

This document is important. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, or other professional adviser.

We have made an application to the Singapore Exchange Securities Trading Limited ("SGX-ST") for permission to deal in, and for quotation of, all the ordinary shares of S\$0.04 each (the "Shares") in the capital of Pharmesis International Ltd. (the "Company") already issued, the new Shares which are the subject of this Invitation (the "New Shares") and the new Shares which may be issued upon the exercise of the options to be granted under the Pharmesis Share Option Scheme (the "Option Shares"). Such permission will be granted when we have been admitted to the Official List of the SGX-ST. **The dealing and quotation of the Shares will be in Singapore dollars.**

Acceptance of applications will be conditional upon, *inter alia*, permission being granted by the SGX-ST to deal in, and for quotation of, all the existing issued Shares, the New Shares and the Option Shares. If the completion of the Invitation does not occur because the SGX-ST's permission is not granted or for any other reasons, monies paid in respect of any application accepted will be returned to you at your own risk, without interest or any share of revenue or other benefit arising therefrom and you will not have any claims against us or the Manager,

the Underwriter and Placement Agent, the Primary Sub-Underwriters or the Primary Sub-Placement Agents.

The SGX-ST assumes no responsibility for the correctness of any of the statements or opinions made or reports contained in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company, our subsidiaries, our Shares, the New Shares or the Option Shares.

A copy of this Prospectus, has been lodged with and registered by the Monetary Authority of Singapore ("the Authority"). The Authority assumes no responsibility for the contents of the Prospectus. Registration of the Prospectus by the Authority does not imply that the Securities and Futures Act (Cap. 289), or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of our Shares, the New Shares or the Option Shares, as the case may be, being offered or in respect of which an invitation is made, for investment.

Investing in our Shares involves risks which are described in the section "RISK FACTORS" of this Prospectus.

No Shares will be allotted on the basis of this Prospectus later than six months after the date of registration of this Prospectus.



Pharmesis International Ltd.

(Registration No. 200309641E)

(Incorporated in the Republic of Singapore on 29 September 2003)

Invitation in respect of 50,000,000 new ordinary shares of \$0.04 each comprising:-

- (a) 3,800,000 Offer Shares at \$0.25 each by way of public offer;**
- (b) 46,200,000 Placement Shares by way of placement, comprising :-**
 - (i) 42,400,000 Placement Shares at \$0.25 each; and**
 - (ii) 3,800,000 Reserved Shares at \$0.25 each reserved for our Independent Director, employees, business associates and those who have contributed to our success,**

payable in full on application.

Manager, Underwriter and Placement Agent



Primary Sub-Underwriters and Primary Sub-Placement Agents



CORPORATE PROFILE

- Pharmesis International Ltd. is a pharmaceutical company in the PRC which can trace its origins back to 1996.
- Our pharmaceutical products include Western medicine products under the "国嘉" brand and TCM formulated products under the "郎中" brand. These products are sold through the wholesalers to approximately 2,000 hospitals all over the PRC via an established sales and marketing network of approximately 900 sales personnel.
- Our two GMP-compliant production facilities, with a total land area of approximately 41,206 sq m, are located in

Chengdu and Gulin, PRC. We emphasise strict quality control procedures for our products at every stage of our production process, from the selection of raw materials up to finished products.

- To maintain our competitive edge, our R&D team collaborates with research institutes in the PRC and Germany to exchange technical know-how and further develop our technical capabilities.



Pharmesis specialises in the R&D, production, and sale of Western medicine and TCM formulated products for the treatment of illnesses relating to the liver and gall bladder

OUR PRODUCTS

- Produced in the form of tablets and granules, our main western medicinal product is ATT tablets, and our main TCM formulated product is Gansu granules, both of which are not classified as OTC drugs.

Western medicine

ATT tablets
茵三硫

Compound Procaine Hydrochloride tablets
复方盐酸普鲁卡因片

Lianpushuangqing tablets
连蒲双清片

TCM formulated product

Gansu granules
肝苏颗粒

Gansu granules (sugar-free)
肝苏颗粒(无糖型)

Usage

Treatment of illnesses relating to the liver and gall bladder

Treatment of arteriosclerosis, menopausal symptoms, dyspepsia and adynamia

Treatment of acute inflammation such as acute dysentery and intestinal infection

Usage

Treatment of acute and chronic hepatitis

Treatment of acute and chronic hepatitis

- We have acquired licences to produce 49 other Western medicine and TCM formulated products.



PRODUCT AWARDS AND ACCOLADES

- Attesting to the strengths of our R&D team, we have received recognition for our continual efforts in enhancing our ATT tablets, specifically for the improvements in the coating technology and the bioavailability of the drug. The various awards and accolades which have been accorded to our ATT tablets since 1998 include:-

- | | |
|--|--|
| <ul style="list-style-type: none"> o 1998 National Torch Plan Project
国家级火炬计划项目
Sichuan Torch Plan Project Prize
四川省火炬计划优秀奖 o 2000 Advances in Science and Technology
科技进步一等奖
Advanced Technological Science Achievement Conversion
高新技术成果转化项目认定 | <ul style="list-style-type: none"> o 2002 Advanced Technological Science Achievement Conversion
高新技术成果转化项目认定
Sichuan Branded Product
四川名牌产品 o 2003 Sichuan Branded Product
四川名牌产品 |
|--|--|

- We have also received the "Products of Designation of Origin and Geographical Indications of the PRC (中华人民共和国原产地域产品)" for our Gansu granules. This award is given for the protection of special products with specific nationality, economic and cultural characteristics as well as for assurance of quality and reputation of products.

COMPETITIVE STRENGTHS

Strong R&D capabilities and expertise in pharmaceutical products for the treatment of illnesses relating to the liver and gall bladder

- We have an experienced R&D team that is further enhanced by alliances with certain research institutes in the PRC and Germany.
- We have been conducting R&D for the past eight years.

Licensed to produce ATT tablets in the PRC

- We believe we are one of only three pharmaceutical companies which are licensed by the State Food & Drug Administration to produce ATT tablets in the PRC.

Currently, only our Group has the right to produce Gansu granules in the PRC

- We have been granted the licence by the PRC authorities to produce Gansu granules from Ganhuangcao. The Gansu granules were licensed as a protected TCM formulated product, and under this licence, only our Group has the right to produce Gansu granules for seven years

from 1999, and may apply to renew it for another seven years when the licence expires in 2006.

Extensive sales and marketing network

- Our extensive sales and marketing network of approximately 900 sales personnel throughout the PRC ensures timely delivery of our products and a wider reach to our potential customers.

Established goodwill and branding

- We believe that our brands "国嘉" and "郎中" are well recognised brand names of pharmaceutical products in the PRC and are associated with delivering quality and safe products.

Experienced management team

- Our experienced management team is led by our Executive Chairman, Jiang Yun, who has approximately 21 years of experience in the pharmaceutical industry and is assisted by a team of experienced managers.



OUR PROSPECTS

- There are currently more than 60,000 hospitals of varying sizes in the PRC.
- Our aim is to capitalise on our expertise in pharmaceutical products based on both Western medicine and TCM formulated products to provide comprehensive healthcare and treatment for the ultimate consumers of our products.
- With modernised production facilities for Gansu granules and other related products and more advanced technology to enhance product quality, we hope to instil greater confidence in our product quality, and thus higher demand for our products.
- We believe that the TCM market has the potential to expand further as TCM utilises natural ingredients which will likely appeal to health conscious consumers.

BUSINESS STRATEGIES AND FUTURE PLANS

Purchase of new equipment and machinery

- We intend to purchase new equipment and machinery for the production of ATT and Gansu capsules at our Chengdu and Gulin manufacturing plants respectively.

Promote greater brand awareness

- We plan to increase our market presence and promote greater awareness of our brands within the PRC by building on our existing marketing network, advertising in medical journals and newspapers, organising and participating in seminars and exhibitions.

Focus on R&D and product enhancement

- We will continue to focus on R&D to enhance the quality of and develop new applications for our existing pharmaceutical products.
- We also intend to establish more alliances with other institutions and universities to continue our R&D into fields such as cardiology to develop products which can be used in the treatment of cerebral and peripheral circulatory disturbances.
- We intend to expand our research and development team and set up a research and development centre which will

increase our research and development capabilities, enhance existing products, develop new products and assist in the development of on-going projects.

Produce new products

- We are currently conducting informal market surveys and research on certain new products to assess their market demand and viability. As and when these informal market surveys and research generate favourable responses, we may commence production and sale of these new products.

Advanced TCM production process and technology

- Through our technology agreement with Sunstar Process Technology (Xiamen) Co., Ltd, a wholly-owned subsidiary of Sinomem, we intend to integrate the advanced membrane technology into our TCM production process.

Explore other acquisitions, strategic alliances and/or joint ventures

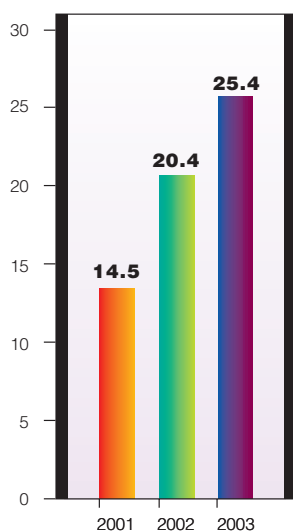
- We will continue to explore opportunities to acquire other pharmaceutical related businesses in the PRC through strategic alliances and joint venture partners that will give us access to new markets and to further develop our technological capabilities.



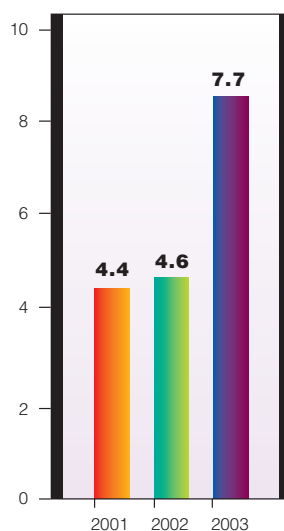
FINANCIAL HIGHLIGHTS - PROFORMA

Financial year ended 31 December

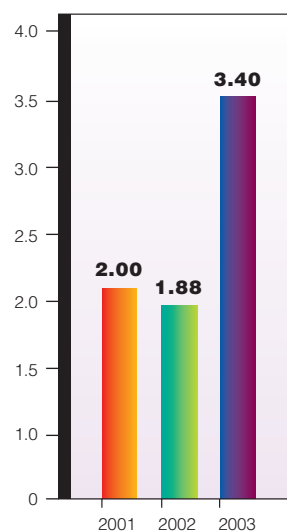
Revenue (\$' million) :



Profit before income tax & minority interest (\$' million) :



* EPS (cents)



* Computed based on pre-Invitation share capital of 150 million shares

CONTENTS

	Page
CORPORATE INFORMATION	4
DEFINITIONS	6
GLOSSARY OF TECHNICAL TERMS	11
GLOSSARY OF CHINESE TERMS	13
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	15
SELLING RESTRICTIONS	16
DETAILS OF THE INVITATION	
– Listing on the SGX-ST	17
– Indicative Timetable for Listing	19
PLAN OF DISTRIBUTION	21
PROSPECTUS SUMMARY	
– Our Group	23
– Our Business	23
– Our Competitive Strengths	23
– Our Future Plans and Business Strategies	24
THE INVITATION	26
SELECTED GROUP UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION	
– Summary of Financial Data	27
EXCHANGE RATES	29
RISK FACTORS	30
INVITATION STATISTICS	39
USE OF PROCEEDS	41
DIVIDEND POLICY	42
SHARE CAPITAL	43
CAPITALISATION AND INDEBTEDNESS	46
DILUTION	48
RESTRUCTURING EXERCISE	49
GROUP STRUCTURE	51

CONTENTS

	Page
GENERAL INFORMATION ON OUR GROUP	
– History	52
– Our Awards and Accolades	54
– Business Overview	55
– Our Products	55
– Production Process	57
– Quality Control	61
– Staff Training.....	62
– Seasonality.....	62
– Major Suppliers	62
– Major Customers	63
– Research and Development.....	64
– Credit Control	67
– Inventory Management.....	68
– Intellectual Property	69
– Properties and Fixed Assets	70
– Government Regulations	71
– Insurance	78
– Sales and Marketing	79
– Competition	79
– Competitive Strengths	80
– Our Prospects	81
– Trend Information	82
– Our Future Plans and Business Strategies	82
MANAGEMENT’S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS	
– Overview.....	88
– Results of Operations.....	92
– Review of Past Performance	93
– Review of Unaudited Pro Forma Consolidated Financial Position.....	98
– Liquidity and Capital Resources.....	100
– Contingent Liabilities	101
– Capital Expenditure, Divestment and Commitments	102
– Inflation.....	103
– Foreign Exchange	103

CONTENTS

	Page
TAXATION	104
DIRECTORS, MANAGEMENT AND STAFF	
– Directors, Senior Management and Executive Officers	107
– Compensation	110
– Service Agreements	110
– Employees	112
CORPORATE GOVERNANCE	113
SHARE OPTION SCHEME	115
PRINCIPAL SHAREHOLDERS	
– Ownership Structure	121
– Moratorium	123
INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICTS OF INTERESTS	
– Interested Person Transactions	124
– Potential Conflicts of Interests	126
– Review by Audit Committee	127
EXCHANGE CONTROLS	129
CLEARANCE AND SETTLEMENT	130
GENERAL AND STATUTORY INFORMATION	131
APPENDIX I : REPORT OF THE JOINT REPORTING ACCOUNTANTS IN RELATION TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS	I-1
APPENDIX II : UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS	II-1
APPENDIX III : AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003	III-1
APPENDIX IV : SUMMARY OF THE CONSTITUTION OF THE COMPANY	IV-1
APPENDIX V : PHARMESIS SHARE OPTION SCHEME	V-1
APPENDIX VI : SUMMARY OF PRC LAWS AND REGULATIONS	VI-1
APPENDIX VII : TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE	VII-1

