank Limited  
151 Des Voeux Road Central  
Hong Kong

*In the PRC*

Bank of China  
Hefei City New and High Technology Industrial  
Development Zone Branch  
669 Changjiang West Road  
Hefei  
Anhui Province  
the PRC

**Share registrar  
and transfer office**

Computershare Hong Kong Investor Services Limited  
Room 1901-1905  
19th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

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## INDUSTRY OVERVIEW

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The information provided in this section is derived from various private and/or government publications. This information has not been prepared or independently verified by the Company or its affiliates in connection with the Placing. The Company makes no representation as to the accuracy of this information. Accordingly, the information contained in this section may not be accurate and should not be unduly relied upon.

The statistics on the global and PRC pharmaceutical markets may vary from other sources due to different methods adopted. Forecasts on the global and PRC pharmaceutical markets may not be reliable as a whole, and the prospective global and PRC pharmaceutical markets may differ from what is expected by the information provided in this section.

### PHARMACEUTICAL INDUSTRY

#### Medical development

Growth in medical knowledge has facilitated early diagnosis of diseases and coupled with the development of medical science and technology in the fields of clinical diagnostic techniques, the quality of health care has been significantly enhanced in the modern world. New medicines with increased medical efficacy, improved therapeutic effect and reduced side-effects are researched and developed.

The advancement of modern medical technology has brought about the development and application of biotechnology in the pharmaceutical industry. Supported by modern scientific technology, significant development has been made in genetic engineering and recombinant DNA. Interferon, erythropoietin and G-CSF (Granulocyte Colony Stimulating Factor) are certain products created through genetic engineering.

#### Global pharmaceutical industry

The pharmaceutical industry has developed rapidly during the last decade principally due to the development of new medicines and the trend of globalisation. According to the statistics of IMS, the audited global pharmaceutical sales increased from approximately US\$295.9 billion in 1999 to approximately US\$317.2 billion in 2000 with an annual growth rate of 7.2 per cent..

According to the forecast of IMS in 2000, the total value of the global pharmaceutical market is expected to reach approximately US\$506 billion in 2004 with an annual compound growth rate of approximately 8.4 per cent. between the period 2000 to 2004.



## INDUSTRY OVERVIEW

According to the report of IMS, the largest growth region in the global pharmaceutical market for the period up to 2003 is expected to be in Southeast Asia (including the PRC) at an annual compound growth rate of approximately 11 per cent. followed by the Middle East at approximately 10 per cent. and Eastern Europe at approximately 9 per cent.. The following table illustrates the expected market value of the world pharmaceutical industry up to 2003 and the compound annual growth rate between the period of 1999 to 2003:

<b>Region</b>	<b>Expected market value in 2003 (US\$ billion)</b>	<b>Compound annual growth rate (%)</b>
North America	184.9	8.6
Europe	110.1	5.3
Japan	47.4	-0.2
Latin America	28.3	7.2
Southeast Asia, including the PRC	24.4	11.1
Eastern Europe	8.3	9.4
Middle East	10.4	10.4
Africa	4.8	3.2
Indian sub-continent	7.4	7.9
Australia	4.8	9.2
Commonwealth of Independent States	<u>4.4</u>	<u>6.1</u>
<b>Total</b>	<u><u>435.2</u></u>	<u><u>7.1</u></u>

Source: IMS Health Global Services Forecasts

### Pharmaceutical industry in the PRC

The PRC has a population of approximately 1.30 billion people. The Directors expect that there will be a great demand for pharmaceutical and related products. According to 深圳證券信息有限公司 (Shenzhen Securities Information Company Limited), there were approximately 6,700 pharmaceutical manufacturers in the PRC as at 5th January, 2001.

According to the statistics of IMS, the total sales of pharmaceutical products in the PRC in 1999 was approximately US\$6.2 billion. According to an article published in 中華工商時報 of the PRC, the average medicine consumption per capita in the PRC in 2000 was approximately US\$10. This medicine consumption per capita in the PRC of approximately US\$10 is less than the per capita consumption of between approximately US\$40 to 50 in less developed countries and approximately US\$300 in more developed countries such as the United States.

According to the forecast from IMS, the pharmaceutical market in the PRC will reach a market value of approximately US\$9.65 billion in 2003 with a compound annual growth rate of 11.6 per cent. between period 1999 to 2003.

## THE PHARMACEUTICAL INDUSTRY IN THE PRC

### Legal framework governing the industry

“中華人民共和國藥品管理法” (The Law of the PRC on the Administration of Pharmaceutical Products) was promulgated by the National People’s Congress in September 1984 and amended in February 2001. The amended Law of the PRC on the Administration of Pharmaceutical Products became effective from 1st December, 2001. Such law laid down the legal framework for the manufacturing of pharmaceutical products and the administration of the industry and regulates the production of medicine, administration of pharmaceutical enterprises and medicinal preparations, packaging and distribution of pharmaceutical products, pharmaceutical trademark and advertising.

### Principal supervisory authorities in the industry

#### *SDA*

SDA is an organisation which was officially inaugurated on 19th August, 1998, under the direct supervision of the State Council. Currently, SDA has assumed the supervisory and administrative functions of the pharmaceutical industry in the PRC which were previously undertaken by MOH, SPAB and SATCM. The primary duty of SDA is to monitor and supervise the administration of pharmaceutical products and medical appliances and equipment in the pharmaceutical industry in the PRC. The principal functions of SDA include:

- the enforcement and formulation of administrative rules, policies and supplementary measures concerning the supervision and administration of the pharmaceutical industry in the PRC;
- the investigation, evaluation, registration and approval of new drugs, imported drugs, generic drugs and Chinese medicines; and
- the grant and issuance of permits for the manufacture and import of pharmaceutical products and medical appliances and for the establishment of enterprises engaged in the manufacturing and trading of pharmaceutical products.

#### *MOH*

MOH is an authority at the ministerial level under the direct supervision of the State Council and is responsible for national public health. Before the establishment of the SDA, the responsibility to monitor, supervise and formulate the rules and policies for the pharmaceutical industry in the PRC was undertaken by MOH. Currently, MOH is mainly responsible for the overall administration of the national health system in the PRC excluding the pharmaceutical industry, the formulation of professional codes of ethics for public medical health personnel and the dealing with overseas companies and governments in relation to the health industry in the PRC.

The duties and role of MOH and SPAB or their respective designated authorities at the regional level under the applicable laws and regulations in relation to the pharmaceutical industry have now been transferred to SDA.

### **Certificates, permits and licenses required by pharmaceutical manufacturing and trading enterprises**

Pharmaceutical manufacturing and trading enterprises in the PRC are required to obtain the following certificates, permits and business licenses from the relevant pharmaceutical supervisory bodies before the commencement of the manufacture and distribution of pharmaceutical products in the PRC:

- (i) 藥品生產企業許可證 (the Pharmaceutical Manufacturing Enterprise Permit) for pharmaceutical manufacturing enterprises issued by the relevant pharmaceutical administrative authorities and the relevant public health administrative department respectively at the provincial, autonomous region or centrally administered municipal level where the enterprise is located;
- (ii) 藥品經營企業許可證 (the Pharmaceutical Trading Enterprise Permit) for pharmaceutical trading enterprises issued by the relevant pharmaceutical administrative authorities and the relevant public health administrative department respectively at the provincial, autonomous region or centrally administered municipal level where the enterprise is located; and
- (iii) 營業執照 (the business license) issued by the relevant administrative bureau of industry and commerce after the pharmaceutical manufacturing or trading enterprise has obtained the requisite certificates and permits stated in paragraphs (i) and (ii) above.

Each permit relating to pharmaceutical manufacturing and trading enterprises has a validity period of five years. Prior to the expiry of such permit, pharmaceutical manufacturing and trading enterprises should apply for the renewal of such permits. The pharmaceutical manufacturing and trading enterprises are subject to re-assessment by the relevant issuing authorities in accordance with the then prevailing legal and regulatory requirements. In addition, any pharmaceutical manufacturing and trading enterprises which have obtained a permit is subject to an annual review by the relevant regulatory authorities.

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

### **New pharmaceutical products and approval procedures**

Under the “新藥審批辦法” (Measures on the Approval of New Medicines) promulgated by SDA on 22nd April, 1999, which became effective on 1st May, 1999, new medicines generally refer to those medicines which have never been manufactured in the PRC. Moreover, new forms, new methods of administration, new therapeutic functions or new prescription of existing medicines and preparations can also be considered as new medicines.

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## INDUSTRY OVERVIEW

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Application and approval of new medicines will go through two principal procedures, being (i) clinical examination and (ii) commercial production and sales:

(i) *Clinical Examination*

After completing the pre-clinical study such as pharmacology and toxicology of a new drug, an application for new drug should be submitted to the provincial pharmaceutical supervisory authority for preliminary review. With the endorsement of provincial authority, the application will be submitted to SDA for approval of clinical trial. Upon obtaining the approval on the clinical trial, a lead investigation will be jointly appointed by SDA and the Company, and a multi-center clinical trial will be carried out to study the efficiency and safety profile of the new drug. The time required for the clinical trial depends on the nature of the medicine, and the level of difficulty in observing and collecting data in respect of the new pharmaceutical product. A summary report of the clinical trial results will be prepared upon completion of such trials and submitted to SDA at the provincial level which, together with its opinion, will further be submitted to SDA at the national level for consideration and final approval. A 新藥證書 (Certificate of New Medicine) will be issued by SDA upon a satisfactory review by SDA on the clinical trial results.

(ii) *Commercial Production and Sales*

Pharmaceutical products manufactured in the PRC must have an approval number from the relevant regulatory authority before commencing commercial production. The approval number of a pharmaceutical product will bear the words of 國藥准字號 (Guoyaozhunzihao) (*Note*). Pharmaceutical manufacturing enterprises can only commence production upon receiving the 新藥證書 (Certificate of New Medicine) and the approval number granted by SDA after obtaining the 藥品生產企業許可證 (Pharmaceutical Manufacturing Enterprise Permit) and satisfying the GMP standards commencing from 1st January, 2001.

Based on the knowledge and experience of the Directors, the time required for developing a new drug and application for approval from SDA vary depending upon the category of the new drug and the Directors estimate that the whole process, from the initial drug development to the receipt of approval from SDA for commercial production, usually takes approximately two to six years.

*Note:* Before the medicare reform in the PRC on 19th August, 1998, all pharmaceutical products were administered by MOH and accordingly the pharmaceutical products approved by MOH bore the reference code “衛藥准字”. After SDA assumed the function of MOH, all pharmaceutical products approved by SDA bear “國藥准字”. Both “衛藥准字” and “國藥准字” are the approval numbers for pharmaceutical products.

### **Categorisation of new pharmaceutical products**

According to the “新藥審批辦法” (Measures on the Approval of New Medicines) and “新藥保護和技術轉讓的規定” (Rules on the Protection and Technology Transfer of New Medicines), new medicines are divided into chemical medicine, biopharmaceutical products and Chinese medicine, which are further subdivided into five categories.

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## INDUSTRY OVERVIEW

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

### Chemical medicine

### Protection periods

#### *Category 1*

1. Raw material medicines and their semi-finished components produced through synthesis or semi-synthesis; 12 years
2. Active single elements and their semi-finished components extracted directly from or extracted through fermentation of natural materials; and
3. Chemical mixtures with overseas medical research reports but yet to obtain commercialisation approval from any country's pharmaceutical regulatory authority.

#### *Category 2*

1. Medicines with commercialisation approvals from overseas pharmaceutical regulatory authority but yet to be admitted into medical formulary or imported into the PRC; 8 years
2. Optical matters and their semi-finished components of a known medicine first produced by partition or synthesis; and
3. Injection medicines converted from orally, externally or otherwise administrated medicines which are not commercialised overseas, or medicines altered from partial administration to overall administration (e.g. oral, inhalation preparations).

#### *Category 3*

1. Complex prescriptions made from new combinations of chemical medicines; 8 years
2. Complex prescriptions made from new combinations of chemical medicines and Chinese medicines with chemical medicines as the main applicator;
3. Few components raw material medicines and their semi-finished components derived from a commercialised multi-components medicine; and
4. New multi-components biochemical medicine extracted from animals or their tissues and organs.

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# INDUSTRY OVERVIEW

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## Chemical medicine

## Protection periods

### *Category 4*

1. Raw material medicines and their semi-finished components which had been admitted into overseas medical formulary; 6 years
2. Raw material medicines and/or their semi-finished components imported into the PRC (semi-finished components produced from imported raw material medicines, including raw material medicines and their semi-finished components researched and produced domestically in the PRC);
3. Optical matters and their semi-finished components of a known and commercialised overseas medicine produced by partition or synthesis;
4. Raw material medicines and their semi-finished components produced from changes in the acid or alkaline base (or metallic element) of a known salt-based medicine. Such alteration should not affect the pharmacology of such products and affect only its physical properties (such as solvency and stability etc.) for easy storage, semi-finished components production or clinical application needs;
5. Complex prescriptions and medicines with alteration form of intake which had been commercialised overseas;
6. Semi-finished components produced from imported raw material medicines;
7. Medicine with altered form of intake; and
8. Medicines with alterations in the form of administration (excludes new medicine under paragraph 3 of Category 2).

### *Category 5*

1. Commercialised medicines with new indication which need extended administration cycles and/or increased dosages; 6 years
2. Commercialised medicines with new indication without any alteration or reduction in administration cycles and/or reduced dosages; and
3. Commercialised medicines with new indication approved by overseas pharmaceutical regulatory authority.

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## INDUSTRY OVERVIEW

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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:

- Category 1: biopharmaceutical products which have not been previously approved for sale in the PRC and overseas
  
- Category 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
  
- Category 3: new prescription medicine with biopharmaceutical products as its main component  
  
biopharmaceutical products which the technical processes have been significantly transformed
  
- Category 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
  
- Category 5: biopharmaceutical products with added applications

### Protected products

In accordance with the “新藥保護和技術轉讓的規定” (Regulations on the Protection and Technology Transfer of New Medicines) promulgated on 22nd April, 1999 by SDA which became effective on 1st May, 1999, the State has a classified product protection system for new medicines and that any new medicines, after being granted a 新藥證書 (Certificate of New Medicine) by SDA, is entitled to a protection period ranging from six to twelve years depending on the product category of the pharmaceutical products as stated above. The protection period (including the period of trial production) is twelve years for Category 1 new medicines; eight years for Category 2 and Category 3 new medicines; and six years for Category 4 and Category 5 new medicines. During the protection period, no other pharmaceutical manufacturing enterprise can produce such products. Nevertheless, an enterprise which has been granted a 新藥證書 (Certificate of New Medicine) may transfer the production technology of a new medicine to another pharmaceutical manufacturing enterprise but the transferee is not permitted to further transfer such technology to other pharmaceutical manufacturers. In the event that the pharmaceutical manufacturing enterprise does not commence any production of the new pharmaceutical products or does not transfer the relevant technology to other pharmaceutical manufacturers within two years after obtaining the 新藥證書 (Certificate of New Medicine) without acceptable reasons, the protection of the new pharmaceutical product will be withdrawn by SDA.

### Imitation of medicines

“仿製藥品審批辦法” (the Regulations on the Examination and Approval of Imitated Medicines) (“Order No. 5”) of SDA, which became effective on 1st May, 1999, stipulated certain approval measures in respect of imitated medicines. Pursuant to Order No. 5, imitated medicines are imitations of those products which have obtained formal government approvals for production and listed on the state medicine standards. Imitation is not allowed in respect of medicines on trial standard and under state administrative protection. Any enterprise applying for imitation must be pharmaceutical manufacturing enterprises or workshops which have obtained the 藥品生產企業許可證 (Pharmaceutical Manufacturing Enterprise Permit) and the 藥品GMP證書 (Certification of GMP for Human Drugs). The quality standard of imitated medicines must not be inferior to the originals and the usage instruction must be consistent with the originals. The State encourages innovation and technological advances, controls the approvals of imitation of medicine and gives guidance through announcements. In respect of existing products which are observed to have met actual clinical demands, acceptance and approval of applications for such imitation will be temporarily suspended at the discretion of SDA. However, applications for imitation from enterprises, which have managed to reduce costs or enhance quality and quantity significantly, will be accepted after examination and assessment by SDA.

### GMP

The World Health Organisation has established detailed guidelines on good manufacturing practices for drug manufacturing and it encourages its member states to adopt the practices on their pharmaceutical manufacturing industries. The main objectives of the good manufacturing practices are to minimise production errors and drug contamination, to assure product quality and ultimately, to protect consumers’ interests. As such, the good manufacturing practices set out detailed compliance procedures on the pharmaceutical production process, including, inter alia,

- (i) the design of production facilities;
- (ii) the qualification of personnel involved in the manufacturing process;
- (iii) plant and machinery, raw materials and hygiene handling;
- (iv) production management;
- (v) quality control;
- (vi) packaging and labeling;
- (vii) documentation of production processes;
- (viii) sales records; and
- (ix) handling of comments and complaint records.



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## INDUSTRY OVERVIEW

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The concept of GMP was first introduced into the PRC in 1982. In 1985, the first guidelines for implementing the GMP standards at the pharmaceutical manufacturing enterprises were published and were subsequently revised in 1992. Any pharmaceutical manufacturing enterprises or workshops, which satisfy the relevant conditions, may apply for a GMP certification in accordance with the relevant regulations. Pursuant to the “關於實施藥品生產質量管理規範有關規定的通知” (Notice Regarding Relevant Stipulations on Implementing GMP) issued by SDA in August 1999, manufacturers of certain kinds of pharmaceutical products are required to comply with the GMP standards by a certain time frame. If those manufacturers are not able to obtain the GMP certification within the stipulated time limit, their 藥品生產企業許可證 (Pharmaceutical Manufacturing Enterprise Permit) will not be renewed. Pursuant to the above-mentioned notice, powder injection (including frozen and dry), large volume injection and genetic engineering products should comply with the GMP standards and obtain the GMP certification by the end of 2000. Small volume injection products should comply with the GMP standards and obtain the GMP certification by the end of 2002.

On 18th March, 1999, SDA issued the “藥品生產質量管理規範(1998修訂版)” (Pharmaceutical Products — GMP on Production Quality Control Standards (1998 revised edition)) which became effective on 1st August, 1999. The revised GMP standards set out, inter alia, the relevant production standards in respect of production facilities, equipment, raw materials, production management and quality control, etc. that every pharmaceutical manufacturing enterprise needs to attain prior to the award of a GMP certification.

As at 26th July, 2001, 867 pharmaceutical manufacturing enterprises/workshops in the PRC had met the requirements set in the GMP and obtained the GMP certification and that 547 pharmaceutical manufacturing enterprises/workshops which had been accredited with GMP certifications are for the production of bulk pharmaceutical for injection and/or lyophilized powder for injection.

### **Trademark of pharmaceutical products**

All pharmaceutical products for sales in the PRC must bear a trademark registered with the appropriate trademark authorities in the PRC.

### **Price control**

The price of pharmaceutical products in the PRC is subject to the control of the price administrative bureau at the State and provincial levels. Prices of pharmaceutical products which are included in the price control lists may be adjusted by the relevant authorities at its discretion. The relevant authorities will review and adjust the prices in accordance with market conditions based on the information submitted by the domestic pharmaceutical manufacturers on a regular basis.

### **Import and export**

SDA is responsible for the registrations of imported medicines in the PRC. Overseas pharmaceutical manufacturers or distributors shall apply to SDA for the grant of a “進口藥品註冊證” (Certificate of Registration of Imported Medicine) before they import pharmaceutical products into the PRC for sale. With respect to the export of pharmaceutical products manufactured in the PRC, there is no restriction imposed by the State.

### **Environmental Protection**

Pharmaceutical manufacturers shall comply with the environmental laws and regulations, such as the Environmental Laws, stipulated by the State and the local environmental protection bureau. The laws and regulations comprises of provisions in respect of the prevention and treatment of sewage and exhaust fumes, and the prevention of industrial pollution. Fines will be imposed by local authorities on any persons and enterprises for violation of the relevant provisions.

### **National Out-patient Medicines Catalogue**

As part of the medicare insurance reform, “處方藥與非處方藥分類管理暫行辦法” (Provisional Measures Regarding the Separation of the Administration on Out-Patient Medicines and Prescription Drugs) became effective on 1st January, 2000 and the National Out-Patient Medicines Catalogue was issued. Pharmaceutical products included in the National Out-Patient Medicines Catalogue can be purchased in drug stores and supermarkets readily without a doctor’s prescription and they can be safely consumed by users in accordance with the product’s label and instructions. The opening of the out-patient medicine market allows patients to purchase medicine for less serious diseases without any need to make consultation at hospitals thereby reducing government expenditures on medicare. Out-Patient medicines can be promoted through mass communication media while prescription drugs can only be promoted through professional and academic medical journals.

### **Medicare insurance system**

According to “國務院關於建立城鎮職工基本醫療保險制度的決定” in 1998, 勞動和社會保障部 (Labour and Social Security Department) has assumed the role for the social medicare system reform and issued the “國家基本醫療保險藥品目錄” (State Basic Medical Insurance Medicine Catalogue) in 2000. Medicine expenses paid out of the social medicare fund are limited on the purchases of medicines that are listed in the “國家基本醫療保險藥品目錄” (State Basic Medical Insurance Medicine Catalogue). The Group’s principal products, such as Defibrase and Livaracine are on the catalogue list. The Group’s product, Yallaferon is currently not on the catalogue list since it is a newly developed product. Given that Yallaferon in topical gel form is the first of its kind in the PRC specifically targeting for patients with venereal infection, the Directors believe that the current exclusion from the State Basic Medical Insurance Catalogue should not materially affect its sales.

### **Cardiovascular diseases in the PRC**

According to the “1998 World Health Statistics Annual”, the death rate arising from cardiovascular disease in the PRC was approximately 802 per 100,000 men of ages ranging from 35 to 74 and 571 per 100,000 women under the same age group respectively.

According to China Statistical Yearbook 2000, cardiovascular diseases were amongst one of the top ten causes for disease-related death cases in 1999 which accounted for about 17 per cent. of the total number of deaths in cities in the PRC. As the living standard in the PRC continues to improve, Chinese now tend to consume more and more western food which are of high fat and high calorie content, precipitating the occurrence of cardiovascular diseases such as coronary heart diseases and stroke. In addition, improved medical care has extended the life expectancy of the people and aging of the population will further increase the

## INDUSTRY OVERVIEW

prevalence of cardiovascular diseases. According to China Statistical Yearbook 2000, approximately 7.0 per cent. of the population in the PRC is over 65. As the PRC continues its path of modernisation, it is expected to see a significant increase of coronary heart disease patients in the PRC in the next few years.

### **Sexually transmitted diseases in the PRC**

According to an article from 中國流行病學雜誌 (China Journal of Epidemiology), rapid economic development and urbanisation in the PRC has accelerated the migration of population between provinces and cities. The densely populated area and the numerous mobile populations have created opportunities for venereal diseases transmission. There is a mobile population of approximately 0.08 to 0.12 billion, most of them at sexually active age, migrating to heavily populated areas in the PRC each year. In terms of distribution, the incidence of venereal disease is higher and the rate of increase is faster along regions of southeast coast and major metropolises of the PRC.

Venereal disease has recently become a serious social problem in the PRC, with a growing number of infected patients within an ever-expanding area.

In the PRC, 632,307 cases of venereal disease were reported in 1998 in the Nationwide Venereal Disease Report while the number of cases reported in 1997 was only 461,183. The affected cases have increased at an annual rate of 37.11 per cent.

According to 中國流行病學雜誌 (China Journal of Epidemiology), April edition of 1998, on average, 93.1 per cent. of venereal disease patients are within the age range of 20 to 49 years old.

In 1998, it is reported in the PRC that male patients accounted for approximately 60 per cent. of all venereal disease cases and that male population has a higher incidence rate than females. However, the trend of a higher female incidence rate in the PRC has been revealed.

### **1998 Nationwide Venereal Disease Report analysis for the PRC**

Type of disease	Ranking	No. of cases in		No. of cases in		Annual growth rate
		1998	Percentage	1997	Percentage	
			%		%	%
Gonorrhoea	1	299,130	47.31	224,331	48.64	33.34
Venereal warts	2	141,510	22.38	104,729	22.71	35.12
Nongonococcal urethritis	3	121,564	19.22	85,904	18.62	41.51
Syphilis	4	53,768	8.50	33,668	7.30	59.70
Genital herpes	5	15,212	2.41	11,577	2.51	31.40
Lymphogranuloma venereum	6	826	0.13	719	0.16	14.88
Chancroid	7	297	0.05	255	0.06	16.47
<b>Total</b>		<b>632,307</b>	<b>100.00</b>	<b>461,183</b>	<b>100.00</b>	<b>37.11</b>

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## INDUSTRY OVERVIEW

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According to the Nationwide Venereal Disease Report, venereal warts ranked second out of the seven types of venereal disease in the PRC growing at an annual rate of 35.12 per cent..

According to the statistics of the 1998 Nationwide Venereal Disease Report, genital herpes ranked fifth with an annual growth rate of 31.40 per cent.. The World Health Organisation estimates that, due to common avoidance of seeking face to face medical consultations by Chinese patients who contract venereal diseases, coupled with common omissions from reporting thereby owing to personal embarrassment, the official reported cases of venereal disease may only represent about 20 to about 25 per cent. of the actual total number of cases.

In treating venereal warts, most doctors employ physical therapy and cell toxin methods mainly because of their high success rate in treatment. However the high recurrence rate was a common drawback issue and the country was lacking highly effective supplementary treatment to clamp down on the recurrence rate.

**INTRODUCTION**

The Company was incorporated on 17th December, 2001 as an investment holding company pursuant to the Reorganisation. The business activities of the Group are primarily carried out through Zhaoke, a sino-foreign equity joint venture established in the PRC and which is owned as to 70 per cent. by the Group and as to 30 per cent. by USTC Biotech. Located in Hefei, Anhui Province, the PRC, Zhaoke is an integrated research-driven and market-oriented pharmaceutical company engaged in the development, manufacture and sales of quality biopharmaceutical products that focus on combating cardiovascular diseases and viral sexually transmitted diseases. Since its establishment in 1994, Zhaoke has developed three technology platforms, namely, (i) the snake venom technology, (ii) the low molecular weight heparin technology, and (iii) the water-based gel delivery system. As at the Latest Practicable Date, the Group manufactures and sells three self-developed biopharmaceutical products for the medical treatment of stroke, cardiovascular diseases and viral sexually transmitted diseases such as genital warts, respectively, details of which are set out in the paragraph headed “Products” in this section. In addition, the Group has (i) three other products, the application for clinical trials of which have been submitted and the relevant clinical trials are anticipated to be commenced in 2002 and 2003, and (ii) five products identified for research and development with a view to commercialisation. The Group carries out its sales and distribution activities through Zhaoke’s sales offices located in Guangzhou and Hefei, the PRC and through appointing independent distributors in the PRC. The sales offices of Zhaoke, together with its branch offices in Beijing and Shanghai, are responsible for marketing and after-sales services in a designated region arranged in advance by the chief marketing officer of the Group. The Group’s products are all sold in the PRC under the brandname of “ZHAOKE”.

Zhaoke has two fully operational and GMP — compliant workshops for the production of (i) bulk pharmaceutical for injection and lyophilized powder for injection, and (ii) gel. Since its establishment in 1994, Zhaoke has received various awards in the PRC for its achievements in research and development works in the pharmaceutical industry, details of which are set out in the paragraph headed “Awards” in this section.

With the support of an experienced, dynamic and professional management team, the Group is able to respond quickly to customers’ needs and to meet the challenges of the biopharmaceutical industry both in the PRC and overseas. Moreover, the Group has a scientific advisory board, which comprises mainly leading researchers from universities and research institutes in Hong Kong and the PRC, thus enabling the Group to have better access to the latest technological development in the biopharmaceutical field. Furthermore, the Group’s research and development team has close working relationship with universities and research institutions in the PRC and Hong Kong (such as 中國藥科大學 (China Pharmaceutical University), 中國藥品生物製品檢定所 (China Drug Evaluation Institute) and the Biological Research Institute of the Hong Kong University of Science and Technology) which provides a strong foundation for future development of the Group’s new products. The Group will also work to expand its research and development base by establishing partnership with Zengen, a biotechnology company based in the United States. The Group will continue to focus its efforts on drug researches and innovation, based on its three in-house developed technology platforms, to further develop its new products in the pipeline.

The Directors believe that with a strong research and development team, two modernised GMP-compliant biopharmaceutical workshops, three in-house developed technology platforms, a pipeline of new products and an effective and efficient management team, the Group is in a position to capitalise and leverage on the high standard of medical and scientific research and development that blend advanced technology with practical applications of the Group. The Group will focus its efforts on the patients' needs and deliver innovative and quality pharmaceutical products of value that combat diseases and improve health.

### HISTORY AND DEVELOPMENT

Zhaoke was established on 7th February, 1994 as a sino-foreign equity joint venture and is owned as to 70 per cent. by Lee's Pharmaceutical and 30 per cent. by USTC Biotech for a period of twenty years expiring on 6th February, 2014. Both the total amount of investment and the registered capital of Zhaoke are US\$2 million (equivalent to approximately HK\$15.6 million). The respective share of the registered capital of Zhaoke had been paid up by Lee's Pharmaceutical as to US\$1,400,000 (equivalent to approximately HK\$10,920,000) in the form of cash and by USTC Biotech as to US\$600,000 (equivalent to approximately HK\$4,680,000) in the form of technology of protein extraction and purification from snake venom with enzymatic activities.

Lee's Pharmaceutical is the foreign party to Zhaoke and was established on 28th December, 1993. After Dr. Li Xiao Yi had completed his postdoctoral fellowship with Warner-Lambert (being a major pharmaceutical company in the United States), he decided to team up with his family member (namely, Mr. Lee Siu Fung, Siegfried) and his colleague (namely, Mr. Lee Sheung Yam) to tap in the pharmaceutical industry via Lee's Pharmaceutical as the common vehicle. Lee's Pharmaceutical was then owned as to (i) 50 per cent. by Mr. Lee Siu Fung, Siegfried; (ii) 25 per cent. by Dr. Li Xiao Yi; and (iii) 25 per cent. by Mr. Lee Sheung Yam. In 1996, Mr. Lee Sheung Yam transferred his then entire shareholding interest in Lee's Pharmaceutical to Mr. Lee Siu Fung, Siegfried.

Since its establishment, Zhaoke had been focusing mainly on the research and development of pharmaceutical products in the PRC. In May 1997, with an aim to capture the business opportunity from commercialisation of the products developed by Zhaoke, Ms. Lee and Ms. Leelalertsuphakun injected new funding into Lee's Pharmaceutical and became the new controlling shareholders of Lee's Pharmaceutical in lieu of Mr. Lee Siu Fung, Siegfried. Since then, Ms. Lee has been in charge of the financial matters of the Group and Ms. Leelalertsuphakun has been in charge of the operation and marketing affairs of the Group. In October 1997, the Group managed to launch its first product (namely, Defibrase) as approved by MOH (as a category 4 biopharmaceutical product) and take a big step forward by transforming itself from a pharmaceutical research company into an established pharmaceutical manufacturer.

In December 1997 and March 1998, Mr. Lee Siu Fung, Siegfried disposed of his then entire shareholding interest in Lee's Pharmaceutical to (i) Dr. Li Xiao Yi (representing 12.5 per cent. of the then total share capital of Lee's Pharmaceutical) and (ii) Triumph Leader (which is a company wholly owned by the spouse of Mr. Lee Siu Fung, Siegfried) (representing 25 per cent. of the then total share capital of Lee's Pharmaceutical). In March 1998, High Knowledge (which is a company wholly owned by Ms. Lue engaging in investments of pharmaceutical technologies) acquired from her spouse, Dr. Li Xiao Yi, the then entire shareholding interest

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in Lee's Pharmaceutical (representing 25 per cent. of the then total share capital of Lee's Pharmaceutical). In June 2000, in view of the proven products launch and market development of the Group, Ms. Lee and Ms. Leelalertsuphakun further strengthen their controlling shareholding position in Lee's Pharmaceutical by acquiring from Triumph Leader for further equity interests in Lee's Pharmaceutical and increased their shareholding in Lee's Pharmaceutical from 50 per cent. to 75 per cent.

The key shareholding change of Lee's Pharmaceutical is summarised in the following table:

	1994 <i>(Notes A, B and C)</i>	1996 <i>(Note D)</i>	1997 <i>(Note E)</i>	1997-1998 <i>(Notes F and G)</i>	1998 <i>(Note H)</i>	2000 <i>(Note I)</i>
1. Mr. Lee Siu Fung, Siegfried	50.0%	75.0%	37.5%	0.0%	0.0%	0.0%
2. Dr. Li Xiao Yi	25.0%	25.0%	12.5%	25.0%	0.0%	0.0%
3. Mr. Lee Sheung Yam	25.0%	0.0%	0.0%	0.0%	0.0%	0.0%
4. Ms. Lee and Ms. Leelalertsuphakun (or their common vehicle)	0.0%	0.0%	50.0%	50.0%	50.0%	75.0%
5. Triumph Leader	0.0%	0.0%	0.0%	25.0%	25.0%	0.0%
6. High Knowledge	0.0%	0.0%	0.0%	0.0%	25.0%	25.0%

\*Notes: Please refer to the transactions with the same numbering in the next table

In February 2002, with a view to enhancing its research and development potential and corporate profile, the Group brought in Zengen, a biotechnology company based in the United States, as a strategic investor who has contributed and transferred to the Group its peptide technology for the treatment of vaginitis for the benefit of the Company.

Whilst Zhaoke serves as the manufacturing arm of the Group, Lee's Pharmaceutical acts as the management arm of the Group and for collaborating with other institutes for research to license technology and products. Lee's China, owned as to 100 per cent. by Lee's Pharmaceutical, was incorporated on 20th October, 2000 with a view to provide marketing service to the Group's operation in the PRC. As at the Latest Practicable Date, Lee's China has not provided any marketing service to Zhaoke.

In preparation for the listing of the Shares on GEM, the Group underwent the Reorganisation whereby the Company became the ultimate holding company of the Group, particulars of which are set out under the paragraph headed "Corporate reorganisation" in Appendix IV to this prospectus. The following tables summarise the transfer and/or subscription of the equity interests of Lee's Pharmaceutical and capital contribution to Zhaoke (both being the key subsidiaries of the Company) since their respective incorporation dates.

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### Lee's Pharmaceutical (incorporated on 28th December, 1993)

Serial	Date of registration as shareholder	Name of shareholder	Name of vendor (if applicable)	Consideration	Number of shares	Percentage of equity interest (before the Placing)
	28/12/1993	the late Leelalertsupgul Preecha <i>(note 1)</i>	N/A	HK\$1	1	N/A
	28/12/1993	Lelalertsuphakun Dusanee <i>(note 2)</i>	N/A	HK\$1	1	N/A
	30/6/1994	Lee Siu Fung, Siegfried <i>(note 3)</i>	the late Leelalertsupgul Preecha	HK\$1	1	N/A
	30/6/1994	Lee Siu Fung, Siegfried	Lelalertsuphakun Dusanee	HK\$1	1	N/A
A	30/6/1994	Lee Siu Fung, Siegfried	N/A	HK\$1,599,998	1,599,998	N/A
B	30/6/1994	Lee Sheung Yam <i>(note 4)</i>	N/A	HK\$800,000	800,000	N/A
C	30/6/1994	Li Xiao Yi <i>(note 5)</i>	N/A	HK\$800,000	800,000	N/A
D	13/2/1996	Lee Siu Fung, Siegfried	Lee Sheung Yam	HK\$800,000	800,000	N/A
	13/2/1996	Philip Erdoes <i>(note 6)</i>	Li Xiao Yi	Gift (the instrument of transfer was stamped at HK\$807)	384,000	N/A
E	1/5/1997	Lee's Machinery <i>(note 7)</i>	N/A	HK\$3,200,000 (funded by internal resources of Lee's Machinery and not funded by Mr. Lee Siu Fung, Siegfried)	3,200,000	N/A
F	9/1/1998	Li Xiao Yi	Lee Siu Fung, Siegfried	HK\$1 (the bought and sold notes was stamped at HK\$939)	800,000	N/A
	9/1/1998	Li Xiao Yi	Philip Erdoes	Gift (the instrument of transfer was stamped at HK\$903)	384,000	N/A
G	6/3/1998	Triumph Leader	Lee Siu Fung, Siegfried	HK\$1 (the bought and sold notes was stamped at HK\$1,876)	1,600,000	N/A
H	6/3/1998	High Knowledge <i>(note 8)</i>	Li Xiao Yi	HK\$1 (the bought and sold notes was stamped at HK\$1,876)	1,600,000	N/A
	5/4/2000	Huby Technology <i>(note 9)</i>	Lee's Machinery	HK\$627,050	3,200,000	N/A



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Serial	Date of registration as shareholder	Name of shareholder	Name of vendor (if applicable)	Consideration	Number of shares	Percentage of equity interest (before the Placing)
1	5/7/2000	Dynamic Achieve <i>(note 10)</i>	Triumph Leader	HK\$313,525	1,600,000	N/A
	27/12/2001	Techfarm <i>(note 11)</i>	Dynamic Achieve	HK\$800,000	800,000	N/A
	31/12/2001	Huby Technology	N/A	HK\$12,000,000	12,000,000	N/A
	4/2/2002	Lee's International	Dynamic Achieve	HK\$400,000 worth of shareholding interest in Lee's Pharmaceutical as a result of the share swap	800,000	4.35%
			High Knowledge	HK\$800,000 worth of shareholding interest in Lee's Pharmaceutical as a result of the share swap	1,600,000	8.70%
			Huby Technology	HK\$7,600,000 worth of shareholding interest in Lee's Pharmaceutical as a result of the share swap	15,200,000	82.60%
			Techfarm	HK\$400,000 worth of shareholding interest in Lee's Pharmaceutical as a result of the share swap	800,000	4.35%
				Total	18,400,000	100.0%

**Notes:**

1. The late Mr. Leelalertsugul Preecha is the father of Ms. Lee and Ms. Leelalertsuphakun. He was a director of Lee's Pharmaceutical during 9th February, 1994 to 15th April, 1994.
2. Triumph Leader is a limited liability company incorporated in Hong Kong whose entire issued share capital at the time of transfer was beneficially owned by Ms. Leelalertsuphakun Dusanee who is the spouse of Mr. Lee Siu Fung, Siegfried and the sister-in-law of each of Ms. Lee and Ms. Leelalertsuphakun. Ms. Leelalertsuphakun Dusanee was never a director of Lee's Pharmaceutical.
3. Mr. Lee Siu Fung, Siegfried is the brother of each of Ms. Lee and Ms. Leelalertsuphakun. Further Information on Mr. Lee Siu Fung, Siegfried is set out on the section headed "Relationship with past shareholders and directors of the Group".
4. Mr. Lee Sheung Yam is an independent third party not connected with any of the chief executive, directors, management shareholders, substantial shareholders or any of their respective associates. He was a director of Siu-Fung Ceramics Holdings Limited, a company listed on the Main Board and delisted in December 2001. He was a director of Lee's Pharmaceutical during period 15th April, 1994 to 23rd January, 1996.
5. Dr. Li Xiao Yi is the brother of each of Ms. Lee and Ms. Leelalertsuphakun. He was once a director of Siu-Fung Ceramics Holdings Limited, a company listed on the Main Board and delisted in December 2001. He was also a director of Lee's Pharmaceutical during 9th February, 1994 to 16th January, 2002.