CORPORATE INFORMATION

BOARD OF DIRECTORS	:	Jiang Yun (Executive Chairman) Wu Xuedan (Executive Director) Dr Lan Wei Guang (Non-executive Director) Chew Thiam Keng (Independent Director) Teo Kean Eek (Independent Director)
COMPANY SECRETARY	:	Tan Lay Hong (FCIS)
REGISTERED OFFICE	:	21 Science Park Road #03-13, The Aquarius Singapore Science Park II Singapore 117628
SHARE REGISTRAR AND SHARE TRANSFER OFFICE	:	Lim Associates (Pte) Ltd 10 Collyer Quay #19-08 Ocean Building Singapore 049315
MANAGER, UNDERWRITER AND PLACEMENT AGENT	:	UOB Asia Limited 80 Raffles Place UOB Plaza Singapore 048624
PRIMARY SUB-UNDERWRITERS AND PRIMARY SUB-PLACEMENT AGENTS	:	United Overseas Bank Limited 80 Raffles Place UOB Plaza Singapore 048624 UOB Kay Hian Private Limited 80 Raffles Place #30-01 UOB Plaza 1 Singapore 048624
AUDITORS	:	Ernst & Young, Singapore Certified Public Accountants Member of the Institute of Certified Public Accountants of Singapore 10 Collyer Quay #21-01 Ocean Building Singapore 049315
JOINT REPORTING ACCOUNTANTS	:	Ernst & Young, Singapore Certified Public Accountants Member of the Institute of Certified Public Accountants of Singapore 10 Collyer Quay #21-01 Ocean Building Singapore 049315

CORPORATE INFORMATION

Ernst & Young, Hong Kong
Certified Public Accountants
Member of the Hong Kong
Institute of Certified Public Accountants
15th Floor Hutchinson House
10 Harcourt Road
Central
Hong Kong

**SOLICITORS TO THE INVITATION
AND LEGAL ADVISERS TO THE
COMPANY AS TO SINGAPORE
LAW**

: Wong Partnership
80 Raffles Place
#58-01 UOB Plaza 1
Singapore 048624

**SOLICITORS TO THE MANAGER,
UNDERWRITER AND PLACEMENT
AGENT**

: Loo & Partners
88 Amoy Street Level Three
Singapore 069907

**LEGAL ADVISERS TO THE COMPANY
AS TO PRC LAW**

: Jingtian & Gongcheng
Floor 15, The Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020
People's Republic of China

PRINCIPAL BANKER

: Industrial and Commercial Bank of China
(Jin Niu Branch)
No. 258-01, Sa Wan Road
Chengdu, Jin Niu District
610031

RECEIVING BANK

: United Overseas Bank Limited
80 Raffles Place
UOB Plaza
Singapore 048624

DEFINITIONS

In this Prospectus, the accompanying Application Forms and, in relation to the Electronic Applications, the instructions appearing on the screens of the ATMs of the Participating Banks or the Internet Banking websites of the relevant Participating Banks unless the context otherwise requires, the following definitions apply throughout where the context so admits:-

General

- "Application Forms"* : The official printed application forms to be used for the purpose of the Invitation and which form part of this Prospectus
- "Application List"* : The list of applications for subscription of the New Shares
- "Associate"* : (a) in relation to any director, chief executive officer or substantial shareholder (being an individual) means:
- (i) his immediate family;
 - (ii) the trustees, acting in their capacity as such trustees, of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and
 - (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30% or more
- (b) in relation to a substantial shareholder (being a company) means any other company which is its subsidiary or holding company or is a fellow subsidiary of any such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more
- "ATM"* : Automated teller machines of a Participating Bank
- "Authority" or "MAS"* : The Monetary Authority of Singapore
- "Board"* : The Board of Directors of our Company, as at the date of this Prospectus
- "CDP"* : The Central Depository (Pte) Limited
- "Companies Act"* : The Companies Act, Chapter 50 of Singapore
- "Controlling Shareholder"* : In relation to a corporation,
- (a) a person who has an interest in the voting shares of a corporation and who exercises control over the corporation; or
 - (b) a person who has an interest of 15% or more of the aggregate of the nominal amount of all the voting shares in a corporation, unless he does not exercise control over the corporation

DEFINITIONS

<i>"CPF"</i>	:	The Central Provident Fund
<i>"Directors"</i>	:	The Directors of our Company as at the date of this Prospectus
<i>"Electronic Applications"</i>	:	Applications for the Offer Shares made through ATMs or through Internet Banking websites of any of the Participating Banks in accordance with the terms and conditions set out in this Prospectus
<i>"EPS"</i>	:	Earnings per Share
<i>"Executive Directors"</i>	:	The executive directors of our Company as at the date of this Prospectus
<i>"Executive Officers"</i>	:	The executive officers of our Group as at the date of this Prospectus
<i>"FY"</i>	:	Financial year ended or, as the case may be, ending 31 December
<i>"IB"</i>	:	Internet Banking
<i>"Independent Directors"</i>	:	The independent directors of our Company as at the date of this Prospectus
<i>"Invitation"</i>	:	Our invitation to the public in Singapore to subscribe for the New Shares at the Issue Price, subject to and on the terms and conditions of this Prospectus
<i>"Invitation Shares"</i>	:	The 50,000,000 New Shares which are the subject of this Invitation
<i>"Issue Price"</i>	:	\$0.25 for each New Share
<i>"Latest Practicable Date"</i>	:	25 August 2004, for the purposes of lodgement of this Prospectus
<i>"Listing Manual"</i>	:	The Listing Manual of the SGX-ST
<i>"Market Day"</i>	:	A day on which the SGX-ST is open for trading in securities
<i>"New Shares"</i>	:	The 50,000,000 new Shares for which we invite applications to subscribe for pursuant to the Invitation, subject to and on the terms and conditions of this Prospectus
<i>"NTA"</i>	:	Net tangible assets
<i>"Offer"</i>	:	The offer by our Company of the Offer Shares to the public in Singapore for subscription at the Issue Price subject to and on the terms and conditions of this Prospectus
<i>"Offer Shares"</i>	:	3,800,000 of the New Shares which are the subject of the Offer
<i>"Option Shares"</i>	:	The Shares which may be issued upon the exercise of the Options granted pursuant to the Pharmesis Share Option Scheme

DEFINITIONS

<i>“Participating Banks”</i>	:	United Overseas Bank Limited (“UOB”) and its subsidiary, Far Eastern Bank Limited (the “UOB Group”); DBS Bank Ltd (including POSB) (“DBS”) and Oversea-Chinese Banking Corporation Limited (“OCBC”)
<i>“PER”</i>	:	Price earnings ratio
<i>“Placement”</i>	:	The placement of the Placement Shares by the Placement Agent and Primary Sub-placement Agents on behalf of our Company for subscription at the Issue Price, subject to and on the terms and conditions of this Prospectus
<i>“Placement Shares”</i>	:	46,200,000 of the New Shares (including the Reserved Shares), which are the subject of the Placement
<i>“PRC” or “China”</i>	:	People’s Republic of China, excluding Macau Special Administrative Region and Hong Kong Special Administrative Region for the purposes of this Prospectus and for geographical reference only
<i>“Primary Sub-Underwriters and Primary Sub-Placement Agents”</i>	:	UOB and UOB Kay Hian Private Limited
<i>“Prospectus”</i>	:	This prospectus dated 27 September 2004 issued by our Company in respect of the Invitation
<i>“Report of the Joint Reporting Accountants”</i>	:	Report of the Joint Reporting Accountants on the Unaudited Pro Forma Consolidated Financial Statements
<i>“Reserved Shares”</i>	:	The 3,800,000 Placement Shares reserved for our Independent Director, employees, business associates and others who have contributed to our success
<i>“Restructuring Exercise”</i>	:	The corporate restructuring exercise undertaken in connection with the Invitation as described on page 49 of this Prospectus
<i>“SCCS”</i>	:	Securities Clearing & Computer Services (Pte) Ltd
<i>“SFR”</i>	:	Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2002
<i>“SGX-ST”</i>	:	Singapore Exchange Securities Trading Limited
<i>“Securities Account”</i>	:	The securities account maintained by a depositor with CDP but does not include a securities sub-account
<i>“Securities and Futures Act”</i>	:	The Securities and Futures Act, Chapter 289 of Singapore
<i>“Share Registrar”</i>	:	Lim Associates (Pte) Ltd
<i>“Shares”</i>	:	Ordinary shares of \$0.04 each in the capital of our Company
<i>“Unaudited Pro Forma Consolidated Financial Statements”</i>	:	Unaudited Pro Forma Consolidated Financial Statements of Pharmesis International Ltd. and its subsidiaries for the years ended 31 December 2001, 2002 and 2003

DEFINITIONS

<i>“UOB”</i>	:	United Overseas Bank Limited
<i>“UOB Asia”, “Manager”, “Underwriter” or “Placement Agent”</i>	:	UOB Asia Limited
<i>“UOB KayHian”</i>	:	UOB Kay Hian Private Limited
<i>“VAT”</i>	:	Value added tax
<i>“yr”</i>	:	Year
<i>“\$” and “cents”</i>	:	Singapore dollars and cents respectively
<i>“RMB” or “RMB cents”</i>	:	PRC Renminbi and Renminbi cents respectively
<i>“%” or “per cent”</i>	:	Per centum or Percentage
Group Companies		
<i>“Company” or “Pharmesis”</i>	:	Pharmesis International Ltd.. The terms “we”, “our”, “our Company” or “us” have correlative meanings
<i>“Group” or “Pro Forma Group”</i>	:	Our Company and our subsidiaries, treated for the purpose of this Prospectus as if the group structure had been in existence since 1 January 2001
<i>“Longlife”</i>	:	Sichuan Longlife Pharmaceutical Co., Ltd (四川郎中药业有限公司)
<i>“Kinna Pharm”</i>	:	Chengdu Kinna Pharmaceutical Co., Ltd (成都国嘉联合制药有限公司)
Other Companies		
<i>“Chengdu Century”</i>	:	Chengdu Century United Biomed Co., Ltd (成都世纪联合生物医药有限公司)
<i>“Chengdu Jinrong”</i>	:	Chengdu Jinrong Investment Co., Ltd (成都金蓉投资有限公司)
<i>“Chengdu Lijia”</i>	:	Chengdu Lijia Pharmaceutical Co., Ltd (成都丽嘉制药有限公司)
<i>“Chengdu Kinna”</i>	:	Chengdu Kinna Bio&Pharm Co., Ltd (成都国嘉生物制药股份有限公司)
<i>“Longlife Trading”</i>	:	Sichuan Longlife Trading Co., Ltd (四川郎中医药营销有限公司)
<i>“Sichuan Neautus”</i>	:	Sichuan Neautus Traditional Chinese Medicine Co., Ltd (四川新荷花中药饮片有限公司)

DEFINITIONS

“*Sinomem*” : Sinomem Technology Limited, a company listed on the SGX-ST

“*Suntar Investment*” : Suntar Investment Pte Ltd, formerly known as Suntar Water Pte Ltd, wholly-owned subsidiary of Sinomem

The expressions “Depositor”, “Depository Agent” and “Depository Register” shall have the meanings ascribed to them respectively in Section 130A of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall include corporations.

Any reference in this Prospectus, Application Forms and Electronic Applications to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act, the Securities and Futures Act or any statutory modification thereof and used in this Prospectus, the Application Forms and Electronic Applications shall, where applicable, have the meaning assigned to it under the Companies Act, the Securities and Futures Act or such statutory modification thereof, as the case may be.

Any reference in this Prospectus, the Application Forms and Electronic Applications to Shares being allotted to an applicant includes allotment to CDP for the account of that applicant.

Any reference to a time of day in this Prospectus, within the Application Forms and Electronic Applications shall be a reference to Singapore time unless otherwise stated.

References in this Prospectus to “we”, “our”, and “us” refer to our Group or the Pro Forma Group.

Certain names with Chinese characters have been translated into English names. Such translations are provided solely for the convenience of Singapore-based investors. They have not been registered with the relevant PRC authorities and should not be construed as representations that the English names actually represent the Chinese characters.

GLOSSARY OF TECHNICAL TERMS

To facilitate a better understanding of our business, the following glossary provides a description of some of the technical terms and abbreviations commonly found in our industry (which should not be treated as definitive of their meanings) used in this Prospectus:-

<i>“acute dysentery”</i>	:	Any of various disorders marked by inflammation of the intestines which having a short and relatively severe course, especially of the colon, and accompanied by pain in the abdomen, tenesmus, and frequent stools containing blood and mucus. Causes include chemical irritants, bacteria, protozoa, or parasitic worms (急性痢疾)
<i>“adynamia”</i>	:	Loss of strength or vigor usually due to disease (体力衰退)
<i>“ALT”</i>	:	Alanine aminotransferase, a biochemical index for evaluating whether the liver is functioning properly. An increase of ALT usually indicates liver injury (丙氨酸氨基转化酶)
<i>“arteriosclerosis”</i>	:	Any of a group of diseases characterized by thickening and loss of elasticity of arterial walls. This group of diseases is the key high risk factor for coronary heart disease and renal failure (动脉硬化)
<i>“AST”</i>	:	Aspartate aminotransferase, a biochemical index for evaluating whether the liver is functioning properly. An increase of AST usually indicates hepatic injury (天门冬氨酸氨基转化酶)
<i>“ATT”</i>	:	Anetholtrithione (茵三硫). It is a type of chemical drug primarily used in the treatment of illnesses relating to the liver and gall bladder
<i>“bilirubin”</i>	:	A bile pigment; it is a breakdown product of heme mainly formed from the degradation of erythrocyte hemoglobin in reticuloendothelial cells, but also formed by breakdown of other heme pigments, e.g., cytochromes (胆红素)
<i>“bioavailability”</i>	:	The degree to which a drug or other substance becomes available to the body after administration (生物利用度)
<i>“CDE”</i>	:	Centre for Drug Evaluation of the SFDA (药物审批中心)
<i>“chemical medicine”</i>	:	Including both chemical raw materials and chemical drug formulation (化学药)
<i>“cholagogue”</i>	:	An agent that stimulates the flow of bile into the duodenum (利胆剂)
<i>“cholecyst “</i>	:	The gall bladder, a membranous muscular sac in which bile from the liver is stored (胆囊)
<i>“cholecystitis”</i>	:	Inflammation of the gall bladder (胆囊炎)
<i>“cholelithiasis”</i>	:	The presence or formation of gallstones (胆石症)

GLOSSARY OF TECHNICAL TERMS

- “clinical study permit”* : A permit issued by SFDA entitling the holder thereof to conduct clinical trial for development of the drug (临床批文)
- “clinical trial”* : The systematic research for validating or finding the therapeutic effects as well as any undesirable effects of the drugs on human bodies of patients or health volunteers. It involves three phases which provide information on drug’s therapeutic value and safety. Pharmacokinetic study (absorption, distribution, metabolism and excretion) is generally incorporated into all phases of clinical trials (临床研究)
- “Drug Manufacturing Permit”* : A permit issued by SFDA to a pharmaceutical company holding a valid Pharmaceutical Production Permit and rights to a new drug certificate, entitling the company to manufacture such drug products (药品生产批文)
- “dyspepsia”* : Impairment of the function of digestion, usually gastric discomfort following meals (消化不良)
- “Ganhuangcao”* : *Penthorum chinense* Pursh, a medicinal plant (赶黄草)
- “GMP”* : Good Manufacturing Practice, a set of internationally accepted guidelines and regulations from time to time issued pursuant to the PRC laws by the SFDA as part of quality assurance to ensure that pharmaceutical products are consistently produced and controlled to the quality and standards appropriate for their intended use (药品生产质量管理规范)
- “hospitals”* : Hospitals include general hospitals and health centres
- “lyophilised powder for injection”* : Solution drug in powder form for injection which is prepared through the process of freezing, sublimation and dehydration under low temperature and low pressure conditions (冻干粉针)
- “new drug”* : A drug that has not yet been sold in the PRC (新药)
- “OTC drug”* : Over the counter drugs. Drugs which are sold without a prescription (非处方药)
- “Pharmaceutical Production Permit”* : A permit issued by the SFDA entitling the holder thereof to manufacture drug products (药品生产许可证)
- “pharmacology”* : The science of drugs dealing with the study of the properties and reactions of drugs especially with relation to their therapeutic value (药理学)
- “SFDA”* : State Food and Drug Administration of the PRC, formerly known as the State Drug Administration (国家食品药品监督管理局)
- “TCM”* : Traditional Chinese Medicine comprising crude Chinese drugs such as Chinese herbs (传统中药)
- “Western medicine”* : Includes chemical and biological products (other than TCM) which we consume as medicine (西药)

GLOSSARY OF CHINESE TERMS

<i>“Beijing Friendship Hospital Affiliated of Capital University of Medical Sciences”</i>	:	首都医科大学附属北京友谊医院
<i>“Beijing University, School of Pharmaceutical Sciences”</i>	:	北京大学药学院
<i>“Beijing University First Hospital”</i>	:	北京大学附属第一医院
<i>“Changhai Hospital of the Second Military Medical University”</i>	:	第二军医大学上海长海医院
<i>“Changzheng Hospital of the Second Military Medical University”</i>	:	第二军医大学上海长征医院
<i>“Chengdu Fengxian Shiye Development Centre”</i>	:	成都市科技风险开发事业中心
<i>“Chengdu Zhong Jin Medical Packaging Co. Ltd”</i>	:	成都中金医药包装有限公司
<i>“Chengdu Taixing Pharmaceuticals Ltd”</i>	:	成都泰星药业有限公司
<i>“Chengdu University of Traditional Chinese Medicine”</i>	:	成都中医药大学
<i>“China Japan Friendship Hospital”</i>	:	北京中日友好医院
<i>“Chongqing University of Medical Sciences”</i>	:	重庆医科大学
<i>“Fudan University Shanghai Zhongshan Hospital”</i>	:	复旦大学上海中山医院
<i>“Guizhou University”</i>	:	贵州大学
<i>“Gulin County Enterprise Ltd”</i>	:	古蔺县国有资产经营有限责任公司
<i>“Lanzhou University”</i>	:	兰州大学
<i>“Lianyungang Zhong Jin Medical Packaging Co. Ltd”</i>	:	连云港中金医药包装有限公司
<i>“People’s Hospital of Beijing University”</i>	:	北京大学附属人民医院
<i>“Ruijin Hospital of Shanghai Second Medical University”</i>	:	上海第二医科大学附属瑞金医院

GLOSSARY OF CHINESE TERMS

<i>“Shanghai First People’s Hospital”</i>	:	上海第一人民医院
<i>“Shanghai Medicine (Group) Co., Ltd.”</i>	:	上海医药股份有限公司
<i>“Shanghai No.6 Pharmaceutical Factory”</i>	:	上海制药六厂
<i>“Shanghai Pharmaceutical Industry Co., Ltd”</i>	:	上海医药工业有限公司
<i>“Sichuan Industrial Institute of Antibiotics”</i>	:	四川抗菌素工业研究所
<i>“Sichuan Institute of Chinese Medical Sciences”</i>	:	四川省中医药研究院中药研究所
<i>“Sichuan Purui Pharmaceuticals Ltd”</i>	:	四川普瑞药业有限公司
<i>“West China Pharmacy School of Sichuan University” formerly known as “West China University of Medical Sciences”</i>	:	四川大学华西药学院 (formerly known as 华西医科大学)
<i>“Xian Global Printing Co., Ltd”</i>	:	西安环球印务有限公司
<i>“Xinhua Hospital of Shanghai Second Medical University”</i>	:	上海第二医科大学附属新华医院
<i>“Xiyuan Hospital of China Academy of Traditional Chinese Medicine”</i>	:	中国中医研究院西苑医院
<i>“Zhong Jin Medical Packaging Group”</i>	:	Includes Lian Yun Gang Zhong Jin Medical Packaging Co., Ltd (连云港中金医药包装有限公司) and Chengdu Zhong Jin Medical Packaging Co., Ltd (成都中金医药包装有限公司)

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this Prospectus, statements made in press releases and oral statements that may be made by us or our Directors, Executive Officers or employees acting on our behalf, that are not statements of historical fact, constitute “forward-looking statements”. You can identify some of these statements by forward-looking terms such as “expect”, “believe”, “plan”, “intend”, “estimate”, “anticipate”, “may”, “will”, “would” and “could” or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects are forward-looking statements.

These forward-looking statements, including but not limited to statements as to our revenue and profitability, prospects, future plans and other matters discussed in this Prospectus regarding matters that are not historical facts are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual future results, performance or achievements to be materially different from any future results, performance or achievements expected, expressed or implied by such forward-looking statements. Some of these risk factors are discussed in more detail under the section “Risk Factors” of this Prospectus.

Given the risks and uncertainties that may cause our actual future results, performance or achievements to be materially different than that expected, expressed or implied by the forward-looking statements in this Prospectus, undue reliance must not be placed on these statements. Neither our Company, the Manager, Underwriter, Placement Agent, Primary Sub-Underwriters and Primary Sub-Placement Agents nor any person represents or warrants that our actual future results, performance or achievements will be as discussed in those statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of the risks faced by us. We, the Manager, the Underwriter, the Placement Agent, Primary Sub-Underwriters and Primary Sub-Placement Agents disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances. We are, however, subject to the provisions of the Securities and Futures Act and the Listing Manual regarding corporate disclosure. In particular, we are required by Section 241 of the Securities and Futures Act to lodge a supplementary or replacement document in respect of future developments, events or circumstances that occur prior to the close of the Invitation and that are required to be disclosed pursuant to law.

SELLING RESTRICTIONS

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for the Invitation Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal or regulatory requirements of any jurisdiction, except for the filing and/or registration of this Prospectus in Singapore in order to permit a public offering of the New Shares and the public distribution of this Prospectus in Singapore. The distribution of this Prospectus and the offering of the New Shares in certain jurisdictions may be restricted by the relevant laws in such jurisdictions. Persons who may come into possession of this Prospectus are required by our Company, Manager, Underwriter and the Placement Agent, the Primary Sub-Underwriters and the Primary Sub-Placement Agents to inform themselves about, and to observe and comply with, any such restrictions.

DETAILS OF THE INVITATION

LISTING ON THE SGX-ST

We have applied to the SGX-ST for permission to deal in and for quotation of, all our Shares already issued, the New Shares and the Option Shares, on the SGX-ST. Such permission will be granted when our Company has been admitted to the Official List of the SGX-ST. Our acceptance of applications will be conditional upon, *inter alia*, permission being granted to deal in and for quotation of, all our existing issued Shares, the New Shares and the Option Shares. Monies paid in respect of any application accepted will be returned to you, without interest or any share of revenue or other benefit arising therefrom and at your own risk, if the said permission is not granted and you will not have any claims whatsoever against us, the Manager, Underwriter, Placement Agent, Primary Sub-Underwriters and the Primary Sub-Placement Agents.

The SGX-ST assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company, our subsidiaries, our Shares, the New Shares or the Option Shares.

A copy of this Prospectus has been lodged with the Authority. The Authority assumes no responsibility for the contents of the Prospectus. Registration of the Prospectus by the Authority does not imply that the Securities and Futures Act, or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of the Shares, the New Shares or the Option Shares, as the case may be, being offered or in respect of which an invitation is made for investors.

We are subject to the provisions of the Securities and Futures Act and the Listing Manual regarding corporate disclosure. In particular, if after this Prospectus is registered but before the close of the Invitation, we become aware of:-

- (a) a false or misleading statement or matter in this Prospectus;
- (b) an omission from this Prospectus of any information that should have been included in it under Sections 243 of the Securities and Futures Act; or
- (c) a new circumstance that has arisen since this Prospectus was lodged with the Authority which would have been required by Sections 243 of the Securities and Futures Act to be included in this Prospectus if it had arisen before this Prospectus was lodged,

that is materially adverse from the point of view of an investor, we may lodge a supplementary or replacement prospectus with the Authority pursuant to Section 241 of the Securities and Futures Act.

Where the Authority issues a stop order pursuant to Section 242 of the Securities and Futures Act, and

- (a) in the case where the New Shares have not been issued to the applicants, the applications of the New Shares pursuant to the Invitation shall be deemed to have been withdrawn and cancelled and our Company shall, within 14 days from the date of the stop order, pay to the applicants all monies the applicants have paid on account of their applications for the New Shares; or
- (b) in the case where the New Shares have been issued to the applicants, the issue of the New Shares pursuant to the Invitation shall be deemed to be void and our Company shall, within 14 days from the date of the stop order, pay to the applicants all monies paid by them for the New Shares.

Such monies paid in respect of your application will be returned to you at your own risk, without interest or any share or revenue or other benefit arising therefrom, and you will not have any claim against us, the Manager, the Underwriter, the Placement Agent, the Primary Sub-Underwriters or the Primary Sub-Placement Agents.

DETAILS OF THE INVITATION

This Prospectus has been seen and approved by our Directors and they individually and collectively accept full responsibility for the accuracy of the information given in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge, information and belief, the facts stated and the opinions expressed in this Prospectus are fair and accurate in all material respects as at the date of this Prospectus and that there are no material facts the omission of which would make any statements in the Prospectus misleading.

Neither our Company, the Manager, the Underwriter, the Placement Agent, nor any other parties involved in the Invitation is making any representation to any person regarding the legality of an investment by such person under any investment or other laws or regulations. No information in this Prospectus should be considered as being business, legal or tax advice regarding an investment in our Shares. Each prospective investor should consult his own professional or other advisers for business, legal or tax advice regarding an investment in our Shares.

No person has been or is authorised to give any information or to make any representation not contained in this Prospectus in connection with the Invitation and, if given or made, such information or representation must not be relied upon as having been authorised by us, the Manager, Underwriter or Placement Agent. Neither the delivery of this Prospectus and the Application Forms nor any documents relating to the Offer or the Placement, nor the Invitation shall, under any circumstances, constitute a continuing representation or create any suggestion or implication that there has been no change in our affairs or in the statements of fact or information contained in this Prospectus since the date of this Prospectus. Where such changes occur, we may make an announcement of the same to the SGX-ST and/or the Authority and will comply with the requirements of the Securities and Futures Act and/or any other requirements of the Authority, including, if required, the lodgement of a supplementary document or replacement document pursuant to Section 241 of the Securities and Futures Act. All applicants should take note of any such announcements and, upon the release of such an announcement, shall be deemed to have notice of such changes. Save as expressly stated in this Prospectus, nothing herein is, or may be relied upon as, a promise or representation as to our future performance or policies.

This Prospectus has been prepared solely for the purpose of the Invitation and may not be relied upon by any other persons other than the applicants in connection with their application for the New Shares or for any other purpose.

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for the New Shares in any jurisdiction in which such offer, or solicitation or invitation is unlawful or unauthorised nor does it constitute an offer, solicitation or invitation to any person to whom it is unlawful to make such offer, solicitation or invitation.

Copies of this Prospectus and the Application Forms and envelopes may be obtained on request, subject to availability, during office hours from:-

**UOB ASIA LIMITED
1 Raffles Place #13-01
OUB Centre
Singapore 048616**

and members of the Association of Banks in Singapore, members of the SGX-ST and merchant banks in Singapore. A copy of this Prospectus is also available on the SGX-ST website: <http://www.sgx.com>.

The Application List will open at 10.00 a.m. on 4 October 2004 and will remain open until 12.00 noon on the same day or for such further period or periods as our Directors may, in consultation with UOB Asia, in their absolute discretion decide, subject to any limitation under all applicable laws. In the event a supplementary or replacement prospectus is lodged with the MAS, the Application List will remain open for at least 14 days after the lodgement of the supplementary or replacement prospectus.

DETAILS OF THE INVITATION

Where prior to the lodgement of the supplementary or replacement prospectus, applications have been made under this Prospectus to subscribe for the New Shares and:-

- (a) where the New Shares have not been issued to the applicants, our Company shall either:-
 - (i) within seven (7) days from the date of lodgement of the supplementary or replacement prospectus, give the applicants the supplementary or replacement prospectus, as the case may be, and provide the applicants with an option to withdraw their applications; or
 - (ii) treat the applications as withdrawn and cancelled, in which case the applications shall be deemed to have been withdrawn and cancelled, and our Company shall, within seven days from the date of lodgement of the supplementary or replacement prospectus, return all monies paid in respect of any application; or
- (b) where the New Shares have been issued to the applicants, our Company shall either:-
 - (i) within seven (7) days from the date of lodgement of the supplementary or replacement prospectus, give the applicants the supplementary or replacement prospectus, as the case may be, and provide the applicants with an option to return the New Shares, which they do not wish to retain title in; or
 - (ii) treat the issue of the New Shares as void, in which case the issue shall be deemed void and our Company shall, within seven days from the date of lodgement of the supplementary or replacement prospectus, return all monies paid in respect of any application.