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6. Mr. Philip Erdoes is an independent third party not connected with any of the chief executive, directors, management shareholders, substantial shareholders or any of their respective associates. He was a director of Siu-Fung Ceramics Holdings Limited, a company listed on the Main Board and delisted in December 2001. He was never a director of Lee's Pharmaceutical.
7. Lee's Machinery is a limited liability company incorporated in Hong Kong which is owned as to 50 per cent. by Ms. Lee and 50 per cent. by Ms. Leelalertsuphakun.
8. High Knowledge is a company incorporated in BVI with limited liability, whose entire issued share capital is beneficially owned by Ms. Lue who is the sister-in-law of each of Ms. Lee and Ms. Leelalertsuphakun.
9. Huby Technology is a company incorporated in BVI with limited liability, whose entire issued share capital is owned as to 50 per cent. by Ms. Lee and 50 per cent. by Ms. Leelalertsuphakun.
10. Dynamic Achieve is a company incorporated in BVI with limited liability, whose entire issued share capital is owned as to 50 per cent. by Ms. Lee and 50 per cent. by Ms. Leelalertsuphakun.
11. Techfarm is a company incorporated in BVI with limited liability, whose entire share capital is beneficially owned by Ms. Yu Wa, an independent third party not connected with any of the chief executives, directors, management shareholders, substantial shareholders of the Company or their respective associates. Ms. Yu Wa is not a director of Lee's Pharmaceutical.

### Zhaoke (established on 7th February, 1994)

Date of making full capital contribution	Name of party	Name of vendor (if applicable)	Consideration	Percentage of equity interest
2/9/1997	Lee's Pharmaceutical <i>(note 12)</i>	N/A	US\$1,400,000	70.0%
29/11/1995	USTC Biotech	N/A	US\$600,000 worth of intangible asset in form of a snake venom technology	30.0%
Total				<u>100.0%</u>

*Note:*

12. Pursuant to a supplemental joint venture agreement dated 17th May, 1994, Lee's Pharmaceutical substituted Siu-Fung Ceramics Holdings Limited to become the foreign party to Zhaoke for no consideration.

**RELATIONSHIP WITH PAST SHAREHOLDERS AND DIRECTORS OF THE GROUP****Relationship with Mr. Lee Siu Fung, Siegfried and his spouse**

In (i) December 1997 and (ii) March 1998, Mr. Lee Siu Fung, Siegfried, being brother of Ms. Lee, Ms. Leelalertsuphakun and Dr. Li Xiao Yi, disposed of his (i) 12.5 per cent. and (ii) 25 per cent. of the then total share capital of shareholding interest in Lee's Pharmaceutical to (i) Dr. Li Xiao Yi and (ii) Triumph Leader (which was wholly owned by Ms. Lealalertsuphakun Dusanee) respectively and has since then ceased to be a shareholder in any member of the Group. On the other hand, Ms. Lealalertsuphakun Dusanee (being the spouse of Mr. Lee Siu Fung, Siegfried) and Triumph Leader were shareholders of Lee's Pharmaceutical during the period from 28th December, 1993 to 30th June, 1994 and during the period from 5th March, 1998 to 30th June, 2000 respectively. Mr. Lee Siu Fung, Siegfried was a director of Lee's Pharmaceutical during the period from 15th April, 1994 to 4th January, 2000. Mr. Lee Siu Fung, Siegfried has never been the director of Zhaoke and Ms. Lealalertsuphakun Dusanee has never been a director of any member of the Group.

Mr. Lee Siu Fung, Siegfried had been involved in statutory-related matters such as share allotment and change of name during the period when Mr. Lee Siu Fung, Siegfried was a director and shareholder of Lee's Pharmaceutical. Further, Mr. Lee Siu Fung, Siegfried had made a personal guarantee in favour of Lee's Pharmaceutical's bank borrowings, which had been fully repaid subsequent to the investment of Lee's Machinery in Lee's Pharmaceutical in May 1997. The bank signatories of the Group have not included Mr. Lee Siu Fung, Siegfried since 30th December, 1998. Ms. Lee and Ms. Lealalertsuphakun have full power to operate all bank accounts since November 1997. Ms. Lealalertsuphakun Dusanee has never had any cheque signing authority for the Group. During the Track Record Period, Ms. Lee and Ms. Lealalertsuphakun had been actively managing the business and daily operations of the Group and had spent a majority of time during the calendar years 2000 and 2001 to station in the Group's pharmaceutical plant in Hefei, the PRC.

As evidenced by the fact that the daily operation and the overall management of the Group have been totally and directly supervised by Ms. Lee and Ms. Lealalertsuphakun, Mr. Lee Siu Fung, Siegfried and Ms. Lealalertsuphakun Dusanee have not taken any role in the management of the Group since 4th January, 2000. The Directors confirmed that neither Mr. Lee Siu Fung, Siegfried nor Ms. Lealalertsuphakun Dusanee will have any future involvement in the management of the business and operation of the Group. Both Ms. Lee and Ms. Lealalertsuphakun have confirmed that they will continue to manage the Group after the listing of Shares on GEM with the same primary responsibility, and will not relinquish their active management role in the Group.

In May 2001, a bankruptcy order was made against Mr. Lee Siu Fung, Siegfried. In this regard, the Directors had sought for an independent counsel opinion as to the impact of the bankruptcy of Mr. Lee Siu Fung, Siegfried on the two aforesaid transactions. According to the counsel opinion, there is a fairly strong case to contend that the two aforesaid transactions are not subject to the anti-avoidance provisions introduced by the Bankruptcy (Amendments) Ordinance 1996 (which came into force since 1st April, 1998) but are subject to the old "fraudulent preference" provision of the Bankruptcy Ordinance (Chapter 6 of the Laws of Hong Kong) (which was effective prior to 1st April, 1998). In that case, the counsel is of the opinion

that since both transactions were entered into more than 6 months before the presentation of the bankruptcy petition against Mr. Lee Siu Fung, Siegfried in 2001, they are therefore not challengeable under the “fraudulence preference” provisions of the Bankruptcy Ordinance.

Mr. Lee Siu Fung, Siegfried and Dr. Li Xiao Yi were directors of Siu-Fung Ceramics Holdings Limited. Mr. Lee Siu Fung, Siegfried and Dr. Li Xiao Yi were publicly criticised by the Stock Exchange on 5th December, 2000 in respect of the failure to publish financial results of Siu-Fung Ceramics Holdings Limited within the required time frame. In addition, Mr. Lee Siu Fung, Siegfried and Ms. Lelalertsuphakun Dusanee had been under investigation and/or subject to hearings by the Insider Dealing Tribunal since February 2001.

### **Relationship with Siu-Fung Ceramics Holdings Limited**

Pursuant to the Joint Venture Agreement, Siu-Fung Ceramics Holdings Limited was the foreign party to Zhaoke. The approval letter for the establishment of Zhaoke as a sino-foreign equity joint venture was issued by Hefei City Commission for Foreign Trade and Economic Cooperation on 5th February, 1994 with the foreign party being Siu-Fung Ceramics Holdings Limited. Pursuant to a supplemental joint venture agreement dated 17th May, 1994, Siu-Fung Ceramics Holdings Limited was substituted by Lee’s Pharmaceutical as the foreign party to Zhaoke. Although no approval letter for the change to Lee’s Pharmaceutical as the new foreign party to Zhaoke has ever been obtained from Hefei City Commission for Foreign Trade and Economic Cooperation, the PRC legal adviser to the Company is of the opinion that the aforesaid change of foreign party to Zhaoke was legal and proper under the PRC law on the basis that (i) a formal supplemental agreement was entered into between the parties in respect of such change; (ii) the board of directors of Zhaoke had duly approved the change; and (iii) the Certificate of Approval for the establishment of Zhaoke with Lee’s Pharmaceutical being the new foreign party to Zhaoke was duly issued by the Anhui Provincial Government on 1st June, 1994. In addition, an explanatory note and an opinion were issued by Hefei City Commission for Foreign Trade and Economic Cooperation on 26th December, 2001 and 24th May, 2002, respectively and the explanatory note and the opinion clearly recognise that the change of foreign party to Zhaoke from Siu-Fung Ceramics Holdings Limited to Lee’s Pharmaceutical took place on 1st June, 1994, the date when the Certificate of Approval referred to in (iii) above was issued.

Siu-Fung Ceramics Holdings Limited was a company once listed on the Main Board but which was subsequently liquidated in May 2000 and delisted in December 2001. As set out in the section headed “Risk factors” in this prospectus, the liquidator of Siu-Fung Ceramics Holdings Limited may seek to void or challenge the change of foreign party to Zhaoke from Siu-Fung Ceramics Holdings Limited to Lee’s Pharmaceutical. The Hong Kong legal adviser to the Company was of the view that, based on the fact that (i) Zhaoke is a validly and legally established enterprise; (ii) Siu-Fung Ceramics Holdings Limited had never made any capital contribution to Zhaoke; and (iii) the change took place approximately eight years ago and the change did not result in Siu-Fung Ceramics Holdings Limited becoming insolvent, there does not exist any solid basis for the liquidator of Siu-Fung Ceramics Holdings Limited to make any claim against the Group.

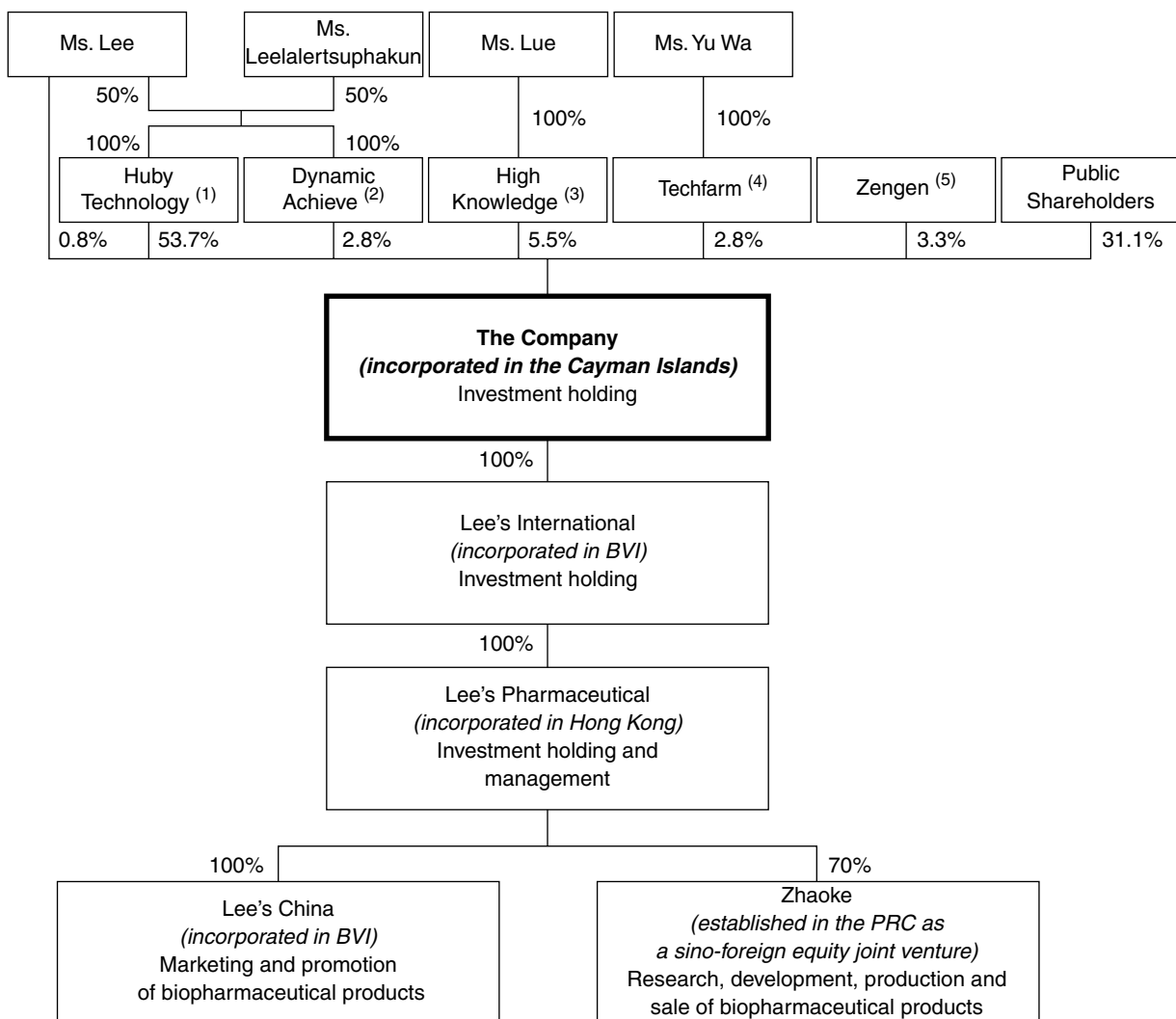
As set out in the section headed “History and development” in this prospectus, each of Mr. Lee Sheung Yam, Dr. Li Xiao Yi and Mr. Philip Erdoes was once a director of Siu-Fung Ceramics Holdings Limited. As elaborated in the same section in this prospectus, (i) Mr. Lee

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Sheung Yam was (a) a shareholder and (b) a director of Lee's Pharmaceutical during the respective periods (a) from 30th June, 1994 to 13th February, 1996 and (b) from 15th April, 1994 to 23rd January, 1996; (ii) Dr. Li Xiao Yi was (a) a shareholder and (b) a director of Lee's Pharmaceutical during the respective periods (a) from 30th June, 1994 to 6th March, 1998 and (b) from 9th February, 1994 to 16th January, 2002; and (iii) Mr. Philip Erdoes was a shareholder of Lee's Pharmaceutical during the period from 13th February, 1996 to 9th January, 1998. In addition, the late Mr. To-Aramrut Chiewchan, being an elder brother of each of Mr. Lee Siu Fung, Siegfried, Ms. Leelalertsuphakun, Ms. Lee and Dr. Li Xiao Yi, was once a director of Siu-Fung Ceramics Holdings Limited. The late Mr. To-Aramrut Chiewchan was a director of Zhaoke during the period from 27th December, 1993 to 26th April, 1997.

## CORPORATE STRUCTURE

The following chart showed the corporate structure of the Company, its Shareholders and its subsidiaries immediately after completion of the Placing (assuming the Over-allotment Option is not exercised):



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# BUSINESS

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## Notes:

1. Huby Technology is a company incorporated in BVI with limited liability, which is owned as to 50 per cent. by Ms. Lee and 50 per cent. by Ms. Leelalertsuphakun. Ms. Lee and Ms. Leelalertsuphakun are sisters.
2. Dynamic Achieve is a company incorporated in BVI with limited liability, which is owned as to 50 per cent. by Ms. Lee and 50 per cent. by Ms. Leelalertsuphakun. Ms. Lee and Ms. Leelalertsuphakun are sisters.
3. High Knowledge is a company incorporated in BVI with limited liability, whose entire share capital is beneficially owned by Ms. Lue, who is the sister-in-law of each of Ms. Lee and Ms. Leelalertsuphakun.
4. Techfarm is a company incorporated in BVI with limited liability, whose entire share capital is beneficially owned by Ms. Yu Wa, an independent third party not connected with any of the chief executives, directors, management shareholders, substantial shareholders of the Company or their respective associates.
5. Zengen is a company incorporated in the United States, whose entire share capital is owned by independent third parties not connected with any of the chief executives, directors, management shareholders, substantial shareholders of the Company or their respective associates.

## MISSION

The aim of the Group is to become a successful biopharmaceutical group in the PRC providing innovative and high quality pharmaceutical products of value that combat diseases, in particular, for the treatment of cardiovascular diseases, stroke, viral-infected sexual diseases, cancer and vaginitis, and improve health. The Directors believe that the Group can accomplish its mission by:—

- focusing on patients' needs by caring for the genuine interest and welfare of the customers;
- making use of its medical and scientific research results for practical applications;
- having the support of its knowledgeable, experienced and professional management team with innovative spirit and strong research and development capabilities; and
- increasing the market share of its products through its existing marketing and distribution network in the PRC.

## COMPETITIVE STRENGTHS

The Directors believe that the Group has the following strengths over most of its competitors in the pharmaceutical industry in the PRC in particular:

- the Group's possession of three in-house developed technologies, namely (i) the snake venom technology, (ii) the low molecular weight heparin technology, and (iii) the water-based gel delivery system provides a technology platform for the future business development of the Group, based on which the Group's pipeline of new products are gauged;
- the Group's successful launch of three self-developed biopharmaceutical products for the treatment of stroke, cardiovascular diseases and viral-infected sexual diseases in the PRC has enabled the Group to position itself to take up a share in the biopharmaceutical markets in the PRC for such diseases and has enhanced customers' awareness of the Group's products;
- the Group's proprietary intellectual property in respect of its self-developed snake venom technology and topical interferon in water-based gel delivery form for viral-infected sexual disease have enhanced the Group's competitiveness in the biopharmaceutical industry in the PRC;
- the Group's two GMP-compliant pharmaceutical manufacturing workshops providing a quality assurance of the Group's products and an entry barrier for competitors in the PRC without GMP certification. As of 26th July, 2001, only 321 out of a total of 450 workshops for the production of lyophilized powder for injection and a total of less than five workshops for the production of gel nationwide in the PRC have been GMP certified;
- the Group's experienced dynamic and professional management team enables the Group to meet and respond quickly to the customers' needs and the challenges of the biopharmaceutical industry both in the PRC and overseas;
- the Group's scientific advisory board comprises 5 members who are mainly leading researchers from universities and research institutes in Hong Kong and the PRC has enabled the Group to have better access to the latest technological development in the biopharmaceutical field and, thus, to be better positioned to incorporate such development and technology in practical applications to meet the customers' needs and expectations. The board serves (i) to assist the Group in its overall research and development activities; (ii) to guide and evaluate the progress made by the Group on development projects; and (iii) as well as to provide strategic direction to the Group's research projects;
- the Group's research and development team which has been working closely with the universities and research institutions in the PRC and Hong Kong (namely 中國藥科大學 (China Pharmaceutical University), 中國藥品生物製品檢定所 (China Drug Evaluation Institute) and the Biological Research Institute of Hong Kong University of Science and Technology) to leverage on their strengths in carrying out pre-clinical studies of new products of the Group;

- the Group's strategic partnership with Zengen, a biotechnological company based in the United States enables the Group to have access to the latest information and development on biotechnology and biopharmaceutical products in the United States;
- the Group's effective and efficient distribution and marketing channels for its products in the PRC provides comprehensive marketing and distribution coverage of its products in the PRC;
- the Group's reputable brandname of "ZHAOKE" promotes customers' awareness given its market presence in the PRC since 1997; and
- the strong support and recognition from various PRC governmental authorities on the Group's business and products enables the Group to well position itself in the biopharmaceutical industry in the PRC.

### AWARDS

The Group has obtained the following awards:

#### 自然科學獎二等獎 (Second Prize in Natural Science)

In November 1994, 尖吻蝮蛇毒的生物化學研究 (Study of enzyme from snake venom of *Agkistrodon Acutus*) undertaken by Zhaoke was accredited 自然科學獎二等獎 (Second Prize in Natural Science) by 中國科學院 (Chinese Academy of Science). According to the Directors, the criteria for being selected as Second Prize in Natural Science is that the research must demonstrate superior scientific merit.

#### 高新技術企業認定證書 (High-tech Enterprise)

In September 1995, Zhaoke was accredited as 高新技術企業 (New High Technology Enterprise) by 安徽省科學技術委員會 (Anhui Province Science and Technology Committee). According to the Directors, one of the criteria for being selected as a New High Technology Enterprise is that the enterprise must engage in one or more of the new high technologies prescribed by the State Ministry of Science and Technology.

#### 國家級火炬計劃項目證書 (National Torch Project)

In March 1996, Zhaoke was accredited by 國家科學技術委員會火炬計劃辦公室 (State Science and Technology Committee of the PRC), now known as 科學技術部 (Ministry of Science and Technology), to undertake a national project of 國家級火炬計劃 (National Torch Project) for the development and commercialisation of Defibrase. According to the Directors, the criteria for being selected as one of such projects is that the project must demonstrate its scientific merit and its potential contribution to the advancement of science and technology.

#### 外商投資先進技術企業 (Foreign Investment Advanced Technology Enterprise)

In April 1999, Zhaoke was accredited as 外商投資先進技術企業 (Foreign Investment Advanced Technology Enterprise) by MOFTEC. According to the Directors, the criteria for being selected as a Foreign Investment Advanced Technology Enterprise is that the enterprise must be an entity with foreign investment which must be in advanced technology areas.



**1999 年國家重點技術創新項目 (Key National Technology and Innovation Project for the year 1999)**

In June 1999, Declotana, a new product of the Group under research and development, was approved as 1999 年國家重點技術創新項目 (Key National Technology and Innovation Project for the year 1999) by 中華人民共和國國家經濟貿易委員會 (State Economic and Trade Commission of the PRC). According to the Directors, the criteria of being selected as key National Technology and Innovation Project is that the project must demonstrate its scientific merit as well as commercial viability.

**2001 Hong Kong Innovation and Technology Fund Matching Grant**

In May 2001, the Group has been awarded a matching grant of HK\$1.38 million by the Hong Kong Government's Innovation and Technology Fund for the Group's project "Screening of Human Heparanase Inhibitors as Anti Cancer Drugs from Traditional Chinese Medicine" which is in cooperation with the Biological Research Institute of the Hong Kong University of Science and Technology.

**PRODUCTS**

As at the Latest Practicable Date, the Group has obtained valid production permits in the PRC to manufacture the following products:

Product name	Generic name	Approval number	Medical category	Dosage form	Medical application	Launch date	Technology used
ZHAOKE Defibrase	Defibrase (降纖酶)	衛藥准字 (Weiyaozhunzi) XF-0032 號	Category 4 chemical product (note)	Lyophilized powder for injection use (凍乾粉針劑)	Treatment for cerebral ischemic stroke (腦中風)	October 1997	Shake venom
ZHAOKE Livaracine	Low molecular weight heparin calcium (低分子量肝素鈣)	衛藥准字 (Weiyaozhunzi) X-187 號	Category 4 chemical product (note)	Lyophilized powder for injection use (凍乾粉針劑)	Treatment for heart disease and other cardiovascular (心血管) diseases	July 1998	Low molecular weight heparin
ZHAOKE Yallaferon	Topical interferon (干擾素)	國藥准字 (Guoyaozhunzi) S20010054	Category 4 biopharmaceutical product (note)	Topical gel (凝膠劑)	Treatment for viral-infected sexual disease	July 2001	Water-based gel delivery

Note: Please refer to "Industry Overview" for details.

**Defibrase**

ZHAOKE Defibrase is a protein extracted and purified using in-house proprietary method from snake venom of *Agkistrodon Acutus* with enzymatic activity. Defibrase has the pharmacological effect of reducing the chance of blood clot in stroke patients by reducing the elevated level of fibrinogen in stroke patients and facilitates the dissolution of fibrin clot. Defibrase has proven to help patients to improve and recover from neurological syndromes and disability of stroke (i.e. loss of speech, arm or leg movement) and accelerate functional recovery. Defibrase has been found to be effective and safe on treatment of stroke patients. ZHAOKE Defibrase is for intravenous injection use under the instruction of a qualified physician. It is necessary to store ZHAOKE Defibrase under the temperature of ten degree Celsius before use. ZHAOKE Defibrase is a product manufactured in the PRC that has successfully completed a 700-patients nationwide clinical trial organised by Chinese Medical Association in January 1999 to demonstrate the beneficial effects of Defibrase on stroke patients. The clinical results were presented in 1999 American Heart Association Scientific Session, an annual scientific meeting for worldwide cardiovascular professionals. In May 2000, Journal of American Medical Association, a leading international medical journal, published the results of a 500-patients double blind clinical trial on a five-year horizon conducted in North America, showing reduction of fibrinogen as a safe and effective treatment for ischemic stroke patients.

**Livaracine**

Livaracine is a low molecular weight heparin calcium (低分子量肝素鈣) obtained by chemical hydrolysis of un-fractionated heparin sodium. As different manufacturers have their own manufacturing processes, every low molecular weight heparin available for sale in the market is different with different specific activity and other chemical and physical properties. ZHAOKE Livaracine has successfully completed a 200-patient clinical trial organised by Anhui Provincial Hospital in February 1997 and a 50-patient clinical trial organised by 北京協和醫院 in December 1997. Livaracine in lyophilized powder form can be preserved under room temperature without adding any preservatives with a shelf life of two years under normal storage condition. Livaracine is for deep subcutaneous injection under the instruction of a qualified physician. Livaracine was initially developed as an anticoagulant for use in the prevention and treatment of hyper-coagulation diseases such as deep venous thrombosis and in the prevention of clotting during haemodialysis. However, during the past few years, low molecular weight heparin has become a standard treatment for acute coronary syndromes, in particular, on unstable angina and myocardial infarction. In addition, it has been applied on ischemic stroke patients with hyper-coagulation conditions.

For the past two years, evidence for low molecular weight heparin's utility in the treatment of auto-immune diseases and cancer has been growing which is independent to its anticoagulation activity. Administration of low molecular weight heparin not only reduces secondary metastases of the primary tumor, but through an unexpected anti-angiogenic effect, it will also significantly reduce the growth of the primary tumor as well as the associated growth of the few secondary metastatic tumors that do occur. For auto-immune diseases, low molecular weight heparin has anti-inflammation activities through its inhibition of Heparanase. The Directors believe that the market potential of Livaracine will be tremendous in light of its expanding indications under intensive study.

**Yallaferon**

Yallaferon is a proprietary preparation of interferon (干擾素) for topical use developed by the Group's research team. Yallaferon is for the treatment of condyloma acuminata (genital warts, being a kind of wart) and other superficial viral infections such as herpes (疱疹). As a protein in nature, the activity of interferon can only be stabilised in lyophilized powder form at a range of 2 to 8 degree Celsius for a sustained period of time. To be stable for a meaningful period of time at room temperature, right stability agent must be selected for proper interaction with the protein. Moreover, interferon in gel formulation must be in state of readily disassociation from the gel base to ensure that it can effectively cross the skin barrier to the designated sites with a local concentration high enough to carry out effective treatment. ZHAOKE Yallaferon has successfully completed a 141-patient clinical trial organised by 北京醫科大學第一醫院 in August 1999. Prior to the launch of ZHAOKE Yallaferon, the available route of administration of interferon for treatment of viral infection is by way of injection only. However, for diseases, such as genital warts, which is superficial and spot-focused in nature, it is difficult to apply high enough concentration of interferon locally by way of systemic injection without causing significant side effects. ZHAOKE Yallaferon, which is in gel form, can be applied locally and directly to the infection site. Echoed with the relevant endorsement by Anhui Province Drug Administration in the form of public advertising materials, the Directors believe that ZHAOKE Yallaferon which is produced in topical gel form is the first of its kind in the PRC produced for commercial use for the treatment of genital warts as at the Latest Practicable Date.

Zhaoke's products, Defibrase, Livaracine and Yallaferon, are all biopharmaceutical products. As advised by the Directors, Defibrase and Livaracine fall within sub-category (2) of Category 4 chemical products and Yallaferon, falls within sub-category (3) of Category 4 biopharmaceutical products. Defibrase and Livaracine are subject to an administrative protection period of three years according to the then regulation effective before 1st May, 1999. Whilst the protection periods of Defibrase and Livaracine had expired in February 2000 and May 2001 respectively, Yallaferon has been granted a protection period for six years which will expire in October 2006 based on the relevant regulation effective after 1st May, 1999.

In addition, the Group has also been developing a number of pharmaceutical products, which are undergoing various phases of clinical examinations, trials and reviews by the relevant supervisory authorities as set out in the section headed "Research and development".

**PRODUCTION****Production facilities**

Zhaoke is the Group's manufacturing arm. In the early days after its establishment until August 1998, Zhaoke carried out its research and development, and manufacturing activities in the campus of USTC. To cope with the organic growth and the further expansion of the Group's business, the Group invested in building a new manufacturing plant in New and High Technology Industrial Development Zone of Hefei, Anhui Province, the PRC in 1997. The manufacturing plant was built in accordance with GMP requirements which govern and standardise the design and integration of equipment, process and support utilities. The new manufacturing plant was completed and came into operation in August 1998. The existing

manufacturing plant occupies a total gross floor area of approximately 3,021 sq.m. comprising two production workshops for the production of topical gel and lyophilized powder for injection, a warehouse and ancillary offices for administration and finance functions. The manufacturing plant is also equipped with a molecular laboratory, a protein chemistry laboratory and a synthetic chemistry laboratory for quality control and research and development purposes. Zhaoke was awarded with the Certificates of GMP for Human Drugs issued by the SDA for its workshop on the production of bulk pharmaceutical for injection (注射用原料藥) and lyophilized powder for injection (凍乾粉針劑) in September 1999 for a period of five years expiring on 20th September, 2004 renewable thereafter and for its workshop on the production of recombinant human  $\alpha$ -2b interferon in gel in May 2001 for a period of one year expiring on 22nd May, 2002 renewable thereafter. The GMP license for the gel workshop will be renewed, subject to the review by SDA upon expiry, for a new license which will be valid for another five years thereafter. The manufacturing plant has a current annual production capacity of manufacturing up to 1.3 million vials of lyophilized powder for injection use and up to 10 million tubes gel for topical use. Currently, the Group's production facilities for lyophilized powder for injection use and topical gel are operating at about 90 per cent. and 20 per cent. respectively of the total available capacity. The Directors believe that there is room for the Group to increase its production output of its products in the near future. Since its establishment, Zhaoke has obtained all the required permits and certificates issued by the relevant authorities in relation to its pharmaceutical manufacturing business in the PRC.

### **Production planning**

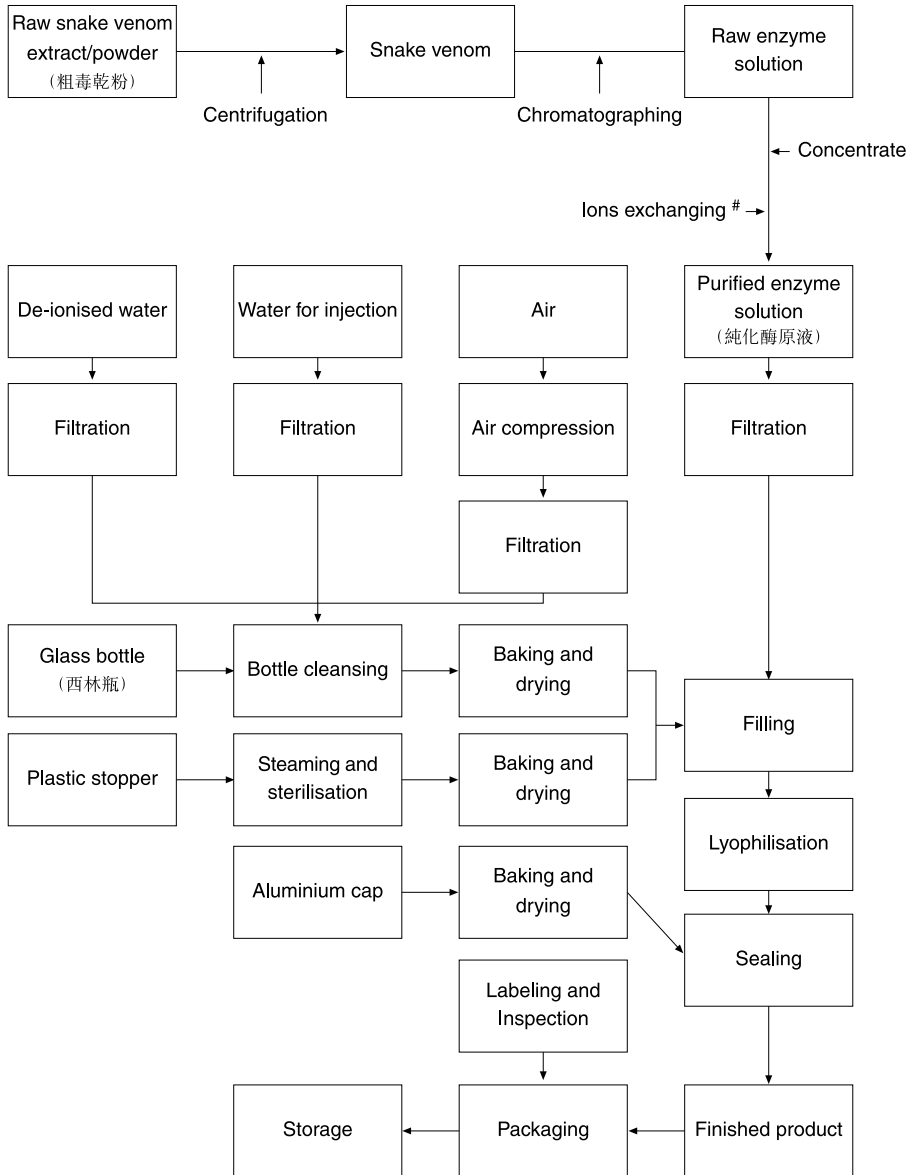
The Group formulates its production plans primarily according to market demand. The monthly production volume of each product is preliminarily determined on a yearly basis in advance by reference to the anticipated market demand and sales orders on hand which will be adjusted according to actual demand and stock level on a monthly basis. The Group had negligible slow-moving finished goods during the Track Record Period.

### **Production processes**

The production processes of the Group's products are handled through a team of workers with extensive use of specialised machinery and equipment and apparatuses. In order to ensure a high quality for its products, the Group has imported key equipment for production from overseas, namely, advanced lyophilisation machinery from United States for lyophilisation process, purification system from Sweden for purification process, and precise filling machine from Italy for filling process.

The following diagrams summarise the major steps in the production of the Group's products:

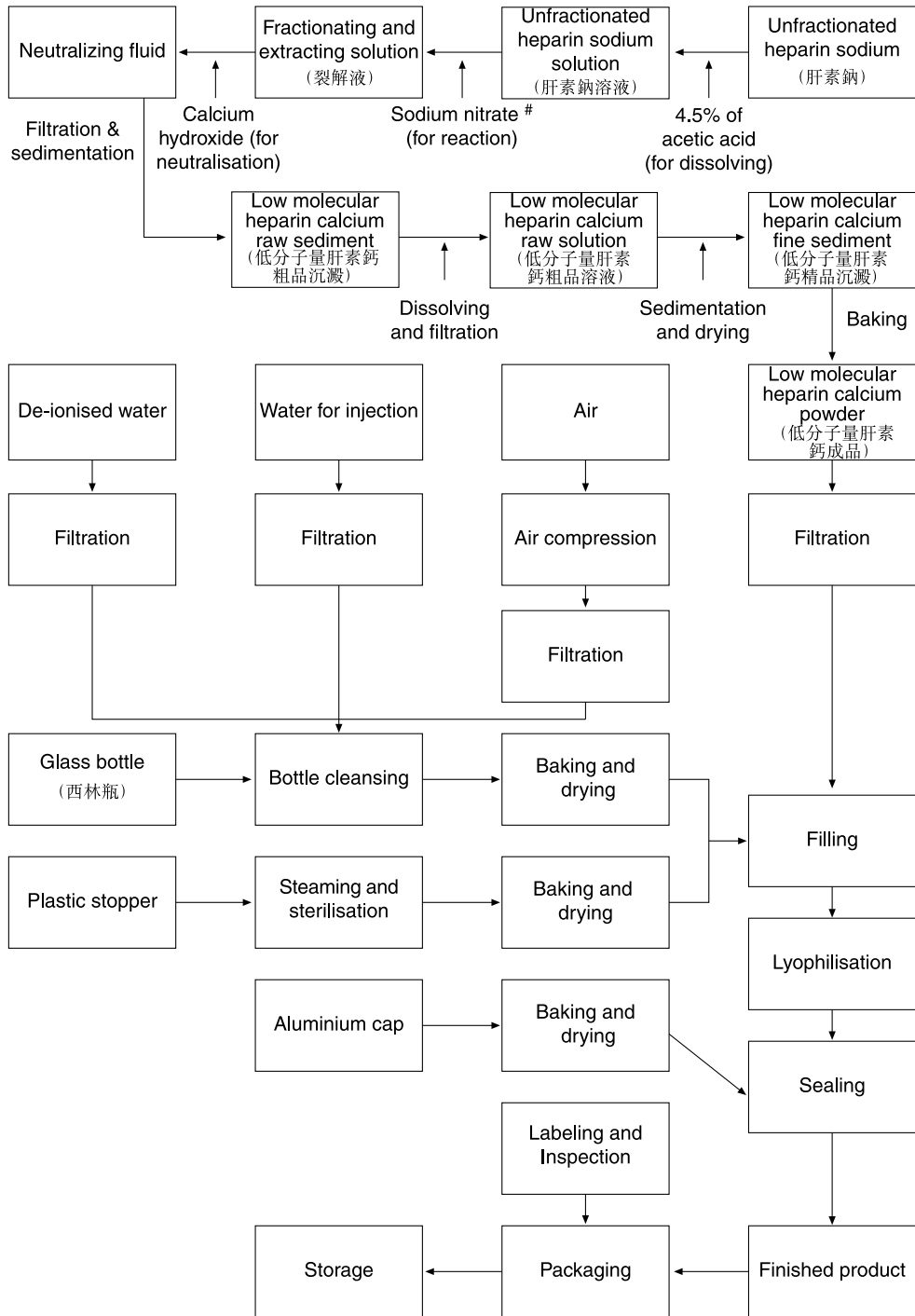
1. Production process for Defibrase:



# : proprietary technology applied

One of the production characteristics of Defibrase is that it cannot be sterilised by high temperature, otherwise its efficacy will be reduced. Therefore, it has to be produced in bacteria-free level at 10,000 environment during purification and filling is carried out in bacteria-free level at 100 (Note).

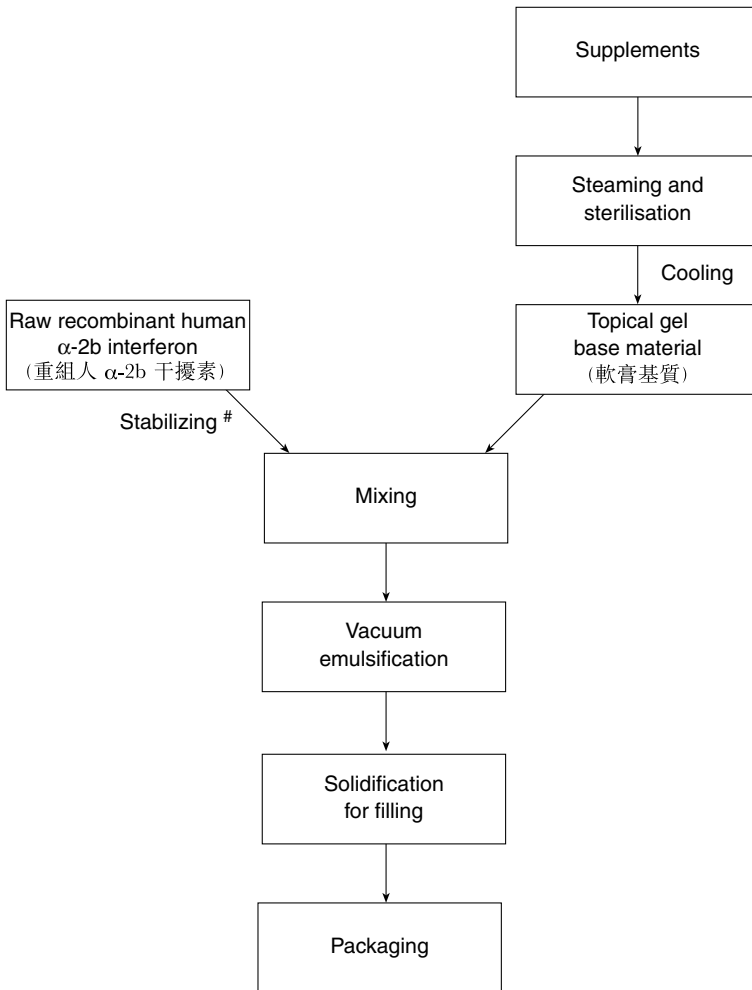
2. Production process for Livaracine:



# : proprietary technique applied

Low molecular weight heparin calcium is prepared in bacteria-free level at 100,000 environment and filling is carried out in bacteria-free level at 100 (Note).

3. Production process for Yallaferon:



# : proprietary technology applied

Note:

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

Bacteria-free level	Amount of dust/m <sup>3</sup>		Amount of live microorganism/m <sup>3</sup>	
	with size ≧0.5 μm	with size ≧5 μm	Subsiding bacteria	Floating bacteria
at 100	≧3,500	0	≧1	≧5
at 10,000	≧350,000	≧2,000	≧3	≧100
at 100,000	≧3,500,000	≧20,000	≧10	≧500

**RAW MATERIALS**

The Group mainly sources its raw materials such as interferon, glass bottle, rubber cap and packaging material from domestic suppliers in the PRC. Samples of the raw materials are sent to the quality control department for testing upon receipts to ensure the quality of the raw materials is in accordance with the requirements set by Zhaoke and the relevant laws and regulations. For the year ended 31st December, 2001, approximately 43 per cent. of the total purchases are payable on credit with a credit term of 90 days in general while approximately 57 per cent. of the total purchase are on a cash-on-delivery basis. For the year ended 31st December, 2001, all purchases are settled in Renminbi by cash (approximately 20 per cent. of the total purchase), cheque (approximately 10 per cent. of the total purchase) or telegraphic transfer (approximately 70 per cent. of the total purchase). For each of the three years ended 31st December, 2001, the cost of raw materials (such as un-fractionated heparin sodium, raw supplements and raw snake venom extracts and other organic or inorganic reagents) accounted for approximately 6.8 per cent., 14.8 per cent. and 24.9 per cent., respectively of the total cost of sales of the Group whilst the cost of packaging materials (such as bottles, paper, rubber stoppers and aluminum caps) accounted for approximately 3.7 per cent., 8.5 per cent. and 13.0 per cent., respectively, of the total cost of sales of the Group.

Other than the supply of raw recombinant human  $\alpha$ -2b interferon, the Group has not entered into any long term supply contracts with suppliers of the Group in order to maintain flexibility in sourcing quality supplies at competitive prices. The Group elected to enter into long-term supply contracts of raw recombinant human  $\alpha$ -2b interferon from a particular supplier because it is a compliance requirement in obtaining the production permit of Yallaferon that a stable supply of such raw material with consistent high quality has to be secured by the Group. Given the vast number of market participants, the Directors do not anticipate that the Group will have any material difficulties in sourcing its raw materials and packaging materials from other suppliers. The supplier of raw recombinant human  $\alpha$ -2b interferon was the second largest supplier of the Group for the year ended 31st December, 2001. The purchase from this supplier was approximately 12.7 per cent. of the total purchases.

For each of the three years ended 31st December, 2001, purchases from the five largest suppliers of the Group accounted for approximately 52.0 per cent., 70.4 per cent. and 63.9 per cent., respectively, of the Group's total purchases. For the year ended 31st December, 2001, the largest supplier of the Group was 常州生化纖紅製藥有限公司. For each of the three years ended 31st December, 2001, the largest supplier of the Group accounted for approximately 15.6 per cent., 26.7 per cent. and 22.9 per cent., respectively of the Group's total purchases. The Group has established business relationships with its five largest suppliers for a period ranging from one year to three years and the average length was approximately two years. None of the Directors, their associates or any significant shareholder of the Company (who or which to the best knowledge of the Directors owns more than five per cent. of the issued share capital of the Company) has any interest in any of the Group's five largest suppliers during the Track Record Period.

**INVENTORY CONTROL**

In order to ensure an adequate supply for production, it is the general policy of the Group to maintain inventory of raw materials and other essential packaging materials to the extent of not more than three month's average sales requirement.

In order to minimise the occurrence of obsolete stocks, the Group implements stock control procedures concerning matters such as budgeting production, sales, accounting and



warehouse information. The inventory records of the Group are kept up-to-date to reflect actual movements of inventory. In determining whether a provision for obsolete inventory is required, the Group takes into consideration the physical state and the degree of utilisation or realisation of the inventory.

### QUALITY CONTROL

The Group is fully committed to maintain a high standard of quality control for its production. Zhaoke has been granted with the Certificates of GMP for Human Drugs in respect of its production of bulk pharmaceutical for injection (注射用原料藥) and lyophilized powder for injection (凍乾粉針劑) in September 1999 and in respect of its production of recombinant human  $\alpha$ -2b interferon (gel) in May 2001. The Group has set out a quality control standard for its pharmaceutical products, which is in line with the quality control standard approved by SDA.

The quality control department of the Group is responsible for monitoring the entire manufacturing processes of the Group and maintaining the high quality of the Group's finished products on a consistent basis. As at the Latest Practicable Date, the quality control department of the Group has 14 staff with extensive experience in the biopharmaceutical industry. The quality control department of the Group not only conducts regular tests on samples of incoming raw materials, work-in-progress, workshop environment, water quality, finished products and packaging materials, but also ensures that the entire production process is carried out in strict compliance with the GMP requirements and standards.

During the Track Record Period, the Group did not experience any failure in the quality control of its products which could have caused any material interruption to the Group's business. The Directors have confirmed that none of the products manufactured by the Group have been suspended for production by the relevant regulatory authorities in the PRC since the commencement of their production. The Directors have also confirmed that the Group has not received any claims, lawsuits or litigation concerning the quality of its products. It is the Group's policy to keep a certain amount of each batch of the Group's ex-factory products as samples for a period of one year plus the effective period of two years or 18 months (as the case may be) for testimonial and sample verification purpose in case of any possible claims arising from application of such products. To ensure the integrity and the accountability function, the quality control department reports directly to the Managing Director of the Group.

### SALES AND MARKETING

#### Sales and distribution

All pharmaceutical manufacturing enterprises in the PRC can only sell their pharmaceutical products to enterprises holding a “藥品經營企業許可證” (Pharmaceutical Trading Enterprise Permit) according to the “藥品流通監督管理辦法(暫行)” (Provisional Measures regarding the Supervision and Administration of the Circulation of Pharmaceutical Products) published by SDA on 15th June, 1999. Accordingly, the Group sells its pharmaceutical products to hospitals and retail pharmaceutical shops through distributors in the PRC holding the “藥品經營企業許可證” (“Pharmaceutical Trading Enterprise Permit”). Currently, the Group's sales and distribution network is divided into three major districts covering approximately 28 provinces, cities or districts and 500 hospitals and clinics in the PRC. The Group carries out its sales and distribution activities through Zhaoke's sales offices located in Guangzhou and Hefei, the PRC. These sales offices, together with branch offices in Beijing and Shanghai, are responsible for marketing and after-sales services in a designated region arranged in advance

by the chief marketing officer of the Group. Other than liaisons with the distributors and end-users, the marketing activities (including implementation of the regional advertising and promotional activities, such as seminars, conferences and health consultation) are conducted by sales and branch offices of Zhaoke. Sales offices and branch offices are on lease or owned.

The map below illustrates the geographical presence of the Group’s sales and marketing activities through (i) establishment of collaborative arrangements with the Group’s distributors or (ii) the Group’s own sales force in the PRC:

**Distribution network of the Group**



*Note:* “Shanghai district” refers to area covered by the staff of the Shanghai representative office.  
 “Guangzhou district” refers to area covered by the staff of the Guangzhou sales office.  
 “Beijing district” refers to area covered by the staff of the Beijing representative office.

## BUSINESS

The table below sets out a analysis of the turnover breakdown of the Group's products during the Track Record Period:

Major district	Year ended 31st December,					
	1999		2000		2001	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Beijing district <sup>(1)</sup>	1,552	24.8	3,793	55.3	5,914	57.2
Shanghai district <sup>(2)</sup>	4,051	64.8	2,115	30.9	2,669	25.8
Guangzhou district <sup>(3)</sup>	<u>650</u>	<u>10.4</u>	<u>944</u>	<u>13.8</u>	<u>1,763</u>	<u>17.0</u>
Total	<u>6,253</u>	<u>100.0</u>	<u>6,852</u>	<u>100.0</u>	<u>10,346</u>	<u>100.0</u>

*Notes:*

1. Beijing district — Beijing, Gansu, Hebei, Heilongjiang, Henan, Inner Mongolia, Jilin, Liaoning, Ningxia Hui Autonomous region, Qinghai, Shaanxi, Shanxi, Tianjin and Xinjiang Uygur Autonomous region
2. Shanghai district — Anhui, Hubei, Jiangsu, Shandong, Shanghai and Zhejiang
3. Guangzhou district — Fujian, Guangdong, Guangxi, Guizhou, Hainan, Hunan, Jiangxi, Sichuan and Yunnan

Type of customers	Year ended 31st December,					
	1999		2000		2001	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Hospitals	2,368	37.9	1,874	27.3	1,478	14.3
Distributors	<u>3,885</u>	<u>62.1</u>	<u>4,978</u>	<u>72.7</u>	<u>8,868</u>	<u>85.7</u>
Total	<u>6,253</u>	<u>100.0</u>	<u>6,852</u>	<u>100.0</u>	<u>10,346</u>	<u>100.0</u>

During the Track Record Period, all the Group's products were sold in the PRC. The sales were denominated in RMB. During the Track Record Period, the customers of the Group mainly comprised pharmaceutical product distributors and hospitals in the PRC, which are third parties independent of any members of the Group, the Directors, the Initial Management Shareholders and their respective associates. The Group has established an average of two years relation with the majority of its customers.

For each of the three years ended 31st December, 2001, sales to the five largest customers of the Group's business accounted for approximately 29.2 per cent., 36.9 per cent. and 27.5 per cent., respectively, of the Group's total turnover. For each of the three years ended 31st December, 2001, the largest customer of the Group accounted for approximately 8.4 per cent., 16.7 per cent. and 9.7 per cent., respectively, of the Group's total turnover. The Group has established business relationship with some of its five largest customers for more

than two years. None of the Directors, their associates or any significant shareholder of the Company (who or which to the knowledge of the Directors owns more than five per cent. of the issued share capital of the Company) has any interest in any of the Group's five largest customers during the Track Record Period.

### **Sales representatives and distributors**

#### *Sales representatives*

The chief marketing officer of the Group, who is also the sales manager of the Guangzhou sales office, together with two regional sales managers supervise the sales and distribution network of the Group and the activities of each of the branch offices. As at the Latest Practicable Date, the Group had a team of 25 full-time sales representatives, all of them were strategically located at the three offices in Beijing, Shanghai and Guangzhou. The sales office in Hefei is located at the manufacturing plant of the Group and is mainly for the provision of supporting services to the three regional offices of the Group. The principal duties of the sales representatives of Zhaoke are to maintain the business relationship with the existing customers and the distributors of the Group, liaise with prospective customers and distributors, coordinate the delivery of the Group's products, follow up on the after-sales services and the remittance of sales proceeds. The Group has a policy of arranging training for its sales and marketing staff on the general knowledge of the pharmaceutical industry in the PRC and the nature and therapeutic effect of the Group's pharmaceutical products from time to time.

To motivate the performance of its sales representatives, commencing from January, 2002 onwards Zhaoke has introduced a floating compensation system (浮動工資制) pursuant to which each sales representative is requested to submit an annual sales target every year to the relevant branch office, which will then be forwarded to the sales head office of Zhaoke for consideration and approval. Monthly salary of the sales representatives varies depending not only on the extent of sales target achieved, but also on other factors such as cost control, the length of the collection period of the sales proceeds and etc. This compensation system is aimed at best motivating the Group's sales team.

#### *Distributors*

Apart from deploying the Group's own sales force, in an effort to facilitate and enhance the sales coverage to hospitals and clinics in various provinces of the PRC, a number of regional wholesalers are appointed by the Group as distributors, with which Zhaoke has entered into a distribution agreement whereby the relevant distributor undertakes to purchase at their own risk a certain amount of the product of the Group on an annual basis for their own onward marketing and sales ultimately to hospitals and clinics as end-users. The products of the Group are offered to the distributors at different terms based on terms and conditions of their respective distribution agreements with the Group. In order to enable the Group to maintain flexibility and to respond to the changing market conditions, the Group sets sales target in such distribution agreement for the distributors. In the event that these distributors cannot meet the sales target, the Group has discretion to terminate the relevant distribution agreement.

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As at 31st December, 2001, Zhaoke had a total of 49 distributors in the PRC. For each of the three years ended 31st December, 2001, turnovers derived from the sales to these distributors accounted for approximately 62.1 per cent., 72.7 per cent. and 85.7 per cent., respectively. The Group recognised its turnover at the time when the products were delivered to and accepted by the distributors of the Group.

### Internal control on credit and cash receipt

The Group carries out its sales both on the basis of open accounts and on the basis of cash on delivery. For the former basis, the Group normally grants credit terms of a range from 30 to 180 days to customers (including distributors) regarded as creditworthy by reference to their historical payment records and sizes. Customers with better credit history and of larger sizes will get longer payment term. The rest of the sales of the Group are settled in cash, bank cheques or telegraphic transfer on delivery. The Group also grants few credit terms of more than 180 days to existing active customers. The following table illustrates the breakdown of credit policy of the Group for the Track Record Period:

	Year ended 31st December,		
	1999	2000	2001
	%	%	%
Cash on delivery	2.0	3.7	32.3
Open accounts	<u>98.0</u>	<u>96.3</u>	<u>67.7</u>
<b>Total</b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

The Group has implemented a credit control system to monitor the extension of credits to its customers. Normal credit policies are formulated by the marketing manager based on certain criteria such as creditability of customers, product nature and the financial position and cash flow of the Group and reviewed by the Directors regularly. Normal credit lines are approved by the marketing manager. Any extension from normal credit line being granted to a particular customer would be initiated by the marketing manager and approved by the Directors. Aged account receivables are reviewed regularly in order to identify problem accounts at an early stage. Following the identification of any doubtful debts, provisions are made by the Group on a specific basis by the Directors in accordance with the Group's accounting policy. For the year ended 31st December, 1999 and 2000, for debtors who have not traded with the Group for more than one year, 50 per cent. provisions were made for debts overdue for more than one year and 100 per cent. provision were made for debts overdue for two years or above. For the year ended 31st December, 2001 having considered the increase in the turnover of the Group, 50 per cent. provision was made on debts aged 180-365 days and 100 per cent. provision on debts overdue for more than one year. The account receivables, net of provision for bad debts, of the Group as at 31st December, 2001 was HK\$2,435,000 (out of which as to (i) approximately HK\$1,250,000 was aged 1-90 days, (ii) HK\$613,000 was aged

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91-180 days, (iii) HK\$416,000 was aged 181-365 days, and (iv) HK\$156,000 was aged over 365 days and under 3 years), with subsequent settlement up to 30th April, 2002 amounting to HK\$1,518,000. The bad debts of the Group for each of the three financial years ended 31st December, 2001 are as follow:

	Year ended 31st December,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Bad debts written off	167	369	312
Specific provision	85	102	—
General provision	—	—	440
	<u>252</u>	<u>471</u>	<u>752</u>

### Marketing and advertising activities

The sales and marketing department of the Group is also responsible for the formation and implementation of the marketing strategies of the Group. It performs market analysis and coordinates promotional activities to enhance the market presence and acceptance of the Group's products. Nationwide advertising and promotional activities are planned and implemented by the sales and marketing department of Zhaoke whereas each sales and branch office coordinates the local advertising and promotional activities within its region. On the other hand, the distributors appointed by the Group will also conduct, at their own costs, local advertising and promotional activities with assistance from Zhaoke as and when requested.

For each of the three years ended 31st December, 2001, advertising and promotion expenses incurred by the Group amounted to approximately HK\$1.5 million, HK\$1.6 million and HK\$2.7 million, respectively, representing approximately 24.0 per cent., 23.8 per cent. and 26.3 per cent., respectively, of the Group's total turnover.

### After-sales services

Recognising the importance of the feedback from its customers, the Group places great emphasis on its after-sales services. The sales and marketing staff of the Group is responsible for the follow-up actions after its sales to ensure that its customers fully understand the applications of the Group's products and to obtain feedback from the customers on their requirements and preferences. Every sales representative is required to report any severe adverse reaction or other quality problem caused by the Group's products immediately to the regional manager who will then prepare a detailed report for the attention of the management within three days of the occurrence of the incident. Such report will be followed up by the quality control department, research and development department and senior management of the Group so that any problem can be resolved in time and new drug applications or forms can be developed and improvements on products can be made to suit their needs.

**Website**

To take advantage of the information technology development, the Directors has developed a website for the Group under the domain name of www.zhaoke.com with a primary objective of promoting the Group's products and providing the latest medical information on diseases which the Group's pharmaceutical products are targeted to combat.

**RESEARCH AND DEVELOPMENT**

Zhaoke was accredited as a 高新技術企業 (New High Technology Enterprise) by 安徽省科學技術委員會 (Anhui Province Science and Technology Committee) in September 1995 and a 外商投資先進技術企業 (Foreign Investment Advanced Technology Enterprise) by MOFTEC in April 1999. The Directors reckon that product research is one of the fundamental and critical factors for the growth and success of the Group. As at the Latest Practicable Date, the research and development department of the Group comprises of a total of seven specialists, five of which have been awarded bachelor degree or above and all of them are very experienced in clinical experiment research and product development.

**In-house research and achievements of the Group**

The research and development department of the Group has been conducting in-house research in the fields of molecular biology, biochemistry, pharmacology and chemical synthesis by using advanced and state-of-the-art instruments and devices in the research laboratories located at Zhaoke. Over the years of its in-house research efforts since the establishment of Zhaoke in 1994, the research and development department of the Group has on its own developed three technology platforms, namely (i) the snake venom technology (which was built with reference to and based on the technology of protein extraction and purification from snake venom with enzymatic activities injected by the PRC partner into Zhaoke in 1994), (ii) the low molecular weight heparin technology, and (iii) the water-based gel delivery system. The research and development department of the Group has particular focus in identifying new indications and new applications for the Group's existing products. At present, the core areas of the Group's research and development department lie in the areas of (i) cardiovascular diseases and stroke, (ii) viral infection, (iii) cancer, and (iv) vaginitis.

(i) *Snake venom technology*

With reference to and based on the technology of protein extraction and purification from snake venom with enzymatic activities injected by the PRC partner into Zhaoke in 1994, the Group has successfully developed a proprietary technology means to extract the potential therapeutic proteins or peptides from snake venom, which are known to be effective of treating cardiovascular diseases. This proprietary technology contributes to the commercialisation of ZHAOKE Defibrase in late 1997. The Group's new developments of Declotana (a category 1 new drug and an application for clinical trial thereof has been submitted to the SDA in 1998) and of Hemocoagulase for injection (which is currently under pre-clinical study) are also based on this snake venom technology.

In October 1999, the Group was selected to give a presentation on the clinical results of ZHAOKE Defibrase in the 72nd Scientific Sessions of America Heart Association held in the United States, which proved to reflect the success of the Group's snake venom technology within the cardiovascular profession.

(ii) *Low molecular weight heparin technology*

The Group has successfully developed an in-house technique for making low molecular weight heparin based on the open low molecular weight heparin technology using commonly and readily available heparin as raw material, resulting in the contribution to the commercialisation of ZHAOKE Livaracine in mid 1998. The Directors intend to utilise this technology (i) to explore new dosage formulation (such as the oral and the topical gel forms which are found to be more convenient to administer) so as to pursue for new market segments, and (ii) to explore new indications for low molecular weight heparin (such as applying Livaracine to treat kidney-related diseases and skin diseases). According to the Directors, the low molecular weight heparin is derived from Heparin which is a natural product and therefore not patentable. However, the Group has been developing the process for making low molecular weight heparin efficiently and with constant quality. Therefore, although the molecule itself is not proprietary, the process is proprietary.

In February 1997 and December 1997, ZHAOKE Livaracine, which is the representative product of the Group's low molecular weight heparin technology, had successfully completed a 200-patient clinical trial organised by Anhui Provincial Hospital and a 50-patient clinical trial organised by 北京協和醫院 .

(iii) *Water-based gel delivery system*

The Group has also successfully developed a proprietary formulation for topical delivery of proteins or peptides. This is a unique formulation allowing macromolecules to penetrate the skin barrier of the human body to carry out the therapeutic effects locally. This proprietary technology contributes to the commercialisation of ZHAOKE Yallaferon, a topical interferon in July 2001. The Directors consider that the commercialisation of ZHAOKE Yallaferon was the first of its kind in the PRC for the treatment of genital warts. By adopting this technology, the Group is in the process of developing a new pharmaceutical product, an eye gel formulation for cornea ulcer, an application for clinical trial of which has been submitted to the SDA in 2000. Two other products, namely anti-fungus peptide and Livaracine, which is to be in topical gel formulation, is also under pre-clinical study.

In August 1999, ZHAOKE Yallaferon, which is the representative product of the Group's water-based gel delivery system, had successfully completed a 141-patient clinical trial organised by 北京醫科大學第一醫院 .



**Association with outside research institutes**

In addition to its own research efforts, the research and development department of the Group has collaborations with various reputable universities and research institutions both in the PRC and Hong Kong, namely 中國藥科大學 (China Pharmaceutical University), 中國藥品生物製品檢定所 (China Drug Evaluation Institute) and the Biotechnology Research Institute of the Hong Kong University of Science and Technology to leverage on their strengths in carrying out pre-clinical studies of new products of the Group.

The Group is also in co-operation with the Biotechnology Research Institute of the Hong Kong University of Science and Technology on “Screening of Human Heparanase Inhibitors as Anti-Cancer Drugs from Traditional Chinese Medicine”, which is a process of identifying an inhibitor compound for heparanase, an enzyme with implications in cancer and autoimmune diseases. In May 2001, the project was awarded a matching grant of approximately HK\$1.38 million from the Hong Kong Government’s Innovation and Technology Fund. The Group will hold all the intellectual property rights arising from the project. The Group is a member of the steering committee and participates in reviewing the progress of the project from time to time. The Group is required to contribute approximately HK\$1.38 million in total during the term of the project which is expected to end around mid 2004. Apart from this specific co-operation project with Hong Kong University of Science and Technology, the Group intends to examine the university’s available technology such as the sustained release drug technology, pulmonary drug delivery system for macromolecules and liposome-based liver-targeted delivery system for possible licensing opportunity.

Furthermore, the Group has formed a strategic partnership with Zengen. As at the Latest Practicable Date, Zengen owns 2 patents issued in the United States and 1 patent issued in Europe and 6 patents in the United States, 3 patents in PCT countries and 2 patents in Japan pending-to-be-issued by relevant authorities on proprietary technologies (all are for treatment of inflammation and anti-infection of virus based on the peptide technology), with a view to licensing in certain proprietary technology for commercialisation in the PRC, Hong Kong and Taiwan. In particular, the Group has licensed Zengen’s peptide technology for vaginitis for commercialisation, based on which the Group is prepared to apply for clinical trial of its developing product Anti-fungus peptide for treatment of uro-genital conditions that include infections, inflammation or both.

**Scientific advisory board**

The Company has established a scientific advisory board on 1st February, 2002 to provide consultation services to the Board in relation to the overall research and development activities of the Group. The main duties of the scientific advisory board are to guide and evaluate the development progress of the research projects as well as to provide strategic direction to the Group’s research.

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The scientific advisory board meets once a year, although ad hoc meetings to focus on specific issues may also be convened. It is the intention of the Company to invite leading researchers and clinicians from universities and research institutes to sit on its scientific advisory board. As at the Latest Practicable Date, members on the scientific advisory board are:

Professor James Lipton	Chief Scientific Officer of Zengen ( <i>Note</i> )
Professor Tsim Wah Keung, Karl (詹華強)	Associate Professor, Department of Biology, Hong Kong University of Science and Technology
Professor Hu Xueqiang (胡學強)	Chief Neurologist and Head of 中山大學附屬第三醫院神經科 (Neurology Department, Third Affiliated Hospital of Zhongshan Medical University of China)
Professor Fung Yuen Kai (馮元啟)	Associate Professor of School of Medicine of University of South California, Director of Clayton Molecular Biology Program of Children's Hospital of Los Angeles and President-elect (2002) of Association of Chinese Genetics in America USA
Professor Yong Mengwu (翁孟武)	Deputy director of 復旦大學醫學院皮膚病學研究所 (Research Institute of Dermatology, Fudan University, Medical Academy) and Chief Physician of 復旦大學醫學院華山醫院皮膚性病學教研室 (Department of Dermatology and Venereology, Hua Shan Hospital, Fudan University, Medical Academy)

*Note:*

Particulars of Zengen is set out below:

### **Background and business**

Zengen is a company established in California, the United States on 18th May, 1999 focusing on discovering, developing and commercialising innovative products to treat and prevent infection and inflammation through application of its peptide technologies. These technologies are self-developed and are based on an extensive background of years of academic research on peptide molecules derived from Alpha-Melanocyte-Stimulating Hormone ( $\alpha$ -MSH), an endogenous molecule that modulates inflammatory and immune responses.

Based on the available unaudited financial statements of Zengen, the total equity of Zengen was US\$11.6 million as at 4th June, 2002.

### **Shareholders and their background**

There are more than 100 shareholders of Zengen. Based on the available information from Zengen, shareholders of Zengen are US citizens.

There is no controlling shareholder in Zengen. The single largest shareholder holds about 16 per cent. of the total issued share capital of Zengen. Those shareholders of Zengen holding more than 5 per cent. of the total issued share capital of Zengen have an aggregate shareholding in Zengen of about 66 per cent.

## **Senior management and their background**

There are at present a total of 14 staff in Zengen, some of whom are detailed as follows:—

### ***R. Steven Davidson, Ph.D., MBA, president, CEO and director***

Dr. Davidson has over eight years of experience in the biopharmaceutical industry. Dr. Davidson received his MBA in International Finance and Ph.D. in Biopharmaceutical Project Management from the American University of Asturias.

### ***Matthew C. Lipton, JD, COO***

From 1997 to 2001, Mr. Lipton was a partner at Browning & Lipton, a Texas law firm specialising in healthcare and corporate law. Mr. Lipton received his Juris Doctorate degree from Southern Methodist University in Dallas, Texas and his Bachelor's of Science degree in Psychology from Johns Hopkins University in Baltimore, Maryland.

### ***Jo Ann L. Sevidal, CFO***

Ms. Sevidal has over eight years experience as a controller and chief financial officer in the biopharmaceutical industry.

### ***James M. Lipton, Ph.D., CSO and director***

From 1966 to 2000, Dr. Lipton held positions, including professor of Physiology and Anesthesiology and Pain Management at the University of Texas - Southwestern Medical Center at Dallas, Texas. Dr. Lipton currently serves as Visiting Professor of Internal Medicine at the University of Milan Medical School in Milan, Italy. Dr. Lipton received his Ph.D. from the University of Colorado. He was awarded post-doctoral grants at the University of Michigan Medical School and a Special Research Fellowship at the Institute of Animal Physiology in Cambridge, United Kingdom. Dr. Lipton has more than 20 years experience in the pharmaceutical industry and has participated in numerous research projects funded by the National Institute of Health, the Department of Defense, health foundations and state governments.

### ***Matthew Burns, Corporate Secretary and General Counsel***

Mr. Burns was an associate attorney at law firms in Los Angeles and San Francisco respectively. His practice at both law firms concentrated on mergers and acquisitions and corporate finance for companies in a variety of industries, including life sciences and technology. Mr. Burns received his JD from Stetson University of College of Law in 1995 and his B.A. in Finance from the University of South Florida in 1992.

## **Terms of injection agreement**

On 25th February, 2002, the Company (i) allotted and issued the then 5 per cent. of the enlarged shareholding in the Company to Zengen and (ii) agreed to pay an amount equal to the greater of a running royalty equal to 8 per cent. of net sales for licensed products sold by the Group (or its sublicensee) or 8 per cent. of any royalty payments the Group receives for net sales of licensed products from a sublicensee (in the event the Group elects to further license the rights granted thereto) in consideration of Zengen giving the Group an exclusive license to commercialise the licensed subject matter of peptides for treatment of uro-genital conditions in Hong Kong, Macau, PRC and Taiwan (excluding elsewhere) within 30 months from 2nd February, 2002.

## **Status of Group's development with Zengen's peptide technology**

The peptide technology licensed to the Group by Zengen is for treating uro-genital conditions. The relevant patent application has been submitted on 23rd March, 2000 and the application is still under processing.

Most of the pre-clinical studies (such as biochemistry study, in-vitro and in-vivo pharmacology studies, acute toxicology, mutagenic study and formulation development) have been completed. The Directors believe that the peptide technology licensed from Zengen serves to leverage on the existing water-based gel delivery technology platform of the Group by blending and complementing each other in a synergical manner.

## **New product development**

Research and development of the Group on new products are generally divided in various stages, being (i) performing technical feasibility study and analysis (pre-clinical study), (ii) obtaining relevant regulatory approvals for clinical trial, and (iii) undergoing various stages of clinical trials as required by the regulatory authorities. During the technical feasibility study and analysis stage, the Group conducts research on all aspects of the new product including its prescription/formula, toxicity, pharmacological and therapeutic effects, manufacturing process, quality and stability. After completion of the technical feasibility study and analysis stage, the Group will make an Investigational New Drug application submission to the relevant regulatory authorities (at both provincial and State levels) for approval. The regulatory approval stage generally includes a review by the regulatory authorities which is carried out in a form of expert committee on the submission which comprised the findings obtained in the technical feasibility study and analysis stage. After obtaining the regulatory approval, the Group will engage one or several principal investigators to conduct clinical trials based on samples of the new product in study sites approved by the regulatory authorities with an approved protocol. After completion of the clinical trial and a study report by the principal investigators, the Group will submit a New Drug Application to the SDA for review which is also carried out in the form of expert committee review. After the relevant approvals from the regulatory authorities for the New Drug Application and GMP certification for the workshop have been obtained, commercial production of the new products may then commence. Depending on the nature of the new products, the time required to bring the new product from research to production may vary.

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

Deferred development costs are amortised, using the straight-line method, over the expected useful lives of the products, commencing in the year when the products are put into commercial production.

For each of the three years ended 31st December, 2001, the research and development cost incurred by the Group, which included laboratory materials, GMP software and other daily operating expenses of the research and development department, was approximately HK\$0.8 million, HK\$0.9 million and HK\$2.1 million, respectively (of which as to HK\$0.3 million, HK\$0.1 million and HK\$0.4 million were expensed and as to HK\$0.5 million, HK\$0.8 million and

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HK\$1.7 million were deferred), representing approximately 13.5 per cent., 12.8 per cent. and 20.7 per cent., respectively, of the total turnover of the Group. As at 31st December, 2001, the research and development cost deferred by the Group stood at HK\$6.9 million, out of which as to HK\$2.6 million was attributable to Yallaferon, HK\$4.1 million to Declotana and the balance of HK\$0.2 million to human heparanase inhibitor. The research and development cost so deferred have been amortised (as in the case of Yallaferon which is on sale) and will be amortised (as in the case of Declotana and human heparanase inhibitor which are under development) upon commercialisation of the pharmaceutical products. The amortisation period for each of Yallaferon, Declotana and human heparanase inhibitor were 6 years, 12 years and 12 years commencing from the date of commercialisation respectively. As a general policy, the Group intends to allocate and apply 10 to 20 per cent. of its budgeted annual turnover as the annual research and development expenses of the Group.

The Group's in-house research and development department has been actively involved in the research and development of the new products for the Group based on the existing three technology platforms and advice of professionals from outside institutions and the scientific advisory board.

The Group is prepared to apply for clinical trial of its developing product Anti-fungus peptide based on the technology licensed from Zengen. The technology involves a treatment system using one or more polypeptides for treatment of uro-genital conditions. Uro-genital conditions can include infections, inflammation or both. The Directors confirm that the protection period of the aforementioned technology patented or pending to be patented by the United States Patent and Trademark Office to Zengen was 20 years from the date of grant.

Currently, the Group has the following new products under research and development by the Group's research and development department:

Product name	Generic name	Medical category	Dosage form	Medical application	Development stage	Technology used
Declotana	Anti-platelet thrombolysin enzyme	Category 1 biopharmaceutical product	Lyophilized powder for injection	Treatment for unstable angina (不穩定心絞痛), myocardial infarction and stroke	Application for clinical trial submitted to the SDA	Snake venom
Protein-free calf blood extract eye gelatin	Calf serum extract	Category 4 biopharmaceutical product	Topical gel	Treatment for cornea ulcer	Application for clinical trial submitted to the SDA	Water-based gel delivery
Livaracine for new indication (note)	Low molecular weight heparine calcium	Category 5 biopharmaceutical product	Lyophilized powder for injection	Treatment of kidney diseases	Application for clinical trial submitted to the SDA	Low molecular weight heparin
Hemocoagulase	Factor X activator	Category 4 biopharmaceutical product	Lyophilized powder for injection	Treatment for internal bleeding such as gastric ulcer (胃潰瘍), bleeding caused by trauma (創傷), bleeding caused by surgery	Pre-clinical study commenced	Snake venom

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Product name	Generic name	Medical category	Dosage form	Medical application	Development stage	Technology used
Anti-fungus peptide	Tri-peptide	Category 1 biopharmaceutical product	Topical gel	Treatment of yeast infection vaginitis	Pre-clinical study commenced (representing a licensed technology from Zengen)	Water-based gel delivery
Livaracine (note)	Low molecular weight heparin calcium	Category 4 biopharmaceutical product	Topical gel	Skin disease	Pre-clinical study commenced	Water-based gel delivery
Livaracine (note)	Low molecular weight heparin calcium	Category 4 biopharmaceutical product	Oral	Treatment for diseases associated with hyper-coagulation state	Pre-clinical study commenced	Low molecular weight heparin
Heparanase inhibitor	Heparanase inhibitor	Category 1 biopharmaceutical product	Oral or lyophilized powder for injection	Treatment for solid tumours and auto-immune diseases	Pre-clinical study commenced	Other technology

*Note:* Although the three products are Livaracine (low molecular weight heparin calcium) in nature, it is the policy of SDA to require separate applications for three different New Medicine Certificates for each of the products existing in different dosage forms/with different medical indications.

### PRICING POLICY

At present, ZHAOKE Defibrase, ZHAOKE Livaracine and ZHAOKE Yallaferon which are produced by the Group, are subject to price control in the PRC. For each of the three years ended 31st December, 2001, sales of the products which were subject to the price control by the State represented 100.0 per cent., 100.0 per cent. and 100.0 per cent., respectively, of the Group's turnover. Despite the price control on certain of the Group's products, for each of the three years ended 31st December, 2001, the Group still achieved a gross profit margin for its manufacturing business of approximately 61.2 per cent., 71.7 per cent. and 76.2 per cent., respectively. During the Track Record Period, the Group has made an application for price adjustments for one of the Group's products. Applications of the Group's pharmaceutical products for future price adjustments to the relevant price control administrative authorities would be made on an individual basis. The Directors believe that such applications, if made on reasonable grounds, would not be denied.

### INTELLECTUAL PROPERTY RIGHTS

The Group's products are all sold under the trademark of "ZHAOKE", which has been registered in the PRC since 1996. The trademark is not registered outside the PRC.

Based on the snake venom technology as set out in the paragraph headed "Research and development" in the section headed "Business" to this prospectus, the Group has filed a patent application with the United States Patent and Trademark Office in April 1998 for Declotana, a Category 1 new drug of the Group. As at the Latest Practicable Date, the Group has completed the claims notification procedure and most of the claims have been allowed. The Directors

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expect that the application for the patent can be approved in late 2002. The Directors consider that the obtaining of the patent for Declotana will enhance the Group's market recognition both in the PRC and in the United States, and will boost the sale of the Group's existing products and new products in the marketplace.

Based on the water-based gel delivery technology as set out in the paragraph headed "Research and development" in the section headed "Business" to this prospectus, the Group has also filed patent applications for its proprietary formulation for topical delivery of interferon as well as its production process with the IPB in July 1997. In addition, based on the snake venom technology as set out in the paragraph headed "Research and development" in the section headed "Business" to this prospectus, a patent application conveying the manufacturing process of Declotana was filed with IPB in February 2001. The patent applications with IPB are currently under review.

The Group's licensed peptide technology from Zengen covered by a total of 2 patents relating to uro-genital condition treatment pending-to-be-issued by relevant authorities in the United States with a protection period of 20 years from the date of grant.

## INSURANCE

The Group maintains insurance policies which cover its fixed assets and against loss and damage caused by accidents and natural disasters (including fire hazards and explosions). The Group also makes contributions to the retirement and unemployment benefits insurance schemes for its employees in the PRC. Furthermore, the Group has also taken out insurance to cover loss arising from business interruption caused by natural disasters. In accordance with the established practice in the PRC, however, the insurance policies maintained by the Group do not cover any indirect losses (such as loss of profits) caused by cessation of its business. Other than motor vehicle insurance, the Group has not taken out any third party liability insurance in the PRC to cover any claims relating to any personal injury or any deterioration of pharmaceutical products sold by the Group. The Group has not purchased any product liability insurance which is not mandatory under the prevailing laws of the PRC. The Group also maintains a medical insurance plan for employees in Hong Kong. Since its commencement on production, the Group has not experienced any material third party liability claim in relation to its products. The Directors believe that the Group can effectively control the product liability risks through stringent control of its operations and products. Moreover, the Group has to meet various standards and requirements imposed by the regulatory authorities in the PRC in order to obtain and maintain the required certificates, permits and approvals for the production, sale and distribution of its pharmaceutical products from time to time.

## FOREIGN EXCHANGE

Currently, all of the revenues generated from the sales of pharmaceutical products by the Group are in Renminbi. The Directors believe that subject to the risk factors set out in the paragraphs headed "Currency risk" and "Currency conversion and foreign exchange control" in the section headed "Risk factors" of this prospectus, the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group has not used any type of derivatives to hedge against any foreign currency fluctuations.

## ENVIRONMENTAL ISSUES

The Directors believe that the current production of the Group at Zhaoke, which is GMP-compliant, does not generate any environmental-unfriendly by-products which are subject to environmental regulations of the PRC. Since its establishment, the Group has not been prosecuted or penalised for the breach of any national, provincial or local environmental protection law or regulations promulgated by the State, provincial or local governments in the PRC.

## COMPETITION

According to the 深圳證券信息有限公司 (Shenzhen Securities Information Company Limited), there are over 6,700 manufacturers in the PRC producing pharmaceutical products. While the market is in keen competition in terms of the number of participants in the industry, the production and research capacities of pharmaceutical manufacturers vary. Pursuant to the “關於實施《藥品生產質量管理規範》有關規定的通知” (Notice regarding the Implementation of Good Manufacturing Practice) in 1999, the SDA has made it mandatory that all manufacturers of lyophilized powder for injection and bulk pharmaceutical for injection who do not have GMP certification will be prohibited from producing those dosage forms starting from 1st January, 2001. In 2001, SDA issued “關於全面加快監督實施藥品 GMP 工作進程的通知” (Notice on the Overall Acceleration of the Implementation and Supervision of Good Manufacturing Practice for Pharmaceutical Products), in which SDA requires all pharmaceutical manufacturing enterprises to comply with the GMP Standards by 30th June, 2004. The Directors believe that the Group’s GMP compliant pharmaceutical manufacturing plant in Hefei, Anhui Province, the PRC places the Group in an advantageous position in view of the fact that there are currently, only 352 out of 450 lyophilized powder for injection manufacturers and a total of less than five gel manufacturers that are GMP compliant according to information from the SDA as at 26th July, 2001. The Directors consider that pharmaceutical manufacturers in the PRC that are not GMP compliant will not be able to compete effectively with the Group in the long run.