An applicant who wishes to exercise his option under paragraph (a)(i) to withdraw his application shall, within 14 days from the date of lodgement of the supplementary or replacement prospectus, notify our Company of this, whereupon our Company shall, within (7) seven days from the receipt of such notification, pay to him all monies paid by him on account of his application for those New Shares without interest or a share of revenue or benefit arising therefrom, at the applicant's risk.

An applicant who wishes to exercise his option under paragraph (b)(i) to return the New Shares issued to him shall, within 14 days from the date of lodgement of the supplementary or replacement prospectus, notify our Company of this and return all documents, if any, purporting to be evidence of title to those New Shares, to our Company, whereupon our Company shall, within seven (7) days from the receipt of such notification and documents, if any, pay to him all monies paid by him for those Shares and the issue of those New Shares shall be deemed to be void.

INDICATIVE TIMETABLE FOR LISTING

In accordance with the SGX-ST's News Release of May 28, 1993 on the trading of initial public offering shares on a "when issued" basis, an indicative timetable is set out for reference of applicants:-

Indicative time/date	Event
12.00 noon on 4 October 2004	Close of Application List
5 October 2004	Balloting of applications, if necessary (in the event of over-subscription for the Offer Shares)
9.00 a.m. on 6 October 2004	Commence trading on a "when issued" basis
18 October 2004	Last day of trading on a "when issued" basis
9.00 a.m. on 19 October 2004	Commence trading on a "ready" basis
22 October 2004	Settlement date for all trades done in respect of the Shares on a "when issued" basis and for trades done on a "ready" basis on 19 October 2004

DETAILS OF THE INVITATION

The above timetable is only indicative as it assumes that the date of closing of the Application List is 4 October 2004, the date of admission of our Company to the Official List of the SGX-ST is 6 October 2004, the shareholding spread requirement will be complied with and the New Shares will be issued and fully paid-up prior to 6 October 2004. The actual date on which our Shares will commence trading on a “when issued” basis will be announced when it is confirmed by the SGX-ST.

The above timetable and procedures may be subject to such modification as the SGX-ST may, in its absolute discretion, decide, including the decision to permit trading on a “when issued” basis and the commencement date of such trading.

All persons trading in our Shares on a “when issued” basis do so at their own risk. In particular, persons trading in our Shares before their Securities Accounts with CDP are credited with the relevant number of Shares do so at the risk of selling Shares which neither they nor their nominees, as the case may be, have been allotted with or are otherwise beneficially entitled to. Such persons are also exposed to the risk of having to cover their net sell positions earlier if “when issued” trading ends sooner than the indicative date shown above. Persons who have a net sell position traded on a “when issued” basis should close their position on or before the first day of “ready” basis trading.

The Invitation will open from 27 September 2004 to 4 October 2004.

In the event of any changes in the closure of the Application List or the time period during which the Invitation is open, we will publicly announce the same:-

- (i) through MASNET announcement to be posted on the internet at the SGX-ST website <http://www.sgx.com>; and
- (ii) in a local newspaper.

We will publicly announce the level of subscription and the basis of the distribution of the Invitation Shares pursuant to the Invitation, as soon as it is practicable after the close of the Application List:-

- (i) through MASNET announcement to be posted on the Internet at the SGX-ST website, <http://www.sgx.com>; and
- (ii) in a local newspaper.

Investors should consult the SGX-ST’s announcement on the “ready” trading date on the SGX-ST website (<http://www.sgx.com>), INTV, the newspapers or check with their brokers on the date on which trading on a “ready” basis will commence.

PLAN OF DISTRIBUTION

The Invitation is for the Invitation Shares offered in Singapore by way of public offer and placement comprising 3,800,000 Offer Shares and 46,200,000 Placement Shares (including up to 3,800,000 Reserved Shares) managed and underwritten by UOB Asia, and sub-underwritten by UOB and UOB Kay Hian.

The Issue Price is determined by us in consultation with the Manager, based on market conditions and estimated market demand for our Shares determined through a book-building process. The Issue Price is the same for each New Share and is payable in full on application.

There are no arrangements whereby the number of Shares being offered pursuant to this Invitation may be increased by the exercise of an underwriter's over-allotment option.

Offer Shares

Pursuant to the Management and Underwriting Agreement entered into between us and UOB Asia as set out in the section "General and Statutory Information" of this Prospectus, we have appointed UOB Asia to manage the Invitation and to underwrite the 3,800,000 Offer Shares. UOB Asia will receive a management fee and an underwriting commission of 2.5 per cent of the Issue Price for the Offer Shares payable by us for subscribing or procuring subscribers for any Offer Shares not subscribed for by the public and will pay or procure payment to us for such Offer Shares. UOB Asia may, at its absolute discretion, appoint one or more sub-underwriters for the Offer Shares. Members of the public may apply for the Offer Shares by way of printed Application Forms or by Electronic Application as described under "Terms, Conditions and Procedures for Application and Acceptance" as set out in Appendix VII of this Prospectus.

In the event of an under-subscription for the Offer Shares as at the close of the Application List, that number of Offer Shares not subscribed for shall be made available to satisfy excess applications for the Placement Shares to the extent there is an over-subscription for the Placement Shares as at the close of the Application List.

In the event of an over-subscription for the Offer Shares as at the close of the Application List and/or the Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for the Offer Shares will be determined by ballot or otherwise as determined by our Company after consultation with the Manager and the SGX-ST.

Placement Shares

Pursuant to the Placement Agreement entered into between us and UOB Asia as set out in the section "General and Statutory Information" of this Prospectus, UOB Asia agreed to subscribe and/or procure subscribers for the 46,200,000 Placement Shares for a placement commission of 1.75 per cent of the Issue Price for the Placement Shares payable by us. UOB Asia may, at its absolute discretion, appoint one or more sub-placement agents for the Placement Shares. Applications for Placement Shares may only be made by way of printed Application Forms as described under "Terms, Conditions and Procedures for Application and Acceptance" as set out in Appendix VII of this Prospectus.

In the event of an under-subscription for the Placement Shares as at the close of the Application List, that number of Placement Shares not subscribed for shall be made available to satisfy excess applications for the Offer Shares to the extent that there is an over-subscription for the Offer Shares as at the close of the Application List.

Subscribers of the Placement Shares (excluding Reserved Shares) may be required to pay brokerage of 1.0 per cent of the Issue Price to the Primary Sub-Placement Agents.

PLAN OF DISTRIBUTION

Reserved Shares

Up to 3,800,000 Placement Shares shall be reserved for our Independent Director, employees, business associates and those who have contributed to our success. These Reserved Shares are not subjected to any moratorium and may be disposed of after the admission of our Company to the Official List of the SGX-ST. However, none of them will be offered more than 5.0 per cent of the total Invitation size or 2,500,000 Invitation Shares.

In the event that any of the Reserved Shares are not taken up as at the close of the Application List, they will be made available to satisfy excess applications for the Placement Shares to the extent there is an over-subscription for the Placement Shares as at the close of the Application List or, in the event of an under-subscription for the Placement Shares as at the close of the Application List, to satisfy excess applications made by members of the public for the Offer Shares to the extent there is an over-subscription for the Offer Shares as at the close of the Application List.

The terms, conditions and procedures for application are described in Appendix VII of this Prospectus.

None of our Directors or Substantial Shareholders intend to subscribe for the New Shares in the Invitation.

We are not aware of any person who intends to subscribe for more than 5% of the New Shares. However, through a book-building process to assess market demand for our Shares, there may be persons who may indicate an interest to subscribe for Shares amounting to more than 5% of the New Shares. If such person(s) were to make an application for Shares amounting to more than 5% of the New Shares and are subsequently allotted such numbers of Shares, we will make the necessary announcements at an appropriate time. The final allotment of Shares will be in accordance with the shareholding spread and distribution guidelines as set out in Clause 210 of the Listing Manual.

Further, no Shares shall be allotted on the basis of this Prospectus later than six months after the date of this Prospectus.

PROSPECTUS SUMMARY

The following summary highlights certain information found in greater detail elsewhere in this Prospectus. In addition to this summary, we urge you to read the entire Prospectus carefully, especially the section on “Risk Factors”, before deciding to invest in our Shares.

OUR GROUP

Our Company, Pharmesis International Ltd., is an investment holding company and our business is carried out through our subsidiaries, Kinna Pharm and Longlife which operate in the PRC.

We are a pharmaceutical company specialising in the manufacturing of pharmaceutical products in the form of tablets, granules, pills, etc, including TCM formulated products for the treatment of illnesses relating to the liver and gall bladder. The scope of our business includes the research and development, production, sale and marketing of pharmaceutical products. We primarily produce and sell ATT tablets and Gansu granules. Our pharmaceutical products sold in the PRC include western medicine products under the “国嘉” brand and TCM formulated products under the “郎中” brand.

OUR BUSINESS

(A) Western medicine

We produce ATT tablets, compound procaine hydrochloride tablets and Lianpushuangqing tablets under the “国嘉” brand. Our main western medicinal product is ATT tablets which are for oral application. The pharmacology of ATT is to improve the liver function, enhance the secretion of the bile as well as increase the detoxification capability of the liver. So, ALT levels may be lowered in patients with acute or chronic hepatitis. ATT may also modulate the gastrointestinal digestion. Hence, ATT tablets are used in the treatment of acute and chronic hepatitis, cholecystitis, cholelithiasis and dyspepsia. ATT tablets are not classified as OTC drugs.

We have obtained the patent in the PRC for our technology to be used in the production of ATT capsules and are waiting for the approval of the SFDA to commence production of ATT capsules.

(B) TCM formulated product

Gansu granules are our main TCM formulated product and a drug that is not classified as an OTC drug. Gansu granules are typically used in the treatment of acute and chronic hepatitis. Gansu granules protect and improve the efficacy of the liver. In addition, Gansu granules are able to lower ALT, AST and bilirubin levels in patients. In doing so, symptoms of hepatitis which include nausea, jaundice and loss of appetite, etc. will be reduced.

Our Gansu granules were awarded the “Products of Designation of Origin and Geographical Indications of the PRC (中华人民共和国原产地域产品)”, which is the first TCM formulated product in the PRC to receive such protection and recognition.

Please refer to the section “General Information on our Group” of this Prospectus for further details.

OUR COMPETITIVE STRENGTHS

We believe that the following are our competitive strengths:-

(a) Strong research and development capabilities and expertise in pharmaceutical products for the treatment of illnesses relating to the liver and gall bladder

Our research and development team is experienced in the pharmaceutical industry and are specialised in fields such as medicinal chemistry, pharmacy, pharmacology and product development. We have been conducting research and development on pharmaceutical products for liver and digestive system related conditions for the past eight years. We believe that we possess the necessary scientific expertise and know-how in this aspect of medical science.

PROSPECTUS SUMMARY

(b) We are one of the three pharmaceutical companies who are licensed to produce ATT tablets in the PRC

Only companies that are licensed by the SFDA may produce ATT tablets in the PRC. To the best of our Director's knowledge, there are only three pharmaceutical companies who are awarded the licence by the SFDA to produce ATT tablets in the PRC. As one of the three companies who have the licence to produce ATT tablets, we believe that we are placed in a good position to tap the demand for ATT tablets.

(c) Currently, only our Group has the right to produce Gansu granules in the PRC

We have been granted a licence by the PRC authorities to produce Gansu granules from Ganhuangcao. The Gansu granules were licensed as a protected TCM formulated product (中药保护品种) by the SFDA in 1999. Currently, only our Group has the right to produce Gansu granules in the PRC for seven years from 1999 and we may apply for renewal of this right for another seven years when it expires in 2006. Our Gansu granules were awarded the "Products of Designation of Origin and Geographical Indications of the PRC (中华人民共和国原产地产品)", which is the first TCM formulated product to receive such protection and recognition. As we are currently the only company to be awarded this certification for TCM formulated products in the PRC, we believe that we have a competitive edge over our competitors.

(d) Extensive sales and marketing network

We have established an extensive sales and marketing network of approximately 900 sales personnel in most provinces, municipalities and autonomous regions in the PRC. To the best of our Directors' knowledge, we sell our products to approximately 2,000 hospitals located in many cities within the PRC. We are able to deliver quality sales services and after sales support to our end customers. Due to our extensive sales and marketing network, we are able to ensure timely delivery of our products to our customers and reach out to many other potential customers.

(e) Established goodwill and branding

Due to our marketing strategies, we believe that our brands "国嘉" and "郎中" are well-recognised brand names of pharmaceutical products in the PRC and one that is associated with delivering quality and safe products. In addition, our products and innovations have received numerous awards. Please refer to the section "Our Awards and Accolades" of this Prospectus for more details.

(f) Experienced management team

We have an experienced management team who has extensive experience in the pharmaceutical industry. We are led by our Executive Chairman, Jiang Yun, who has about 21 years of experience in the pharmaceutical industry. He is assisted by a team of experienced managers. Please refer to the section "Directors, Management and Staff" of this Prospectus for further details relating to their experience in the pharmaceutical sciences industry.

Please refer to the section "Competitive Strengths" of this Prospectus for further details.

OUR FUTURE PLANS AND BUSINESS STRATEGIES

Our future plans are:-

(a) To Purchase New Equipment and Machinery for the Production of ATT and Gansu in Capsule Form

We intend to purchase new equipment and machinery for the production of our ATT and Gansu capsules at our Chengdu and Gulin plants. The new equipment and machinery will enable us to produce ATT and Gansu in capsule form to complement our existing products.

PROSPECTUS SUMMARY

(b) To Promote Greater Brand Awareness in the PRC and Overseas Markets

We plan to increase our market presence and promote greater awareness of our brand within the PRC by building on our existing distribution network, advertising in medical journals and newspapers, organising and participating in seminars and exhibitions.

(c) To Focus on Research and Development and Product Enhancement

We will continue to focus on research and development to enhance the quality of and develop new applications for our existing pharmaceutical products. We plan to expand our research and development team by recruiting more professionals. We also intend to establish more alliances with other institutions and universities to continue our research and development into fields such as cardiovascularology to develop products which can be used in the treatment of cerebral and peripheral circulatory disturbances.

(d) To Advance TCM Production Process and Technology

Through our strategic alliance with Sunstar Process Technology (Xiamen) Co., Ltd, a wholly-owned subsidiary of Sinomem, we plan to integrate the advanced membrane technology into our TCM production process.

(e) To Produce New Products

We are currently conducting informal market surveys and research on certain new products. We plan to commence production and sale of these products if the informal market survey and research generates favourable results.