As far as the Group’s existing three pharmaceutical products are concerned, there are at present manufacturers producing similar type of products in the PRC or from overseas manufacturers. Specific instances of competition are analysed as follows:

### **Competition against Yallaferon from injection form interferon**

At present, there are several pharmaceutical manufacturers in the PRC producing injection form interferon which are for the treatment of Hepatitis B and other viral infection diseases such as genital warts.

The Directors believe that the Group is in a position to capture the market shares of genital warts market in the PRC as Yallaferon is the first of its kind produced in topical gel form in the PRC market which is easier to apply and has better efficacy with fewer side effects over its injection form counterparts. As advised by the Directors, it is impossible to assess the Group’s market share in the PRC at this stage as the product is newly launched and is the only available product in its category.



### **Competition against Livaracine from overseas and local manufacturers**

At present, there is one overseas pharmaceutical manufacturer in France producing low molecular weight heparin calcium which is currently being sold in the PRC and to the best knowledge of the Directors, such product is currently the market leader. The Directors believe that the Group is able to compete effectively with this overseas manufacturer as the Group's Livaracine is of similar efficacy with a competitive price. As further advised by the Directors, there is one local manufacturer producing low molecular weight heparin calcium. The low molecular weight heparin calcium from this manufacturer is of different dosage form. The Directors believe that the Group's Livaracine can compete with this manufacturer effectively as the Group's Livaracine is in lyophilized powder which is easier to use and store. The Directors estimate that the market share for the Group's Livaracine is approximately 7 per cent. at present.

### **Competition against Defibrase from local pharmaceutical manufacturers in the PRC**

In the PRC, there are currently 48 pharmaceutical manufacturers approved by the SDA to produce Defibrase under respective brandnames. All of the Defibrase manufactured by various manufacturers are under the same specifications with the same indication and of the same selling price within the PRC. The Directors estimate that the Group has captured approximately 3 per cent. market share in the PRC at present.

Although keen competition exists in the products manufactured by the Group, the Directors believe that in view of the recognised quality of its products, the economies of scale achieved by its production workshops and its extensive marketing network, the Group can compete effectively with its competitors.

# STATEMENT OF ACTIVE BUSINESS PURSUITS

## ACTIVE BUSINESS PURSUITS DURING THE TRACK RECORD PERIOD

As the Company was incorporated on 17th December, 2001, the operations of the Group during the Track Record Period were mainly from those of Zhaoke and Lee's Pharmaceutical. Some important operating activities are recorded as follows:

### For the year ended 31st December, 1999

Revenue	HK\$'000	%
Defibrase	3,506	56.1
Livaracine	2,579	41.2
Other (note)	168	2.7
	6,253	100.0

**Sales and marketing** Continue to increase the market presence of the Group's products.

**Product launches** No new product was launched during the year.

**Production, production facilities and GMP compliance** Application for GMP certification was approved by SDA in respect of bulk pharmaceutical for injection (注射用原料藥) and lyophilized powder for injection (凍乾粉針劑) in September 1999.

**Research and development** Preparation for the application of clinical trial of protein-free calf blood extract eye gelatin.

**Human resources** As at 31st December, 1999, the Group had 92 full-time employees. An analysis by function of the employees of the Group was as follow:

	Hong Kong	PRC	Total
Administration and management	1	19	20
Production	—	25	25
Sales and marketing	5	23	28
Research and development	—	19	19
<b>Total</b>	<b>6</b>	<b>86</b>	<b>92</b>

*Note:* Other represents the sale of leftover inventories of a past pharmaceutical product which is of similar and competing indication with Defibrase. This past pharmaceutical product was developed by the Group based on the snake venom technology injected by USTC Biotech. In 1997, MOH revised the production specification and ingredient standard of such product up from a provincial standard to a State standard which resulted in a ban on further manufacturing of such product. However, the leftover of the product was allowed to continue to be sold.

## STATEMENT OF ACTIVE BUSINESS PURSUITS

**Finance** A loan of RMB5 million was obtained by the Group from the 安徽省信託投資公司合肥分公司 (Hefei branch of Anhui Province Trust and Investment Limited) for the development of Declotana in May 1999.

**Accomplishments** Zhaoke was awarded by MOFTEC as a 外商投資先進技術企業 (Foreign Investment Advanced Technology Enterprise) in April 1999.

Declotana, a product of the Group, which was then under research and development, was acclaimed by 國家經濟貿易委員會 (State Economic and Trade Commission of the PRC) as 國家重點技術創新項目 (Key National Technology and Innovation Project) in June 1999.

Zhaoke was being selected to give a presentation on ZHAOKE Defibrase in the 72nd Scientific Sessions of America Heart Association held in the United States in October 1999.

**Trademarks** Trademark for Livaracine was obtained by the Group from Trademark Bureau of SAIC in October 1999.

### For the year ended 31st December, 2000

Revenue	<i>HK\$'000</i>	%
Defibrase	2,115	30.9
Livaracine	<u>4,737</u>	<u>69.1</u>
	<u><u>6,852</u></u>	<u><u>100.0</u></u>

**Sales and marketing** Continue to increase the market presence of the Group's products.

**Product launches** No new product was launched by the Group during the year.

**Research and development** Application was filed by the Group to Beijing Clinical Trial Review Committee for clinical trial of protein-free calf blood extract eye gelatin preparation in February 2000.

Supplemental application for the clinical trial of Declotana was submitted to SDA.

## STATEMENT OF ACTIVE BUSINESS PURSUITS

Human resources As at 31st December, 2000, the Group had 113 full-time employees. An analysis by function of the employees of the Group was as follow:

	Hong Kong	PRC	Total
Administration and management	1	16	17
Production	—	43	43
Sales and marketing	2	41	43
Research and development (Note 1)	—	10	10
	—	10	10
Total	3	110	113

Finance The operations of the Group was financed by internally generated funds, shareholder's loan and banking facilities.

Accomplishments The Certificate of New Drug for Yallaferon was obtained by the Group in October 2000.

### For the period from 1st January, 2001 to the Latest Practicable Date

<i>Revenue (Note 2)</i>	<i>HK\$'000</i>	<i>%</i>
Defibrase	2,016	19.5
Livaracine	6,473	62.6
Yallaferon	1,857	17.9
	10,346	100.0

Sales and marketing The marketing department at Zhaoke was expanded and its sales head office was relocated to Guangzhou in July 2001.

Product launches Yallaferon was launched in the market in July 2001.

Production, production facilities and GMP compliance Application for GMP certification in respect of gel workshop was filed by the Group with the SDA in February 2001.

Application for GMP certification was approved by the SDA in respect of gel workshop in May 2001.

#### Notes:

1. As the pre-clinical works or clinical works of several projects, including Yallaferon, protein-free calf blood eye gelatin and the technology on developing product were completed by the year 2000, resources were shifted to areas such as production and quality control in coping with the transformation of the Group from a purely research-driven organisation to a commercial entity. In addition, the Group has continued its collaboration with other research organisations to optimise its resources. As a result, the number of people involved in in-house research and development had been reduced significantly.
2. Audited figures up to 31st December, 2001 only.

## STATEMENT OF ACTIVE BUSINESS PURSUITS

Research and development      Application for the clinical trial of Livaracine for new indication for kidney diseases was submitted to Beijing Clinical Trial Review Committee in September 2001.

Pre-clinical study of Hemocoagulase commenced.

Pre-clinical study of anti-fungus peptide technology for vaginitis commenced.

Pre-clinical study of topical gel Livaracine commenced.

Pre-clinical study of oral Livaracine commenced.

Pre-clinical study of Heparanase inhibitor commenced.

Human resources      As at the Latest Practicable Date, the Group had 103 full-time employees. An analysis by function of the employees of the Group was as follow:

	Hong Kong	PRC	Total
Administration and management	1	10	11
Production	—	35	35
Quality control	—	14	14
Research and development ( <i>note</i> )	—	7	7
Sales and marketing	1	25	26
Finance	2	8	10
	4	99	103
Total	4	99	103

Finance      The operations of the Group was financed by internally generated funds, shareholder's loan and banking facilities.

Accomplishments      The Group was awarded a matching grant for its project on "Screening of Human Heparanase Inhibitors as Anti-Cancer Drugs from Traditional Chinese Medicine" with the Biotechnology Research Institute of the Hong Kong University of Science and Technology.

Trademarks      Trademark of Yallaferon for topical interferon was approved by Trademark Bureau of SAIC in November 2001.

*Note:* As the supplemental clinical works of Declotana and protein-free calf blood eye gelatin were completed by the year 2001, resources were shifted to areas such as production and quality control in coping with the transformation of the Group from a purely research-driven organisation to a commercial entity. In addition, the Group has continued its collaboration with other research organisations to optimise its resources. As a result, the number of people involved in in-house research and development had been reduced significantly.

### BUSINESS OBJECTIVES

The aim of the Group is to become a successful biopharmaceutical group in the PRC providing innovative and high quality medicines of value that combat diseases, in particular, for the treatment of cardiovascular diseases, stroke, viral-infected sexual diseases, cancer and vaginitis, and improve health. Based on the three in-house developed technology platforms, the Group endeavours to develop therapeutic agents for diseases that have increasing prevalence in the PRC. The Directors believe that the existing operations of the Group with two fully operational and GMP-compliant workshops for the manufacturing of (i) bulk pharmaceutical for injection and lyophilized powder for injection, and (ii) gel will provide a platform for the Group to further develop and expand in the biopharmaceutical industry of the PRC. To achieve its mission, the Group has formulated the following business objectives:

- Expansion of production capacity and capability
  - In line with the Group's business expansion plan, the Group will continue to upgrade, enhance and expand its existing production facilities for its further growth and development. The Group will also apply advanced technology on the production process in order to upgrade its production efficiency and to improve the quality of its existing products in order to achieve economies of scale and to enhance the competitiveness of its products in the marketplace.
- Further expansion on the distribution networks and sales teams
  - The Directors intend to further expand the Group's distribution network and sales teams to explore/broaden the customer base and its market coverage of regional cities and rural areas in the PRC where there is a high growth potential for effective and high quality medicines such as the Group's products.
- Marketing and promotion of the Group's presence and its products
  - The Group will continue to promote and market its products as well as its presence in the PRC.
- Focusing on the development of biopharmaceutical products based on its own developed technological platforms to expand the existing product range
  - The Directors believe that the Group's expertise on the development and application of (i) the snake venom technology, (ii) the low molecular weight heparin technology, and (iii) the water-based gel delivery system on its biopharmaceutical products provides a strong foundation for the Group to further develop a product pipeline. The Group focuses on the research and development of biopharmaceutical products mainly for the treatment of (i) cardiovascular diseases and stroke, (ii) viral infection, (iii) cancer, and (iv) vaginitis.

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## BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

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- Further expansion on the Group's research and development capabilities
  - As a research-driven group, the Group commits to continue its investment in technology and research in the biopharmaceutical industry. Apart from the research and development of new products, the Group also works continuously on identifying new indications and new applications for its existing products. The Group believes that through continuously searching for new and better treatments for diseases, customers and patients will be benefited through improved health, longevity and lower societal costs. The Group plans to intensify its collaboration with outside institutes to accelerate the expansion of the Group's product development capabilities and to a certain extent, reduce research and development costs.
  
- Growth through acquisitions, strategic alliances, joint ventures and cooperative arrangements
  - The Directors are of the opinion that suitable acquisitions of and strategic alliances with overseas and PRC-based pharmaceutical companies will enable the Group to expand and strengthen its position in the biopharmaceutical industry or bring in synergistic benefits to the Group both in the PRC and overseas. In addition, the Group will aggressively pursue opportunities to acquire latest technology or products to further develop the Group's pipeline.
  
- Staffing
  - To ensure a smooth operation of the business, the Group will continue to recruit and retain high calibre professionals and provide continuous training to its existing staff.

With a view to achieve its business objectives, the Group has set out its business strategies and specific business objectives, and composed implementation plans during the Forward Looking Period, details of which are set out under the paragraphs headed "Business strategies" and "Specific objectives during the Forward Looking Period" below.

### BASES AND ASSUMPTIONS

To achieve the Group's business objectives, the Directors have formulated the business strategies and specific business objectives for the Forward Looking Period on the following bases and assumptions:

- (i) the Placing will be completed in accordance with and as described in the section headed "Structure of the Placing" of this prospectus;
- (ii) there will be no material change in existing government policies (including foreign exchange control) or political, legal, fiscal, market or economic conditions in Hong Kong, the PRC or other territories in which the Group carries on its business or to which the Group's products are exported or from which it obtains materials;
- (iii) there will be no material change in exchange rates or interest rates from those currently prevailing in Hong Kong, the PRC or elsewhere which will materially affect the business carried on by the Group;
- (iv) there will be no material change in the bases or rates of taxation applicable to the activities of the Group or in the bases or rates of custom duties or levies in the territories from which the Group currently imports and to which its products are exported;
- (v) the Group will be able to obtain all necessary approvals from the relevant government authorities for its business operations and products;
- (vi) the Group will not be affected by any of the risk factors set out under the section headed "Risk factors" of this prospectus;
- (vii) the Group will not encounter any significant difficulties in the research and development of any of its new products;
- (viii) the Group will be able to complete and pass the various clinical trials on the various products and obtain all the necessary approval from the relevant government authorities for such commercial production within the anticipated time frame;
- (ix) the new products to be launched during the Forward Looking Period are commercially viable as forecasted; and
- (x) there will be no material change in the demand growth of the products as forecasted.



## BUSINESS STRATEGIES

With its strong in-house research and development team and a nationwide marketing and sales network, the business strategy of the Group is to capitalise its strengths in the marketplace. The Group endeavours to develop new scientific and effective biopharmaceutical products of international standard based on its own in-house research results. The Group is also committed to improve the quality of its existing products and to upgrade its production efficiency in order to achieve economies of scale and enhance the competitiveness of its products in the marketplace. The Group has formulated its business strategies comprising the following elements:

- Production
  - to upgrade and expand the existing production facilities;
  - to continue to apply advanced technology to its production process to upgrade its production efficiency and to improve the quality of its existing products in order to achieve economies of scale and to enhance the competitiveness of its products in the marketplace; and
  - to continue to provide training to the existing staff;
- Sales and marketing
  - to continue to broaden its customer base and market coverage, in particular, to the regional cities and rural provinces of the PRC where there is a high growth potential for effective and high quality medicines such as the Group's products; and
  - to continue to promote and market the Group's products as well as its presence in the PRC;
- Research and development
  - to strengthen the Group's research and development capabilities;
  - to continue studies and trials on products approved for further testing prior to commercial production; and
  - to further develop a product pipeline based on the Group's in-house developed technology platforms and to acquire latest technology and products from the United States or Europe with focus on products mainly for the treatment of (i) cardiovascular diseases and stroke, (ii) viral infection, (iii) cancer and (iv) vaginitis.

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## BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

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### SPECIFIC BUSINESS OBJECTIVES DURING THE FORWARD LOOKING PERIOD

The Directors believe that demand for biopharmaceutical products, in particular for the treatment of cardiovascular and sexual transmitted diseases, is expected to continue to increase. As such, the market potential for the Group's biopharmaceutical products is significant. The Group intends to increase its market share in the biopharmaceutical market in the PRC and to enlarge its product range based on the Group's technology platforms. Hence, the Directors intend to implement the following specific business objectives to capture the opportunities:

#### **For the period from the Latest Practicable Date to 31st December, 2002**

- Production : Install and commission new purification system to expand the production system of purification workshop
- Sales and marketing : Establish Chengdu branch office to expand the Group's sales efforts and expand Guangzhou sales office and Shanghai branch office to intensify sales and marketing efforts
- Research and development : Submit application for clinical trials for (i) Declotana and (ii) topical gel Livaracine and (iii) Hemocoagulase; commence phase II clinical trials of (i) protein-free calf blood extract eye gelatin and (ii) Livaracine for new indication

#### **For the period from 1st January, 2003 to 30th June, 2003**

- Production : Purchase new equipment for raw material workshop to increase the production capacity
- Sales and marketing : Establish Wuxi branch office to expand the Group's sales efforts
- Research and development : Commence phase I clinical trial of anti-fungus peptide; enter into phase II clinical trial on Declotana

#### **For the period from 1st July, 2003 to 31st December, 2003**

- Production : Install and commission (i) new purification system for purification workshop and (ii) imported lyophilized machine to increase the production capacity by 100 per cent.; purchase new equipment for raw material workshop to increase the capacity by 50 per cent.

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## BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

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Sales and marketing : Launch (i) Hemocoagulase; (ii) protein-free calf blood extract eye gelatin and (iii) Livaracine for new indication into the market

Research and development : Commence phase II clinical trials of (i) anti-fungus peptide and (ii) topical gel Livaracine

### **For the period from 1st January, 2004 to 30th June, 2004**

Production : Install and commission (i) new imported filling machine for gel workshop; (ii) imported lyophilized machine and (iii) new purification system to increase the production capacity by 100 per cent.

Sales and marketing : Launch (i) anti-fungus peptide and (ii) Declotana into the market

Research and development : Commence phase II clinical trials of (i) Heparanase Inhibitor and (ii) Oral Livaracine

### **For the period from 1st July, 2004 to 31st December, 2004**

Production : Install and commission a new imported filling machine to increase the production capacity of lyophilized powder/gel workshop by 50 per cent.

Sales and marketing : Launch topical gel Livaracine into the market

Expansion : To establish a GMP-compliant workshop for oral formulation

# BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

## IMPLEMENTATION PLANS

A graphical presentation of the implementation plans of the Group's specific business objectives from the Latest Practicable Date to the Forward Looking Period is set out below:

Areas of focus	Strategies	2002		2003				2004				
		LPD to Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
<b>Production</b>	upgrading and expanding the existing production facilities and equipment	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	
	staff training	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	
<b>Sales and marketing</b>	expansion of the PRC sales and distribution staff force	△	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	
	advertising and sales promotion of new products	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	
	advertising and sales promotion of existing products	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	
	setting up new branch/sales offices in Chengdu and Wuxi for expansion and strengthening of the distribution network	^^^	△	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	
<b>Research and development</b>	strengthening of the Group's research and development capabilities	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	^^^	
	studies and trials of new products: <ul style="list-style-type: none"> <li>● Declotana</li> <li>● Protein-free calf blood extract eye gelatin</li> <li>● Livaracine for new indication (note)</li> <li>● Hemocoagulase</li> <li>● Anti-fungus peptide</li> <li>● Topical gel Livaracine (note)</li> <li>● Oral Livaracine (note)</li> <li>● Heparanase inhibitor</li> </ul>	* #		# ◆			⊕ ◆		⊕			
		#	◆			⊕				⊕		
		☆	☆	#	*	◆ #	⊕ ◆		⊕		⊕	
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### Legend:

- |                   |  |   |  |
|-------------------|--|---|--|
| △                 | Initial completion stage                             | ⊙ | Commence pre-clinical study                          |
| ^^^               | Ongoing development                                  | ☆ | Apply to commence clinical trials                    |
| LPD               | Latest Practicable Date                              | * | Commence first phase clinical trials (if applicable) |
| ◆                 | Conclude clinical trials                             | # | Commence second phase clinical trials                |
| Q1, Q2, Q3 and Q4 | First, second, third and fourth quarter respectively | ⊕ | Commercialise product                                |

**Note:** Although the three products are Livaracine (low molecular weight heparin calcium) in nature, it is the policy of SDA to require separate applications for three different New Medicine Certificates for each of the products existing in different dosage forms/with different medical indications. The details of the three products are set out in the section headed "Research and development" in the section headed "Business" to this prospectus.

### Warnings:

It should be noted that as the Group's aforesaid plans are based on the existing plans and intentions of the Group which are either in a conceptual stage or a preliminary stage and that the implementation plans have been formulated on the basis of the Directors' best estimate of market trend and demand and may be subject to changes should any material changes in market conditions arise. Furthermore, as such intentions and plans are based on assumptions of future events which by their nature are subject to uncertainty, the Group's actual course of action may vary from the intentions and plans. In addition, many if not all of these assumptions are untested and accordingly, may turn out to be invalid. This may result in any or all of the objectives not being achieved within the scheduled timeframe or at all. Although the Directors have taken due care in formulating the above objectives and will use their respective best endeavours to execute such objectives in accordance with the aforesaid timeframe, there is no assurance that the Group's plans will materialise, result in the conclusion of any agreement or be executed in accordance with the aforesaid timeframe or that the objectives of the Group will be fully accomplished or accomplished at all. As a result, the above implementation plans should be read with caution. The Directors will closely monitor the situation and constantly review the response to the Company's development and may adjust its business objectives as and when appropriate.

### USE OF PROCEEDS

The net proceeds from the New Issue will provide funding to the Group for its plans set out in this section. The net proceeds of the New Issue, after deducting related expenses (assuming the Over-allotment Option is not exercised), are estimated to be approximately HK\$20.0 million. The Directors presently intend to apply the net proceeds as follows:

- Production
  - as to approximately HK\$5.49 million on upgrading and expansion of existing production facilities and equipment;
  - as to approximately HK\$0.19 million on staff training;
- Sales and marketing
  - as to approximately HK\$1.80 million on expansion of the PRC sales and distribution staff force;
  - as to approximately HK\$5.12 million on advertising and sales promotion of new products;
  - as to approximately HK\$0.52 million on advertising and sales promotion of existing products;

## BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

- Research and development
  - as to approximately HK\$1.72 million on approved clinical trials of products prior to commercial production;
  - as to approximately HK\$1.17 million on in-house research and development of new products;
- Others
  - as to approximately of HK\$2.98 million as repayment third party loans;
  - as to the balance of approximately HK\$1.01 million as additional working capital of the Group.

A graphical presentation of the proposed use of proceeds by the Group from the Latest Practicable Date to the Forward Looking Period by quarter is set out below:

Areas of focus	Strategies	2002		2003				2004				Total
		LPD to Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Production</b>	upgrading and expanding the existing production facilities and equipment	1,097	66	820	1,492	2,011						5,486
	staff training	18	18	18	18	18	18	20	20	20	20	188
<b>Sales and marketing</b>	expansion of the PRC sales and distribution staff force	151	162	167	158	176	184	190	190	208	217	1,803
	advertising and sales promotion of new products					332	711	379	1,137	1,847	711	5,117
	advertising and sales promotion of existing products	379	142									521
<b>Research and development</b>	approved clinical trials of products prior to commercial production	337	99	483	95	445	76	71	95		19	1,720
	research and development of new products	247	285		195		223		223			1,173
<b>Others</b>	repayment of third party loans	2,302	682									2,984
	additional working capital	1,008										1,008
<b>Total</b>		5,539	1,454	1,488	1,958	2,982	1,212	660	1,665	2,075	967	20,000

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## BUSINESS OBJECTIVES AND IMPLEMENTATION PLANS

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**The Directors believe that the net proceeds from the New Issue together with the Group's internally generated cashflow will be sufficient to finance all planned and/or intended projects of the Group as described in this section.**

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$5.40 million based on the Placing Price of HK\$0.40 per Share. The Directors intend to allocate approximately HK\$3.00 million of the additional net proceeds raised from the exercise of the Over-allotment Option for further repayment of third party loans and the remaining balance of approximately HK\$2.40 million as additional working capital of the Group.

To the extent that the net proceeds of the New Issue are not immediately required for the above purposes, the Company intends to place the net proceeds on short-term deposits with authorised financial institutions in Hong Kong.

In the event that any part of the business plans of the Group does not materialise or proceeds as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or to new projects of the Group and/or to hold it as short-term deposits so long as the Directors consider it to be in the best interest of the Company and its Shareholders taken as a whole.

**DIRECTORS****Executive Directors**

*Ms. Lee Siu Fong*, aged 45, is the Chairman of the Company and Zhaoke. She joined the Group in April 1997 and has since been responsible for the Group's financial affairs. Ms. Lee has been responsible for tightening up the Group's credit policy and for implementing a cash-on-delivery policy, which resulted in continual reduction in accounts receivable and significant improvement in cash flow of the Group. In addition, Ms. Lee has put in place a monthly budget system, greatly improving the cash management of the Group. She is the sister of Ms. Leelalertsuphakun. Ms. Lee is an entrepreneur and had since 1992 established and run several companies such as Lee's Machinery (a company incorporated in Hong Kong and engaged in the trading of ceramics and stone processing machinery, equipment and spare parts since December 1991, with a staff size of around 10 persons) and Lee's Techno-Net Limited (a company incorporated in Hong Kong and engaged in trading of health-care related devices and equipment since September 2000, with a staff size of around 10 persons) respectively with primary responsibility in financial affairs. Ms. Lee has been the director and shareholder of Lee's Machinery since 8th January, 1992 and 17th December, 1991 and Lee's Techno-Net Limited since 14th January, 2000 respectively. Prior to joining the Group, Ms. Lee was the manager of finance department of Gi-Go Toys Factory Limited (a Hong Kong company engaged in manufacture of toys which was owned by Mr. Leung Ho Fung, Bede, an independent third party not connected with any of the chief executive, directors, management shareholders, substantial shareholders or any of their respective associates) responsible for financial affairs during 1981 to 1986.

*Ms. Leelalertsuphakun Wanee*, aged 48, is the Managing Director and the chief executive officer of the Company and a director of Zhaoke. She joined the Group in April 1997 and has since been responsible for the daily operation of the Group. Ms. Leelalertsuphakun has been instrumental in formulating and implementing the Group's marketing strategy of partnering with local distributors resulting the Group's distribution network to become more effective and efficient. Ms. Leelalertsuphakun has also supervised on the production side with great effort to reduce the production cost by implementing monthly production plan to correlate with the Group's sales. Her efforts have resulted in a significant increase in sales and substantial reduction in cost of sales during the Track Record Period. She is the sister of Ms. Lee. Ms. Leelalertsuphakun is an entrepreneur and had since 1992 established and run several companies such as Lee's Machinery (a company incorporated in Hong Kong and engaged in the trading of ceramics and stone processing machinery, equipment and spare parts since December 1999, with a staff size of around 10 persons) and Lee's Techno-Net Limited (a company incorporated in Hong Kong and engaged in trading of health-care related devices and equipment since September 2000, with a staff size of around 10 persons) respectively. Ms. Leelalertsuphakun has been the director and shareholder of Lee's Machinery since 8th January, 1992 and 17th December, 1991 and Lee's Techno-Net Limited since 14th January, 2000 respectively. Prior to joining the Group, Ms. Leelalertsuphakun was the manager of purchasing department of Hollywood International Limited (a Thai company engaged in trading of surveying equipment, spectacles and electronic equipment which was owned by Mr. H. T. Tang, an independent third party not connected with any of the chief executive, directors, management shareholders, substantial shareholders or any of their respective associates) responsible for merchandising during 1980 to 1988.



*Mr. Lau Tai Wai*, aged 33, is the director and chief marketing officer of the Company and a director of Zhaoke. Mr. Lau holds an MBA degree from East Carolina University of the United States. He is responsible for the sales and marketing of the Group. Prior to joining the Group in August 1999, he was a product executive in Glaxo Wellcome Hong Kong Limited (which is a multinational pharmaceutical giant listed on the London Stock Exchange) during 1994 to 1996, a regional sales manager (based in Shanghai) of Amgen Greater China Limited (which is an international biotechnology company listed on the NASDAQ) during 1996 to 1998 and product marketing manager of ProMach Limited (which is a Bermuda-incorporated medical equipment company) during 1998 to 1999 respectively, responsible for sales and marketing for greater China.

### **Independent Non-Executive Directors**

*Dr. Chan Yau Ching, Bob*, aged 39, is an independent non-executive Director appointed on 14th January, 2002. He has extensive experience in strategy formulation and implementation for companies. Dr. Chan holds a BBA from the Chinese University of Hong Kong, an MBA from University of Wisconsin-Madison and a Ph.D. from Purdue University. He had been a finance professor of City University of Hong Kong and an adviser to various international institutions, including the United Nations and the Asian Development Bank. Dr. Chan is a Chartered Financial Analyst and a full member of the Hong Kong Securities Institute. He is currently an advisor to the Board of Directors of Celestial Asia Securities Holdings Limited.

*Mr. Leung Yun Fai*, aged 44, is an independent non-executive Director appointed on 14th January, 2002. Mr. Leung is also a director of High Progress Consultants Limited, a financial consulting firm in Hong Kong, since July 2000. He holds a bachelor degree of business administration from Newport University in the United States. Prior to joining the Group, Mr. Leung had over 19 years of auditing and accounting experience with Kwan, Wong, Tan & Fong and Deloitte Touche Tohmatsu.

### **AUDIT COMMITTEE**

The Company has established an audit committee in compliance with the Code of Best Practice as set out in Rule 5.23 of the GEM Listing Rules on 26th June, 2002 with written terms of reference based on the guidelines set out in “A Guide for the Formation of an Audit Committee” of the Hong Kong Society of Accountants. It consists of two independent non-executive Directors, namely Dr. Chan Yau Ching, Bob and Mr. Leung Yun Fai. The primary duties of the audit committee are to review the Company’s annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company’s qualified accountant, compliance officer and auditors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and the Group’s internal control system.

### SENIOR MANAGEMENT

*Dr. Li Xiao Yi*, aged 39, is the technical consultant and adviser of the Company. Dr. Li holds a Ph.D. of Pharmacology from the University of Illinois at Chicago and was a postdoctoral fellow with Warner-Lambert, a major pharmaceutical company during 1992 and 1993. Prior to joining the Group, he was a director of Siu-Fung Ceramics Holdings Limited, a company listed on the Main Board at that time. He joined the Group in February 1994 and has since been responsible for the research and development of the Group. Dr. Li was a director of Lee's Pharmaceutical during February 1994 to January 2002 and a director of Zhaoke from December 1993 to November 2001. He resigned as the director of Lee's Pharmaceutical and Zhaoke so as to concentrate his time and professional efforts on research and development of the Group's new products. He is the brother of each of Ms. Leelalertsuphakun and Ms. Lee. Dr. Li is also the spouse of Ms. Lue. Dr. Li was publicly criticised by the Stock Exchange on 5th December, 2000 in respect of the failure to publish financial results of Siu-Fung Ceramics Holdings Limited within the required time frame.

*Ms. Mok Sau Man, Joanna*, aged 35, is the chief financial officer, company secretary and qualified accountant of the Company. Ms. Mok is responsible for the accounting and company secretarial functions of the Group. She joined the Group in March 2001. Ms. Mok is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Before joining the Group, she was an accounting manager of Fong's National Engineering Co. Ltd., a subsidiary of Fong's Industries Company Limited, a listed company in Hong Kong from 1993 to 2001.

*Professor Wang Xian Shun*, aged 66, is the chief engineer of the Group. Professor Wang graduated from 北京大學 (Beijing University) with a bachelor degree in Biochemistry. Before joining the Group, he was a professor and a faculty member in College of Life Science, USTC. He joined the Group in January 1995 and has been responsible for the technical operation of the Group.

*Dr. Cheng Xin*, aged 34, is the senior scientific officer of the Group. Dr. Cheng obtained her Master degree from 中國藥科大學 (China Pharmaceutical University) and her Ph. D. degree from USTC. She is currently a postdoctoral fellow with University of Pennsylvania. She joined the Group in July 1995 after her completion of master degree and has since been in charge of the Group's drug discovery efforts. Dr. Xin is currently staying in United States responsible for liaison and support of the project involving the patent licensed form Zengen.

*Mr. Chen Yueshen*, aged 43, is the chief operating officer of the Group and executive deputy manager and a director of Zhaoke, the Group's manufacturing arm. Mr. Chen worked in various managing positions before joining the Group in October 1999. Before joining the Group, Mr. Chen was a deputy general manager of 廣州市正田有限公司, a company providing property-related services in Guangzhou. He is responsible for the daily operation of Zhaoke as well as administration and deployment of human resources.

*Mr. Xu Yinxiang*, aged 31, is the manager of the production department of the Group. Mr. Xu graduated from 安徽中醫學院 (Anhui College of Traditional Chinese Medicine) with a bachelor

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

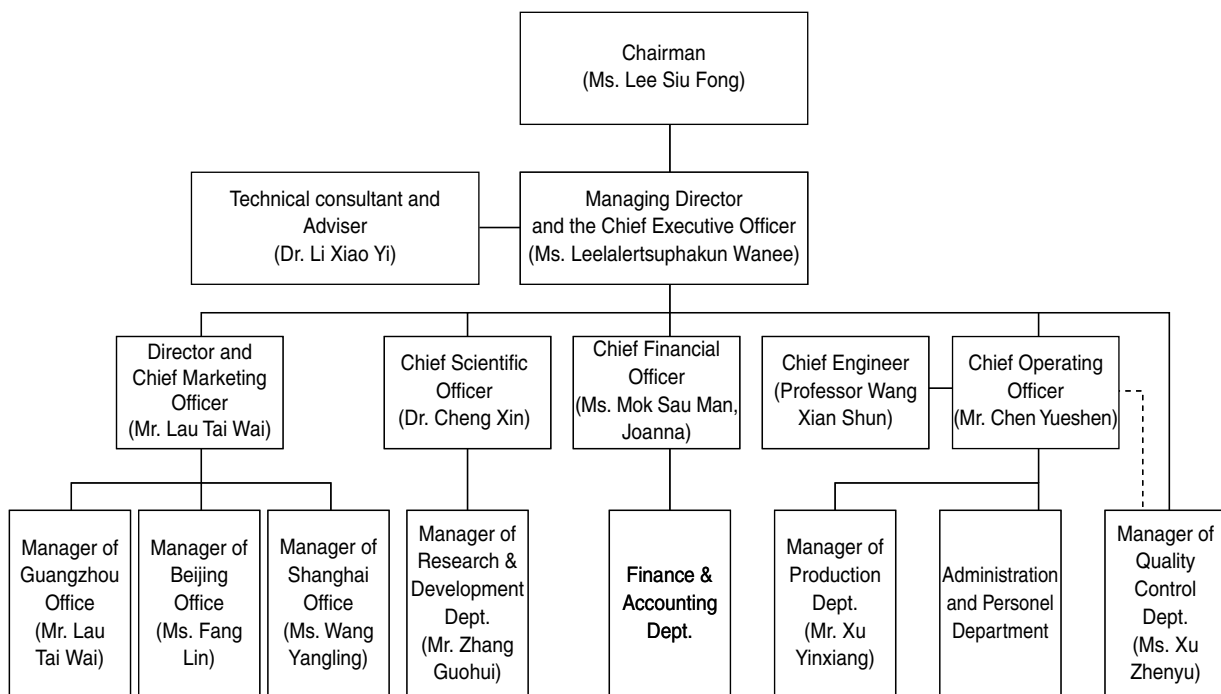
degree in Chinese Medicine. He joined the Group in November 1998 and was responsible for the commercial production of Livaracine. He is now responsible for the production of the Group. Before joining the Group, he was employed by 楊子江藥業集團公司 from 1995 to 1996 and an assistant engineer in 安徽省新藥研究院 from 1996 to 1998.

*Ms. Xu Zhenyu*, aged 54, is the manager of the quality control department of the Group. She was a lecturer and technician in the USTC for six years before joining the Group in January 1995. She has been a key member of various research projects and is now head of quality control department at Zhaoke.

*Mr. Zhang Guohui*, aged 28, is the manager of the research and development department of the Group. Mr. Zhang obtained his bachelor degree in biotechnology from 北京輕工業學院 (Beijing Light Industry University). He joined the Group in July 1997 as a research scientist immediately after his completion of his bachelor degree and is currently managing the daily activities of the Group's research and development department.

*Ms. Fang Lin*, aged 32, is the manager of Beijing Sales Representative Office. Ms. Fang graduated from 安徽中醫學院 (Anhui College of Traditional Chinese Medicine). She joined the Group as a sales representative in March 1999 and has since managed various managerial affairs in the Group's marketing and sales department. Before joining the Group, Ms. Fang was an intern in 舒城縣城關衛生院 from 1992 to 1998.

The chart below is the organisational structure of the Group as at the Latest Practicable Date:



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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### STAFF

As at the Latest Practicable Date, the Group had 103 full-time employees. A breakdown of the workforce by activity is as follows:

Department	Hong Kong	PRC	Total
Management and administration	1	10	11
Production	—	35	35
Quality control	—	14	14
Research and development	—	7	7
Sales and marketing	1	25	26
Finance	2	8	10
	<u>4</u>	<u>99</u>	<u>103</u>
Total	<u>4</u>	<u>99</u>	<u>103</u>

The Group maintains a good relationship with its employees and has not experienced any significant problems with the recruitment and retention of experienced employees nor any material disruption of its normal business operations as a result of industrial disputes up to the Latest Practicable Date.

The Group offers a comprehensive remuneration and employee's benefit package to its employees. Such package includes participation in provident fund and medical schemes. The Group also provides on-the-job training for staff and workers to ensure that they understand their job responsibility and increase their productivity. For technical personnel, the Group will provide them with training from the research institutions and universities. Prior to the assignment of staff and workers to various production lines, detailed production flowcharts and job procedural manuals are distributed to them as working guides.

### DIRECTORS' REMUNERATION

Each of the executive Directors has entered into a service contract with the Company, pursuant to which, each of them will receive a salary which is subject to increment as the Board may determine from time to time at its absolute discretion. The executive Directors and the senior management personnel of the Group may receive a discretionary bonus to be determined by the Board at its absolute discretion. The estimated total salary and benefits in kind receivable by the executive Directors for the year ending 31st December, 2002 is approximately HK\$1,316,000 (without accounting for any possible remuneration arising from the Pre-IPO Share Option Scheme and/or the Share Option Scheme). Details of the terms of the services agreements are set out in the section headed "Further information about the Directors, management and staff" in Appendix IV to this prospectus.

No emoluments were paid by the Group to any of its directors during the Track Record Period.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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During the Track Record Period, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or compensation for loss of office and no Director had waived any emoluments during the above periods.

Each executive Director has entered into a service contract with the Group. Particulars of these contracts are set out below.

The service contracts of Mr. Lau Tai Wai commenced on 14th January, 2002 and that of both Ms. Lee and Ms. Leelalertsuphakun commenced on 1st April, 2002. Such appointment will continue thereafter unless and until terminated by either party to the service contract by serving not less than three months' prior written notice to the other party. Each of the executive Directors shall be entitled to a salary set out below (subject to an annual review by the Board):

- Ms. Lee as to HK\$600,000 per annum
- Ms. Leelalertsuphakun as to HK\$450,000 per annum
- Mr. Lau Tai Wai as to HK\$42,000 per month

### **PENSION SCHEME**

The Group provides its staff with a provident fund scheme in compliance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (as amended from time to time) and provides medical reimbursement to its full-time employees in Hong Kong.

Further details of the retirement benefits schemes maintained by the Group are set out in the accountants' report in Appendix I to this prospectus.

### **PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME**

Pursuant to the written resolutions of all Shareholders dated 26th June, 2002, the Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme whereby full-time or part-time employees of the Group (including executive or independent non-executive Directors) may be granted options to subscribe for the Shares. The Directors consider that the adoption of the Pre-IPO Share Option Scheme and the Share Option Scheme will assist the Group in its recruitment and retention of high calibre executives and employees. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarised in the sections headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix IV to this prospectus.