(f) To Explore Other Acquisitions, Strategic Alliances and/or Joint Ventures

We will also continue to explore opportunities to acquire other pharmaceutical related businesses in the PRC through strategic alliances and joint venture partners that will give us access to new markets and to further develop our technological capabilities.

Please refer to the section "Our Future Plans and Business Strategies" of this Prospectus for further details.

Where you can find us

Our principal and registered office is located at 21 Science Park Road, #03-13, The Aquarius, Singapore Science Park II, Singapore 117628. Our telephone number is (65) 6774 5241 and our facsimile number is (65) 6774 0269. Our Internet address is at <http://www.pharmesis.com>. Information contained on our website does not constitute part of this Prospectus.

THE INVITATION

Issue Size	:	50,000,000 New Shares offered in Singapore comprising 3,800,000 Offer Shares and 46,200,000 Placement Shares (including 3,800,000 Reserved Shares). The New Shares, upon issue and allotment, will rank <i>pari passu</i> in all respects with the existing issued Shares.				
Issue Price	:	\$0.25 for each Invitation Share				
Purpose of the Invitation	:	Our Directors consider that the listing of our Company and the quotation of our Shares on the SGX-ST will enhance our public image locally and overseas and enable us to tap the capital markets for the expansion of our operations. The Invitation will also provide members of the public, our Independent Director, employees and business associates as well as those who have contributed to our success with an opportunity to participate in the equity of our Company.				
Reserved Shares	:	<p>Out of the 46,200,000 Placement Shares, 3,800,000 Placement Shares will be reserved for our Independent Director, employees, business associates and those who have contributed to our success.</p> <p>In the event that any of the Reserved Shares are not taken up, they will be made available to satisfy excess applications for the Placement Shares, or in the event of any under-subscription for the Placement Shares, to satisfy excess applications made by members of the public in Singapore for the Offer Shares.</p> <p>The number of Reserved Shares that have been reserved for subscription by our Independent Director is as follows:-</p> <table><thead><tr><th><u>Name</u></th><th><u>Number of Reserved Shares</u></th></tr></thead><tbody><tr><td>Teo Kean Eek</td><td>300,000</td></tr></tbody></table> <p>Please refer to the section “Plan of Distribution” of this Prospectus for details on our Reserved Shares.</p>	<u>Name</u>	<u>Number of Reserved Shares</u>	Teo Kean Eek	300,000
<u>Name</u>	<u>Number of Reserved Shares</u>					
Teo Kean Eek	300,000					
Listing status	:	Prior to the Invitation, there has been no public market for our Shares. Our Shares will be quoted in Singapore dollars on the SGX-ST, subject to admission of our Company to the Official List of the SGX-ST and permission for dealing in and for quotation of our Shares being granted by the SGX-ST.				
Risk factors	:	Investing in our Shares involves risks which are described in the section “Risk Factors” of this Prospectus.				

SELECTED GROUP UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

SUMMARY OF FINANCIAL DATA

You should read the following summary financial data in conjunction with the full text of the Prospectus, including the Report of the Joint Reporting Accountants and Unaudited Pro Forma Consolidated Financial Statements as set out in Appendix I and Appendix II of this Prospectus respectively.

Translated Unaudited Pro Forma Consolidated Results of our Pro Forma Group ⁽¹⁾	← Unaudited Pro Forma → Year ended 31 December		
	FY2001 SGD '000	FY2002 SGD '000	FY2003 SGD '000
Revenue	14,528	20,365	25,405
Gross profit	12,958	18,292	22,924
Other income	1,230	773	1,473
Selling and distribution costs	(7,823)	(11,535)	(14,088)
Administrative costs	(1,855)	(2,410)	(1,741)
Other operating costs	(25)	(121)	(252)
Profit from operating activities	4,485	4,999	8,316
Finance costs	(130)	(392)	(648)
Profit before income tax and minority interest	4,355	4,607	7,668 ⁽³⁾
Income tax expense	(1,360)	(1,681)	(2,168)
Profit before minority interest	2,995	2,926	5,500
Minority interest	–	(108)	(396)
Net profit	2,995	2,818	5,104 ⁽³⁾
EPS (cents) ⁽²⁾	2.00	1.88	3.40 ⁽³⁾

Notes: -

- (1) The unaudited pro forma consolidated profit and loss accounts have been prepared on the assumption that the Pro Forma Group structure had been in existence since 1 January 2001, except for the results of Longlife, which were consolidated into the unaudited pro forma consolidated profit and loss accounts as if Longlife has been a 51.0 per cent subsidiary of the Company from 1 August 2002, the date whereby Longlife was taken over from a state-owned enterprise. The financial statements of Longlife prior to 1 August 2002 have not been included in arriving at the unaudited pro forma consolidated financial statements of the Pro Forma Group as its inclusion will not reflect appropriately the performance of the Group's management.
- (2) For comparative purposes, basic EPS for the period under review is computed based on our pre-Invitation share capital of 150,000,000 Shares.
- (3) Had the service agreements been in place in FY2003, our profit before income tax and minority interest would have been approximately \$6.8 million, our net profit would have been approximately \$4.2 million and our EPS would have been 2.83 cents.

**SELECTED GROUP UNAUDITED PRO FORMA CONSOLIDATED
FINANCIAL INFORMATION**

Unaudited Pro Forma Consolidated Financial Position of our Group ⁽¹⁾	As at 31 December 2003 SGD '000
Non-current assets	
Property, plant and equipment	5,768
Goodwill	657
	6,425
Current assets	
Cash and cash equivalents	4,310
Trade receivables	11,636
Prepayments, deposits and other receivables	941
Inventories	791
	17,678
Current liabilities	
Bank loans	10,132
Trade payables	1,165
Accrued liabilities and other payables	1,319
Tax payable	177
Amount due to a related party	719
	13,512
Net current assets	4,166
Long term liabilities	(3,726)
Net Assets	6,865
Represented by:	
Pro Forma Shareholders' equity	6,020
Minority interest	845
	6,865
NTA per Share (cents) ⁽²⁾	3.58

Notes: -

- (1) The unaudited pro forma consolidated financial position of our Group as at 31 December 2003 has been prepared on the basis that our Group had been in existence and the restructuring exercise been completed on 31 December 2003.
- (2) For comparative purposes, NTA per share is computed based on our pre-Invitation share capital of 150,000,000 Shares.

EXCHANGE RATES

The exchange rate between the PRC Renminbi and the Singapore dollar as at the Latest Practicable Date is RMB 4.834 to \$1.00.

The table below sets forth the high and low exchange rates between the PRC Renminbi and the Singapore dollar for each month in the past six months. The table indicates how many RMB can be bought with one Singapore dollar.

	<u>RMB / \$ Rate</u>	
	<u>High</u>	<u>Low</u>
July 2004	4.880	4.790
June 2004	4.862	4.808
May 2004	4.910	4.792
April 2004	4.966	4.848
March 2004	4.938	4.825
February 2004	4.952	4.860

The following table sets forth, for each of the financial periods indicated, the average exchange rates between the PRC Renminbi and the Singapore dollar, calculated by using the average of the exchange rates on the last day of each month during each financial period. Where applicable, the exchange rates in this table are used for our Company's financial accounts disclosed elsewhere in this Prospectus.

	<u>RMB / \$ Rate</u>	
	<u>Average</u>	<u>Closing</u>
FY2001	4.615	4.485
FY2002	4.625	4.771
FY2003	4.751	4.866

The above exchange rates have been calculated with reference to exchange rates quoted from Bloomberg L.P. and should not be construed as representations that the RMB amounts actually represent such \$ amounts or could be converted into \$ at the rate indicated or any other rate.

RISK FACTORS

Investors should consider carefully the following risk factors and all other information contained in this Prospectus, before deciding to invest in our Shares. You should also note that certain of the statements set forth below constitute “forward-looking statements” that involve risks and uncertainties.

If any of the following risk factors and uncertainties develop into actual events, our business, financial condition or results of operations or cash flows may be adversely affected. In such circumstances, the trading price of our Shares could decline and investors may lose all or part of their investment. To the best of our Directors’ belief and knowledge, all the risk factors that are material to investors in making an informed judgement have been set out below.

RISKS RELATING TO OUR BUSINESS

The sales of our pharmaceutical products may be adversely affected by substitute products and developments in the pharmaceutical industry

Substitute products having better medicinal applications or greater efficacy than our products may be successfully developed and marketed. Furthermore, these substitute products may be patented and hence no manufacturer other than the patent holders or their licensees may produce such products using the patented pharmaceutical formulae during the protected period. If such substitutes are successfully launched in the market in competition with our existing products, our profitability will be adversely affected.

New developments relating to the pharmaceutical industry are expected to continue. It is difficult to predict the effects of such developments on the viability or competitiveness of our products. It is essential for us to respond to these changes and developments by improving our existing products and developing new products in a timely manner to compete effectively in the market and to meet consumer demands. The failure of our Group to adapt to new developments will have a material and adverse impact on our business performance. There is no assurance that our existing and/or potential competitors will not independently develop products that are similar or superior to our products. In such an event, the demand for our products may decrease and this would have a negative impact on our revenue and profitability.

We are dependent upon the continued demand for ATT tablets in the PRC

We specialise in the production of ATT tablets, a pharmaceutical product for liver and gall bladder related conditions. The aggregate sales of ATT tablets in FY2001, FY2002 and FY2003 amounted to approximately 97.9 per cent, 84.4 per cent and 72.9 per cent of our revenue in FY2001, FY2002 and FY2003 respectively. As such, we are dependent on the continuing demand for our products in the PRC. If sales of our ATT tablets decrease for any reason and we are unable to develop new products successfully, our profitability and financial performance may be adversely affected.

If our TCM formulated product, Gansu granules, are found to have any active ingredients harmful to the human body, our profitability will be affected

As a TCM formulated product, it is difficult to ascertain or isolate the active ingredients of Gansu granules to which the therapeutic effects may be ascribed. Clinical trials are conducted on TCM formulated products prior to approval by the relevant PRC authorities. Please refer to the section on “Research and Development” of this Prospectus for more details.

As such, we are unable to assure you that Gansu granules will not have any unintended effect on consumers, whether short or long term. In the event that our Gansu granules are found to contain certain side effects which are harmful to the human body, acceptance of our Gansu granules may fall and our revenue, profitability and prospects may be adversely and materially affected.

RISK FACTORS

Our growth is dependent on the growing acceptance of TCM formulated products

Apart from ATT tablets, we also produce Gansu granules from Ganhuangcao, a TCM formulated product for the treatment of liver-related conditions. Sales of Gansu granules accounted for approximately 0 per cent, 13.7 per cent and 25.0 per cent of our revenue for FY2001, FY2002 and FY2003 respectively. We believe that our Gansu granules will be an important part of our growth in the future. Please refer to the section on “Our Future Plans and Business Strategies” of this Prospectus for more details.

TCM formulated products are gaining acceptance but they are not as generally accepted and recognised as Western medicine. As such, our growth is dependent on the growing acceptance of TCM formulated products. If any person suffers ill effects after the consumption of any of these products, this could affect the public’s perception of TCM regardless of the nature of such ill effects. As a result, this may cause the demand for our products to decline and our business and financial performance will be adversely affected.

Our financial position and/or operations may be materially and adversely affected by product liability claims

Although our products comply with strict quality control procedures during the production process and quality examinations by the PRC regulatory authorities during the registration process, loss or injury to a person may still be caused due to improper use of the pharmaceutical products and inadequate precautions taken by consumers and we may be subject to product liability claims. Currently, our products are solely distributed in the PRC. However, in the event that our products are exported to countries other than the PRC, we may also be subject to product liability claims in such countries.

Pursuant to the General Principles of the Civil Law of PRC (the “PRC Civil Law”) (中华人民共和国民法通则), which took effect in 1987, the manufacturer or vendor of defective products in the PRC may be subject to civil liability for loss or physical injury to any affected person. The PRC Civil Law was supplemented by the Product Quality Law of the PRC (中华人民共和国产品质量法) of 1 September 1993, which was enacted to protect the legitimate rights and interests of the end-users and consumers, and to strengthen the supervision and control of the quality of the products. Under the Product Quality Law of the PRC, manufacturers who produced defective products may be subject to criminal liability and have their business licences revoked. In addition, the Law of the PRC on Protection of the Rights and Interests of Consumers (the “Consumers’ Rights Law”) (中华人民共和国消费者权益保护法) of 1 January 1994 offers further protection to the legal rights and interests of customers in respect of the safety of person and property in the purchase and use of goods and services.

We do not maintain any insurance for product liabilities arising from the manufacture or sale of pharmaceutical products in the PRC. Hence, if any product liability claim is brought against us or if any person suffers any loss or physical injury because the quality of our products do not meet the requirements of the relevant PRC authority, our financial position and/or operations will be materially and adversely affected.

Failure to maintain our product licences may adversely affect our profitability

We have obtained the requisite licences to produce our pharmaceutical products from the SFDA. The SFDA conducts random checks on our products throughout the year. As a result of the random checks, our product licence may be suspended or revoked if: (1) we fail to satisfy the requirements set out in article 49 of the Law of the PRC on the Administration of Pharmaceuticals (Revised) (中华人民共和国药品管理法); (2) harmful effects have affected our customers as a result of using our products; (3) our product fails to comply with the registered prescription; or (4) we fail to satisfy the standards imposed for more than two checks conducted by the SFDA within one year. We have been granted a license by the PRC authorities to produce Gansu granules from Ganhuangcao. The Gansu granules were licensed as a protected TCM formulated product (中药保护品种) by the SFDA in 1999. Under this license, only our Group has the right to produce Gansu granules for seven years from 1999 and may apply for renewal of this right for another seven years when it expires in 2006, subject to the prevailing PRC laws and regulations. Any suspension or revocation of our product licences relating to ATT tablets and Gansu granules will adversely affect our operations and profitability.

RISK FACTORS

There is no assurance that we will successfully develop new products and/or that these new products are approved by the relevant authorities

Our future prospects are substantially dependent on our ability to develop new products and new applications of existing products. There is no assurance that any research and development conducted by our Group will lead to any positive result or can be completed within the anticipated time frame or the costs of such research and development can be recovered. Products may fail to reach the market for a variety of reasons, including the failure to meet the clinical safety, clinical efficacy or other standards and requirements in tests and trials, and the delay in obtaining or failure to obtain the necessary regulatory approvals. There is no assurance that our existing and/or potential competitors will not develop products that are similar or superior to our products. Even if our research and development efforts result in the successful development of new products and new applications of existing products, poor market strategy could hinder the successful commercialisation of these products. Consequently, our expenditure on research and development may not yield positive returns, and this would have an adverse impact on our profitability. Please see the section “Research and Development” of this Prospectus for more details.