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## **RELATIONSHIP WITH THE INITIAL MANAGEMENT SHAREHOLDERS**

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The Initial Management Shareholders will in aggregate hold 62.8 per cent. of the issued Shares immediately after completion of the Placing (assuming the Over-allotment Option is not exercised). Save for the transactions set out in accountants' report in Appendix I of this prospectus, the Initial Management Shareholders confirm that they do not have any business relationship with the Group.

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## COMPETING BUSINESS

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### COMPETING BUSINESSES

High Knowledge is one of the Initial Management Shareholders which will be interested in approximately 5.5 per cent. of the share capital of the Company immediately following completion of the Placing. On 15th September, 2001, the Group as vendor disposed of the technology of a developing product to High Knowledge. In view of the relatively more complex organic chemical synthesis methodology and technique required for mass production of this developing product (which would require new investments on (i) production line (on top of the Group's planned capital expenditure on the said GMP compliant oral line which cannot accommodate for the said demanding synthesis technique) and (ii) environmental measures), the Directors considered that it was an appropriate time for the Group to dispose of the said technology to realise the investments so far made in this technology and rationalise the Group's production focus. The subject developing product is expected to be orally applied for the treatment of osteoporosis of menopausal women. Given that the indication of this developing product is different from those of all available products of the Group which are currently either under sale or under development, the Directors consider that there is no direct competition between the developing product and those of the Group.

The nature and expected amount of such additional investment are as follows:

	<i>RMB</i>	
Factory for chemical synthesis	10,000,000	(twelve-step synthesis)
Environmental management	1,500,000	
Land	500,000	
Total	12,000,000	

The basis of the consideration for the said disposal is the prevailing marketing price in a sale and purchase of a given drug under development in the PRC market. According to the Directors, the selling price of a given Category 2 drug which had duly obtained approval for clinical study was in the range of RMB2 to 2.3 million under the then market condition. The disposal by the Group of such technology of a developing product, however, took place at a development stage when the approval for its clinical study had not yet been obtained. In order to reflect the inherent risk that no approval for its clinical study could be granted by the relevant authorities, and with reference to a previous conditional offer attempt made by an independent third party for such technology of a developing product at RMB1.5 million, the Directors had arrived at an agreed price of RMB1.6 million with High Knowledge. The agreed price of RMB1.6 million was already much higher than the research and development costs incurred so far on the drug by the Group and the Directors considered the terms of the disposal were fair and reasonable.

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## COMPETING BUSINESS

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The details of the disposal are as follows:

	<i>HK\$'000</i>
Consideration	1,516
Tax withheld	(76)
Research and development cost	<u>(44)</u>
Gain on disposal	<u><u>1,396</u></u>

Save as disclosed above, High Knowledge does not hold any other investments which compete or may compete with the business of the Group. The principal activity of High Knowledge is investments in pharmaceutical technologies which it considers to have potential of development and growth. High Knowledge has no intention to inject the technology acquired from the Group back into the Group at present. Given the present circumstances including that High Knowledge is looking for partners to move the technology forward into clinical study phase, High Knowledge has no intention to inject the technology acquired from the Group back into the Group in the foreseeable future.

Save as disclosed, each of the Initial Management Shareholders and the Directors confirm that they do not have, or engage in, any business or interest that competes or may compete with the business of the Group and any other conflicts of interest which have or may have with the Group.

The Group does not have any intention to compete with the potential drug to be developed and produced based on the technology disposed to High Knowledge during the Forward Looking Period. However, in order to allow maximum flexibility for the future growth and development of the Group, the Directors do not rule out the possibility of any future competition with High Knowledge should circumstances change.



## **SUBSTANTIAL SHAREHOLDERS AND INITIAL MANAGEMENT SHAREHOLDERS**

### **SUBSTANTIAL SHAREHOLDERS**

Immediately after the completion of the Placing (assuming the Over-allotment Option is not exercised), the following are the only persons who will be interested in 10 per cent. or more of the Shares in issue:

<b>Name</b>	<b>Number of Shares</b>	<b>Approximate percentage of holding after listing</b> %
Huby Technology	155,290,625	53.7
Ms. Lee	165,625,000	57.3
Ms. Leelalertsuphakun	163,290,625	56.5

### **INITIAL MANAGEMENT SHAREHOLDERS**

Immediately after the completion of the Placing (assuming the Over-allotment Option is not exercised), the following persons will be considered as the initial management shareholders (as defined in the GEM Listing Rules) of the Company:

<b>Name</b>	<b>Number of Shares</b>	<b>Approximate percentage of holding after listing</b> %
Huby Technology	155,290,625	53.7
Dynamic Achieve	8,000,000	2.8
Ms. Lee	165,625,000	57.3
Ms. Leelalertsuphakun	163,290,625	56.5
High Knowledge	16,000,000	5.5
Ms. Lue	16,000,000	5.5

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## UNDERTAKINGS

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### NON-DISPOSAL UNDERTAKINGS AND ESCROW ARRANGEMENT

Each of the Initial Management Shareholders has undertaken to the Company, Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) and the Stock Exchange that at any time after the date of the Underwriting and Placing Agreement up to and including the date following 12 months from the Listing Date:

- (i) save under the circumstances provided by Rule 13.18 of the GEM Listing Rules and with the prior written consent of Asia Investment Capital, he/she/it shall not and shall procure that the registered holder(s) shall not sell, transfer or otherwise dispose of or create any right (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to do any of the above in respect of) any of his/her/its direct or indirect interest in the Relevant Securities of the Company; and
- (ii) if he/she/it pledges or charges any direct or indirect interest in the Relevant Securities of the Company 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, he/she/it must inform the Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules and having pledged or charged any interest in the Relevant Securities of the Company, he/she/it must inform the Company immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected.

In addition to the undertakings given by the Initial Management Shareholders above, each of Techfarm, Ms. Yu Wa and Zengen has undertaken to the Stock Exchange, the Company and Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) that at any time after the date of the Underwriting and Placing Agreement up to and including the date following 12 months from the Listing Date, it will not sell, transfer or dispose of (or enter into any agreement to do any of the above) in respect of any of his/her/its direct or indirect shareholding in the Company. Each of Ms. Lee, Ms. Leelalertsuphakun, Ms. Lue and Ms. Yu Wa has also undertaken to the Stock Exchange, the Company and Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) that for a period of 12 months from the Listing Date, it will not sell, transfer or dispose of (or enter into any agreement to do any of the above) her interests in Huby Technology, Dynamic Achieve, High Knowledge and Techfarm (as the case may be).

### OTHER UNDERTAKINGS

Each of the Initial Management Shareholders has undertaken to the Stock Exchange, the Company and Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) that he/she/it will place in escrow with an escrow agent acceptable to the Stock Exchange and approved by Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) his/her/its interests, whether direct or indirect, in the Shares during the period commencing from the date of the Underwriting and Placing Agreement and ending 12 months from the Listing Date on terms acceptable to the Stock Exchange.

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## SHARE CAPITAL

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<i>Authorised share capital:</i>		<i>HK\$</i>
<u>500,000,000</u>	Shares	<u>25,000,000</u>
 <i>Issued and to be issued, fully paid or credited as fully paid:</i>		
214,225,000	Shares in issue at the date of this prospectus	10,711,250
<u>75,000,000</u>	Shares to be issued pursuant to the New Issue	<u>3,750,000</u>
<u>289,225,000</u>	Shares	<u>14,461,250</u>

*Notes:*

**1. Assumptions**

This table assumes the Placing becomes unconditional.

It takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or options granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, or which may be allotted and issued pursuant to the general mandate (see Note 4 below), or which may be repurchased by the Company pursuant to the share repurchase mandate (see Note 5 below).

**2. Ranking**

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

**3. Pre-IPO Share Option Scheme and Share Option Scheme**

The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. A summary of the main terms of these schemes is set out in the sections headed “Share Option Scheme” and “Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

**4. General mandate to issue new Shares**

The Directors have been granted a general mandate to allot and issue, otherwise than by way of rights issue or pursuant to the exercise of any options which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company or the Placing, Shares in the capital of the Company with a total nominal amount of not more than the sum of:

- (a) 20 per cent. of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing; and
- (b) the total nominal amount of the share capital of the Company repurchased pursuant to the mandate referred to in Note 5 below.

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## SHARE CAPITAL

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This mandate will expire:

- at the end of the next annual general meeting of the Company; or
- at the end of the period within which the Company is required by law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting of the Company,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed “Written resolutions of all Shareholders passed on 26th June, 2002” under the section headed “Further information about the Company and its subsidiaries” in Appendix IV to this prospectus.

### 5. **General mandate to repurchase shares**

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

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

This mandate will expire:

- at the end of the next annual general meeting of the Company; or
- at the end of the period within which the Company is required by law or its articles of association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting of the Company,

whichever is the earliest.

## FINANCIAL INFORMATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

#### Trading records

The table below summarises the audited combined results of the Group for each of the three years ended 31st December, 2001. The summary is prepared on the basis of presentation as set out in the accountants' report, the text of which is set out in Appendix I.

	Year ended 31st December,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Turnover ( <i>Note 1</i> )	6,253	6,852	10,346
Cost of sales	<u>(2,425)</u>	<u>(1,938)</u>	<u>(2,466)</u>
Gross profit	3,828	4,914	7,880
Other revenue	201	356	737
Selling and distribution expenses	(4,980)	(4,839)	(5,383)
Administrative expenses	<u>(5,456)</u>	<u>(5,635)</u>	<u>(5,232)</u>
Loss from operations	(6,407)	(5,204)	(1,998)
Gain on disposal of technology of a developing product	—	—	1,396
Finance costs	<u>(636)</u>	<u>(647)</u>	<u>(715)</u>
Loss before tax	(7,043)	(5,851)	(1,317)
Taxation	<u>—</u>	<u>—</u>	<u>—</u>
Loss before minority interest	(7,043)	(5,851)	(1,317)
Minority interest	<u>2,354</u>	<u>1,842</u>	<u>—</u>
Net loss for the year ( <i>Note 2</i> )	<u><u>(4,689)</u></u>	<u><u>(4,009)</u></u>	<u><u>(1,317)</u></u>
Dividend	<u>—</u>	<u>—</u>	<u>—</u>
Loss per Share (cents) ( <i>Note 3</i> )			
Basic	<u>(2.55)</u>	<u>(2.18)</u>	<u>(0.72)</u>
Diluted	<u>(2.53)</u>	<u>(2.16)</u>	<u>(0.71)</u>

## FINANCIAL INFORMATION

### Notes:

1. Turnover represents the net amount received and receivable for goods sold to customers during the year.
2. No emoluments were paid by the Group to any of the directors during the Track Record Period.

Subsequent to the Track Record Period, each of the executive Directors has entered into a service contract with the Company. In respect of Ms. Lee and Ms. Leelalertsuphakun, both of their service contracts commenced on 1st April, 2002. Such appointment will continue thereafter unless and until terminated by either party by serving not less than three months' prior written notice to the other party. The aggregate emoluments payable to them will amount to approximately HK\$1,050,000 per annum. Had the emoluments been paid to them for each of the three years ended 31st December, 2001 based on the above-mentioned service contracts, the charge to the combined results of the Group for the Track Record Period would have been as follows:

	Year ended 31st December,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Net loss for the year	(4,689)	(4,009)	(1,317)
Notional Directors' remuneration	<u>(1,050)</u>	<u>(1,050)</u>	<u>(1,050)</u>
Adjusted net loss for the year	<u>(5,739)</u>	<u>(5,059)</u>	<u>(2,367)</u>

3. The calculation of basic loss per Share for the Track Record Period is based on the net loss for each of the three years during the Track Record Period and on the assumption that 184,000,000 Shares had been in issue throughout the Track Record Period, representing the 184,000,000 Shares in the Company issued pursuant to the share exchange agreements dated 4th February, 2002, as described more fully in subsections (vii) and (viii) under the paragraph headed "Corporate reorganisation" in Appendix IV to this prospectus.

The calculation of diluted loss per Share is based on the net loss for each of the three years during the Track Record Period and 185,500,000 Shares, being the 184,000,000 Shares as used in the calculation of basic loss per Share, and the 1,500,000 Shares assumed to have been issued at no consideration on the deemed exercise of the share options as set out in the section headed "Pre-IPO Share Option Scheme" in Appendix IV to this prospectus.

For the purpose of the calculation of diluted loss per Share, the fair value of the Shares assumed to have been issued upon the deemed exercise of these options was determined as the issue price of HK\$0.40 per Share in respect of the Company's initial public offering of its Shares. The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration.

## Results of operations

### ***Comparison between the results for the year ended 31st December, 1999 and those for the year ended 31st December, 2000***

#### *Turnover*

The turnover of the Group increased from approximately HK\$6.25 million in 1999 to HK\$6.85 million in 2000, representing an increase of approximately 9.6 per cent.. The majority

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of the turnover of 2000 was contributed by the Group's product Livaracine, which recorded sales of HK\$4.74 million, representing an increase of approximately 83.7 per cent. over those of 1999. The Directors attribute the increase to the increasing market awareness on, and improving acceptance by customers of, Livaracine which proved to be of consistently outstanding quality for treatment usage. However, due to downward price adjustment imposed by SDA, sales of Defibrase decreased from approximately HK\$3.50 million in 1999 to HK\$2.12 million in 2000. As a result, the overall turnover of the Group achieved only a moderate increase.

From a different perspective, the turnover of the Group from distributors for the year 2000 was HK\$4.98 million, representing an increase of 28.0 per cent. over the turnover of the Group from distributors for the year 1999 of HK\$3.89 million. On the other hand, the turnover of the Group from hospitals for the year 2000 was HK\$1.87 million, representing a decrease of 20.8 per cent. from the turnover of the Group from hospitals for the year 1999 of HK\$2.36 million. The increase in turnover of the Group from distributors and reduction in turnover of the Group from hospitals were resulted from the change of the Group's sales and marketing strategies.

### *Gross Profit*

The gross profit of the Group increased from approximately HK\$3.83 million in 1999 to HK\$4.91 million in 2000 and the gross profit margin of the Group improved from approximately 61.2 per cent. in 1999 ((a) as to 83.9 per cent. for Defibrase and 37.9 per cent. for Livaracine; (b) as to 54 per cent. for distributors and 74 per cent. for hospitals) to 71.7 per cent. in 2000 (as to 83.7 per cent. for Defibrase and 66.4 per cent. for Livaracine; (b) as to 68 per cent. for distributors and 81 per cent. for hospitals). Notwithstanding the downward price adjustment imposed by SDA on Defibrase, the gross profit margin reduced only marginally from 83.9 per cent. to 83.7 per cent. because the cost of sales of Defibrase reduced at the same time thereby mitigating the overall impact. So was there a reduction in the cost of sales of Livaracine which had contributed to the improvement in the gross profit margin of Livaracine from 37.9 per cent. to 66.4 per cent.. The increase in gross profit and improvement in gross profit margin are the results of (i) better control of production cost by focusing on quality assurance and (ii) better economy of scale in production achieved (results of the fixed overhead shared by increasing units of products) coupled with the improvement in production productivity and efficiency (associated with a reduction in production wastage/scrap). For example, the total quantity of vials produced increased from 129,108 vials for the year ended 31st December, 1999 to 215,844 vials for the year ended 31st December, 2000. The fixed overhead per vial decreased to HK\$6.45 for the year ended 31st December, 2000 from HK\$9.67 for the year ended 31st December, 1999. The unit cost of sales for each of Defibrase and Livaracine of HK\$15.2 and HK\$20.6 for the year ended 31st December, 1999 also reduced to those of HK\$12.5 and HK\$8.3 respectively for the year ended 31st December, 2000.

### *Selling and Distribution Expenses*

Despite the increase of approximately 10 per cent. in turnover in 2000, the selling and distribution expenses were kept at HK\$4.84 million as roughly the same level as HK\$4.98 million in 1999. The selling and distribution expenses as percentage of turnover dropped from approximately 79.6 per cent. in 1999 to 70.6 per cent. in 2000. The decrease is attributable to

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the efforts embarked by the Group in 2000 to restructure the Group's sales team and distribution channels. The marketing strategy of the Group has since then emphasised on forming partnership with local distributors to make the Group's distribution network more effective and efficient.

Out of the total selling and distribution expenses, as to approximately HK\$1.57 million and HK\$0.46 million were attributable to (i) marketing promotion expenses and (ii) transportation and travelling expenses respectively, representing (i) only a slight increase and (ii) a reduction of approximately 21.2 per cent. over that respectively incurred in 1999. The change was mainly attributable to the Group's focus on building a more efficient and effective distribution system by working closely with local distributors instead of relying on the Group's own sales force.

### *Administrative Expenses*

The administrative expenses of the Group increased from approximately HK\$5.46 million in 1999 to HK\$5.64 million in 2000. The administrative expenses as percentage of turnover decreased from approximately 87.3 per cent. in 1999 to 82.2 per cent. in 2000. The decrease is the result of the Group's efforts to strengthen the management and to enhance the efficiency of the Group's operation. In particular, unnecessary spendings in travelling and entertainment had been minimised.

### *Operation Loss*

The loss from operations of the Group improved from approximately HK\$6.41 million in 1999 to HK\$5.20 million in 2000. The results were the reflection of increase in turnover, improvement in productivity, a more efficient distribution network and better control in expenses.

### *Net Loss*

The net loss of the Group decreased from approximately HK\$4.69 million in 1999 to HK\$4.01 million in 2000, representing an improvement of approximately 14.5 per cent.. The narrowing of the net loss is attributable to the overall improvement of the Group's operation as described above.

### ***Comparison between the results for the year ended 31st December, 2000 and the year ended 31st December, 2001***

#### *Turnover*

The Group recorded a turnover of approximately HK\$10.35 million in the year ended 31st December, 2001, representing an increase of approximately 51.1 per cent. over the turnover of approximately HK\$6.85 million recorded in the year ended 31st December, 2000. The Directors attribute the increase to the continued improving popularity of Livaracine and the launch of the Group's newest product Yallaferon during the year. During the year, the Group's leading product Livaracine continued to gain market shares from its competitors and registered sales of approximately HK\$6.47 million, representing an increase of approximately 36.5 per cent. over HK\$4.74 million recorded for the year ended 31st December, 2000. The launch of



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the Group's newest product Yallaferon in July 2001, which has since then achieved sales of approximately HK\$1.86 million, also contributed to the increase in overall turnover. During the year, turnover of Defibrase slightly decreased to HK\$2.02 million as a result of the further price deduction by the price control bureau while the sales volume remained stable.

From a different perspective, the turnover of the Group from distributors for the year 2001 was HK\$8.87 million, representing an increase of 78.1 per cent. over the turnover of the Group from distributors for the year 2000 of HK\$4.98 million. On the other hand, the turnover of the Group from hospitals for the year 2001 was HK\$1.48 million, representing a decrease of 20.9 per cent. from the turnover of the Group from hospitals for the year 2000 of HK\$1.87 million. The increase in turnover of the Group from distributors and reduction in turnover of the Group from hospitals were resulted from the change of the Group's sales and marketing strategies.

### *Gross Profit*

The gross profit of the Group increased from approximately HK\$4.91 million in the year ended 31st December, 2000 to HK\$7.88 million in the year ended 31st December, 2001, representing an approximately 60.5 per cent. increase. During the year, the gross profit margin improved to 76.2 per cent. ((a) as to 85.3 per cent. for Defibrase, 72.9 per cent. for Livaracine and 77.6 per cent. for Yallaferon; (b) as to 75 per cent. for distributors and 85 per cent. for hospitals) from 71.7 per cent. ((a) as to 83.7 per cent. for Defibrase and 66.4 per cent. for Livaracine; (b) as to 68 per cent. for distributors and 81 per cent. for hospitals) in the year ended 31st December, 2000. The increase in gross profit and improvement in gross profit margin are the results of the Group's continuing efforts in reducing production cost and in achieving economy of scale in production (results of fixed overhead shared by increasing units of products) coupled with the improvement in production productivity and efficiency (associated with a reduction in production wastage/scrap). For example, the total quantity of vials produced increased from 215,844 vials for the year ended 31st December, 2000 to 372,130 vials for the year ended 31st December, 2001. The unit cost of sales for each of Defibrase and Livaracine of HK\$12.5 and HK\$8.3 respectively for the year ended 31st December, 2000 were reduced to those of HK\$9.2 and HK\$5.7 respectively for the year ended 31st December, 2001. The unit cost of sales for Yallaferon was HK\$5.5 for the year ended 31st December, 2001. The fixed overhead per vial for Defibrase and Livaracine decreased to HK\$3.33 for the year ended 31st December, 2001 from HK\$6.45 for the year ended 31st December, 2000. The fixed overhead per tube (for Yallaferon) was HK\$4.82 for the year ended 31st December, 2001.

### *Selling and Distribution Expenses*

For the year ended 31st December, 2001, the selling and distribution expenses were approximately HK\$5.38 million and the selling and distribution expenses as percentage of turnover was reduced to approximately 52.0 per cent. from 70.6 per cent. in the year ended 31st December, 2000. The decrease is contributed by the Group's continuing efforts to improve the efficiency of its distribution system. The partnership with local distributors has yielded satisfactory results and it is the Group's goal to lower the selling and distribution expenses as the percentage of turnover to 35 per cent. in the near future.

Out of the total selling and distribution expenses, as to approximately HK\$2.5 million and HK\$0.3 million were attributable to (i) marketing promotion expenses and (ii) transportation

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and travelling expenses respectively, representing (i) an increase of approximately 58.3 per cent. and (ii) a decrease of approximately 26.8 per cent. over that respectively incurred in 2000. The change was mainly attributable to the Group's launch of the new product Yallaferon. Notwithstanding that, the Group's sales relies more and more on local independent distributors by offering direct discounts to them. Hence, the Group paid a reduced level of sales commission to its sales staff, as evidenced by the decrease of sales commission from HK\$0.60 million in 2000 to HK\$0.40 million in 2001.

### *Administrative Expenses*

For the year ended 31st December, 2001, the administrative expenses were approximately HK\$5.23 million and the administrative expenses as percentage of turnover was reduced to approximately 50.6 per cent. from 82.2 per cent. in the year ended 31st December, 2000. The reduction is the combination of increase in production (from 215,844 vials for the year ended 31st December, 2000 to 372,130 vials for the year ended 31st December, 2001) and aggressive cost control in areas such as travelling and repair. It is the Group's goal to lower the administrative expenses as the percentage of turnover to 20 per cent. in the near future.

### *Operation Loss*

For the year ended 31st December, 2001, the loss from operations was reduced to approximately HK\$2.00 million from HK\$5.20 million in the year ended 31st December, 2000, representing a decrease of approximately 61.5 per cent.. It reflects the overall improvement in the Group's operations and the launch of the Group's newest product Yallaferon.

### *Net Loss*

For the year ended 31st December, 2001, the net loss of the Group was narrowed to approximately HK\$1.32 million from HK\$4.01 million in 2000, representing a reduction by approximately 67.1 per cent.. It shows that the Group's operations are on the right track and it is expected that with the steady growth of recognition of Livaracine by customers in the PRC and with the launch of Yallaferon, financial performance of the Group could be improved in the near future. In addition, the net loss was reduced as a result of a gain on disposal of a technology of developing product of approximately HK\$1.4 million.

### **Taxation**

The Company was incorporated under the laws of Cayman Islands and under current Cayman Islands law, the Company is not subject to tax on income or capital gains in that jurisdiction. Similarly, company incorporated in the British Virgins Islands is not subject to tax on income or on capital gains in that jurisdiction. However, each company within the Group, which derives profits sourced from Hong Kong or the PRC, will be subject to Hong Kong profits tax or the PRC income tax accordingly. The operation of Lee's Pharmaceutical is principally subject to Hong Kong profits tax. For the years ended 31st December, 1999 and 2000, no provision for Hong Kong profits tax has been made as Lee's Pharmaceutical incurred a tax loss. For the year ended 31st December, 2001, Hong Kong profits tax has not been provided because there are sufficient tax losses brought forward to offset the estimate assessable profit for the year.

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As advised by the PRC legal adviser to the Company, under the current tax laws and regulations, the normal income tax rate for Zhaoke is 33 per cent. However, being designated by the 安徽省科學技術委員會 (Anhui Province Science and Technology Committee) as a 高新技術企業 (New High Technology Enterprise) in September 1995, Zhaoke is entitled to a number of preferential treatments, including in particular, various tax incentives and a maximum income tax rate of 15 per cent. in the PRC. Under the “Certain Regulations for the Further Encouragement of Foreign Investment” (《進一步鼓勵外商投資的若干規定》) issued by The Government of New and High-Tech Industrial Development Zone of Hefei City, enterprises with foreign investment which conduct manufacturing business operation for 10 years or above are exempt from the enterprise income tax for two years starting from the first year of profitable operations after offsetting their tax losses of the prior years, followed by a 50 per cent relief on the applicable tax rate for a period of three years. Zhaoke was established in 1994. If Zhaoke ceased its operation within 10 years from the date of commencement of operation, the tax relief previously granted would have to be repaid to the local tax bureau. Since Zhaoke did not derive any assessable profit during the Track Record Period, there was no profits tax paid by Zhaoke in the PRC.

### INDEBTEDNESS

#### Borrowings

As at the close of business on 30th April, 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK\$9.1 million comprising of secured bank loans of approximately HK\$3.1 million and secured other loans of approximately HK\$6.0 million.

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 30th April, 2002, any outstanding mortgages, charges, debentures, bank loans and overdrafts, debt securities or other similar indebtedness, loan capital issued or outstanding or agreed to be issued, finance leases, liabilities under acceptances or acceptance credits or any hire purchase commitments, or any guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 30th April, 2002.

#### Debt securities

As at 30th April, 2002, the Group did not have any debt securities.

#### Contingent liabilities

As at 30th April, 2002, the Group did not have any contingent liabilities.

#### Securities and guarantees

A bank loan of the Group outstanding at HK\$1,433,000 as at 30th April, 2002 is secured by the properties of Lee's Machinery in which Ms. Lee and Ms. Leelalertsuphakun have beneficial interests, a corporate guarantee given by Lee's Machinery and personal guarantees given by Ms. Lee, Ms. Leelalertsuphakun and Dr. Li Xiao Yi.

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### **Release from securities and guarantees**

A bank loan of the Group outstanding at HK\$1,433,000 as at 30th April, 2002 is secured by the properties held by Lee's Machinery in which Ms. Lee and Ms. Leelalertsuphakun have beneficial interests, a corporate guarantee given by Lee's Machinery and personal guarantees given by Ms. Lee, Ms. Leelalertsuphakun and Dr. Li Xiao Yi. Subsequent to 30th April, 2002, the relevant bank loan is in the process of obtaining release for the said security from Lee's Machinery and the said corporate guarantee and personal guarantees and replaced by corporate guarantees from the Company and/or other members of the Group following the listing of the Shares on GEM.

### **Disclaimer**

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness or hire purchase contracts or any guarantees or other material contingent liabilities outstanding at the close of business on 30th April, 2002.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the companies comprising the Group since 30th April, 2002.

### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

#### **Net current assets**

As at 30th April, 2002, the Group had net current assets of approximately HK\$0.06 million.

#### **Borrowing and banking and credit facilities**

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers and other institutions in Hong Kong and in the PRC.

As at 30th April, 2002, the Group had aggregate composite banking and other credit facilities of approximately HK\$9.1 million which had been fully utilised. Out of this sum of HK\$9.1 million, HK\$7.7 million were secured by the leasehold land and buildings of the Group and HK\$1.4 million were secured by (i) the properties held by Lee's Machinery in which Ms. Lee and Ms. Leelalertsuphakun have beneficial interests, (ii) a corporate guarantee given by Lee's Machinery and (iii) personal guarantees given by Ms. Lee, Ms. Leelalertsuphakun and Dr. Li Xiao Yi.

As at 30th April, 2002, the Group's borrowings from banks and other institutions of approximately HK\$3.0 million were repayable on demand or within one year.

### Capital commitments and other commitments

As at 30th April, 2002, the Group had the following capital and other commitments:

- (i) lease commitments for future minimum lease payments under non-cancelable operating lease in respect of land and buildings falling due (i) within one year amounted to HK\$571,000; and (ii) in more than one year and less than two years amounted to HK\$219,000; and
- (ii) Lee's Pharmaceutical entered into an agreement with the Hong Kong University of Science and Technology on 16th May, 2001 to carry out a research and development project which aims at finding "inhibitors" by screening of human heparanase inhibitors as anti-cancer drugs from traditional Chinese medicine. The total project cost is HK\$2,760,000. Lee's Pharmaceutical is required to contribute HK\$1,380,000 whereas Hong Kong Government would sponsor the remaining HK\$1,380,000. According to the agreement, the project will be completed on 31st March, 2004. As at 30th April, 2002, Lee's Pharmaceutical had spent HK\$208,000 on the project.

### Financial resources

Prior to the completion of the Placing, the Group's operations and investments have been financed principally by the internal resources, funding from controlling shareholders, directors and borrowings from financial institutions. Following the Placing, the Directors expect to fund the Group's future operating and capital expenditure cashflow requirements out of the net proceeds arising from the Placing and internally generated funds. It is also expected that the Group may raise additional bank borrowings should the need arise.

### Working capital

The Directors are of the opinion that, taking into account its internally generated funds, its currently available banking and other credit facilities and the estimated net proceeds of the New Issue, the Group has sufficient working capital to satisfy its present requirements.

### Directors' opinion of the net current assets position

The Directors are of the opinion that, taking into account the financial resources available for the Group, including internally generated funds, the available banking facilities and the net proceeds of the New Issue, the Group has sufficient net current assets to satisfy its present requirements. Furthermore, 富通聯合投資有限公司 (Wealth Express International Investment Limited), one of the Group's creditors, in which Fan Xiao Ju and Joy Face Limited are the directors and shareholders who are independent third parties not connected with the directors, chief executives or substantial shareholders of the Company or their respective associates, agreed to defer the debt due by the Group.

### **RULES 17.15 TO 17.21 OF THE GEM LISTING RULES**

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

### **TAXATION**

The Directors confirm that there are no material tax and estate duty liabilities arising under the reorganisation of the Group as described under the paragraph headed "Corporate reorganisation" under the section headed "Further information about the Company and its subsidiaries" in Appendix IV to this prospectus.

### **PROPERTIES**

#### **Property interest held by the Group**

The Group owns a factory complex at New and High-Tech Industrial Development Zone, Hefei City, Anhui Province, the PRC. The factory complex comprises a 2-storey factory building, a 4-storey warehouse and a single-storey transformer room with a site area of approximately 8,000 sq.m.. The factory complex is used by the Group (i) as factory for production (in association with a transformer room); (ii) as laboratories for quality control and research and development; (iii) as ancillary offices for administration and finance functions, and (iv) as warehouse with a total gross floor area of approximately 3,166.86 sq.m..

#### **Property interests rented by the Group (note)**

##### *In the PRC*

The Group rents:

- (i) a dormitory in Chang Jiang Xi Road, Hefei, Anhui Province, the PRC with a total gross floor area of approximately 150 sq.m. as its staff quarter;
- (ii) an office in Dong Dan Bei Main Street, Dong Cheng District, Beijing, the PRC with a total gross floor area of approximately 70 sq.m. as its branch office in Beijing;
- (iii) an office in Xizang Road Central, Huangpu District, Shanghai, the PRC with a total gross floor area of approximately 48 sq.m. as its branch office in Shanghai;

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- (iv) an office in Xian Lie Zhong Road, Guangzhou, Guangdong Province, the PRC with a total gross floor area of approximately 93 sq.m. as its sales head office; and
- (v) a dormitory in Heng Fu Road, Tian He District, Guangzhou, Guangdong Province, the PRC with a total gross floor area of approximately 103 sq.m. as its staff quarter.

*Note:* The respective landlords of the properties in the PRC leased by the Group had not obtained the respective house leasing certificates.

### *In Hong Kong*

The Group rents an office in Grand Millennium Plaza, Queen's Road Central, Hong Kong with a total gross floor area of approximately 203 sq.m. for management and administrative purpose.

### **Property valuation**

Vigers Hong Kong Limited, an independent property valuer, has valued the property interests of the Group as at 30th April, 2002. The text of a letter, summary of valuation and an extract of valuation certificate from Vigers Hong Kong Limited, are set out in Appendix II to this prospectus.

### **DIVIDENDS**

The Directors currently do not expect to recommend payment of any dividends for the foreseeable future. Should dividends be paid in the future, the Company will probably pay such dividends in March and September respectively of each year. The declaration of, payment and amount of dividends will be subject to the discretion of the Directors and will be dependent upon the Company's future operations and earnings, financial condition, cash requirements and availability and other factors as may be deemed relevant at such time by the Directors.

### **DISTRIBUTABLE RESERVES**

The Company had no reserves available for distribution to the Shareholders as at 31st December, 2001.

### **NO MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position or prospects of the Group since 31st December, 2001, the date to which the latest audited financial statements of the Group were made up.

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### ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31st December, 2001 as shown in the accountants' report set out in Appendix I, adjusted as described below:

	<i>HK\$'000</i>
Audited combined net assets of the Group as at 31st December, 2001	4,063
Less: Intangible assets as at 31st December, 2001	<u>6,917</u>
Audited combined net tangible deficits of the Group as at 31st December, 2001	(2,854)
Add: Combined profit after taxation and minority interests of the Group for the 4 months ended 30th April, 2002 based on its unaudited management accounts	332
Shares issued on acquisition of the intangible asset injected by Zengen pursuant to the relevant patent application licence agreement ( <i>Note 1</i> )	3,840
Surplus arising from the revaluation of the property interest of the Group ( <i>Note 2</i> )	6,590
Capitalisation of the amounts due to the major shareholders and a director ( <i>Note 3</i> )	4,400
Additional shares issued for cash ( <i>Note 4</i> )	2,200
Estimated net proceeds of the New Issue	<u>20,000</u>
	34,508
Less: Intangible asset injected by Zengen pursuant to the relevant patent application licence agreement	<u>3,840</u>
Adjusted net tangible assets	<u><u>30,668</u></u>
Adjusted net tangible asset value per Share ( <i>Notes 5 and 6</i> )	<u><u>HK\$0.106</u></u>



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*Notes:*

1. On 25th February, 2002, the Company (i) allotted and issued 5 per cent. of the then enlarged shareholding in the Company to Zengen and (ii) agreed to pay an amount equal to the greater of a running royalty equal to 8 per cent. of net sales for licensed products sold by the Group (or its sublicensee) or 8 per cent. of any royalty payments the Group receives for net sales of licensed products from a sublicensee (in the event the Group elects to further license the rights granted thereto) in consideration of Zengen giving the Group an exclusive license to commercialise the licensed subject matter of peptides for treatment of uro-genital conditions in Hong Kong, Macau, PRC and Taiwan.
2. The surplus arising on revaluation of the Group's property interests is determined based on the property valuation as set out in Appendix II to this prospectus and will be incorporated into the financial statements of the Group for the year ending 31st December, 2002. If the surplus is incorporated in the Group's financial statements, the annual depreciation charges would increase by approximately HK\$0.3 million.
3. On 20th June, 2002, 11,415,625 and 2,334,375 Shares were allotted and issued to Huby Technology and Ms. Lee respectively at a price of HK\$0.32 per Share by the capitalisation of the amounts due thereto.
4. On 20th June, 2002, additional 6,875,000 Shares were allotted and issued to Huby Technology at a price of HK\$0.32 per Share for cash.
5. The adjusted net tangible asset value per Share is arrived at based on the 289,225,000 Shares expected to be in issue immediately following completion of the Placing but taking no account of any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to in the paragraph headed "Written resolutions of all Shareholders passed on 26th June, 2002" under the section headed "Further information about the Company and its subsidiaries" in Appendix IV.
6. On the assumption that the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme had been exercised in full, the adjusted net tangible asset value per Share will become HK\$0.122 per Share.

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# UNDERWRITING

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## UNDERWRITERS

The Underwriters are CM-CCS, Asia Investment Capital, Shun Loong Securities Company Limited, Sanfull Securities Limited and Karl-Thomson Securities Company Limited.

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Underwriting and Placing Agreement

Pursuant to the Underwriting and Placing Agreement, the Company is offering the New Shares for subscription and the Vendor is offering the Sale Shares for sale at the Placing Price by way of the Placing, on and subject to the terms and conditions in the Underwriting and Placing Agreement and this prospectus. Subject to 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 to certain other conditions set out in the Underwriting and Placing Agreement being satisfied in accordance with the terms therein contained, the Underwriters have severally agreed to subscribe for or purchase, or procure subscribers or purchasers to subscribe for or purchase, the Placing Shares on and subject to the terms and conditions of the Underwriting and Placing Agreement.

### Grounds for termination

The obligations of the Underwriters to subscribe for or purchase, or procure subscribers or purchasers to subscribe for or purchase, for the Placing Shares are subject to termination and Asia Investment Capital (for itself and CSC Asia and on behalf of the Underwriters) has the absolute right after such consultation with the Company as Asia Investment Capital in its reasonable discretion sees fit, by notice in writing to the Company to terminate the Underwriting and Placing Agreement with immediate effect if certain events, including but not limited to the following, shall occur at any time prior to 10:00 a.m. on the business day prior to the Listing Date (which is expected to be 15th July, 2002) if:

- (a) there develops, occurs, exists or comes into force:
  - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction or any other similar event; or
  - (ii) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation acts of Government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) which in the sole opinion of Asia Investment Capital have or likely to have the effect of making any material part of the Underwriting and Placing Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Placing or pursuant to the underwriting thereof; or

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## UNDERWRITING

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- (iii) any change (whether or not permanent) in, or any event or series of events resulting in any material change (whether or not permanent) in local, national, international, financial, military, industrial, economic, currency, stock market or political conditions or prospects in Hong Kong, the Cayman Islands, the PRC, the United States or any other relevant jurisdiction; or
- (iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on GEM (whether due to exceptional financial circumstances or otherwise); or
- (v) any change or development occurs involving a prospective change in taxation or exchange control (or implementation of any exchange control) in Hong Kong, the Cayman Islands, the PRC or any other jurisdiction relevant to the Group or affecting an investment in the Shares or the transfer or dividend payment in respect thereof; 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 (whether or not permanent) in the conditions of local, national, international equity securities or other financial markets; or
- (viii) there is any adverse change or prospective adverse change to the business or in the financial or trading position or prospects of the Group,

PROVIDED THAT for the purpose of construing the foregoing, a change in the system under the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of RMB against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above,

which, in the reasonable opinion of Asia Investment Capital (for itself and CSC Asia and on behalf of the Underwriters):

- (i) materially and adversely affects or will, or is likely to, materially and adversely affect the business, financial or other conditions or prospects of the Company taken as a whole; or
- (ii) has or will have or is likely to have a material adverse effect on the success of the Placing or the level of Shares being applied for or accepted or the distribution of Shares; or
- (iii) makes it inadvisable or inexpedient to proceed with the Placing; or

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## UNDERWRITING

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- (b) there comes to the knowledge of any of the Underwriters any breach by any of the Company or the executive Directors of any of the warranties contained in the Underwriting and Placing Agreement (the “Warranties”) or of any other provisions thereof, or of any matter which would constitute a breach of such Warranties if they were repeated or which gives rise to a liability on the part of the persons giving such Warranties or any of the Underwriters has cause to believe that any such breach or matter has occurred; or
- (c) there comes to the notice of any of Asia Investment Capital, CSC Asia and the Underwriters any matter or event showing any of the Warranties to be untrue or inaccurate in any respect; or
- (d) there comes to the notice of any of Asia Investment Capital, CSC Asia and the Underwriters that any of the parties to the Underwriting and Placing Agreement (other than the Joint Sponsors and the Underwriters) commits any breach of, or omits to observe in any respect, any of the obligations or undertakings expressed to be assumed by them or it under the Underwriting and Placing Agreement; or
- (e) there comes to the notice of any of Asia Investment Capital, CSC Asia and the Underwriters any information, matter or event which, in the sole opinion of Asia Investment Capital (for itself (in its capacity as one of the Joint Sponsors of the Placing) and on behalf of CSC Asia and the Underwriters):
  - (i) is inconsistent with any information contained in any of the Director’s Declaration, Undertaking and Acknowledgment to the Stock Exchange in the form set out in Appendix 6A of the GEM Listing Rules given by any Director pursuant to the Placing; or
  - (ii) would cast any doubt on the integrity or reputation of any Director or the reputation of the Group; or
  - (iii) may lead to an adverse change in the business or in the financial or trading position of any member of the Group;
- (f) there is, or will or could reasonably be expected, in the reasonable opinion of Asia Investment Capital (for itself (in its capacity as one of the Joint Sponsors of the Placing) and on behalf of CSC Asia and the Underwriters), any adverse change in the business or in the financial or trading position of any member of the Group;

Asia Investment Capital (for itself (in its capacity as one of the Joint Sponsors of the Placing) and on behalf of CSC Asia and the Underwriters) shall be entitled (but not bound) by notice in writing to the Company on or prior to such time to elect to treat such matter or event as releasing and discharging Asia Investment Capital (in its capacity as one of the Joint Sponsors of the Placing), CSC Asia and the Underwriters from their respective obligations under the Underwriting and Placing Agreement.

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## UNDERWRITING

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### Undertakings

Each of the Initial Management Shareholders undertakes to each of the Company, the Stock Exchange, Asia Investment Capital (in its capacity as one of the Joint Sponsors of the Placing and on behalf of CSC Asia and the Underwriters) that at any time after the date of the Underwriting and Placing Agreement up to and including the date following 12 months (the “Period”) (in case of the Initial Management Shareholders holding no more than 1 percent of Shares as at the Listing Date would be 6 months) from the Listing Date:

- (a) he/she/it will place in escrow, with an escrow agent acceptable to the Stock Exchange and approved by Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) his or her or its Relevant Securities on terms acceptable to the Stock Exchange;
- (b) he/she/it shall not and shall procure that the registered holder(s) shall not, save as provided in the GEM Listing Rules and with the prior written consent of Asia Investment Capital, sell, transfer or otherwise dispose of or create any right over (or enter into any agreement to do any of the above) in respect of any of his/her/its direct or indirect interest in the Relevant Securities;
- (c) 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 GEM pursuant to Rule 13.18(4) of the GEM Listing Rules, he/she/it must inform the Company immediately thereafter, disclosing the details specified in the Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (d) having pledged or charged any of his/her/its interest in the Relevant Securities under sub-paragraph (c) above, he/she/it must inform the Company immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected.

In the event Rules 13.15 to 13.20 of the GEM Listing Rules are revised and the Stock Exchange agrees that the undertakings given by each of the Initial Management Shareholders pursuant to Rules 13.15 and 13.20 of the GEM Listing Rules may be revised accordingly, Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) may at its discretion agree that the above undertakings given by each of the Initial Management Shareholders be amended in accordance with such revision.

Each of the Company and the executive Directors has undertaken to Asia Investment Capital (in its capacity as one of the Joint Sponsors of the Placing and on behalf of CSC Asia and the Underwriters) that, save as mentioned in this prospectus and pursuant to the exercise of the Over-allotment Option and any option granted under the Pre-IPO Share Option Scheme or Share Option Scheme and the general mandate granted to the Directors as set out in Appendix IV, (i) the Company will not allot and issue any Shares or other securities of the Company or agree to allot or issue or grant or agree to grant options to subscribe for or otherwise dispose of Shares or other securities of the Company during the period of 6 months

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## UNDERWRITING

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from the Listing Date without the prior written consent of Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters) and (ii) the Company will not allot and issue any Shares or other securities or grant or agree to grant any options or other rights to subscribe for or otherwise dispose of Shares or other securities or repurchase any securities of the Company during a further 6-month period immediately following the expiry of the first 6 months from the Listing Date so as to result in any of the controlling shareholders (as defined in the GEM Listing Rules) of the Company taking together with the others and their respective associates would, directly or indirectly, cease to be a controlling shareholder (as defined in the GEM Listing Rules) of the Company.

### **Commission and expenses**

The Underwriters will receive an underwriting commission of 3.75 per cent. of the aggregate Placing Price of all the Placing Shares, out of which the Underwriters will pay any sub-underwriting commissions and selling concessions. Such underwriting commission will be payable as to 83.3 per cent. by the Company and as to 16.7 per cent. by the Vendor.

In addition, Asia Investment Capital and CSC Asia will receive financial advisory fees for providing advisory services and for acting as the Joint Sponsors to the Placing, respectively and documentation fee. Such financial advisory fee and documentation fee, together with the Stock Exchange listing fees, transaction levy and trading fee, legal and other professional fees and other expenses relating to the Placing (including the underwriting commission as described in the above paragraph) are estimated to be approximately HK\$10 million in total and will be payable by the Company.

### **Underwriters' interest in the Company**

Save for their respective obligations under the Underwriting and Placing Agreement, none of the Underwriters has any shareholding interests in the Group nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group.

### **Sponsor's Agreement**

Pursuant to an agreement dated 4th October, 2000 entered into between the Company and Asia Investment Capital, the Company has appointed Asia Investment Capital and Asia Investment Capital has accepted the appointment as the sponsor to the Company for the purposes of the GEM Listing Rules for a fee from the Listing Date until 31st December, 2004 or until such agreement is terminated in accordance with the terms thereof.

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## STRUCTURE OF THE PLACING

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### PRICE PAYABLE ON SUBSCRIPTION

The Placing Price is HK\$0.40 per Placing Share plus one per cent. brokerage fee, 0.007 per cent. SFC transaction levy (per side) and a 0.005 per cent. Stock Exchange trading fee (per side), amounting to a total of HK\$2,024.24 for every board lot of 5,000 Placing Shares.

### PLACING

The Company is offering 75,000,000 New Shares for subscription (subject to the Over-allotment Option) and the Vendor is offering 15,000,000 Sale Shares for sale by way of Placing. The 90,000,000 Placing Shares being offered under the Placing represent 31 per cent. of the Company's enlarged issued share capital immediately after completion of the Placing (assuming the Over-allotment Option is not exercised). The Placing is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting and Placing Agreement.

Under the Placing, the Underwriters, on behalf of the Company, will conditionally place the Placing Shares with investors in Hong Kong. The target investors will be mainly institutional and professional investors who generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing Shares will only be offered in Hong Kong.

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

### CONDITIONS OF THE PLACING

Acceptance of your application(s) for Placing Shares is conditional upon:

(a) **Listing**

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 which may be issued pursuant to the exercise of the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme or the general mandate to issue Shares referred to in Appendix IV to this prospectus; and

(b) **Underwriting and Placing Agreement**

The obligations of the Underwriters under the Underwriting and Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by Asia Investment Capital, for itself and on behalf of CSC Asia and the Underwriters) and

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## STRUCTURE OF THE PLACING

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the Underwriting and Placing Agreement not being terminated in accordance with its terms or otherwise at any time prior to 10:00 a.m. on the business day immediately prior to the Listing Date. Details of the Underwriting and Placing Agreement, their conditions and grounds for termination, are set out in the section headed “Underwriting” in this prospectus.

If the conditions are not fulfilled (or, where applicable, waived by Asia Investment Capital (for itself and on behalf of CSC Asia and the Underwriters)) on or before the respective dates and times as specified in the Underwriting and Placing Agreement (unless and to the extent such conditions are waived on or before such dates and times), the Placing will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Placing will be caused to be published by the Company on the GEM website on the next day following such lapse.

### OVER-ALLOTMENT OPTION

Pursuant to the Underwriting and Placing Agreement, the Company has granted to CM-CCS (on its behalf and behalf of the Underwriters) a right (but not an obligation) to exercise the Over-allotment Option at any time and from time to time within 30 days from the date of this prospectus, to require the Company to allot and issue at the Placing Price up to an aggregate of 13,500,000 additional Shares, representing 15 per cent. of the total number of the Shares initially available under the Placing. In the event that the Over-allotment Option is exercised, the additional Shares will be allocated to the Placing at the discretion of CM-CCS who may, at its option, also cover any over-allocations through stock borrowing arrangements with Huby Technology and the purchase of Shares in the secondary market or otherwise as may be permitted under the applicable laws, rules and regulations. In the event that the Over-allotment Option is exercised, an announcement will be made by the Company on the GEM website setting out the relevant details.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, 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 issue 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 underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocations in the relevant offers. 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 CM-CCS. The stabilisation price to cover the over-allocation will not normally be higher than the Placing Price.



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## STRUCTURE OF THE PLACING

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Relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

In connection with the Placing, CM-CCS (on its behalf and on behalf of the Underwriters) may over-allocate up to an aggregate of 13,500,000 additional Shares (such over-allocations may be covered by exercising the Over-allotment Option in full or in part, at any time and from time to time within 30 days from the date of this prospectus) 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.

### COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on 15th July, 2002.

Shares will be traded in board lots of 5,000 Shares each.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

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

In respect of the dealings in the Shares which may be settled through CCASS, investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, HLM & Co., Certified Public Accountants, Hong Kong.*

## **HLM & CO.**

何呂麥會計師行

Rooms 303-4, 3rd Floor  
Arion Commercial Centre  
2-12 Queen's Road West  
Hong Kong

3rd July, 2002

The Directors  
Lee's Pharmaceutical Holdings Limited  
Room 1905  
Grand Millennium Plaza (Lower Block)  
181 Queen's Road Central  
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December, 1999, 2000 and 2001 (collectively the "Relevant Periods") for inclusion in the prospectus of the Company dated 3rd July, 2002 (the "Prospectus").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17th December, 2001 under the Companies Law (2001 Second Revision) of the Cayman Islands. Through a group reorganisation, as described more fully in the paragraph headed "Corporate reorganisation" under the section headed "Further information about the Company and its subsidiaries" in Appendix IV of the Prospectus, the Company became the holding company of the Group on 4th February, 2002.

At the date of this report, the Company has the following subsidiaries:

<b>Name of subsidiary</b>	<b>Place and date of incorporation/ registration</b>	<b>Issued and fully paid share capital/ registered capital</b>	<b>Attributable equity interest held by the Company</b>	<b>Principal activities</b>
Lee's Pharmaceutical International Limited ("Lee's International")	The British Virgin Islands 1st August, 2001	US\$1	100%	Investment holding
Lee's Pharmaceutical (HK) Limited ("Lee's Pharmaceutical")	Hong Kong 28th December, 1993	HK\$18,400,000	100%	Investment holding
Hefei Siu-Fung USTC Pharmaceutical Company Limited ("Zhaoke")	The People's Republic of China ("PRC") 7th February, 1994	US\$2,000,000	70%	Manufacture and sale of pharmaceutical products
Lee's Pharmaceutical (China) Limited ("Lee's China")	The British Virgin Islands 20th October, 2000	US\$1	100%	Not yet commenced business

*Note:* The Company directly holds the interests in Lee's Pharmaceutical International Limited. All other interests shown above are indirectly held by the Company.

No audited financial statements have been prepared for the Company, Lee's International and Lee's China since their respective dates of incorporation as they have not carried on any business since their incorporation, other than the aforementioned reorganisation. We have, however, reviewed all relevant transactions of these companies since their respective dates of incorporation to the date of this report.

We have acted as the statutory auditors of Lee's Pharmaceutical for the year ended 31st December, 2001. The statutory auditors of Lee's Pharmaceutical were K.W. Lam & Co., Certified Public Accountants for the year ended 31st December, 1999 and Ho and Ho & Company, Certified Public Accountants for the year ended 31st December, 2000.

As Zhaoke was registered and is operating in the PRC, statutory financial statements were prepared in accordance with the relevant accounting principles and financial regulations applicable to sino-foreign equity joint ventures registered in the PRC. The statutory auditors of Zhaoke are 安徽嘉華會計師事務所 for each of the three years ended 31st December, 1999, 2000 and 2001.

For the purpose of this report, we have undertaken our own independent audit of the financial statements of all companies within the Group for the Relevant Periods which are prepared under accounting principles generally accepted in Hong Kong, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, and we have carried out such procedures as we consider necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The financial information set out on sections 1 to 8 below, including the combined income statements and the cash flow statements of the Group for the Relevant Periods, the combined balance sheets of the Group as at 31st December, 1999, 2000 and 2001 and the notes thereto ("the Financial Information"), have been prepared based on the audited financial statements or, where appropriate, unaudited financial statements of the companies now comprising the Group, for the Relevant Periods on the basis set out in section 1 below.

The Directors of the respective companies of the Group are responsible for the context of the Prospectus in which this report is included. It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation and principal accounting policies set out in sections 1 and 2 below respectively, the Financial Information as set out in sections 1 to 8 gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st December, 1999, 2000 and 2001 and of the results and cash flows of the Group for the Relevant Periods.

## **1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

The summary of the combined income statements includes the results of the companies comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation to 31st December, 2001 where this is a shorter period. The summary of the combined balance sheets of the Group as at 31st December, 1999, 2000 and 2001 has been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence as at 31st December, 1999, 2000 and 2001.

On this basis of preparation, the Group reported a net loss of HK\$1,317,000 for the year ended 31st December, 2001 and at that date its current liabilities exceeded its current assets by HK\$2,661,000. Nevertheless, the Financial Information has been prepared on a going concern basis, which the directors believe to be appropriate, because:

- (a) out of the amount due to a major shareholder, Ms. Lee Siu Fong (“Ms. Lee”), of HK\$827,000 at 30th April, 2002 (outstanding amount at 31st December, 2001: HK\$325,000), an amount of HK\$747,000 was capitalised on 20th June, 2002;
- (b) out of the amount due to a major shareholder, Huby Technology Limited (“Huby Technology”), of HK\$5,319,000 as at 30th April, 2002 (outstanding amount at 31st December, 2001: HK\$4,893,000), an amount of HK\$3,653,000 was capitalised on 20th June, 2002; and
- (c) on 20th June, 2002, Huby Technology injected an additional cash amount of HK\$2,200,000 to the Group in the form of share capital contribution.

All significant intra-group transactions and balances have been eliminated on combination.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies which have been adopted in arriving at the Financial Information set out in this report and which conform with accounting principles generally accepted in Hong Kong are as follows:

### Turnover

Turnover represents the net amount received and receivable for goods sold to customers during the year.

### Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed to the customers.

Interest income from bank deposit is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis following an assessment of its useful life.

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Related parties**

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 entities.

**Property, plant and equipment**

Property, plant and equipment other than construction in progress are stated at cost less depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Construction in progress is stated at cost less any identified impairment losses. Cost includes all development expenditure and other direct costs, including borrowing costs capitalised in accordance with the Group's accounting policy, attributable to such projects. Construction in progress is not depreciated until completion of construction. Cost on completed construction work is transferred to the appropriate category of the asset.

When an asset is sold or retired, its cost and accumulated depreciation are removed from the accounts and any gain or loss resulting from its disposal is included in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of an asset, expected future cash flow is not discounted to its present value.

Depreciation is provided to write off the cost of an asset other than construction in progress over its estimated useful life from the date on which it becomes fully operational and after taking into account its estimated residual value, using the straight-line method as follows:

Leasehold land	Over the term of the lease
Buildings	20 years
Plant and machinery	7 to 10 years
Office and laboratory equipment	3 to 5 years
Motor vehicles	3 to 5 years

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated costs necessary to make the sale.

### **Research and development costs**

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

Deferred development costs are amortised, using the straight-line method, over the expected useful lives of the products, commencing in the year when the products are put into commercial production.

### **Foreign currencies**

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On combination, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

**Taxation**

The charge for taxation is based on the results for the periods as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

**Operating lease**

Rentals applicable to operating leases are charged, on a straight-line basis, over the lease term to the income statement.

**Impairment of assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

**Retirement benefits scheme contributions**

Contributions payable by the Group to the Hong Kong Mandatory Provident Fund Scheme are charged to the income statement in the period in which they become payable.

**Cash equivalents**

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from bank repayable within three months from the date of the advance.



## 3. COMBINED INCOME STATEMENTS

The following is a summary of the combined results of the Group for each of the three years ended 31st December, 1999, 2000 and 2001, prepared on the basis set out in section 1 above:

	Note	Year ended 31st December,		
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Turnover		6,253	6,852	10,346
Cost of sales		<u>(2,425)</u>	<u>(1,938)</u>	<u>(2,466)</u>
Gross profit		3,828	4,914	7,880
Other revenue	(3a)	201	356	737
Selling and distribution expenses		<u>(4,980)</u>	<u>(4,839)</u>	<u>(5,383)</u>
Administrative expenses		<u>(5,456)</u>	<u>(5,635)</u>	<u>(5,232)</u>
Loss from operations	(3b)	<u>(6,407)</u>	<u>(5,204)</u>	<u>(1,998)</u>
Gain on disposal of technology of a developing product		—	—	1,396
Finance costs	(3d)	<u>(636)</u>	<u>(647)</u>	<u>(715)</u>
Loss before tax		<u>(7,043)</u>	<u>(5,851)</u>	<u>(1,317)</u>
Taxation	(3e)	<u>—</u>	<u>—</u>	<u>—</u>
Loss before minority interest		<u>(7,043)</u>	<u>(5,851)</u>	<u>(1,317)</u>
Minority interest		<u>2,354</u>	<u>1,842</u>	<u>—</u>
Net loss for the year		<u><u>(4,689)</u></u>	<u><u>(4,009)</u></u>	<u><u>(1,317)</u></u>
Dividend	(3f)	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
Loss per Share (cents)	(3g)			
Basic		<u><u>(2.55)</u></u>	<u><u>(2.18)</u></u>	<u><u>(0.72)</u></u>
Diluted		<u><u>(2.53)</u></u>	<u><u>(2.16)</u></u>	<u><u>(0.71)</u></u>

## Notes:

- (3a) During the year ended 31st December, 2000, an award of HK\$120,000 was received from the PRC Government by Zhaoke which was accredited for having undertaken a national project of 國家級火炬計劃 (National Torch Project) for the development and commercialisation of its product, Defibrase. The criteria for being selected as one of such projects is that the project must demonstrate its scientific merit and its potential contribution to the advancement of science and technology.

## (3b) Loss from operations

	Year ended 31st December,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging:			
Auditors' remuneration	13	65	5
Depreciation on property, plant and equipment	815	1,154	1,180
Amortisation on intangible asset	—	—	279
Research expenses	291	121	414
Operating lease payments in respect of rented premises	199	116	187
Staff costs	3,235	3,450	3,163
Loss on disposal of property, plant and equipment	100	234	—
Bad debts written off	167	369	312
Provision for bad debts	85	102	440
Provision for stock	19	46	215
And after crediting:			
Interest income	<u>43</u>	<u>42</u>	<u>7</u>

## (3c) Remuneration for Directors and five highest paid employees

No emoluments were paid by the Group to any of the directors for the Relevant Periods.

Subsequent to the Relevant Periods, each of the executive directors of the Company has entered into a service contract with the Company. In respect of Ms. Lee and Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun"), both of their service contracts commenced on 1st April, 2002. Such appointment will continue thereafter unless and until terminated by either party by serving not less than three months' prior written notice. The aggregate emoluments payable to them will amount to approximately HK\$1,050,000 per annum. Had the emoluments been paid to them for the Relevant Periods based on the above-mentioned service contracts, the charge to the combined results of the Group for the Relevant Periods would have been as follows:

	Year ended 31st December,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Net loss for the year	(4,689)	(4,009)	(1,317)
Notional Directors' remuneration	<u>(1,050)</u>	<u>(1,050)</u>	<u>(1,050)</u>
Adjusted net loss for the year	<u>(5,739)</u>	<u>(5,059)</u>	<u>(2,367)</u>

During the Relevant Periods, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or compensation for loss of office and no director waived any emoluments during the Relevant Periods.

Details of emoluments paid to the five non-director highest paid individuals are as follows:

	Year ended 31st December,		
	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries and other benefits	841	1,105	1,278
Contributions to retirement benefits schemes	<u>0</u>	<u>3</u>	<u>42</u>
Total emoluments	<u>841</u>	<u>1,108</u>	<u>1,320</u>

The emoluments of each of the above non-director highest paid individuals did not exceed HK\$1,000,000 during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(3d) **Finance costs**

	Year ended 31st December,		
	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank and other loans repayable:			
Within one year	397	562	279
In more than one year but less than two years	201	—	297
In more than two years but less than five years	<u>—</u>	<u>53</u>	<u>108</u>
	598	615	684
Interest on amount due to a related company	<u>30</u>	<u>29</u>	<u>30</u>
	628	644	714
Bank charges	<u>8</u>	<u>3</u>	<u>1</u>
	<u>636</u>	<u>647</u>	<u>715</u>

**(3e) Taxation**a) *Hong Kong profits tax*

The operation of Lee's Pharmaceutical is principally subject to Hong Kong Profits Tax at a rate of 16 per cent.. No provision for Hong Kong Profits Tax has been made as Lee's Pharmaceutical incurred tax losses for the years ended 31st December, 1999 and 2000. Hong Kong Profits Tax has not been provided for the year ended 31st December, 2001, because there is sufficient tax losses brought forward from previous years to offset the estimated assessable profit for the year.

b) *The PRC enterprise income tax*

The operation of Zhaoke, which was established in Anhui Province of the PRC, is subject to the PRC enterprise income tax at a rate of 15 per cent.. However, it is exempted from the enterprise income tax for two years starting from the first year of profitable operations after offsetting its tax losses of the prior year, followed by a 50 per cent. reduction for the next three years. Zhaoke became profitable, after offsetting prior year losses, in the year ended 31st December, 1997. Accordingly, it was exempted from the income tax for that year. However, Zhaoke had not derived assessable profits for the years of 1998, 1999, 2000 and 2001.

c) *Value-added tax in the PRC*

The Group's sales made in the PRC are subject to the PRC value-added tax ("output VAT") at the prevailing rates, such output VAT is payable after offsetting VAT paid by the Group on its purchases ("input VAT").

d) *Deferred tax*

Deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future assessable profits as it is not certain that the tax losses will be utilised in the foreseeable future.

**(3f) Dividends**

No dividends have been paid or declared by the companies now comprising the Group during the Relevant Periods.

**(3g) Loss per share**

The calculation of basic loss per Share for the Relevant Periods is based on the net loss for each of the three years during the Relevant Periods and on the assumption that 184,000,000 Shares had been in issue throughout the Relevant Periods, representing the 184,000,000 Shares in the Company issued pursuant to the share exchange agreements dated 4th February, 2002, as described more fully in subsections (vii) and (viii) under the paragraph headed "Corporate reorganisation" in Appendix IV to this prospectus.

The calculation of diluted loss per Share is based on the net loss for each of the three years during the Relevant Periods and 185,500,000 Shares, being the 184,000,000 Shares as used in the calculation of basic loss per Share, and the 1,500,000 Shares assumed to have been issued at no consideration on the deemed exercise of the share options as set out in the section headed "Pre-IPO Share Option Scheme" in Appendix IV to this prospectus.

For the purpose of the calculation of diluted loss per Share, the fair value of the Shares assumed to have been issued upon the deemed exercise of these options was determined as the issue price of HK\$0.40 per Share in respect of the Company's initial public offering of its Shares. The difference between the number of Shares issued and the number of Shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration.

## (3h) Related party transactions

Apart from those disclosed under notes 4(d), 4(e) and 4(h), the Group entered into the following material transactions with related parties during the Relevant Periods.

Name of related party	Nature of transaction	Year ended 31st December,		
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Lee's Machinery Limited ("Lee's Machinery")	Paid motor vehicle rental expenses thereto	—	34	102
University of Science and Technology of China ("USTC")	Interest payable (Note 3h (ii))	30	29	30

In addition to the above,

- (i) During the year ended 31st December, 2001, the Group disposed of the technology of a developing product to High Knowledge Investments Limited ("High Knowledge"), a shareholder of the Company at a consideration of HK\$1,516,000 making a gain of HK\$1,396,000 net of sales tax. The Directors are of the opinion that the consideration for the disposal was determined with reference to the then prevailing market price.
- (ii) During the Relevant Periods, USTC had made a loan of RMB400,000 to the Group for land acquisition purpose. The loan is unsecured, bears interest at 7.92 per cent. per annum commencing from 15th September 1997 for a term of two years. The amount has been overdue. No settlement has been made subsequent to 31st December, 2001.
- (iii) The bank loan secured by related party's assets are guaranteed by Ms. Lee, Ms. Leelalertsuphakun and Dr. Li Xiao Yi and are secured by a corporate guarantee and the properties of Lee's Machinery. Subsequent to 31st December, 2001, application has been made to the relevant bank for the said security from Lee's Machinery to be released and replaced by corporate guarantees from the Company and/or other members of the Group following the listing of the Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM").
- (iv) On 30th December, 2001, an amount of HK\$2,825,000 due to an ex-director of Lee's Pharmaceutical was assigned to High Knowledge, a shareholder of the Company.
- (v) On 30th December, 2001, an amount of HK\$15,133,000 due to Lee's Machinery and an amount of HK\$1,761,000 due to High Knowledge were assigned to Huby Technology which is a shareholder of the Company and in which Ms. Lee and Ms. Leelalertsuphakun have direct and indirect interest. On 31st December, 2001, 12,000,000 shares of HK\$1 each in Lee's Pharmaceutical were issued to Huby Technology at par value for capitalising the amount of HK\$12,000,000 due thereto.

*Notes:*

- a. Ms. Lee and Ms Leelalertsuphakun are the equal shareholders of Lee's Machinery.
- b. USTC is considered a related party of the Group as it is subject to common control or common significant influence as the minority shareholder of the Group's member, Zhaoke.
- c. In the opinion of the directors, the above related party transactions were carried out in the usual course of business and on normal commercial terms.

**(3i) Retirement benefits schemes**

The Company and its subsidiaries operated in Hong Kong has operated a defined contribution retirement benefits scheme for all qualifying employees throughout the Relevant Periods. The Group has only the obligations to make contributions in accordance with the scheme. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The amount of retirement benefits scheme contributions charged to the combined results represents contributions payable to these funds by the Group at rates as specified in the rules of the scheme.

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute a certain percentage of the payroll of their employees to the retirement benefits schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the respective schemes. During the Relevant Periods, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future periods.

The details of retirement benefits contributions for the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group, for each of the periods during the relevant period are as follows:

	<b>Year ended 31st December,</b>		
	<b>1999</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Retirement benefits scheme contributions	<u>0</u>	<u>3</u>	<u>44</u>
Amount of forfeited contributions available to offset further contributions payable by the Group at the end of each period	<u>—</u>	<u>—</u>	<u>—</u>

**(3j) Segmental information**

As the Group is engaged only in the manufacture and sales of pharmaceutical products in the PRC, no segmental information is presented.

## 4. COMBINED BALANCE SHEETS

	Note	The Group			The Company
		At 31st December,			At 31st December
		1999	2000	2001	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment	(4a)	12,577	10,996	10,523	—
Intangible asset	(4b)	4,798	5,435	6,917	—
		<u>17,375</u>	<u>16,431</u>	<u>17,440</u>	<u>—</u>
<b>Current assets</b>					
Inventories	(4c)	857	755	925	—
Amount due from a related company	(4d)	178	104	105	—
Amount due from a director	(4e)	97	15	—	—
Trade receivables, net	(4f)	4,717	3,881	2,435	—
Other receivables, deposits and prepayments	(4g)	1,140	1,017	1,938	1
Cash and bank balances		2,594	485	296	—
		<u>9,583</u>	<u>6,257</u>	<u>5,699</u>	<u>1</u>
<b>Current liabilities</b>					
Amount due to a director	(4e)	—	—	325	—
Amount due to an ex-director of a subsidiary		2,882	2,837	—	—
Amounts due to related companies	(4h)	390	1,172	392	—
Trade payables	(4i)	83	110	314	—
Other payables		3,624	2,930	3,698	—
Current portion of borrowings	(4j)	4,224	7,796	3,631	—
		<u>11,203</u>	<u>14,845</u>	<u>8,360</u>	<u>—</u>
<b>Net current (liabilities)/asset</b>		<u>(1,620)</u>	<u>(8,588)</u>	<u>(2,661)</u>	<u>1</u>
		<u>15,755</u>	<u>7,843</u>	<u>14,779</u>	<u>1</u>
<b>Capital and reserves</b>					
Share capital	(4k)	6,400	6,400	18,400	1
Reserves	(4l)	(8,804)	(12,832)	(14,337)	—
		<u>(2,404)</u>	<u>(6,432)</u>	<u>4,063</u>	<u>1</u>
<b>Minority interests</b>					
		<u>1849</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Non-current liabilities</b>					
Amounts due to related companies	(4h)	11,616	12,683	4,893	—
Borrowings	(4j)	4,694	1,592	5,823	—
		<u>16,310</u>	<u>14,275</u>	<u>10,716</u>	<u>—</u>
		<u>15,755</u>	<u>7,843</u>	<u>14,779</u>	<u>1</u>

Notes:

(4a) **Property, plant and equipment**

The movements of property, plant and equipment during the Relevant Periods are as follows:

*Year ended 31st December, 1999*

	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Office and laboratory equipment</b>	<b>Motor vehicles</b>	<b>Construction in progress</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>COST</b>						
At 1st January, 1999	1,659	2,634	1,297	250	3,165	9,005
Exchange rate adjustments	5	8	3	1	10	27
Reclassification	2,183	988	145	—	(3,316)	—
Additions	2,752	1,469	359	355	625	5,560
Disposals	—	(103)	(127)	—	—	(230)
At 31st December, 1999	<u>6,599</u>	<u>4,996</u>	<u>1,677</u>	<u>606</u>	<u>484</u>	<u>14,362</u>
<b>ACCUMULATED DEPRECIATION</b>						
At 1st January, 1999	28	522	314	146	—	1,010
Exchange rate adjustments	—	2	1	—	—	3
Charge for the year	102	316	336	61	—	815
Written back on disposals	—	(16)	(27)	—	—	(43)
At 31st December, 1999	<u>130</u>	<u>824</u>	<u>624</u>	<u>207</u>	<u>—</u>	<u>1,785</u>
<b>NET BOOK VALUE</b>						
At 31st December, 1999	<u>6,469</u>	<u>4,172</u>	<u>1,053</u>	<u>399</u>	<u>484</u>	<u>12,577</u>



Year ended 31st December, 2000

	Land and buildings	Plant and machinery	Office and laboratory equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>						
At 1st January, 2000	6,599	4,996	1,677	606	484	14,362
Exchange rate adjustments	(35)	(27)	(8)	(3)	(3)	(76)
Reclassification	463	18	—	—	(481)	—
Additions	77	619	243	—	—	939
Disposals	(841)	(240)	(114)	(603)	—	(1,798)
At 31st December, 2000	6,263	5,366	1,798	—	—	13,427
<b>ACCUMULATED DEPRECIATION</b>						
At 1st January, 2000	130	824	624	207	—	1,785
Exchange rate adjustments	—	(4)	(3)	(1)	—	(8)
Charge for the year	282	492	331	49	—	1,154
Written back on disposals	(55)	(95)	(95)	(255)	—	(500)
At 31st December, 2000	357	1,217	857	—	—	2,431
<b>NET BOOK VALUE</b>						
At 31st December, 2000	5,906	4,149	941	—	—	10,996

Year ended 31st December, 2001

	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Office and laboratory equipment</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>COST</b>				
At 1st January, 2001	6,263	5,366	1,798	13,427
Exchange rate adjustments	92	78	25	195
Additions	<u>75</u>	<u>150</u>	<u>321</u>	<u>546</u>
At 31st December, 2001	<u>6,430</u>	<u>5,594</u>	<u>2,144</u>	<u>14,168</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1st January, 2001	357	1,217	857	2,431
Exchange rate adjustments	5	18	11	34
Charge for the year	<u>277</u>	<u>527</u>	<u>376</u>	<u>1,180</u>
At 31st December, 2001	<u>639</u>	<u>1,762</u>	<u>1,244</u>	<u>3,645</u>
<b>NET BOOK VALUE</b>				
At 31st December, 2001	<u><u>5,791</u></u>	<u><u>3,832</u></u>	<u><u>900</u></u>	<u><u>10,523</u></u>

The land and buildings are situated in the PRC under medium-term leases.

## (4b) Intangible asset

Intangible asset represents development cost which comprise fees paid to medical research institutions and expenses incurred in developing new pharmaceutical products. The movements of intangible asset during the Relevant Periods are as follows:

	Year ended 31st December,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>			
At beginning of year	4,235	4,798	5,435
Exchange rate adjustments	13	(25)	79
Additions	550	755	1,726
Disposals	—	—	(44)
Grants received	—	(93)	—
	<u>          </u>	<u>          </u>	<u>          </u>
At end of year	4,798	5,435	7,196
	<u>-----</u>	<u>-----</u>	<u>-----</u>
<b>Amortisation</b>			
At beginning of year	—	—	—
Charge for the year	—	—	279
	<u>          </u>	<u>          </u>	<u>          </u>
At end of year	—	—	279
	<u>-----</u>	<u>-----</u>	<u>-----</u>
<b>Net book value</b>			
At end of year	4,798	5,435	6,917
	<u>          </u>	<u>          </u>	<u>          </u>

## (4c) Inventories

	At 31st December,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Raw materials	533	359	288
Work-in-progress	—	166	207
Finished goods	324	230	430
	<u>          </u>	<u>          </u>	<u>          </u>
	857	755	925
	<u>          </u>	<u>          </u>	<u>          </u>

Included above are raw materials at 31st December, 2001 which are carried at net realisable value of HK\$117,000. The other inventories are carried at cost at the relevant balance sheet dates.

## (4d) Amount due from a related company

	1999 HK\$'000	At 31st December, 2000 HK\$'000	2001 HK\$'000
University of Science and Technology of China Biotechnology Company ("USTC Biotech")	<u>178</u>	<u>104</u>	<u>105</u>
Maximum balance owed to the Group during the year	<u>178</u>	<u>178</u>	<u>105</u>

USTC Biotech is a minority shareholder of the Company's subsidiary, Zhaoke.

The amount due from USTC Biotech represented cash advances. The amount is unsecured, non-interest bearing and with no pre-determined repayment terms.

## (4e) Amount due from/(to) a director

	1999 HK\$'000	At 31st December, 2000 HK\$'000	2001 HK\$'000
Ms. Lee	<u>97</u>	<u>15</u>	<u>(325)</u>
Maximum balance owed to the Group during the year	<u>97</u>	<u>97</u>	<u>15</u>

The amount due from/(to) a director represented cash advance to/from the director. The amount is unsecured, non-interest bearing and with no pre-determined repayment terms.

The amount due to Ms. Lee increased to HK\$827,000 as at 30th April, 2002, out of which HK\$747,000 was capitalised by the issue of 2,334,375 shares of HK\$0.05 each of the Company at the price of HK\$0.32 each on 20th June, 2002.

## (4f) Trade receivables, net

The Group has a policy of allowing an average credit period of 30-180 days to its trade customers. The following is an aging analysis of trade receivables at the respective balance sheet dates.

	1999 HK\$'000	At 31st December, 2000 HK\$'000	2001 HK\$'000
1-90 days	1,814	2,092	1,250
91-180 days	1,099	897	613
181-365 days	631	527	595
Over 365 days and under 3 years	<u>1,326</u>	<u>620</u>	<u>672</u>
	4,870	4,136	3,130
Less: Provision for bad debts	<u>(153)</u>	<u>(255)</u>	<u>(695)</u>
	<u>4,717</u>	<u>3,881</u>	<u>2,435</u>

## (4g) Other receivables, deposits and prepayments

	At 31st December,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Advances to employees*	499	201	54
Utility deposits	25	27	190
Prepayments	558	246	208
Prepaid share issuance expenditures**	—	500	1,400
Others	58	43	86
	<u>1,140</u>	<u>1,017</u>	<u>1,938</u>

\* These advances were made primarily to facilitate the settlement of purchase of raw material and other operating expenses made by the employees on behalf of the Group. Advances to employees were unsecured and non-interest bearing.

\*\* Prepaid share issuance expenditures represented cost incurred in connection with the proposed issuance and listing of the Shares on GEM and will be charged to the share premium account on completion of the Placing.

## (4h) Amounts due to related companies

	At 31st December,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Included as current liabilities:			
Lee's Machinery ( <i>note i</i> )	—	786	—
科大技術實業總公司 ( <i>note ii</i> )	14	12	12
USTC ( <i>note iii</i> )	376	374	380
	<u>390</u>	<u>1,172</u>	<u>392</u>
Included as non-current liabilities:			
Lee's Machinery ( <i>note i</i> )	11,616	12,683	—
Huby Technology ( <i>note v</i> )	—	—	4,893
	<u>11,616</u>	<u>12,683</u>	<u>4,893</u>

## Notes:

- i) Ms. Lee and Ms. Leelalertsuphakun, the directors of the Company, are the equal shareholders of Lee's Machinery.

The amount due to Lee's Machinery is unsecured, interest-free and has no fixed terms of repayment.

On 30th December, 2001, the amount of HK\$15,133,000 due to Lee's Machinery as at that date was assigned to Huby Technology.

- ii) 科大技術實業總公司 is considered as a related party of the Group as it is subject to common control or common significant influence as USTC Biotech, the minority shareholder of the Group's member, Zhaoke, a 70 per cent. subsidiary of the Company.

The amount due to 科大技術實業總公司 is unsecured, interest-free and has no fixed terms of repayment.

- iii) USTC is considered as a related party of the Group as it is subject to common control or common significant influence as USTC Biotech, the minority shareholder of Zhaoke, a 70 per cent. subsidiary of the Company.

The amount due to USTC of RMB400,000 is unsecured, bears interest at 7.92 per cent. per annum commencing from 15th September, 1997 for a term of two years. The amount has been overdue. No settlement has been made subsequent to 31st December, 2001. Details of the interest accrued is disclosed in Note 3h(ii).

- iv) On 30th December, 2001, the amount of HK\$1,761,000 due to High Knowledge, a shareholder of the Company, as at that date was assigned to Huby Technology.

The amount due to High Knowledge is unsecured, interest-free and has no fixed terms of repayment.

- v) The amount due to Huby Technology is unsecured, interest-free and has no fixed terms of repayment.

On 31st December, 2001, 12,000,000 shares of HK\$1 each in Lee's Pharmaceutical were issued to Huby Technology at par value by capitalising an amount of HK\$12,000,000 due thereto.

The amount due to Huby Technology increased to HK\$5,319,000 as at 30th April, 2002, out of which, HK\$3,653,000 was capitalised by the issue of 11,415,625 shares of HK\$0.05 each of the Company at the price of HK\$0.32 each on 20th June, 2002.