Failure to retain services of key personnel will adversely affect our operations and results

Our success to date has been due largely to the contributions of our Executive Directors, Jiang Yun and Wu Xuedan and our General Manager, Dr Chen Yaoming. Our continued success is dependent, to a large extent, on our ability to retain their services. The loss of Jiang Yun, Wu Xuedan, Dr Chen Yaoming or other key employees’ services without suitable replacement or the inability to attract and retain suitably qualified personnel will adversely affect our operations and hence, our revenue and profits. Please refer to the section “Service Agreements” of this Prospectus for further details.

Failure of our sales and marketing strategy and our inability to control our sales and marketing costs may have an adverse effect on our business prospects

Due to the nature of the pharmaceutical industry in the PRC, we have adopted a sales and marketing strategy of marketing directly to hospitals in the PRC. Although the majority of our sales are made to wholesalers, they will, in turn, sell our products to hospitals, who are our end customers. The growth in our revenue was, to a large extent, attributable to this sales strategy adopted by our Group. There is no assurance that our sales strategy will continue to be successful in the future and the failure of our strategy may have a material adverse effect on the business prospects of our Group.

For FY2003, our selling and distribution costs amounted to 55.5 per cent of our total cost of sales. In the event that we are unable to control our selling and distribution costs or if we are unable to pass on such additional costs to our customers through an increase in prices of our products, our profitability may be adversely affected.

Failure of our strategic alliances and/or cooperative development arrangements may have a material adverse effect on our business prospects

As disclosed in the section “Research and Development” of this Prospectus, we have established strategic alliances and/or cooperative development arrangements with certain research institutes, universities and companies in order to maintain our competitive edge. Such arrangements are based on research cooperation agreements entered into between us and the aforesaid entities. Although we have good relationships with these institutions, universities and companies, there is no assurance that our strategic alliances will remain as they are susceptible to overtures made by our competitors. This may have a negative impact on the development of our research and development projects and thus, adversely affect the business prospects of our Group.

RISK FACTORS

Our intellectual property rights may be inadequately protected

We manufacture products and sell them under our trademarks as described under the section “Intellectual Property” of this Prospectus. In the event that third parties unlawfully utilise our trademarks or sell counterfeit products, we may face considerable difficulties and costly litigation in order to enforce our intellectual property rights. If we are not able to protect our intellectual property rights, any loss in sales and reputation as a result of such infringement or counterfeit products will adversely affect our business.

We depend significantly on the goodwill which we have established in the PRC healthcare industry, especially for our ATT tablets as ATT is a generic drug. Other parties may attempt to use our trademarks for their products. Should such counterfeit products be of inferior quality and cause harm to the consumers, the goodwill enjoyed by our brand will be eroded and our business and reputation will be adversely affected.

The ATT tablet is not protected under any intellectual property laws in the PRC as it is a generic drug and is not registered for protection in the PRC. In the event that other companies apply and obtain the licence to produce ATT tablets, our business and financial performance will be adversely affected.

We are dependent on the PRC healthcare industry

We supply our products to mainly wholesalers and hospitals. However, our end customers are mainly hospitals in the PRC. As such, most of our revenue in FY2001, FY2002 and FY2003 was derived from the PRC healthcare industry. Please refer to the section “Major Customers” of this Prospectus for more information. As such, we are dependent on the demand from our end customers in the PRC healthcare industry. In the event that the PRC healthcare industry faces a downturn or is severely affected by a change in healthcare regulations, our profitability and financial performance will be adversely affected.

We may require additional funding for our future growth

Although we have identified our future growth plans as set out in the section “Our Future Plans and Business Strategies” of this Prospectus as avenues to pursue growth in our business, the issue proceeds from the Invitation may not be sufficient to fund the estimated costs of implementing all these plans. We may also find opportunities to grow through acquisitions which cannot be predicted at this juncture. Under such circumstances, secondary issue(s) of securities after the Invitation may be necessary to raise the required capital to develop these growth opportunities. If new Shares placed to new and/or existing shareholders are issued after the Invitation, they may be priced at a discount to the then prevailing market price of our Shares trading on the SGX-ST, in which case, existing shareholders’ equity interest may be diluted. If we fail to utilise the new equity to generate a commensurate increase in earnings, our EPS will be diluted, and this could lead to a decline in our Share price. Any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters. If we are unable to procure the additional funding that may be required, our growth or financial performance will be adversely affected.

We are dependent on the supply of raw materials for ATT tablets and Gansu granules

The raw materials used in our manufacturing processes are primarily ATT and Ganhuangcao, which accounted for approximately 25.3 per cent and 5.9 per cent of our cost of sales respectively, for FY2003. Currently, we purchase our ATT from only one supplier and we only source our Ganhuangcao in the Wumeng mountains in the PRC. We are only able to source Ganhuangcao for the production of Gansu granules from the Wumeng mountains in the PRC. If for any reason our supplies of Ganhuangcao are affected and we are no longer able to source Ganhuangcao from the Wumeng mountains, our profitability and financial performance will be adversely affected. Due to our dependence on our suppliers, we are vulnerable to fluctuations in the prices of these raw materials at the point of renewal of our contracts with suppliers. Any significant increases in the prices of these raw materials which cannot be passed on to our customers by way of price increases will adversely affect our financial performance and hence our profitability.

RISK FACTORS

In addition, if the quality of ATT and Ganhuangcao does not meet our requirements or if the quantity supplied is insufficient, there may be a shortage in our supply of raw materials and this will adversely affect our production and hence our profitability.

Please refer to the section on “Major Suppliers” of this Prospectus for detailed information on our major suppliers.

We are exposed to credit risks of our customers

Our trade receivables balance as at 31 December 2003 was approximately RMB 56.6 million (net of allowances for the doubtful debts). This accounted for approximately 65.8 per cent of our current assets as at 31 December 2003. Therefore, our financial position and profitability are dependent on the creditworthiness of our customers. Generally, our credit terms extended to our customers range from 90 days to 180 days. Average debtors’ turnover for FY 2003 was 135 days. As at 31 July 2004, approximately 10.5 per cent or RMB 6.4 million of the RMB 60.5 million (before allowances for doubtful debts) trade receivables outstanding as at 31 December 2003, still remain uncollected and are more than 180 days old. Defaults in payment by our customers will adversely affect our profitability. Our allowance for doubtful debts as at 31 December 2003 was approximately RMB 3.9 million. We are unable to assure you that risks of default by our customers will not increase in the future. Should this develop into an actual event, our cash flow, financial condition and profitability will be adversely affected. Please refer to the section “Credit Control” of this Prospectus for more details.

There is no assurance that we will successfully implement our future plans

As described under the section “Our Future Plans and Business Strategies” of this Prospectus, we intend, *inter alia*, to expand our operations in the PRC market and overseas and explore acquisitions, strategic alliances and joint ventures. We are not able to assure you that we will be successful in implementing our future plans. Failure to do so will result in us incurring expenses, without increasing our revenue and hence incurring losses or suffer decreasing profits.

The outbreak of severe communicable diseases in the PRC, if uncontrolled, could affect the financial performance and prospects of our Group

The outbreak of severe communicable diseases in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiments and environment in the PRC. As our revenue is currently derived from our operations and domestic sales in the PRC, any adverse impact on the overall business sentiments and environment in the PRC will adversely affect our prospects, future growth and overall financial condition. In addition, in the event of an outbreak of epidemic in the PRC and if any of our employees are infected with such diseases, our operations and financial results will be adversely affected.

Failure to comply with and changes in regulations affecting the industry may have an adverse effect on our business and revenue

In the PRC, the manufacturing and distribution of pharmaceutical products are under the supervisory authority of the SFDA. The introduction of any new laws, regulations, and policies, or amendments to any existing laws, regulations, and policies that result in more stringent product standards, conditions and specifications, additional licensing requirements on our existing products and price controls on pharmaceutical products may have an adverse impact on our revenue. In the event that these stringent regulations are breached or if we are unable to comply with the new laws, regulations and policies, our licences may be suspended and our profitability will be adversely affected.

The pharmaceutical industry is highly regulated and any increase in the number of pharmaceutical production facilities that may be set up in any province or city is subject to strict controls. Therefore, any policy changes or liberalisation that promote the setting up of pharmaceutical production facilities, especially foreign investment enterprises that produce Western medicine and TCM, will lead to increased competition. Should this develop into actual events, our revenue and profit margin will decrease due to increase in competition. Failure to comply with such regulations will result in the suspension of our licences and this will materially and adversely affect our operations and financial results.

RISK FACTORS

We may not compete successfully with our competitors which could result in reduced revenue

Competition in the pharmaceutical industry in the PRC is highly intense. While the entry barriers to the pharmaceutical industry are high in terms of research and development capability and capital investment, there may be certain local and overseas entities carrying out research and development of pharmaceutical products that we currently develop and produce. Our competitors in the pharmaceutical industry, may have better resources than us in the form of capital, research and development, manufacturing and marketing capabilities. The failure to deal with any increase in competition could adversely affect our business and operating results.

Since 1 July 2004, companies in the PRC must have a GMP certificate in order to produce pharmaceutical products. Currently, we possess the required certificate. As more companies obtain the GMP certification, we will face increased competition and this will have a negative impact on our business and financial performance.

We may not be able to manage our costs efficiently

We have to manage our operations principally in terms of time, procurement of materials and allocation of resources in our production process. If our cost estimates are incorrect or delays occur during the course of production resulting in cost overruns, our profitability will be adversely affected. We may also face potential liability from legal suits brought against us by our customers who have suffered losses due to our delayed deliveries. This will increase our costs and adversely affect our profitability and financial performance.

Due to price controls on pharmaceutical products in the PRC, we may be unable to maintain our market share

Currently, the PRC authorities are empowered to fix the retail prices of pharmaceutical products on the basis of product category, stage of development and GMP system implementation status of the manufacturer. Pharmaceutical products which are subject to government regulated pricing must comply with government established prices and guidelines under the PRC Law on the Administration of Pharmaceuticals Law (Revised) of December 2001 (中华人民共和国药品管理法). The prices of those pharmaceutical products which are not regulated must be determined in accordance with the principles of fairness and reasonableness. Such price controls may affect the market potential of our products and thus affect our ability to maintain our market share in the PRC.

In addition, the PRC authorities are empowered to further reduce the maximum gross margin rates through the fixing of retail prices for certain types of pharmaceutical products developed or marketed in the PRC. In the event that the prices are revised downwards by the authorities and we are unable to reduce our costs accordingly, our financial performance and profitability will be adversely affected.

Medical reforms in the PRC may affect our ability to generate revenue

Our products are sold mainly to hospitals in the PRC. Under the social medical insurance system in the PRC, employees (and their family members) of the central, provincial and local governments, civil service retirees and disabled veterans are currently entitled to be reimbursed for medical expenses incurred. As such, this may be an added incentive for persons to seek medical treatment from hospitals. However, in the event that the reimbursement system is reformed and this reform has an adverse effect on the social medical insurance system, this may in turn adversely affect the demand for medical services in the PRC. Correspondingly, demand for our pharmaceutical products from the hospitals may decrease and this will adversely affect our financial performance.

RISK FACTORS

Our subsidiaries, operations and significant assets are located in the PRC. Shareholders may not be accorded the same rights and protection that would be accorded under the Companies Act. In addition, it could be difficult to enforce a Singapore judgement against us, our Directors and officers

Our subsidiaries and operations are located in the PRC. Our subsidiaries are therefore subject to the relevant laws in the PRC. The Companies Act may provide shareholders with certain rights and protection of which there may be no corresponding or similar provisions under PRC laws. As such, investors in our Shares may or may not be accorded the same level of shareholder rights and protection that would be accorded under the Companies Act. In addition, most of our Executive Officers and two of our Directors are non-residents of Singapore, and substantially all the assets of these persons are located outside Singapore. As a result, it could be difficult for investors to effect service of process in Singapore, or to enforce a judgement obtained in Singapore against us or any of these persons.

RISKS RELATING TO THE PRC

Economic conditions of the PRC are subject to uncertainties that may arise from changes in government policies and social conditions

Since 1978, the PRC government has promulgated various reforms of its economic systems. Such reforms have resulted in economic growth for the PRC in the last two decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. This refinement and readjustment process may consequently have a material impact on our operations in the PRC or a material adverse impact on our financial performance. Our results and financial conditions may be adversely affected by changes in the PRC's political, economic and social conditions and by changes in policies of the PRC government or changes in laws, regulations or the interpretation or implementation thereof.

Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business

Our business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, regulations, circulars, administrative directives and internal guidelines. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experimental stage and are therefore subject to policy changes. Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited, and court decisions in the PRC do not have any binding effect on lower courts. Accordingly, the outcome of dispute resolution may not be as consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgment by a court of another jurisdiction.

Cessation of income tax exemptions or incentives for our PRC subsidiary will have an adverse impact on our profitability

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises ("EIT")", Kinna Pharm, our subsidiary in the PRC is entitled to full exemption from Enterprise Income Tax of 33.0 per cent for the first two years commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. Thereafter, for the next three years, the tax rate will be at 15.0 per cent arising from the exemption of half of the 30.0 per cent state tax and a full exemption on the 3.0 per cent land taxes. Accordingly, the profits of Kinna Pharm will be able to enjoy the tax exemptions for two years commencing from FY2004. As such, any removal, loss, suspension or reduction of the above tax benefits or tax relief will have an adverse impact on our profitability.

Please refer to the section "Management's Discussion and Analysis of Unaudited Pro Forma Consolidated Financial Condition and Unaudited Pro Forma Consolidated Results of Operations – Overview", "Taxation" and "Report of the Joint Reporting Accountants on the Unaudited Pro Forma Consolidated Financial Statements" of this Prospectus for further details.