(4i) **Trade payables**

The following is an aging analysis of trade payables at the respective balance sheet dates:

	At 31st December,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
1-90 days	73	78	241
91-180 days	—	—	23
181-365 days	2	25	—
Over 365 days	8	7	50
	<u>83</u>	<u>110</u>	<u>314</u>

## (4j) Borrowings

	At 31st December,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Bank loans, secured by:			
The Group's land and buildings	2,816	1,400	1,857
Related party's assets ( <i>note 3h(iii)</i> )	—	1,919	1,562
	<u>2,816</u>	<u>3,319</u>	<u>3,419</u>
Other loans, secured by:			
The Group's land and buildings	6,102	6,069	6,035
	<u>8,918</u>	<u>9,388</u>	<u>9,454</u>
Less: Amounts shown under current liabilities	<u>4,224</u>	<u>7,796</u>	<u>3,631</u>
	<u>4,694</u>	<u>1,592</u>	<u>5,823</u>

The borrowings bear interest at prevailing market rates and are repayable as follows:

	At 31st December,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Repayable:			
Within one year	4,224	7,796	3,631
In more than one year but not exceeding two years	4,694	371	5,024
In more than two years but not exceeding five years	—	1,221	799
	<u>8,918</u>	<u>9,388</u>	<u>9,454</u>
Less: Amounts due within one year classified as current liabilities	<u>4,224</u>	<u>7,796</u>	<u>3,631</u>
	<u>4,694</u>	<u>1,592</u>	<u>5,823</u>

## (4k) Share capital

	At 31st December,		
	1999	2000	2001
Number of Shares	<u>6,400,000</u>	<u>6,400,000</u>	<u>18,400,000</u>
Issued shares of HK\$1 each	<u>HK\$6,400,000</u>	<u>HK\$6,400,000</u>	<u>HK\$18,400,000</u>

For the purpose of this report, the share capital balances at the respective balance sheet dates represent the share capital of Lee's Pharmaceutical, the holding company of the Group prior to the Reorganisation.

Pursuant to the special resolution passed on 13th December, 2001, the authorised share capital was increased from HK\$6,400,000 to HK\$23,000,000 by the creation of 16,600,000 ordinary shares of HK\$1 each ranking pari passu in all respects with the then existing shares in the capital of the Lee's Pharmaceutical.

On 31st December, 2001, 12,000,000 shares of HK\$1 each were issued to Huby Technology at par value for capitalising the loan of HK\$12,000,000 due thereto.

(4l) **Transfer to or from reserves**

	<b>Exchange reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 1999	(60)	4,307	4,247
Exchange rate adjustment	(132)	—	(132)
Loss for the year	<u>—</u>	<u>4,689</u>	<u>4,689</u>
At 31st December, 1999 and 1st January, 2000	(192)	8,996	8,804
Exchange rate adjustment	19	—	19
Loss for the year	<u>—</u>	<u>4,009</u>	<u>4,009</u>
At 31st December, 2000 and 1st January, 2001	(173)	13,005	12,832
Exchange rate adjustment	188	—	188
Loss for the year	<u>—</u>	<u>1,317</u>	<u>1,317</u>
At 31st December, 2001	<u><u>15</u></u>	<u><u>14,322</u></u>	<u><u>14,337</u></u>

(4m) **Distributable reserve**

As at 31st December, 2001 the Company had no reserve available for distribution to the Shareholders.

(4n) **Pledge of assets**

At 31st December, 2001, the leasehold land and buildings of the Group with an aggregate net book value of HK\$5,319,000 were pledged to banks and other institutions to secure general credit facilities granted to the Group.



## (4o) Commitments

At each of the balance sheet dates during the Relevant Periods, the Group had the following commitments:

- i) Capital commitments in respect of acquisition of property, plant and equipment:

	At 31st December,		
	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contracted amount	—	67	182
Deposit paid	—	(48)	(46)
	<u>—</u>	<u>(48)</u>	<u>(46)</u>
	<u>—</u>	<u>19</u>	<u>136</u>

- ii) Lease commitments for future minimum lease payments under non-cancelable operating lease in respect of land and buildings falling due as follows:

	At 31st December,		
	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	70	101	631
In more than one year and less than two years	—	—	394
	<u>—</u>	<u>—</u>	<u>394</u>
	<u>70</u>	<u>101</u>	<u>1,025</u>

- iii) Lee's Pharmaceutical entered into an agreement with the Hong Kong University of Science and Technology on 16th May, 2001 to carry out a research and development project which aims at finding "inhibitors" by screening of human heparanase inhibitors as anti-cancer drugs from traditional Chinese medicine. The total project cost is HK\$2,760,000. The Company is required to contribute HK\$1,380,000 whereas Government of the Hong Kong Special Administrative Region would sponsor the remaining HK\$1,380,000. According to the agreement, the project will be completed on 31st March, 2004. As at 31st December, 2001, Lee's Pharmaceutical had spent HK\$208,000 on the project.

## 5. CASH FLOW STATEMENTS

	Note	Year ended 31st December,		
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
<b>Net cash (outflow)/inflow from operating activities</b>	5(a)	<u>(2,063)</u>	<u>(2,996)</u>	<u>1,650</u>
<b>Returns on investments and servicing of finance</b>				
Interest paid		(598)	(615)	(684)
Interest received		<u>43</u>	<u>42</u>	<u>7</u>
<b>Net cash outflow from return on investments and servicing of finance</b>		<u>(555)</u>	<u>(573)</u>	<u>(677)</u>
<b>Investing activities</b>				
Purchase of property, plant and equipment		(5,560)	(939)	(546)
Proceeds from disposal of property, plant and equipment		87	1,065	—
Additions of deferred development cost		(550)	(755)	(1,726)
Government grants received for developing a new product		—	93	—
Proceeds from transfer of technology of a developing products, net of sales tax (Advances to)/Repayment from a related company		<u>(178)</u>	<u>74</u>	<u>—</u>
<b>Net cash outflow from investing activities</b>		<u>(6,201)</u>	<u>(462)</u>	<u>(832)</u>
<b>Net cash (outflow)/inflow before financing carried forward</b>		<u>(8,819)</u>	<u>(4,031)</u>	<u>141</u>

	Note	Year ended 31st December,		
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
<b>Net cash (outflow)/inflow before financing brought forward</b>		(8,819)	(4,031)	141
<b>Financing</b>	5(b)			
New loans		8,918	2,000	474
Repayment of loans		(4,618)	(1,482)	(518)
Advance from a related company		3,804	1,853	587
Advance from a director and an ex-director of subsidiary		1,143	37	340
Payment of shares issuance expenditures		—	(500)	(900)
<b>Net cash inflow/(outflow) from financing</b>		9,247	1,908	(17)
<b>Increase/(Decrease) in cash and cash equivalents</b>		428	(2,123)	124
<b>Cash and cash equivalents at beginning of year</b>		2,006	2,594	485
<b>Effect of foreign exchange rate changes</b>		160	14	(313)
<b>Cash and cash equivalents at end of the year</b>		2,594	485	296
<b>Analysis of the balances of cash and cash equivalents</b>				
Cash and bank balances		2,594	485	296

Notes:

## (5a) Reconciliation of loss before tax to net cash (outflow)/inflow from operating activities

	Year ended 31st December,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Loss before tax	(7,043)	(5,851)	(1,317)
Gain on disposal of technology of a developing product	—	—	(1,396)
Loss on disposal of property, plant and equipment	100	234	—
Depreciation on property, plant and equipment	815	1,154	1,180
Amortisation of deferred development cost	—	—	279
Interest expenses	628	644	714
Interest income	(43)	(42)	(7)
Decrease/(Increase) in inventories	1,150	102	(170)
(Increase)/Decrease in trade receivables	(923)	836	1,446
Decrease/(Increase) in other receivables, deposits and prepayments	477	623	(21)
(Decrease)/Increase in trade payables	(202)	27	204
Increase/(Decrease) in other payables	<u>2,978</u>	<u>(723)</u>	<u>738</u>
<b>Net cash (outflow)/inflow from operating activities</b>	<u>(2,063)</u>	<u>(2,996)</u>	<u>1,650</u>

## (5b) Analysis of changes in financing during the year

	Share capital	Borrowings	Amounts due to related companies	Amounts due to a director and an ex-director of subsidiary	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1st January, 1999</b>	6,400	4,611	8,200	1,642	20,853
New loans	—	8,918	—	—	8,918
Repayment of loans	—	(4,618)	—	—	(4,618)
Advances from related companies	—	—	3,804	—	3,804
Advances from a director and an ex-director of subsidiary	—	—	—	1,143	1,143
Effect of foreign exchange rate changes	—	7	2	—	9
<b>At 31st December, 1999 and 1st January, 2000</b>	6,400	8,918	12,006	2,785	30,109
New loans	—	2,000	—	—	2,000
Repayment of loans	—	(1,482)	—	—	(1,482)
Advances from related companies	—	—	1,853	—	1,853
Advances from a director and an ex-director of subsidiary	—	—	—	37	37
Effect of foreign exchange rate changes	—	(48)	(4)	—	(52)
<b>At 31st December, 2000 and 1st January, 2001</b>	6,400	9,388	13,855	2,822	32,465
Capitalisation of amount due to Huby Technology	12,000	—	(12,000)	—	—
Assignment of loans	—	—	2,837	(2,837)	—
New Loans	—	474	—	—	474
Repayment of loans	—	(518)	—	—	(518)
Advances from related companies	—	—	587	—	587
Advances from a director and an ex-director of subsidiary	—	—	—	340	340
Effect of foreign exchange rate changes	—	110	6	—	116
<b>At 31st December, 2001</b>	<u>18,400</u>	<u>9,454</u>	<u>5,285</u>	<u>325</u>	<u>33,464</u>

## (5c) Major non-cash transaction

During the year ended 31st December, 2001, 12,000,000 shares of HK\$1 each in the share capital of Lee's Pharmaceutical were allotted and issued as fully paid by the capitalisation of an amount of HK\$12,000,000 due to Huby Technology.

## 6. STATEMENT OF RECOGNISED GAINS OR LOSSES

	Year ended 31st December,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net (profit)/loss not recognised in the Combined Income Statement			
Exchange differences arising on translation of overseas operations	(132)	19	188
Net loss for the year	<u>4,689</u>	<u>4,009</u>	<u>1,317</u>
	<u>4,557</u>	<u>4,028</u>	<u>1,505</u>

## 7. DIRECTORS' REMUNERATION

Under the arrangement pursuant to the service contracts entered into between the Group and the Directors, the estimated aggregate amount payable to the Directors or companies controlled by them as remuneration or in the form of benefits in kind for the year ending 31st December, 2002 is approximately HK\$1,316,000.

## 8. SUBSEQUENT EVENTS

The following events have occurred subsequent to 31st December, 2001:

- a. The Group completed a reorganisation in preparation for the listing of the Shares on GEM, the details of which are set out in the paragraph headed "Corporate reorganisation" in the section headed "Further information about the Company and its subsidiaries" in Appendix IV of the Prospectus.
- b. Resolutions of the Shareholders were passed to approve the matters set out in the paragraph headed "Changes in share capital of the Company" in the section headed "Further information about the Company and its subsidiaries" in Appendix IV of the Prospectus.

Yours faithfully,  
**HLM & Co.**  
*Certified Public Accountants*  
*Hong Kong*

The following is the text of the letter, summary of values and valuation certificate received from Vigers Hong Kong Limited, an independent property valuer, prepared for the purpose of incorporation in this prospectus, in connection with their valuation of the property held by the Company and its subsidiaries as at 30th April, 2002

**Vigers Hong Kong Limited**  
**International Property Consultants**

1607-12 Miramar Tower,  
132 Nathan Road,  
Tsimshatsui,  
Kowloon,  
Hong Kong



**VIGERS**  
**威格斯**

3rd July, 2002

The Directors  
Lee's Pharmaceutical Holdings Limited  
Room 1905  
Grand Millennium Plaza (Lower Block)  
181 Queen's Road Central  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value of the property interests of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") in Hong Kong and 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 April, 2002.

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 the property would have been completed unconditionally for cash consideration on the date of valuation assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

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 Anhui 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.

The properties in Group II and III have no commercial value attributable to the Group due to the prohibition against assignment on sub-letting or otherwise due to lack of substantial profit rents.

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 to 6, we have relied on the legal opinion provided by the Group's PRC legal adviser ("the PRC Legal Opinion").

Based on the PRC Legal Opinion, we understand the current status of titles, grant of major approvals, licences and documents of property No. 1 is as follows:

- |   |     |
|---|-----|
| (a) State-owned Land Use Rights Certificate | Yes |
| (b) Building Ownership Certificate          | Yes |

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 30th April, 2002 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 nine years' experience in the valuation of properties in the PRC.

## SUMMARY OF VALUATION

Property	Capital value in existing state as at 30th April, 2002
<b>Group I — Property owned by the Group in the PRC</b>	
1. A factory complex at No. 669 Chang Jiang Xi Road, New and High-Tech Industrial Development Zone, Hefei City, Anhui Province, the PRC.	RMB13,000,000 (equivalent to HK\$12,264,000)
<b>Group II — Properties rented by the Group in the PRC.</b>	
2. A dormitory of Room 509, Level 5, Singapore Gardens, No. 898 Chang Jiang Xi Road, Hefei City, Anhui Province, the PRC.	No commercial value
3. An office of Room 415, Level 4, Qing Nian Hui Building, No. 3 Dong Dan Bei Main Street, Dong Cheng District, Beijing City, the PRC.	No commercial value
4. An office of Room 802, Mei Xin Building, No. 728 Xizang Road Central, Huangpu District, Shanghai City, the PRC.	No commercial value
5. An office of Room A05, Level 7, Sui Feng Building, No. 75 Xian Lie Zhong Road, Guangzhou City, Guangdong Province, the PRC.	No commercial value
6. A dormitory of Room 1102, Tao Jian Building, No. 94 Heng Fu Road, Tian He District, Guangzhou City, Guangdong Province, the PRC.	No commercial value
<b>Group III — Property rented by the Group in Hong Kong</b>	
7. Office Unit 1905 on 19th Floor of Lower Block, Grand Millennium Plaza, No. 181 Queen's Road Central, Hong Kong.	No commercial value
<b>Total:</b>	RMB13,000,000 (equivalent to HK\$12,264,000)

## VALUATION CERTIFICATE

## Group I — Property owned by the Group in the PRC

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th April, 2002
1. A factory complex at No. 669 Chang Jiang Xi Road, New and High-Tech Industrial Development Zone, Hefei City, Anhui Province, the PRC.	<p>The property comprises a 2-storey factory building, a 4-storey warehouse and single-storey transformer room on a site with site area of 8,000 sq.m.. The buildings were completed in or about 1998 and 1999 respectively.</p> <p>The gross floor area of the property is approximately as follows:</p> <p>Factory Building    2,502.00 sq.m.    (26,931.53 sq.ft.)</p> <p>Warehouse/ Transformer room    664.86 sq.m.    (7,156.55 sq.ft.)</p> <p><b>TOTAL:    <u>3,166.86 sq.m.</u>    <u>(34,088.08 sq.ft.)</u></b></p>	The property is occupied by — the Group as a factory, office, laboratory and warehouse.	RMB13,000,000 (equivalent to HK\$12,264,000)

## Notes:

- Pursuant to State-owned Land Use Rights Certificate (document no.: 合國用(藉出)字第0447號) of the property with site area of 8,000 sq.m. for industrial use for a term of 50 years commencing from April, 1998 to April, 2048 has been granted to Hefei Siu-Fung USTC Pharmaceutical Company Limited (合肥兆峰科大藥業有限公司) (“Zhaoke”).
- Pursuant to the Building Ownership Certificate (document no. 合肥市房權證產字第017539號), the ownership of the factory building of the property with a gross floor area of 2,502 sq.m. is vested into Zhaoke.
- Pursuant to the Building Ownership Certificate (document no. 房地權合產字第016692號), the ownership of the warehouse and transformer room of the property with a total gross floor area of 664.86 sq.m. is vested into Zhaoke.
- Pursuant to the PRC legal opinion, we understand that the current status of titles, grant of major approvals, licenses and documents of the property are as follows:
 

(a) State-owned Land Use Rights Certificate	Yes
(b) Building Ownership Certificate	Yes

5. The PRC legal opinion states that:
- (i) Zhaoke has acquired the land use rights of a site with an area of 8,000 sq.m. for a term of 50 years.
  - (ii) Zhaoke has obtained two building ownership certificates and owns the property (Factory Building, warehouse/transformer room) with a total gross floor area of 3,166.86 sq.m. and has the right to use, lease, mortgage and transfer the property.
  - (iii) The property is subject to the following mortgages:
    - (a) A mortgage in favour of Bank of China Hefei New and High-Tech Industrial Development Zone Branch dated 15th February, 2000 for a term of 181 days to the extent of RMB2,000,000.
    - (b) A mortgage in favour of Bank of China Hefei New and High-Tech Industrial Development Zone Branch dated 4th April, 2001 for a term of 183 days to the extent of RMB500,000.
    - (c) A mortgage in favour of Anhui Province Trust Investment Company Hefei Branch dated 18th June, 2001 for a term of 729 days to the extent of RMB4,900,000.
    - (d) The land use rights legally held by Zhaoke is subject to a mortgage in favour of Anhui Province Science Technology Bureau (安徽省科學技術廳) dated 2nd June, 2000 for a term from 2nd June, 2000 to 2nd June 2001. The mortgage is still valid.

## Group II — Properties rented by the Group in the PRC

			Capital value in existing state as at 30th April, 2002
Property	Description and Tenure	Particulars of occupancy	
2. A dormitory of Room 509, Level 5, Singapore Gardens, No. 898 Chang Jiang Xi Road, Hefei City, Anhui Province, the PRC.	<p>The property comprises a domestic unit on level 5 of a 7-storey building completed in about 1997.</p> <p>The gross floor area of the property is approximately 150 sq.m. (1,614.60 sq.ft.).</p>	<p>The property is leased by the Group from an independent third party with a tenancy for a term of 1 year commencing from 20th August, 2000 and which has been extended for a further term of 1 year at a monthly rent of RMB700.</p> <p>The property is occupied by the Group as a staff quarter.</p>	No commercial value

*Note:* The PRC Legal Opinion states that the tenancy agreement of the property is subject to qualification as the landlord could not provide the proper certificate and/or permits (including the relevant building ownership certificate and house leasing certificate.) The failure to have the proper certificate or permit may render the tenancy agreement void.

3. An office of Room 415, Level 4, Qing Nian Hui Building, No. 3 Dong Dan Bei Main Street, Dong Cheng District, Beijing City, the PRC.	<p>The property comprises an office unit on level 4 of a 10-storey building completed in about 1998.</p> <p>The gross floor area of the property is approximately 70.29 sq.m. (756.60 sq.ft.).</p>	<p>The property is leased by the Group from an independent third party with a tenancy for a term of 1 year commencing from 18th December, 2001 at a monthly rent of RMB6,628.</p> <p>The property is occupied by the Group as its branch office.</p>	No commercial value
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*Note:* The PRC Legal Opinion states that the tenancy agreement of the property is subject to qualification as the landlord could not provide the proper certificate and/or permits (including the relevant building ownership certificate and house leasing certificate.) The failure to have the proper certificate or permit may render the tenancy agreement void.

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th April, 2002
4. An office of Room 802, Mei Xin Building, No. 728 Xizang Road Central, Huangpu District, Shanghai City, the PRC.	The property comprises an office unit of a 25-storey building completed in about 2002.  The gross floor area of the property is approximately 48 sq.m. (516.67 sq.ft.).	The property is leased by the Group from an independent third party with a tenancy for a term of 1 year commencing from 18th March, 2002 at a monthly rent of RMB3,136 exclusive of management fee of RMB864 per month.  The property is occupied by the Group as its branch office.	No commercial value

*Note:* The PRC Legal Opinion states that the tenancy agreement of the property is subject to qualification as the landlord could not provide the proper certificate and/or permits (including the relevant building ownership certificate and house leasing certificate.) The failure to have the proper certificate or permit may render the tenancy agreement void.

5. An office of Room A05, Level 7, Sui Feng Building, No. 75 Xian Lie Zhong Road, Guangzhou City, Guangdong Province, the PRC.	The property comprises an office unit on level 7 of a 8-storey building completed in about 1985.  The gross floor area of the property is approximately 93.13 sq.m. (1,002.45 sq.ft.).	The property is leased by the Group from an independent third party with a tenancy for a term of 1 year commencing from 27th September, 2001 at a monthly rent of RMB5,774.06.  The property is occupied by the Group as its sales head office.	No commercial value
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*Note:* The PRC Legal Opinion states that the tenancy agreement of the property is subject to qualification as the landlord could not provide the proper certificate and/or permits (including the relevant building ownership certificate and house leasing certificate.) The failure to have the proper certificate or permit may render the tenancy agreement void.

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th April, 2002
6. A dormitory of Room 1102, Tao Jian Building, No. 94 Heng Fu Road, Tian He District, Guangzhou City, Guangdong Province, the PRC.	The property comprises a domestic unit of a 15-storey building completed in about 1986.  The gross floor area of the property is approximately 103 sq.m. (1,108.69 sq.ft.).	The property is leased by the Group from an independent third party with a tenancy for a term of 1 year commencing from 6th October, 2001 at a monthly rent of RMB3,000.  The property is occupied by the Group as a staff quarter.	No commercial value

*Note:* The PRC Legal Opinion states that the tenancy agreement of the property is subject to qualification as the landlord could not provide the proper certificate and/or permits (including the relevant building ownership certificate and house leasing certificate.) The failure to have the proper certificate or permit may render the tenancy agreement void.

## Group III — Property rented by the Group in Hong Kong

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 30th April, 2002
7. Office Unit 1905 on 19th Floor of Lower Block, Grand Millennium Plaza, No. 181 Queen's Road Central, Hong Kong.	The property comprises an office unit on the 19th floor of a 29-storey (excluding a basement) commercial building completed in about 1998.  The gross floor area of the property is approximately 2,188 sq.ft. (203.27 sq.m.).	The property is leased by the Group from an independent third party with a tenancy for a term of 2 years commencing from 1st October, 2001 to 30th September, 2003 at a monthly rent of HK\$43,760 exclusive of rates, air conditioning, management charges and other outgoings and a rent free period of a total of 2 months (i) from 1st October, 2001 to 31st October, 2001 and (ii) from 1st October, 2002 to 31st October, 2002.  The property is occupied by the Group as an office.	No commercial value



Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17th December, 2001 under the Companies Law. The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

## **1. MEMORANDUM OF ASSOCIATION**

The Memorandum of Association of the Company was adopted on 26th June, 2002 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in the section headed “Documents available for inspection” in Appendix V.

## **2. ARTICLES OF ASSOCIATION**

The Articles of Association of the Company were adopted on 26th June, 2002 and include provisions to the following effect:

### **A. Classes of Shares**

The share capital of the Company consists of ordinary shares.

### **B. Directors**

#### *(a) Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) 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 and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the

Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment 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 first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director of any security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which the Director is interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director is beneficially interested in shares of that company, provided that, he, together with any of his associates, is not beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights;

- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
  - (aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which he may benefit;
  - (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (vi) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) 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. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board 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.

The Directors may grant special remuneration to any Director who shall perform any special or extra services 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 agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed 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 share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by special resolution remove any Director and may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. 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 but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person other than a retiring Director shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, not less than seven and not more than 28 clear days before the day appointed for the meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by a special resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors (other than the managing Director or joint managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *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 assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**C. Alteration to constitutional documents**

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

**D.    Variation of rights of existing shares or classes of shares**

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that 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 meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**E.    Alteration of Capital**

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each 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;

- (ii) 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 subject to the provisions of the Companies Law; and
- (iii) 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 provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

#### **F. Special resolution — majority required**

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

#### **G. Voting rights (generally, on a poll 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 of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) 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 each share registered in his name in the register of members of the Company.



In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members of the Company present in person or by proxy and entitled to vote; or
- (c) any member or members of the Company present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meeting; or
- (d) any member or members of the Company present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognised clearing house (or its nominee) is a member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of

the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

#### **H. Annual general meetings**

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

#### **I. Accounts and audit**

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send printed copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

**J. Notice of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;

- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the GEM Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

**K. Transfer of Shares**

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, 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 of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published in the newspaper or, subject to the GEM Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

**L. Power of the Company to purchase its own Shares**

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

**M. Power of any subsidiary of the Company to own Shares**

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

**N. Dividends and other methods of distributions**

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

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 also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

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: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company 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 of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other such sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to

such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

#### **O. Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

#### **P. Calls on Shares and forfeiture of Shares**

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the

Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, 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 at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.



**Q. Inspection of register of members**

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the GEM Listing Rules) as the Directors may determine for each inspection.

**R. Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph D. above.

**S. Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

**T. Procedure on liquidation**

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

**U. Untraceable members**

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

**SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**

**A. Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**B. Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17th December, 2001 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

**C. Share capital**

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

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 of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;

- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### **D. Dividends and distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

**E. Shareholders' suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

**F. Protection of minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands 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 Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

**G. Disposal of assets**

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

**H. Accounting and auditing requirements**

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**I. Register of members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**J. Inspection of books and records**

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**K. Special resolutions**

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

**L. Subsidiary owning shares in parent**

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

**M. Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value

for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

#### **N. Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

#### **O. Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

#### **P. Liquidation**

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

#### **Q. Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**R. Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (i) on or in respect of the shares, debentures or other obligations of the Company; or
  - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from 15th January, 2002.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**S. Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**T. General**

Maples and Calder Asia, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising 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 section headed "Documents available for inspection" in Appendix V. 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/she is more familiar is recommended to seek independent legal advice.



**FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES****1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 17th December, 2001. The Company has established its head office and principal place of business in Hong Kong at Room 1905, Grand Millennium Plaza (Lower Block), 181 Queen's Road Central, Hong Kong, and has been registered in Hong Kong as an oversea company under Part XI of the Companies Ordinance on 15th January, 2002 and for such purpose, the Company has appointed Ms. Lee as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

The Company is incorporated in the Cayman Islands and is subject to the Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of the Cayman Islands company law is set out in Appendix III to this prospectus.

**2. Changes in share capital of the Company**

As at the date of incorporation of the Company, its authorised share capital was HK\$25,000,000 divided into 500,000,000 shares of HK\$0.05 each, of which one subscriber Share of HK\$0.05 was allotted and issued fully paid to Mapcal Limited. On 19th February, 2002, this one subscriber Share was transferred to Huby Technology, which subsequently transferred such Share to Zengen on 25th February, 2002.

In accordance with two share exchange agreements, both dated 4th February, 2002, as referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of the Group" in this Appendix, the Company acquired from Huby Technology, Dynamic Achieve, High Knowledge and Techfarm the entire issued share capital of Lee's Pharmaceutical and in consideration thereof, the Company allotted and issued an aggregate of 184,000,000 Shares, credited as fully paid, to the above-mentioned parties in the same proportions as their then respective shareholdings in Lee's Pharmaceutical. In accordance with a patent application license agreement dated 2nd February, 2002, as referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of the Group" in this Appendix, the Company allotted and issued 9,599,999 Shares, credited as fully paid up, to Zengen on 25th February, 2002.

On 20th June, 2002, the Company capitalised an aggregate amount of HK\$4,400,000 due to Huby Technology and Ms. Lee respectively by allotting and issuing to them an aggregate of 13,750,000 Shares, credited as fully paid, at the issue price of HK\$0.32 each.

On 20th June, 2002, the Company allotted and issued 6,875,000 Shares to Huby Technology at an issue price of HK\$0.32 each for cash.

Immediately following the completion of the Placing (and assuming the Over-allotment Option is not exercised), the issued share capital of the Company will be HK\$14,461,250 divided into 289,225,000 Shares (each of which will be fully paid) and 210,775,000 Shares will remain unissued. Other than the Shares issuable pursuant to the exercise of the Over-allotment Option or any options granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, or the exercise of the general mandate to issue securities as referred to in the paragraph headed "Written resolutions of all Shareholders passed on 26th June, 2002" below in this Appendix, the Directors have no present intention to issue any part of the authorised but unissued capital of the Company, and without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since its incorporation.

### **3. Written resolutions of all Shareholders passed on 26th June, 2002**

Pursuant to the written resolutions of all Shareholders passed on 26th June, 2002:

- (a) conditional on the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, and the obligations of the Underwriters under the Underwriting and Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by Asia Investment Capital (on its behalf and on behalf of CSC Asia and the Underwriters)), and not being terminated in accordance with the terms thereof or otherwise:
  - (i) the Placing upon the terms set out in this prospectus was approved subject to such modification as may be decided by the Directors or any committee thereof duly appointed for such purpose and the Directors or any such committee were authorised to allot and issue Shares under the Placing pursuant thereto;
  - (ii) the granting of the Over-allotment Option by the Company to the Underwriters pursuant to the Underwriting and Placing Agreement (exercisable by CM-CCS on behalf of the Underwriters) was approved and any Director was authorised to allot and issue any Shares which might be required to be issued if the Over-allotment Option is exercised upon the terms set out in this prospectus and the Underwriting and Placing Agreement;
  - (iii) the rules of Pre-IPO Share Option Scheme were approved and adopted and the Directors were authorised to allot, issue and deal with the Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and to take all such steps as they considered necessary or desirable to implement the Pre-IPO Share Option Scheme;

- (iv) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder, and to allot, issue and deal with the Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme and to take all such steps as they considered necessary or desirable to implement the Share Option Scheme;
- (v) the Directors were authorised to exercise during the Relevant Period (as defined under sub-paragraph (C) below) all the powers to allot, issue and deal with Shares or securities convertible into such Shares in the unissued share capital of the Company including all powers of the Company to establish any agreements or grant any options to do any of the foregoing, otherwise than by way of rights issue or any scrip dividend schemes or other similar arrangements providing for the allotment and issue of Shares in accordance with the articles of association or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares in issue prior to the date of this resolution or pursuant to the exercise of any options granted or which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or any other option scheme, Shares with an aggregate nominal value not exceeding 20 per cent. of the aggregate of (a) the total nominal value of the share capital of the Company in issue immediately after completion of the Placing; and (b) the total nominal value of the share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option, such mandate to remain in effect until whichever is the earliest of:
- (A) the conclusion of the next annual general meeting of the Company;
- (B) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; and
- (C) the passing of an ordinary resolution of the Shareholders in general meeting revoking or varying such mandate (the “Relevant Period”);
- (vi) the Directors were authorised to exercise during the Relevant Period all powers of the Company to repurchase on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange, subject to and in accordance with all applicable laws and/or requirements of the GEM Listing Rules or of any other stock exchange on which the securities of the Company may be listed as amended from time to time and which is recognised by the SFC and the Stock Exchange for this purpose, the aggregate nominal amount of Shares to be purchased by the Company not exceeding 10 per cent. of the aggregate of (a) the total nominal amount of the share capital of the Company in issue immediately after completion of the Placing; and (b) the total nominal value of the share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option;

(vii) the general unconditional mandate mentioned in paragraph (v) above was extended by the addition thereto of the aggregate nominal value of the share capital of the Company which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (vi) above provided that such extended amount shall not exceed 10 per cent. of the aggregate of (a) the total nominal value of the share capital of the Company in issue immediately after completion of the Placing; and (b) the total nominal value of the share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option; and

(b) the Company approved and adopted a new memorandum of association and articles of association.

#### 4. Corporate reorganisation

In order to facilitate the future expansion of the business of the Group and in preparation for the listing of the Shares on GEM, the Group effected the Reorganisation, pursuant to which the Company became the ultimate holding company of the Group. The Reorganisation involved the following:

- (i) on 13th December, 2001, Lee's Pharmaceutical increased its authorised share capital from HK\$6,400,000 to HK\$23,000,000;
- (ii) on 27th December, 2001, Dynamic Achieve transferred 800,000 shares of HK\$1 each in Lee's Pharmaceutical to Techfarm at a consideration of HK\$800,000 in cash;
- (iii) on 30th December, 2001, Lee's Machinery assigned an interest free loan of approximately HK\$15,132,516.05 due from Lee's Pharmaceutical to Huby Technology at a cash consideration equivalent to the amount of the loan;
- (iv) on 31st December, 2001, the directors of Lee's Pharmaceutical capitalised part of the shareholders' loan of HK\$12,000,000 due to Huby Technology by allotting and issuing 12,000,000 shares of HK\$1 each in Lee's Pharmaceutical, credited as fully paid, to Huby Technology;
- (v) on 2nd January, 2002, Lee's Machinery subscribed for 1 additional share in Huby Technology at the subscription price of US\$1 and on 3rd January, 2002, it transferred all its 2 shares in Huby Technology to Ms. Lee and Ms. Leelalertsuphakan (as to 1 share each, i.e. 50 per cent. each) at US\$1 each;
- (vi) on 4th January, 2002, Ms. Lue, the holder of one bearer share of US\$1 in High Knowledge, became a registered shareholder thereof by exchanging the one bearer share held by her into a registered share;

- (vii) on 19th February, 2002, Huby Technology, Dynamic Achieve and High Knowledge transferred an aggregate of 17,600,000 shares of HK\$1 each in Lee's Pharmaceutical to Lee's International in consideration of which the Company allotted and issued an aggregate of 176,000,000 Shares to Huby Technology, Dynamic Achieve and High Knowledge under a share exchange agreement dated 4th February, 2002 and on the same day, Mapcal Limited also transferred the one subscriber Share to Huby Technology at a consideration of US\$1;
- (viii) on 19th February, 2002, Techfarm transferred 800,000 shares of HK\$1 each in Lee's Pharmaceutical to Lee's International in consideration of which the Company allotted and issued 8,000,000 Shares to Techfarm under another share exchange agreement dated 4th February, 2002;
- (ix) on 25th February, 2002, the Company allotted and issued to Zengen 9,599,999 Shares under a patent application license agreement dated 2nd February, 2002 and on the same day, Huby Technology also transferred the one subscriber Share to Zengen at a consideration of US\$1;
- (x) on 12th June, 2002, the directors and shareholders of the Company resolved to: (a) capitalise an amount of HK\$3,653,000 out of HK\$5,319,478.71 owed to Huby Technology by its indirect wholly owned subsidiary, Lee's Pharmaceutical, by allotting and issuing 11,415,625 Shares, credited as fully paid, to Huby Technology; and (b) capitalise an amount of HK\$747,000 owed to Ms. Lee by Lee's Pharmaceutical, by allotting and issuing 2,334,375 Shares, credited as fully paid, to Ms. Lee and on 20th June, 2002, the Company accordingly allotted and issued such number of Shares to Huby Technology and Ms. Lee; and
- (xi) on 12th June, 2002, Huby Technology subscribed for 6,875,000 Shares at the issue price of HK\$0.32 each (or an aggregate amount of HK\$2,200,000) and at the direction of the Company, Huby Technology has paid the subscription monies to Lee's Pharmaceutical direct and on 20th June, 2002, the Company accordingly allotted and issued such number of Shares to Huby Technology.

## 5. Changes in share capital of the subsidiaries of the Company

The Company's subsidiaries are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus.

On 13th December, 2001, Lee's Pharmaceutical increased its authorised share capital from HK\$6,400,000 to HK\$23,000,000 and on 31st December, 2001, the directors of Lee's Pharmaceutical resolved to capitalise an amount of HK\$12,000,000 due to Huby Technology by allotting and issuing 12,000,000 shares of HK\$1 each in Lee's Pharmaceutical, credited as fully paid, to Huby Technology.

Save as disclosed in this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within two years immediately preceding the date of this prospectus.

## Repurchase by the Company of its own securities

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

### (a) *Maximum number of shares for repurchase*

Pursuant to the resolutions in writing passed by all Shareholders on 26th June, 2002, a general unconditional mandate (the “Repurchase Mandate”) was given to the Directors authorising the Directors to exercise all powers of the Company to repurchase Shares on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10 per cent. of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned in this prospectus, such mandate to expire at 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 its articles of association or applicable laws of the Cayman Islands to be held or when revoked or varied by an ordinary resolution of the Shareholders in a general meeting of the Company, whichever shall first occur.

### (b) *Exercise of the Repurchase Mandate*

The exercise in full of the Repurchase Mandate, on the basis of 289,225,000 Shares in issue immediately after the listing of the Shares on GEM would result in up to 28,922,500 Shares (representing 10 per cent. of the Shares in issue) being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

### (c) *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 its 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 when the Directors believe that such repurchases will benefit the Company and its Shareholders.

### (d) *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.

However, there might be a material adverse impact on the working capital and/or the gearing position of the Group (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. 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.

(e) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or any of its subsidiaries.

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 increases, 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 may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. 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 repurchase of Shares has been made by the Company since its incorporation.

No connected person (as defined in the GEM Listing Rules) has notified the Company that he has any present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

## FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

### Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

1. A supplementary agreement dated 29th May, 2000 made between (1) 安徽省科技廳; and (2) Zhaoke whereby 安徽省科技廳 agreed to extend the repayment date of a loan of RMB1.5 million granted by 安徽省科技廳 to Zhaoke.
2. A Management Agreement (supplemental agreement) dated 1st June, 2000 made between (1) Zhaoke; and (2) Lee's Pharmaceutical in respect of the management of Zhaoke by Lee's Pharmaceutical amending the original agreement to the effect that the scope of Lee's Pharmaceutical's management will expand from sales management to overall management and that Zhaoke will pay a management fee of RMB200,000 per month or whilst Zhaoke is in profit, pay 10 per cent. of post-tax sales income, whichever is higher.

3. An agreement dated 8th June, 2000 entered into between (1) Zhaoke; and (2) 杭州四季青生物工程材料有限公司 whereby the parties agreed to cooperate in the research and development of certain pharmaceutical products.
4. A tenancy agreement (租房協議) dated 11th August, 2000 made between (1) 凌玉紅; and (2) 徐穗文 (for Zhaoke) in connection with the property in Room 509, Level 5, Singapore Gardens, No. 898 Chang Jiang Xi Road, Hefei, Anhui Province (as staff dormitory), the monthly rent of RMB700.
5. An agreement dated 28th August, 2000 made between (1) Zhaoke; and (2) 海南置基醫藥有限公司 whereby Zhaoke agreed that 海南置基醫藥有限公司 be authorised to sell and distribute certain pharmaceutical products manufactured by Zhaoke within a specified territory; and supplemental agreement dated 16th September, 2001 amending price of the pharmaceutical products.
6. An agency agreement (undated) made between (1) Zhaoke; and (2) 中信海南醫藥實業公司 whereby Zhaoke agreed that 中信海南醫藥實業公司 be authorised to sell and distribute certain pharmaceutical products manufactured by Zhaoke within a specified territory for the period from 1st December, 2000 to 30th November, 2001.
7. A loan agreement dated 4th April, 2001 made between (1) Zhaoke; and (2) Bank of China 合肥高新技術產業發展區支行, whereby Bank of China 合肥高新技術產業發展區支行 agreed to grant a loan of RMB500,000 to Zhaoke as supplemented by an extension letter dated 31st December, 2001 from Zhaoke to Bank of China 合肥高新技術產業發展區支行.
8. An agreement dated 16th May, 2001 made between (1) The Government of Hong Kong; and (2) Lee's Pharmaceutical together with the Hong Kong University of Science and Technology whereby The Government of Hong Kong agreed to fund the project to be carried out by Lee's Pharmaceutical and The Hong Kong University of Science and Technology jointly in respect of screening of human heparanase inhibitors as anti-cancer drugs from traditional Chinese medicine.
9. A liquid capital loan agreement (流動資金借款合同) dated 18th June, 2001 made between (1) Zhaoke; and (2) 安徽省信托投資公司合肥分公司 whereby 安徽省信托投資公司合肥分公司 agreed to grant a loan of RMB4,900,000 to Zhaoke.
10. An agency agreement dated 25th June, 2001 made between (1) Zhaoke; and (2) 海南置基醫藥有限公司 whereby 海南置基醫藥有限公司 was authorised by Zhaoke to sell and distribute certain pharmaceutical products manufactured by Zhaoke within a specified territory.
11. A repayment agreement dated 6th July, 2001 made between (1) 安徽省科技廳; and (2) Zhaoke whereby the parties agreed to extend the repayment date of a loan of RMB1.5 million granted by 安徽省科學技術廳 to Zhaoke to 31st December, 2002.
12. A tenancy agreement dated 14th July, 2001 made between (1) 天悅貿易有限公司 (as landlord); and (2) Zhaoke (as tenant) in connection with the leasing of a property at 上海市浦東新區張揚路 228號 2109室, whereby the rent was RMB3,000 per month.






13. A tenancy agreement (undated) made between (1) 上海市政資產經營發展有限公司 ; and (2) Zhaoke (as tenant) in connection with the leasing of the property at Room 802, Mei Xin Building, No. 782 Xizang Road Central, Huangpu District, Shanghai City for the period of one year from 18th March, 2002 to 17th March, 2003 at a rent of RMB3,136 per month.
14. A non-patent technology transfer agreement dated 15th September, 2001 made between (1) Zhaoke; and (2) Lee's Pharmaceutical whereby Zhaoke agreed to transfer a non-patent technology to Lee's Pharmaceutical for further research and development and commercialisation for a transfer fee of RMB1,600,000 payable within 30 days of transfer.
15. A non-patent technology transfer agreement dated 15th September, 2001 made between (1) Lee's Pharmaceutical; and (2) High Knowledge whereby Lee's Pharmaceutical agreed to transfer a non-patent technology to High Knowledge for further research and development and commercialisation for a transfer fee of RMB1,600,000 payable within 30 days of transfer.
16. A tenancy Agreement dated 21st September, 2001 made between (1) 廣州市農林實業有限公司 (as landlord); and (2) Zhaoke (as tenant) in connection with leasing of a property at Room A05, Level 7, Sui Feng Building, No. 75 Xian Lie Zhong Road, Guangzhou City, Guangdong Province at rent of RMB5,774.06 per month including management fee.
17. A tenancy deed (租賃契約) dated 10th October, 2001 made between (1) 葉立平 (as landlord); and (2) Zhaoke (as tenant) in relation to leasing a property at Room 1102, Tao Jiao Building, No. 94 Heng Fu Road, Tian He District, Guangzhou City, Guangdong Province at a rent of RMB3,000 per month payable every three months.
18. An agency agreement dated 16th November, 2001 (as amended by a supplementary agreement dated 7th December, 2001) made between (1) Zhaoke; and (2) 海南倍藝醫藥有限公司 whereby 海南倍藝醫藥有限公司 was authorised by Zhaoke to sell and distribute certain pharmaceutical products manufactured by Zhaoke within a specified territory.
19. A tenancy agreement dated 30th November, 2001 made between (1) 北京公瑞物業管理有限責任公司 (as landlord); and (2) Zhaoke (as tenant) in connection with the leasing of a property at Room 415, Level 4, Qing Nian Hui Building, No. 3 Dong Dan Bei Main Street, Dong Cheng District, Beijing City at a rent of RMB6,628 per month.
20. A patent application license agreement dated 2nd February, 2002 made between (1) Lee's Pharmaceutical; and (2) Zengen whereby Zengen agreed, upon certain terms and conditions, to transfer certain intellectual property rights to Lee's Pharmaceutical as varied by an amendment agreement dated 20th June, 2002 whereby both parties agreed to the issue of new Shares of 3.3 per cent. of its enlarged shareholding.

21. A share exchange agreement dated 4th February, 2002 made between (1) Huby Technology, (2) Dynamic Achieve, (3) High Knowledge, (4) Lee's Pharmaceutical; and (5) the Company in relation to the sale and purchase of 17,600,000 shares in Lee's Pharmaceutical as referred to in the paragraph headed "Corporate reorganisation" under the section headed "Further information about the Company and its subsidiaries" in this Appendix.
22. A share exchange agreement dated 4th February, 2002 between (1) Techfarm, (2) Lee's Pharmaceutical; and (3) the Company in relation to the sale and purchase of 800,000 shares in Lee's Pharmaceutical as referred to in the paragraph headed "Corporate reorganisation" under the section headed "Further information about the Company and its subsidiaries" in this Appendix.
23. A deed of indemnity dated 3rd July, 2002 executed by (1) Huby Technology, (2) Dynamic Achieve, (3) High Knowledge; and (4) each of Ms. Lee, Ms. Leelalertsuphakun and Ms. Lue in favour of the Company containing indemnities of, inter alia, taxation referred to in the paragraph headed "Estate duty, tax and other indemnities" under the section headed "Other Information" in this Appendix.
24. The Underwriting and Placing Agreement, particulars of which are set out in the section headed "Underwriting" in this prospectus.



### Intellectual property rights of the Group

As at the Latest Practicable Date, the Group had the following trademarks:

Trademark	Place of registration	Class	Registration number	Date of registration
K字商標	PRC	5	852299	7th July, 1996
日出商標	PRC	5	852300	7th July, 1996
	PRC	5	888451	28th October, 1996
立迈青	PRC	5	1322720	14th October, 1999
Livaracine	PRC	5	1338307	28th November, 1999
Z字商標	PRC	5	1528505	28th February, 2001
	PRC	5	1660505	7th November, 2001
	PRC	5	1732579	21st March, 2002

<i>Class</i>	<i>Items</i>
5	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.

As at the Latest Practicable Date, the Group had applied for registration of the following trademarks, the registration of which has not yet been granted:

<b>Trademark</b>	<b>Place of application</b>	<b>Class</b>	<b>Application number</b>	<b>Application date</b>
	PRC	5	3134818	2nd April, 2002
	Hong Kong	5	200205547	19th April, 2002

<i>Class</i>	<i>Items</i>
5	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.

## Patent

As at the Latest Practicable Date, the Group has applied for registration of the following patents, the registration of which has not yet been granted:

<b>Title of invention</b>	<b>Place of application</b>	<b>Application date</b>	<b>Application number</b>
干擾素軟膏及其製備方法 ( <i>Note 1</i> )	PRC	21st July, 1997	97113357.3
An antithrombosis enzyme from the snake venom of Agkistrodon Acutus ( <i>Note 2</i> )	US	10th April, 1998	09/058,740
一步層析法純化抗血小板溶栓素工藝 ( <i>Note 2</i> )	PRC	13th February, 2001	01103741.5

*Note 1:* Based on the water-based gel delivery technology as set out in the paragraph headed “Research and development” under the section headed “Business” of this prospectus.

*Note 2:* Based on the snake venom technology as set out in the paragraph headed “Research and development” under the section headed “Business” of this prospectus.

**Domain name**

The Group is the registered proprietor and beneficial owner of the domain name specified below:

<b>Domain name</b>	<b>Date of registration</b>
zhaoke.com	9th October, 1999

Save as aforesaid, there are no other trademarks, patents, domain names, other intellectual or industrial property rights which are material in relation to the Group's business.

**Information on the Group's operating subsidiary in the PRC**

Brief particulars of the operating subsidiary of the Company set up in the PRC are set out below:

*Hefei Siu-Fung USTC Pharmaceutical Company Limited*

Date of establishment	:	7th February, 1994
Place of establishment	:	PRC
Nature	:	sino-foreign equity joint venture
Investors and their equity interests	:	(a) Lee's Pharmaceutical (70 per cent.); and (b) USTC Biotech (30 per cent.)
Scope of business	:	research, manufacture and sales of biopharmaceutical products and other pharmaceutical products; provision of related technical consultation and technical services
Registered capital	:	US\$2,000,000
Total investment	:	US\$2,000,000
Attributable interest of the Group	:	70 per cent.
Term of the joint venture	:	20 years
Directors	:	Ms. Lee, Ms. Leelalertsuphakun, Lau Tai Wai, Chen Yueshen, 陳惠然, 劉清亮 and 牛立文

## FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT AND STAFF

## Disclosure of interests

(a) *Disclosure of interests of Directors, controlling, management, significant and substantial shareholders, staff and experts*

- (i) So far as the Directors are aware, immediately following completion of the Placing and assuming the Over-allotment Option is not exercised and without taking into account any Shares which may fall to be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme as at the Listing Date, Huby Technology, Dynamic Achieve, High Knowledge, Ms. Leelalertsuphakun and Ms. Lee and Ms. Lue will be the initial management Shareholders (details of which are disclosed in the section headed “Substantial Shareholders and Initial Management Shareholders” of this prospectus).
- (ii) Immediately following completion of the Placing and assuming the Over-allotment Option is not exercised and without taking into account any Shares which may fall to be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme as at the Listing Date, the interests of each of the Directors in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance and based on the interests of such Directors in such associated corporations which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein 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, will be as follows:

Name of Director	Number of Shares held			
	Personal interest	Family interest	Corporate interest	Other interests
Ms. Lee	3,934,375 (Note 3)	—	163,290,625 (Note 1)	—
Ms. Leelalertsuphakun	—	—	163,290,625 (Note 2)	—
Mr. Lau Tai Wai	3,000,000 (Note 4)	—	—	—

*Notes:*

- Among the 163,290,625 Shares held by Ms. Lee, 155,290,625 Shares are held by Huby Technology and 8,000,000 Shares are held by Dynamic Achieve, and in both cases, 50 per cent. of their respective entire issued capitals are legally and beneficially owned by Ms. Lee.

2. Among the 163,290,625 Shares held by Ms. Leelalertsuphakun, 155,290,625 Shares are held by Huby Technology and 8,000,000 Shares are held by Dynamic Achieve, and in both cases, 50 per cent. of their respective entire issued capitals are legally and beneficially owned by Ms. Leelalertsuphakun.
  3. Ms. Lee personally owns 2,334,375 Shares and has been granted options under the Pre-IPO Share Option Scheme which, when exercised by her in full, entitles her to subscribe for a total of 1,600,000 Shares (particulars of which are set out in the section "Pre-IPO Share Option Scheme" in this Appendix).
  4. Mr. Lau Tai Wai has been granted options under the Pre-IPO Share Option Scheme which, when exercised by him in full, entitles him to subscribe for a total of 3,000,000 Shares (particulars of which are set out in the section "Pre-IPO Share Option Scheme" in this Appendix).
- (iii) So far as the Directors are aware, immediately following completion of the Placing and assuming the Over-allotment Option is not exercised and without taking into account any Shares which may fall to be issued pursuant to the exercise of any option granted under the Pre-IPO Share Option Scheme and the Share Option Scheme as at the Listing Date, apart from Huby Technology, Ms. Lee and Ms. Leelalertsuphakun (details of which are disclosed in the section headed "Substantial Shareholders and Initial Management Shareholders" of this prospectus), there are no other person who are entitled to the exercise of 10 per cent. or more of the voting power at general meeting of the Company.

(b) *Directors' remuneration*

No emoluments were paid by the Group to any of the Directors for the Relevant Periods.

It is estimated that approximately HK\$1,316,000 (excluding discretionary bonus payable to the Directors) in aggregate will be payable to the Directors or companies controlled by them as remuneration or in the form of benefits in kind pursuant to the present arrangements for the year ending 31st December, 2002.

(c) *Particulars of the Directors' service contracts*

Each executive Director has entered into a service contract with the Group. Particulars of these contracts are set out below.

The service contract of Mr. Lau Tai Wai commenced on 14th January, 2002 and that of both Ms. Lee and Ms. Leelalertsuphakun commenced on 1st April, 2002. Such appointment will continue thereafter unless and until terminated by either party to the service contract by serving not less than three months' prior written notice. Each of the executive Directors shall be entitled to a salary set out below (subject to an annual review by the Board):

- Ms. Lee as to HK\$600,000 per annum
- Ms. Leelalertsuphakun as to HK\$450,000 per annum
- Mr. Lau Tai Wai as to HK\$42,000 per month

The executive Directors' salaries are subject to such increase as the Board may determine from time to time in its absolute discretion, and which is further subject to compliance with the provisions of the articles of association of the Company for the time being in force.

Mr. Lau Tai Wai will be entitled to a payment of an additional amount equivalent to one month of his salary which shall be payable at the end of each calendar year after his completion of a full year of service for the relevant calendar year and on a pro-rata basis if less than the full year of service.

Moreover, each of the executive Directors shall be entitled to a bonus in such sum and payable at such time or times as the Board may in its absolute discretion determine.

Each of the executive Directors shall be entitled to share options offered by the Company pursuant to the Share Option Scheme adopted by the Company in compliance with the GEM Listing Rules provided that the amount of the share options offered, the option price and the date of grant shall be determined by the Board after all necessary regulatory and other consents, approvals and authorisations have been obtained. In addition, Ms. Lee and Mr. Lau Tai Wai have been granted share options offered by the Company pursuant to the Pre-IPO Share Option Scheme, the particulars of which are disclosed in the section headed "Pre-IPO Share Option Scheme" in this Appendix.

The executive Directors shall not vote (nor be counted in the quorum) on any resolution of the Board regarding the determination of the increase, if any, to the Director's salary and/or bonus and/or share options and/or other benefits.

Save as disclosed above, none of the other 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).

As the Company's policies, the amount of remuneration of the executive Directors is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group.

Under the arrangements currently in force, the aggregate remuneration and benefits in kind payable by, or which will be granted by, the Group to the Directors for the year ending 31st December, 2002 is estimated to be approximately HK\$1,316,000.

For the year ended 31st December, 2001, no bonus has been paid by the Group (as if the Group was in existence during that period) to the directors of any member of the Group.

None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 31st December, 2001 (i) as an inducement to join or upon joining the Group or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

There was no arrangement under which a director of any member of the Group waived or agreed to waive any emoluments for the two years ended 31st December, 2001.

The aggregate remuneration paid by the Group to the five highest paid individuals of the Group during the financial year ended 31st December, 2001 was approximately HK\$1,320,000. Particulars of the emolument paid to such individuals are set out in Appendix I to this prospectus.

(d) *Agency fees or commissions*

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries within the two years preceding the date of this prospectus.

(e) *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 note 3h of the accountants' report set out in Appendix I to this prospectus.

(f) *Joint Sponsors' interest in the Company*

Save as disclosed below, none of the Joint Sponsors nor their respective associates expects to have accrued any material benefit as a result of the successful listing of the Shares on GEM:

- (i) advisory fees for providing advisory services and for acting as joint sponsors to the Placing and documentation fees to be paid by the Company;
- (ii) the interest under the Sponsor's Agreement between Asia Investment Capital and the Company whereby Asia Investment Capital has been retained as the sponsor to the Company up to 31st December, 2004 for a fee;
- (iii) certain associates of each of the Joint Sponsors, whose ordinary businesses involve the trading and dealing in securities, may be involved in the trading and dealing in the securities of the Company; and
- (iv) certain associates of each of the Joint Sponsors may purchase or sell securities of the Company or hold them for investment purposes upon the listing of the Shares on GEM.

No director or employee of the Joint Sponsors who involved in providing advice to the Company has or may, as a result of the Placing, have any interests in any class of securities of the Company or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any class of securities in any member of the Group.



None of the directors or employees of the Joint Sponsors has a directorship in the Company or any other member of the Group.

(g) *General*

Save as aforesaid and disclosed in the paragraphs headed “Corporate reorganisation” under the section headed “Further information about the Company and its subsidiaries” and “Summary of material contracts” under the section headed “Further information about the business of the Group” in this Appendix:

- (i) none of the Directors nor chief executive of the Company or their respective associates has any interest in the shares in, or securities of, the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he is deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.04 to 5.59 of the GEM Listing Rules, once the Shares are listed;
- (ii) none of the Directors nor the experts whose names are referred to in the paragraph headed “Qualification of experts” under the section headed “Other information” in this Appendix has any direct or indirect interest in the promotion of the Company or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group;
- (iii) none of the Director nor the experts whose names are listed in the paragraph headed “Qualification of experts” under the section headed “Other information” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (iv) taking no account of any Shares which may be taken up pursuant to the Placing or any options granted under the Pre-IPO Share Option Scheme, the Directors are not aware of any person who will, immediately following the Placing, be interested, directly or indirectly, in 10 per cent, or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme:

(a) *Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to advance the interests of the Company and its Shareholders by providing to Eligible Persons (as defined below) a performance incentive for continued and improved service with the Group and by enhancing such persons’ contribution to increase profits by encouraging capital accumulation and share ownership.

(b) *Who may join*

A committee of the Board comprising the two independent non-executive Directors (the “Committee”) may, at its discretion, invite the following persons (the “Eligible Persons”) to participate in the Share Option Scheme:

<b>Eligible Persons</b>	<b>Basis for determining eligibility</b>
Employees	Persons who are employed by the Company or any of its subsidiaries, and who remain employed, and work in excess of 20 hours per week.
Executive Directors	Subject to the same requirement as employees. Additionally, any grants of options to executive directors require the approval of the independent directors who make up the Committee, as well as compliance with Rule 23.04 of the GEM Listing Rules.
Non-executive Directors, including independent non-executive directors	Persons who act as non-executive Directors and who remain so engaged, in addition to compliance with Rule 5.06 and Rule 23.04 of the GEM Listing Rules.
Advisers and consultants	Members from time to time of the Company’s scientific advisory board and other persons as long-term advisers or consultants to the Group in any country where it operates. The scientific advisory board provides the Company with guidance and evaluation on the development progress of research project undertaken by the Group.

Upon acceptance of the option, the grantee of an option must pay HK\$1 to the Company by way of consideration for the grant thereof.

(c) *Grant of Option*

The Committee shall, during the life of the Share Option Scheme, at its absolute discretion and on and subject to such terms and conditions as it may think fit to offer to grant on one or more occasions to any Eligible Person as the Committee may in its absolute discretion think fit. No option shall be granted to any Eligible Person after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, in particular (i) within the period of one month preceding the date of publication of the interim results or quarterly results or (ii) within the period of one month preceding the date of the preliminary announcement of the final results of the Group for any financial year or (iii) during a general offer or an imminent general offer, until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules.

Any grant of an option to a Connected Person (as defined in the GEM Listing Rules) or its associates shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of such options). Where options are proposed to be granted to a Connected Person of the Company who is also a substantial shareholder (as defined in the GEM Listing Rules) or an independent non-executive Director or any of their respective associates and the proposed grant of options, when aggregated with the options (whether exercised, cancelled, outstanding or granted (whether or not cancelled) under the Share Option Schemes) already granted to that Connected Person in the preceding 12-month period, would entitle them to receive more than 0.1 percent of the total issued Shares for the time being and the value of which by reference to the closing price of Shares at the date of such grant is in excess of HK\$5 million, then the proposed grant must be subject to the approval of the Shareholders taken on a poll in general meeting. For the purpose of the general meeting, all Connected Persons of the Company must abstain from voting in such general meeting, except where any Connected Person intends to vote against the proposed grant and his intention to do so has been stated in the circular to be despatched to Shareholders. For this purpose, the circular containing the following shall be prepared by the Company and despatched to the Shareholders no later than the date on which the Company gives notice of the general meeting to approve the proposed grant of options:

- (i) details of the number and terms of the options (including the option price) to be granted to each grantee;
- (ii) a recommendation from the independent non-executive Directors (excluding one who is the grantee of the relevant options) on whether or not to vote in favour of the proposed grant; and
- (iii) any other information as may be required under the GEM Listing Rules.

Any change in the terms of the options granted to an Eligible Person who is a Director, chief executive, substantial shareholder or a management shareholder of the Company or their respective associates shall be approved by the Shareholders in such manner as set out above.

(d) *Exercise price of options granted*

The exercise price for Shares under the Share Option Scheme will be determined by the Committee and notified to each grantee and will be no less than the highest of:

- (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the Date of Grant;
- (ii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets on each of the five trading days immediately preceding the Date of Grant of such option (subject to adjustments); and
- (iii) the nominal value of the Shares.

(e) *Total number of securities that may be issued upon exercise of all options*

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 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 option scheme of the Group must not in aggregate exceed 28,922,500 Shares, being 10 per cent. of the Shares in issue upon completion of the Placing at the time dealings in the Shares commence on GEM (the “Scheme Mandate Limit”), unless the Company obtains a fresh approval from its Shareholders’ pursuant to sub-paragraph f(ii) below. Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

(f) *Maximum entitlement of each participant under the Share Option Scheme*

- (i) The overall limit on the number of Shares, which may be issued upon exercise of all outstanding options, granted and yet to be exercised under the Share Option Scheme and any other share option schemes must not exceed 30 per cent. of the Shares in issue from time to time (the “Scheme Limit”).
- (ii) The Scheme Mandate Limit may be renewed at any time subject to the Shareholders’ approval. The Scheme Mandate Limit as “refreshed” must not exceed 10 per cent. of the total number of Shares in issue at the date of the approval of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Scheme Mandate Limit as “refreshed”. A circular for the purpose of seeking the Shareholders’ approval on the renewal of the Scheme Mandate Limit shall be sent to the Shareholders.
- (iii) The total number of the Shares issued and to be issued upon exercise of the options granted (including those granted (whether of not cancelled) under the Share Option Scheme) and to be granted to any Eligible Persons (including both exercised and outstanding Options) in any 12-month period up to the date of the grant to such Eligible Person shall not exceed 1 per cent. of the issued Shares from time to time (the “1 percent Limit”). Any further grant of options in excess of this 1 percent Limit must be subject to (i) the Shareholders’ approval with that Eligible Persons and his associates abstaining from voting and (ii) the issue of a circular. The circular must disclose the identity of the participants, the number and the terms of the options granted and to be granted. The number and terms of options to be granted to such participants must be fixed before the Shareholders’ approval and the date of the meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price.

- (iv) The Company may also seek separate Shareholders' approval for granting options beyond the Scheme Mandate Limit to Eligible Persons specifically identified by the Company before such approval is sought and subject to the Shareholders' approval and the issue of a circular to all the Shareholders. The circular must contain a generic description of the identified participants, the number and terms of the options to be granted, the purpose of granting options to the identified participants, an explanation as to how the terms of such options serve the intended purpose and such other information as the Shareholders consider applicable.
- (v) The Company shall make additional disclosures in the annual and interim reports of the Company including details of the options granted (in the manner as required under the GEM Listing Rules) to:
- each Connected Person;
  - each participant with options granted in excess of the individual limit;
  - aggregate figures for full time employees working under employment contracts; and
  - other participants in aggregate.

(g) *Time of exercise of options*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (the "Option Period") as specified by the Committee in relation to each such option in its terms of grant provided that the period within which the option must be exercised (that is, the final expiration date) shall not be less than six months but not more than ten years from its date of grant (subject to earlier termination in accordance with the rules of the Share Option Scheme). The Board may provide restrictions on how and when an option during the period an option may be exercised, including, if appropriate, a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised. The Share Option Scheme has not specified any performance target that must be achieved before an option can be exercised.

(h) *Terms of the options to be granted under the Share Option Scheme*

As the Share Option Scheme shall remain valid for a period of 10 years commencing on its date of adoption, all options to be granted pursuant to the scheme must be within this term.

(i) *Lapse of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the option period (subject to sub-paragraphs (g) and (o));

- (ii) the expiry of the periods referred to in sub-paragraph (l) respectively;
  - (iii) subject to the scheme or amalgamation becoming effective, the expiry of the period referred to in sub-paragraph (m);
  - (iv) the date on which the grantee of an option ceases to be a Participant by reason of the termination of his or her employment, directorship, office or appointment on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence involving his integrity or honesty;
  - (v) the close of the two business days prior to the general meeting of the Company held for the purpose of approving the voluntary winding-up of the Company or the date of the commencement of the winding-up of the Company; or
  - (vi) the date on which the option is cancelled by the Board as provided in sub-paragraph (n).
- (j) *Effects of alterations to capital*

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable by way of capitalisation issue, rights issue, sub-division or consolidation of Shares, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Stock Exchange (excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in respect of a transaction to which the Company is a party), such corresponding alterations (if any) certified by the auditors for the time being of the Company as fair and reasonable will be made in the subject matter of the option so far as unexercised the exercise price and/or the method of the exercise of the option, provided that no such alteration shall be made so that a Share would be issued at less than its nominal value or which would give a grantee a different proportion of the issued share capital of the Company as that to which he or she was previously entitled and no alteration shall be made if any alteration in the capital structure of the Company is the result of an issue of Shares in the capital of the Company as consideration in a transaction.

(k) *Assignment and ranking of options*

An option may not be transferred or assigned by the grantee.

The Shares to be allotted upon the exercise of an option will be subject to the Company's articles of association for the time being in force and will rank pari-passu with the fully paid Shares in issue on the date of exercise of the option.

(l) *Rights on take-over*

If an offer is made to the holders of Shares or otherwise, the Committee shall as soon as practicable thereafter notify every option holder accordingly and the Directors shall within 14 days thereafter notify every option holder as to which of the following provision shall apply provided always that in the case of any adjustment proposed to be made to the number of Shares or amount of the exercise price, the relevant requirements in the Share Option Scheme on adjustments to the number of Shares or amount of exercise price subject to options already granted shall be complied with:

- (i) each option holder shall be entitled at any time to exercise all or any of his options in whole or in part; or
- (ii) the Directors may grant a cash bonus award to the option holder for an amount equal to the exercise price in consideration of such option holder surrendering the relevant options for cancellation; or
- (iii) the Director may grant a cash sum equal to the difference between (a) the exercise price and (b) the greater of the offer price for the Shares or the fair market value of the Shares, as determined by the Directors, in consideration of such option holders surrendering the relevant options for cancellation; or
- (iv) the Directors may determine that any or all outstanding options will not vest or become exercisable immediately in the event of a tender offer or exchange offer to acquire the Shares if provision is made to substitute new options that are, in the Directors' opinion, equivalent to the outstanding options.

(m) *Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all option holder (together with a notice of the existence of the provisions of this sub-paragraph) on the same date as it dispatches to each member or creditor of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon and subject to the Directors having complied with relevant requirements in the Share Option Scheme on adjustments to the number of Shares or amount of exercise price subject to options already granted, each option holder shall be entitled to exercise all or any of his option in whole or in any part or any time prior to 12 noon on the business day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all option holders to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall to the extent that they have not been exercised thereupon lapse and determine.

(n) *Provision for cancellation of options granted but not exercised*

Any cancellation of options granted but not exercised or termination of the Share Option Scheme before its term must be approved by shareholders of the Company in general meeting, with any participants in the Share Option Scheme and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(o) *Alteration to the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme relating to matters contained in Rule 23.03 of the GEM Listing Rules shall not be altered relating to matters as to the advantage of grantees or prospective grantees except with the prior approval of the shareholders in general meeting (with participants and their Associates abstaining from voting). No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such number of grantees of options as shall together hold options in respect of not less than three-fourths in nominal value of all Shares then subject to options granted under the Share Option Scheme.

Any alteration to the terms and conditions of Share Option Scheme must comply with Chapter 23 of the GEM Listing Rules, and any change to the terms of the options granted, must be approved by the shareholders, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. Any change to the authority of the Directors in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

The Company may by ordinary resolution in general meeting at any time terminate the operation of the Share Option Scheme and in such event no further options shall be offered but the provisions of the Share Option Scheme shall remain in all other respects in full force and effect in respect of any options granted prior thereto but not yet exercised at the time of termination. Options complying with the provisions of Chapter 23 of the GEM Listing Rules which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue within one month after the termination of the operation of the Share Option Scheme. In the event of such termination of the Share Option Scheme, details of the options granted, including options exercised or outstanding, under the Share Option Scheme, and (if applicable) options that become void or non-exercisable as a result of the termination of the Share Option Scheme, shall be disclosed in the circular to the Shareholders seeking approval of the first new scheme established thereafter.



(p) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional upon (i) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of options under the Share Option Scheme; and (ii) the commencement of dealing in the Shares on GEM.

As at the Latest Practicable Date, no option has been granted or agreed to be granted by the Company under the Share Option Scheme. Application has been made to the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares that fall to be issued pursuant to the exercise of options granted under the Share Option Scheme.

### **PRE-IPO SHARE OPTION SCHEME**

The purpose of the Pre-IPO Share Option Scheme is to recognise and motivate the contribution of the Eligible Persons (as defined in the section “Pre-Share Option Scheme”) and to provide incentives and a direct economic interest in attaining the long term business objectives of the Company. The principal terms of the Pre-IPO Share Option Scheme, conditionally approved by the written resolutions of all Shareholders (which is still subject to certain conditions similar to those referred to under the Share Option Scheme) are the same as the terms of the Share Option Scheme, except that:

- (a) the exercise price for each Share is 70 per cent. of the Placing Price;
- (b) upon full exercise of the options granted under the Pre-IPO Share Option Scheme, the total number of Shares are 5,000,000, representing approximately 1.73 per cent. of the enlarged issued share capital of the Company immediately after completion of the Placing, but taking no account of any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or any option granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares;
- (c) save for the options which have been granted under the Pre-IPO Option Scheme in respect of 5,000,000 Shares (as set out below), no further options will be offered or granted under the Pre-IPO Share Option Scheme (including cancelled options which cannot be re-granted), as the right to do so has been terminated on the day on which the bulk print of this prospectus had taken place.

Particulars of the grantees under the Pre-IPO Share Option Scheme are as follows:

<b>Name of Grantee</b>	<b>Address</b>	<b>Number of Shares</b>	<b>%</b>
<i>Executive Directors</i>			
Mr. Lau Tai Wai	Flat 5A, Block 11 Phase 4, Sea Crest Villa 44 Castle Peak Road New Territories Hong Kong	3,000,000	1.04
Ms. Lee	Flat B, 13th Floor Penthouse, Somerset 67 Repulse Bay Road Hong Kong	1,600,000	0.55
<i>Employees</i>			
Ms. Mok Sau Man, Joanna	Flat 20D Block 3 Discovery Park 398 Castle Peak Road Tsuen Wan New Territories Hong Kong	350,000	0.12
Ms. Tsui Shui Man	Flat G, 9th Floor On Ning Building 30 Mei Kwong Street To Kwa Wan Kowloon Hong Kong	50,000	0.02
Total:		<u>5,000,000</u>	<u>1.73</u>

The above options granted under the Pre-IPO Share Option Scheme will, in respect of not more than 50 per cent. thereof, be exercisable not less than two years but not more than 10 years from the date of grant, and in respect of the unexercised balance thereof, be exercisable not less than three years but not more than 10 years from the date of grant.

Each of the Directors and employees of the Group is granted the share options under the Pre-IPO Share Option Scheme in recognition of his/her past contributions to the Group and the number of options granted is proportionate to his/her respective extent of contributions and performance made and expected potential of future contribution to the Group.

Save as disclosed above, no options have been granted or agreed to be granted by the Company under the Pre-IPO Share Option Scheme.

## OTHER INFORMATION

**Estate duty and tax indemnities**

The Initial Management Shareholders have entered into a deed of indemnity (the "Deed of Indemnity") in favour of the Company (for itself and as trustee for its subsidiaries) (being the material contract mentioned in sub-paragraph (23) of the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of the Group" in this Appendix) whereby they have covenanted and undertaken to each member of the Group that they shall jointly and severally indemnify in full and at all times keep them and each of them indemnified on demand against any depletion in or reduction in value of their respective assets as a consequence of, and in respect of any amount which the Group or any member of the Group may hereafter become liable to pay, being:

- (a) any duty which is or hereafter becomes payable by the Group or any member of the Group by virtue of section 35 of the Estate Duty Ordinance under the provisions of section 43 of the Estate Duty Ordinance by reason of the death of any person and by reason of the assets of the Companies or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to the Group or any member of the Group or any of them at any time on or prior to the date when the last of the conditions stated in the paragraph headed "Conditions of the Placing" under the section headed "Structure of the Placing" in this prospectus being fulfilled (the "Effective Date"); or
- (b) any amount recovered against the Group or any member of the Group under the provisions of section 43(7) of the Estate Duty Ordinance in respect of any duty payable under section 43(1) or 43(6) of the Estate Duty Ordinance by reason of the death of any person and by reason of the assets of the Group or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to the Group or any member of the Group at any time on or prior to the Effective Date; or
- (c) any amount of duty of which the Group or any member of the Group are obliged to pay by virtue of section 43(1)(c) of the Estate Duty Ordinance in respect of the death of any person in any case where the assets of another company or any of them is deemed for the purpose of estate duty to be included in the property passing on that person's death by reason of that person making or having made a relevant transfer to that other company and by reason of the Group or any member of the Group having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance, in each case at any time on or prior to the Effective Date, but only to the extent to which the Group or any member of the Group is unable to recover an amount or amounts in respect of that duty from any other person under the provisions of section 43(7)(a) of the Estate Duty Ordinance.

Notwithstanding any other provisions of the Deed of Indemnity, the Initial Management Shareholders will not be liable for any liability as aforesaid, unless and until the Group or any member of the Group has taken all reasonable steps to recover the estate duty against the estate of the deceased person whose transfer of property and receipt of benefits (as defined in the Estate Duty Ordinance) have resulted in the estate duty claim or such other persons or estates who or which are legally liable to the Group or any member of the Group to reimburse the Group or any member of the Group for the discharge of such estate duty claim and, in this connection, the Group or any member of the Group shall be conclusively deemed to have taken all reasonable steps as mentioned above on the basis of an opinion from a leading counsel to that effect.

Notwithstanding any other provisions of the Deed of Indemnity, the Initial Management Shareholders will not be liable for any penalty imposed on the Group or any member of the Group under section 42 of the Estate Duty Ordinance by reason of the relevant Group or any member of the Group defaulting in any obligation to give information to the Commissioner of Estate Duty under section 42(1) of the Estate Duty Ordinance but the Initial Management Shareholders shall be jointly and severally liable for any interest on unpaid estate duty.

Under the Deed of Indemnity, the Initial Management Shareholders have also given similar indemnities in favour of each member of the Group on a joint and several basis on demand against: (a) the amount of all Taxation (as defined in the Deed of Indemnity) falling on any of the member of the Group resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the Effective Date or any event or transaction on or before the Effective Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such Taxation is chargeable against or attributable to any other person, firm or company including any and all Taxation resulting from the receipt by any member of the Group of any amounts payable under the Deed of Indemnity; and, (b) all costs (including all legal costs), expenses and other liabilities which any member of the Group may incur in connection with: (i) the settlement of any claim under the Deed of Indemnity; (ii) any legal proceedings in which any member of the Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any member of the Group; or (iii) the enforcement of any such settlement or judgment. However, the provisions of such indemnity shall not apply:

- (a) to the extent that provision or reserve has been made for such Taxation in the audited accounts of the Group or any member of the Group up to 31st December, 2001 (the "Accounts Date");
- (b) to any Taxation for which any member of the Group is liable in respect of or in consequence of any event occurring or income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received in the ordinary course of business since the Accounts Date;
- (c) to the extent of any provisions or reserve made for Taxation in the audited accounts of the Group or any member of the Group up to the Accounts Date which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve specified in paragraph (c) above being applied to reduce the Initial Management Shareholders' liability in respect of Taxation shall not be available in respect of any such liability arising thereafter;

- (d) to any Taxation which would not have arisen but for any act or omission by any member of the Group voluntarily effected without prior written consent or agreement of the Initial Management Shareholders, otherwise than in the ordinary course of business after the date of the Deed of Indemnity; and
- (e) to a Claim (as defined in the Deed of Indemnity) for a penalty imposed under section 42(2) of the Estate Duty Ordinance by reason of the Group or any member of the Group defaulting in any obligation, arising on and after the Effective Date, to give information to the Commissioner of Estate Duty under section 42(1) of the Estate Duty Ordinance and which is not interest on unpaid estate duty.

This indemnity in respect of Taxation does not cover any Taxation Claim (as defined in the Deed of Indemnity) to the extent that such Taxation Claim arises or is incurred as a result of the imposition of Taxation as a consequence of any retrospective change in the law or practice coming into force after the Effective Date 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.

### **Litigation**

None of the members of the Group is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

### **Address for service of process and notices**

Ms. Lee has been nominated as the authorised person to accept service of process and notices for and on behalf of the Company. The address for service of process and notices is Room 1905, Grand Millennium Plaza (Lower Block), 181 Queen's Road Central, Hong Kong.

### **Joint Sponsors**

Asia Investment Capital and CSC Asia have jointly made an application on behalf of the Company to the GEM Listing Committee for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or any options granted under the Share Option Scheme and the Pre-IPO Share Option Scheme.

Under a sponsor's agreement dated 4th October, 2000 made between Asia Investment Capital and the Company, the Company has appointed Asia Investment Capital as its sponsor and Asia Investment Capital has agreed to act as sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the Listing Date to 31st December, 2002 and for two years thereafter until 31st December, 2004 or until such agreement is terminated upon the terms and conditions set out therein.

Under a sponsor's agreement dated 5th February, 2002 made between CSC Asia and the Company whereby the Company has appointed CSC Asia as one of the Joint Sponsors to the Company in respect of the Placing.

**Preliminary expenses**

The preliminary expenses of the Company are estimated to be approximately HK\$139,000 and are payable by the Company.

**Promoter**

There is no promoter for the Company.

**Qualification of experts**

The following are the qualifications of the experts who have given opinion or advice to the Group which is contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
Asia Investment Capital	Registered investment adviser, securities dealer and approved sponsor for listing on GEM
CSC Asia Limited	Registered investment adviser and approved sponsor for listing on GEM
HLM & Co.	Certified public accountants
Vigers Hong Kong Limited	Property valuers
Arculli and Associates	Hong Kong lawyers
Maples and Calder Asia	Cayman Islands Attorneys-at-law
W & H Law Firm	PRC lawyers

**Consents of experts**

Each of Asia Investment Capital, CSC Asia, HLM & Co., Vigers Hong Kong Limited, Arculli and Associates, Maples and Calder Asia and W & H Law Firm has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which they are respectively included.

**Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**Taxation of holders of Shares****(a) Hong Kong**

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

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 and accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

(b) *Cayman Islands*

Under the present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty provided that the Company does not hold an interest in land in the Cayman Islands.

(c) *Professional tax advice recommended*

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 or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Placing can accept 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.

### Particulars of the Vendor

The name and address of Huby Technology, being the Vendor offering the Sale Shares under the Placing, are as follows:

<b>Name</b>	<b>Description</b>	<b>Registered office address</b>	<b>Number of Sales Shares</b>
Huby Technology	a company incorporated in BVI with limited liability	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	15,000,000

### Miscellaneous

(a) Save as disclosed in this prospectus:

- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

- (ii) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no founders, management or deferred shares of the Company have been issued or agreed to be issued; and
  - (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.
- (b) The Directors confirm that there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the twenty-four months preceding the date of this prospectus.
- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (d) Save as disclosed in this prospectus, none of the parties named in the paragraph headed “Consents of experts” above:
- (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.
- (e) No securities of the Group is listed or proposed to be sought listed on any other stock exchange other than the Stock Exchange.



**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

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 under the paragraph headed “Consents of experts” under the section headed “Other information” in Appendix IV to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in Appendix IV to this prospectus, including where appropriate, English translations thereof and the list of the particulars of the Vendor.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Arculli and Associates at Room 2012, Hutchison House, Central, Hong Kong during normal business hours up to and including 17th July, 2002:

- (a) the memorandum of association and articles of association of the Company;
- (b) the accountants’ report prepared by HLM & Co., the text of which is set out in Appendix I to this prospectus;
- (c) the audited accounts which have been prepared for Lee’s Pharmaceutical and Zhaoke for each of the three years ended 31st December, 2001;
- (d) the letter, summary of valuation and valuation certificate(s) relating to the property interests of the Group prepared by Vigers Hong Kong Limited, the texts of which are set out in Appendix II to this prospectus;
- (e) the letters of advice prepared by Maples and Calder Asia summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme;
- (h) a list of the employees of the Group who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme as referred to in the section headed “Pre-IPO Share Option Scheme” in Appendix IV to this prospectus;

- (i) the material contracts referred to under the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in Appendix IV to this prospectus including, where appropriate, English translations thereof together with the three service contracts with each of the executive Directors referred to in the paragraph headed “Particulars of Directors’ service agreements” under the section headed “Further information about the Directors, management and staff” in Appendix IV to this prospectus;
- (j) the written consents referred to under the paragraph headed “Consents of experts” under the section headed “Other information” in Appendix IV to this prospectus; and
- (k) the list of the particulars of the Vendor.