RISK FACTORS

PRC foreign exchange control may limit our ability to utilise our revenue effectively and affect our ability to receive dividends and other payments from our subsidiaries

Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, the conversion of the RMB into foreign currencies is regulated by the State Administration for Foreign Exchange (“SAFE”). Currently, foreign investment enterprises (“FIEs”) are required to apply to SAFE for “Foreign Exchange Registration Certificates for FIEs”. Kinna Pharm is a FIE. With such registration certifications (which need to be renewed annually), FIEs are allowed to open foreign currency accounts including the “basic account” and “capital account”. Currently conversion within the scope of the “basic account” (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the “capital account” (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE. Please refer to the section “Exchange Controls” of this Prospectus for further details.

The ability of Kinna Pharm to pay dividends or make other distributions to us may be restricted by PRC foreign exchange control restrictions. We cannot assure you that the relevant regulations will not be amended to our disadvantage and that the ability of Kinna Pharm to distribute dividends to us will not be adversely affected.

Expected increase in competition following the PRC’s entry into the World Trade Organisation (“WTO”) may have an adverse effect on our business and financial performance

Our Directors believe that trade tariffs and import controls on foreign goods and services into the PRC will be lowered or removed over time pursuant to the PRC’s entry into the WTO. With the lowering of import tariffs and barriers, there will be increased competition arising from the entry of new foreign competitors, and this may force us to lower prices of our products and services. Lower import tariffs may result in an influx of new pharmaceutical products in the PRC and may have an adverse effect on our financial performance. If ATT tablets produced by overseas companies are imported and sold in the PRC, demand for our ATT tablets may decrease and our revenue will be adversely affected. In the event that we are forced to lower our prices, our profitability will be adversely affected.

RISKS RELATING TO OWNERSHIP OF OUR SHARES

Control by our existing shareholders may limit your ability to influence the outcome of decisions requiring the approval of shareholders

Top Entrepreneur Limited, Suntar Investment and Wen Shihua are our substantial Shareholders. Upon the completion of the Invitation, Top Entrepreneur Limited, Suntar Investment and Wen Shihua will beneficially own in aggregate approximately 65.6 per cent of our Company’s post-Invitation share capital. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders’ approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by the rules of the Listing Manual to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of our Group, which may benefit our Shareholders.

We will be affected by the future sale of our Shares which could adversely affect the Share price

Any future sale or availability of our Shares can have an adverse effect on our Share price. The sale of a significant amount of Shares in the public market after the Invitation, or the perception that such sales may occur, could adversely affect the market price of Shares. These factors also affect our ability to sell additional equity securities. Except as otherwise described under the section “Moratorium” of this Prospectus, there are no restrictions imposed on our substantial Shareholders to dispose of their shareholdings.

RISK FACTORS

Our Share price may fluctuate following the Invitation

The market price of our Shares could be subject to significant fluctuations due to various external factors and events as a result of, among others, the following factors, some of which are beyond our control:-

- the liquidity of our Shares in the market;
- difference between our actual financial or operating results and those expected by investors and analysts;
- variations of our operating results;
- changes in securities analysts' estimates of our financial performance;
- announcements by us of significant acquisitions, strategic alliances or joint ventures;
- additions or departures of key personnel;
- fluctuations in stock market prices and volume;
- involvement in litigation; and
- general economic and stock market conditions.

There has been no prior market for our Shares and this Invitation may not result in an active or liquid market

Prior to the Invitation, there has been no public market for our Shares. Although we have made an application to the SGX-ST to list our Shares on the SGX-ST, there is no assurance that an active trading market for our Shares will develop, or if it develops, be sustained. There is also no assurance that the market price for our Shares will not decline below the Issue Price.

New investors will incur immediate dilution and may experience further dilution

Our Issue Price of \$0.25 per Share is substantially higher than our Pro Forma NTA per Share based on the post-Invitation issued share capital. If we were liquidated for NTA immediately following the Invitation, each shareholder subscribing to the Invitation would receive less than the price they paid for their Shares. Details of the immediate dilution of our Shares incurred by new investors are described under the section "Dilution" of this Prospectus.

INVITATION STATISTICS

Issue Price for each New Share \$0.25

NTA

NTA per Share based on our unaudited pro forma consolidated balance sheet as at 31 December 2003 adjusted for the Bonus Issue, Share Split and the Restructuring Exercise:-

- | | |
|--|------------|
| (a) before adjusting for the estimated net proceeds from the issue of the New Shares and based on our Company's pre-Invitation share capital of 150,000,000 Shares | 3.58 cents |
| (b) after adjusting for the estimated net proceeds from the issue of the New Shares and based on our Company's post-Invitation share capital of 200,000,000 Shares | 8.18 cents |

Premium of Issue Price over the NTA per Share as at 31 December 2003:-

- | | |
|--|--------------|
| (a) before adjusting for the estimated net proceeds from the issue of the New Shares and based on our Company's pre-Invitation share capital of 150,000,000 Shares | 598 per cent |
| (b) after adjusting for the estimated net proceeds from the issue of the New Shares and based on our Company's post-Invitation share capital of 200,000,000 Shares | 206 per cent |

Earnings

Historical pro forma net earnings per Share for FY2003 based on pre-Invitation share capital of 150,000,000 Shares 3.40 cents

Historical pro forma net earnings per Share had the Service Agreements been in effect for FY2003 and based on the pre-Invitation share capital of 150,000,000 Shares 2.93 cents

Price Earnings Ratios

Historical price earnings ratio based on the Issue Price and the historical net earnings per Share for FY2003 and pre-Invitation share capital of 150,000,000 Shares 7.35 times

Historical price earnings ratio based on the historical net earnings per Share had the Service Agreements been in effect for FY2003 and pre-Invitation share capital of 150,000,000 Shares 8.53 times

Net Operating Cash Flow ⁽¹⁾

Historical pro forma net operating cash flow per Share for FY2003, based on pre-Invitation share capital of 150,000,000 Shares 3.72 cents

Historical pro forma net operating cash flow per Share for FY2003, had the Service Agreements been in effect for FY2003 and based on pre-Invitation share capital of 150,000,000 Shares 3.24 cents

INVITATION STATISTICS

Price to Cash Flow Ratios

Ratio of Issue Price to historical pro forma net operating cash flow per Share for FY2003 based on the pre-Invitation share capital of 150,000,000 Shares 6.72 cents

Ratio of Issue Price to historical pro forma net operating cash flow per Share for FY2003 had the Service Agreements been in effect for FY2003 and based on pre-Invitation share capital of 150,000,000 Shares 7.72 times

Market Capitalisation

Our market capitalisation based on the post-Invitation share capital of 200,000,000 Shares and the issue price of \$0.25 \$50 million

Note:-

- (1) Net operating cash flow is defined as profit after income tax and minority interest with provision for depreciation and amortisation of goodwill arising from consolidation added back.

USE OF PROCEEDS

The net proceeds from the issue of the New Shares (after deducting estimated issue expenses) are estimated to be approximately \$11.0 million, which we intend to use in the following manner:-

- approximately \$4 million to fund the purchase of equipment and machinery to produce ATT and Gansu capsules;
- approximately \$2 million to fund the marketing activities for the promotion of greater brand awareness for our products in the PRC and overseas markets;
- approximately \$2 million to fund the research and development of new products; and
- the balance for our working capital requirements.

In the opinion of the Directors, no minimum amount must be raised by the Invitation.

Please refer to the section “Our Future Plans and Business Strategies” of this Prospectus for further details on our plans above.

Pending the deployment of the net proceeds from the issue of the New Shares as aforesaid, the funds will be placed in short-term deposits or money market instruments as our Directors may deem fit.

DIVIDEND POLICY

We currently do not have a fixed dividend policy. Our Company has not distributed any dividends since its incorporation in 29 September 2003.

We may declare annual dividends with the approval of the shareholders in a general meeting, but the amount of such dividends shall not exceed the amount recommended by our Directors. Our Directors may also declare an interim dividend.

Future dividends will be paid by us as and when approved by our shareholders and Directors. Any such dividend payments will be subject to the level of our future earnings, cash flow, financial condition, projected levels of capital expenditures and investment plans, including such legal or contractual restrictions as may apply from time to time. Such legal or contractual restrictions may include loan covenants and the PRC statutory requirements on the maintenance of reserves out of retained earnings that cannot be distributed as dividends.

For information relating to taxes payable on dividends, please see the section "Taxation" of this Prospectus.

SHARE CAPITAL

Our Company (Registration No. 200309641E) was incorporated in Singapore on 29 September 2003 under the Act as a private limited company under the name of Sinopharm Pte. Ltd. We subsequently changed our name to Pharmesis International Pte. Ltd on 16 April 2004. We converted to a public company on 30 August 2004 and our name was changed to Pharmesis International Ltd.. As at 14 January 2004, our authorised share capital was \$100,000 comprising 100,000 ordinary shares of \$1.00 each and our issued and paid-up capital was \$2.00 comprising 2 ordinary shares of \$1.00 each which were held by Top Entrepreneur Limited.

Pursuant to Shareholders' resolutions passed on 14 January 2004, our shareholders approved *inter alia*:-

- (a) the allotment and issue of an aggregate of 318 ordinary shares of \$1.00 each in our Company to Suntar Investment; and
- (b) the grant of an option to Jiang Yun to subscribe for 680 ordinary shares of \$1.00 each in our Company, and the issue of new ordinary shares of \$1.00 each in our Company to Jiang Yun or his designated nominees upon the exercise of the option.

On 19 August 2004, we allotted and issued an aggregate of 318 ordinary shares of \$1.00 each in our Company to Suntar Investment.

On 19 August 2004, we allotted and issued an aggregate of 680 ordinary shares of \$1.00 each in our Company to Top Entrepreneur Limited (499 shares), United Choice Profits Ltd. (16 shares), Liu Wei (20 shares), Wen Shihua (55 shares), Li Bei (22 shares), Chen Shiyu (43 shares), Yang Yan (15 shares) and Zeng Wenqing (10 shares).

At an extraordinary general meeting held on 25 August 2004, our shareholders approved, *inter alia*, the following:-

- (a) the increase in the authorised share capital of our Company from \$100,000 divided into 100,000 ordinary shares of \$1.00 each to \$100,000,000 divided into 100,000,000 ordinary shares of \$1.00 each;
- (b) the capitalisation of \$5,999,000 out of our share premium account by way of a bonus issue of 5,999,000 ordinary shares of \$1.00 each fully paid to the shareholders of our Company (the "Bonus Issue");
- (c) the sub-division of each ordinary share of \$1.00 each in our authorised and issued share capital into 25 ordinary shares of \$0.04 each (the "Share Split");
- (d) the conversion of our Company into a public limited company and the consequential change of name to Pharmesis International Ltd.;
- (e) the adoption of the Pharmesis Share Option Scheme and that authority be given pursuant to section 161 of the Companies Act to the Directors to allot and issue shares upon the exercise of options granted under the Pharmesis Share Option Scheme;
- (f) the allotment and issue of the New Shares which are the subject of the Invitation. The New Shares, when issued and fully paid-up, will rank *pari passu* in all respects with the existing issued and fully paid-up Shares; and
- (g) that authority be given, pursuant to Section 161 of the Companies Act, to our Directors to (i) allot and issue shares in our Company ; and (ii) convertible securities and any shares in the Company pursuant to the convertible securities, (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as our Directors shall in their absolute discretion deem fit, provided that the aggregate number of shares and/or

SHARE CAPITAL

convertible securities to be issued pursuant to such authority does not exceed 50.0 per cent of the post-Invitation issued share capital of our Company and that the aggregate number of shares and/or convertible securities to be issued other than on a pro-rata basis to the then existing shareholders of our Company shall not exceed 20.0 per cent of the post-Invitation issued share capital of our Company. Unless revoked or varied by our Company in general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of our Company or the date by which the next Annual General Meeting is required by law or by our Articles of Association to be held, whichever is earlier, except that the Directors shall be authorized to allot and issue new shares pursuant to the convertible securities notwithstanding that such authority has ceased.

For the purposes of this resolution and pursuant to Rules 806(3) and 806(4) of the Listing Manual of the SGX-ST, "post-Invitation issued share capital" shall mean the enlarged issued and paid-up share capital of the Company after the Invitation, after adjusting for the conversion of any convertible securities or share options on issue as at the date of passing of this resolution and any subsequent consolidation or sub-division of shares.

As at the date of this Prospectus, there is only one class of shares in the capital of our Company, being ordinary shares of \$0.04 each. A summary of the Articles of Association of our Company relating to the voting rights of shareholders is set out under Appendix IV – "Summary of the Constitution of the Company" of this Prospectus. There are no founder, management, deferred or unissued Shares reserved (save for the Option Shares) for issuance for any purpose.

Details of changes in our issued and paid-up capital since 31 December 2003 and immediately after the Invitation are as follows:

	Number of Shares	\$
Issued and fully paid ordinary shares of \$1.00 each as at 31 December 2003	2	2
Issue of new ordinary shares of \$1.00 each pursuant to the Restructuring Exercise	998	998
Issue of new ordinary shares of \$1.00 each pursuant to the Bonus Issue	5,999,000	5,999,000
	<u>6,000,000</u>	<u>6,000,000</u>
Sub-division of each ordinary share of \$1.00 each into 25 ordinary shares of \$0.04 each	150,000,000	6,000,000
New ordinary shares of \$0.04 each issued pursuant to the Invitation	<u>50,000,000</u>	<u>2,000,000</u>
Post-Invitation share capital	<u>200,000,000</u>	<u>8,000,000</u>

SHARE CAPITAL

Our authorised Share Capital and Shareholders' funds as at 31 December 2003 and after adjustments to reflect the Restructuring Exercise, the Bonus Issue, the Share Split and the issue of the New Shares are set out below:

	As at 31 December 2003 \$	After the Restructuring Exercise, the Bonus Issue and the Share Split \$	After the Invitation \$
Authorised Share Capital	100,000	100,000,000	100,000,000
Shareholders' funds			
Issued and paid-up ordinary shares	2	6,000,000	8,000,000
Share premium	–	682	8,999,432
Total Shareholders' funds	2	6,000,682	16,999,432

CAPITALISATION AND INDEBTEDNESS

The following table shows our cash and cash equivalents and capitalisation:-

- (i) on a pro forma basis as at 31 December 2003;
- (ii) as adjusted to reflect the Restructuring Exercise; and
- (iii) as adjusted to give effect to the issue of 50,000,000 New Shares pursuant to the Invitation and the application of the net proceeds, based on an issue price of \$0.25 per New Share, after deducting estimated expenses.

You should read this table in conjunction with the “Report of the Joint Reporting Accountants and Unaudited Pro Forma Consolidated Financial Statements” set out in Appendix I and Appendix II in this Prospectus and the related notes under the section “Management’s Discussion and Analysis of Unaudited Pro Forma Consolidated Financial Condition and Unaudited Pro Forma Consolidated Results of Operations” of this Prospectus.

\$'000	Pro Forma	As adjusted for the Restructuring Exercise	As adjusted for the Invitation
Cash and cash equivalents	4,310	4,310	15,309
Short term debt:			
Secured	5,137	5,137	5,137
Unsecured	5,175	5,175	5,175
	10,312	10,312	10,312
Long term debt:			
Secured	2,055	2,055	2,055
Unsecured	427	427	427
	2,482	2,482	2,482
Minority interest	845	845	845
Pro forma shareholders' equity	6,020	6,020	17,019
Total capitalisation and indebtedness	19,659	19,659	30,658

CAPITALISATION AND INDEBTEDNESS

As at 31 December 2003, our Group had total bank borrowings and bills payable amounting \$12.6 million and \$0.2 million. Our Group had total unutilised financing facilities of approximately \$5.3 million. The banking facilities granted are in RMB. Please refer to the section “Borrowings and Gearing” on page 101 of this Prospectus for more details.

As at the Latest Practicable Date, we had total short term loans amounting to \$6.0 million, consisting of \$4.1 million and \$1.9 million secured and unsecured loans respectively. Secured and unsecured long term loans amounting to \$2.1 million and \$0.2 million respectively were outstanding as at the Latest Practicable Date.

As at the Latest Practicable Date, bank loans amounting to \$3.7 million and \$2.5 million were secured by a corporate guarantee issued by our related parties, Chengdu Kinna and Sichuan Neautus respectively. At the Latest Practicable Date, our Group’s bank loan facilities bear interest rates ranging from 5.3 to 6.1 per cent per annum and our bills payable bore interest rates of 2.0 per cent per annum. Our short term banking facilities are revolving short term bank loans, which are rolled over every year. Please refer to the section “Interested Person Transactions” of this Prospectus for more details.

Save as disclosed above, since 31 December 2003 to the Latest Practicable Date, there were no material changes in our total capitalisation and indebtedness, except for changes in our retained earnings arising from the day-to-day operations in the ordinary course of our business.

DILUTION

Dilution is the amount by which the Issue Price paid by the subscribers of the New Shares arising from this Invitation exceeds the NTA per Share after the Invitation. Our pro forma NTA per Share as at 31 December 2003 adjusted for the Bonus Issue, Share Split and Restructuring Exercise, before adjusting for the net proceeds from the Invitation and based on the pre-Invitation issued and paid up share capital of 150,000,000 Shares was 3.58 cents per Share.

Pursuant to the Invitation in respect of 50,000,000 New Shares at the Issue Price, our NTA per Share after adjusting for the estimated proceeds from the Invitation and based on the post-Invitation issued and paid-up share capital of 200,000,000 Shares would have been \$0.0818. This represents an immediate increase in NTA per Share of \$0.0460 to our existing shareholders and an immediate dilution in NTA per Share of \$0.1682 or approximately 67.3 per cent to our new investors.

The following table illustrates the dilution on a per Share basis:-

	Cents
Issue Price per Share	25.00
NTA per Share as of 31 December 2003 based on our pre-Invitation Share Capital of 150,000,000 Shares	3.58
Increase in NTA per Share attributable to existing investors	4.60
NTA per Share after the Invitation	8.18
Dilution in NTA per Share to new public investors	16.82

The following table summarises as of 31 December 2003, the total number of Shares issued by us pursuant to the Restructuring Exercise, the total consideration paid to us and the average price paid per Share by our Shareholders, Suntar Investment and by our new public investors in the Invitation.

	Number of Shares	%	Consideration (\$)	Average price Per Ordinary Share (cents)
Top Entrepreneur Limited ⁽¹⁾	75,150,000	37.58	501	4.00 ⁽³⁾
Suntar Investment	47,700,000	23.85	6,000,000	12.60
Other Shareholders ⁽²⁾	27,150,000	13.57	181	4.00 ⁽³⁾
New public investors	50,000,000	25.00	12,500,000	25.00
Total	200,000,000	100.00	18,500,682	

Notes:-

- (1) The shareholders of Top Entrepreneur Limited are Jiang Yun (46.28 per cent), Wu Xuedan (21.78 per cent), Liu Wei (15.15 per cent), Yang Yan (5.17 per cent), Zeng Wenqing (6.58 per cent) and Qi Guorong (5.04 per cent). Save for Qi Guorong, who is the wife of our Executive Chairman, Jiang Yun, none of the other shareholders are related to each other.
- (2) These shareholders consist of United Choice Profits Ltd, Liu Wei, Wen Shihua, Li Bei, Chen Shiyu, Yang Yan and Zeng Wenqing. The shareholders of United Choice Profits Ltd are Zeng Wenqing (30.43 per cent), Wen Shihua (39.14 per cent) and Chen Shiyu (30.43 per cent).
- (3) This does not take into account the Bonus Issue. For further details, please refer to the section "Share Capital" for more details.

RESTRUCTURING EXERCISE

The following was undertaken in the Restructuring Exercise in preparation for the admission of our Company to the Official List of the SGX-ST:

(a) Incorporation of our Company and Kinna Pharm

On 29 September 2003, our Company was incorporated in Singapore as the investment holding company of our Group, with an authorised share capital of \$100,000 and an initial issued and paid-up capital of \$2.00, comprising of 2 ordinary shares of \$1.00 each. On 14 January 2004, the 2 ordinary shares of \$1.00 each were transferred to Top Entrepreneur Limited.

Kinna Pharm was established as our Company's wholly foreign-owned enterprise in the PRC on 3 November 2003 with an initial registered capital of US\$3.1 million.

(b) Acquisition of the pharmaceutical business of Chengdu Kinna and 30.0 per cent equity interest in Longlife (including its subsidiary Longlife Trading)

Pursuant to a sale and purchase agreement dated 4 November 2003 (as amended by a supplemental agreement dated 10 January 2004) between Kinna Pharm and Chengdu Kinna, Kinna Pharm acquired:

- (i) the pharmaceutical business of Chengdu Kinna and certain assets relating to the acquired pharmaceutical business comprising mainly of fixed assets, accounts receivables and trademarks; and
- (ii) Chengdu Kinna's 30.0 per cent equity interest in Longlife,

for a total consideration of RMB 25,460,563.78 based on the asset valuation report prepared by China United Assets Appraisal Co., Ltd in the PRC dated 25 October 2003. The effective date of the acquisition was 1 January 2004.

(c) Investment by Suntar Investment

Pursuant to a subscription agreement dated 4 December 2003 between our Company, Jiang Yun and Suntar Investment (the "Subscription Agreement"), Suntar Investment subscribed for 318 ordinary shares of \$1.00 each in our Company, at an aggregate consideration of \$6,000,000.

Under the terms of the Subscription Agreement, if our Company is not listed on the SGX-ST by 30 September 2004 (or such other date as the parties may agree in writing), Suntar Investment shall have the right to require Jiang Yun to (a) acquire such number of ordinary shares in our Company held by Suntar Investment; or (b) pay an agreed compensation calculated as follows:

$$\text{Compensation to be paid} = \frac{(4.15 - 2.50^*)}{4.15} \times \$6,000,000$$

* Or such other lesser number mutually agreed between Suntar Investment and Jiang Yun.

Pursuant to the terms of the Subscription Agreement, Jiang Yun was granted an option to subscribe for 680 ordinary shares of \$1.00 each in our Company at par value (the "Subscription Option"). The Subscription Option may be exercised by Jiang Yun or his designated nominees.

RESTRUCTURING EXERCISE

Jiang Yun exercised the Subscription Option on 19 August 2004, pursuant to which Jiang Yun, Wu Xuedan, Liu Wei, Wen Shihua, Chen Shiyu, Zeng Wenqing, Li Bei and Yang Yan (who together held all the direct and indirect interests in Chengdu Kinna) subscribed for 680 ordinary shares of \$1.00 each in our Company. Upon completion of the subscription of the new ordinary shares of \$1.00 each in our Company pursuant to the Subscription Option, our shareholding was as follows:-

Subscriber	Number of shares subscribed for	Percentage of shareholding (%)
Top Entrepreneur Limited ⁽¹⁾	501	50.1
Suntar Investment ⁽²⁾	318	31.8
United Choice Profits Ltd.	16	1.6
Liu Wei	20	2.0
Wen Shihua	55	5.5
Li Bei	22	2.2
Chen Shiyu	43	4.3
Yang Yan	15	1.5
Zeng Wenqing	10	1.0
Total	1000	100.0

Notes:-

- (1) The shareholders of Top Entrepreneur Limited are Jiang Yun (46.28 per cent), Wu Xuedan (21.78 per cent), Liu Wei (15.15 per cent), Yang Yan (5.17 per cent), Zeng Wenqing (6.58 per cent) and Qi Guorong (5.04 per cent). Qi Guorong is the wife of our Executive Chairman, Jiang Yun.
- (2) Suntar Investment is a wholly-owned subsidiary of Sinomem. Our Non-executive Director, Dr Lan Wei Guang, is a substantial shareholder of Sinomem.

Please refer to the sections “Share Capital” and “Principal Shareholders” of this Prospectus for further information.

(d) Acquisition of 21.0 per cent equity interest in Longlife (including its subsidiary Longlife Trading)

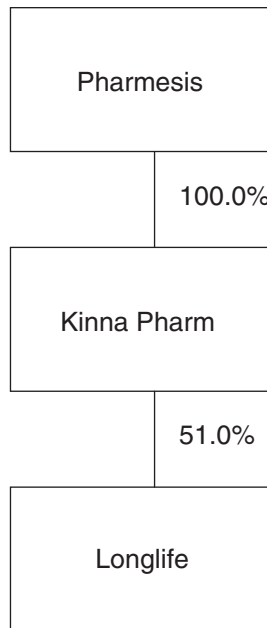
Pursuant to a sale and purchase agreement dated 29 December 2003 (as amended by a supplemental agreement dated 31 December 2003) between Kinna Pharm, Tong Lianggui and Chengdu Jinrong, Kinna Pharm acquired 21.0 per cent equity interest in Longlife from Chengdu Jinrong and Tong Lianggui for a total consideration of RMB 3,150,000 based on willing buyer and willing seller basis. Tong Lianggui is a shareholder of Longlife and is an unrelated third party. Following the acquisition, we hold in aggregate 51.0 per cent equity interest of Longlife. The effective date of the acquisition was 1 January 2004.

(e) Disposal of Longlife Trading

Pursuant to a sale and purchase agreement dated 31 December 2003 (as amended by a supplemental agreement dated 31 December 2003) between Longlife and Chengdu Kinna, Longlife disposed of its 100.0 per cent interest in its wholly-owned subsidiary, Longlife Trading, for a consideration of RMB 2,607,321.72 based on the registered capital of Longlife Trading. The effective date of the disposal was 1 January 2004.

GROUP STRUCTURE

Our Group structure after the Restructuring Exercise and as at the date of this Prospectus is as follows:



The details of each subsidiary of our Company as at the date of this Prospectus are as follows:

Name	Date and place of incorporation	Principal business	Principal place of business	Percentage owned
Kinna Pharm ⁽¹⁾	3 November 2003, PRC	Pharmaceutical products	PRC	100.0
LongLife ⁽¹⁾	29 April 1999, PRC	TCM formulated products	PRC	51.0

Note:-

- (1) Our PRC subsidiaries are licensed to operate for fixed periods of time. The terms of operation for Kinna Pharm and Longlife are 20 years and 30 years respectively commencing from 3 November 2003 and 1 May 1999 respectively. During the period of six months before the expiry of their respective operation periods, our subsidiaries may apply for extensions of their operation periods. If the operation period is not extended and upon the expiry of the operation period, the relevant subsidiary will be liquidated and the remaining assets of such subsidiary will be returned to its shareholders after payment of liquidation expenses and all debts.

GENERAL INFORMATION ON OUR GROUP

HISTORY

Our Company was incorporated in Singapore under the Companies Act on 29 September 2003 as a private company limited by shares. The shareholders of our Company consist mainly of the founding shareholders of Chengdu Kinna, a PRC company engaged in the business of research and development, production and sale of pharmaceutical products and Suntar Investment, a subsidiary of Sinomem. Please refer to the section “Restructuring Exercise” of this Prospectus for more details.

Our Executive Chairman, Jiang Yun, established Chengdu Kinna in 1996 to conduct research and development, production and sale of pharmaceutical products primarily used in the treatment of illnesses relating to the liver and gall bladder. Prior to setting up Chengdu Kinna in 1996, Jiang Yun was working for Sichuan Pharmaceutical Ltd, a state-owned pharmaceutical enterprise. Jiang Yun observed that liver and gall bladder related ailments were common in the PRC. As such, Jiang Yun believed that there would be a demand in the PRC for medicinal products relating to the treatment of liver and gall bladder related conditions and thus set up Chengdu Kinna to tap this demand.

Pursuant to the Restructuring Exercise, our subsidiary, Kinna Pharm was established on 3 November 2003 to acquire the pharmaceutical business of Chengdu Kinna and certain assets, including the production facilities together with the requisite licenses relating to the acquired pharmaceutical business and a 30.0 per cent equity interest in Longlife which specialises in the production of Gansu granules (肝苏颗粒) at an aggregate consideration of RMB 25,460,564. Subsequently, we acquired a further 21.0 per cent equity interest on 29 December 2003 in Longlife for an aggregate consideration of RMB 3,150,000.

Prior to the Restructuring Exercise, Chengdu Kinna was mainly engaged in the research and development, production and sale of ATT tablets. ATT is a chemical drug primarily used to treat illnesses relating to the liver and gall bladder. Chengdu Kinna had obtained the requisite approval from SFDA to manufacture ATT tablets and compound procaine hydrochloride tablets (复方盐酸普鲁卡因片) in 1996. It then commenced production and the sale of ATT tablets in January 1997.

In 1997, Chengdu Kinna also embarked on research and development on ATT tablets to assess the effectiveness of the drug in the treatment of liver and gall bladder related conditions and to improve the production process. In 1998, as a result of Chengdu Kinna’s research and development efforts, the coating technology of the ATT tablets was improved to enable quicker absorption of the drug by the human body. Hospitals in Shanghai such as Ruijin Hospital of Shanghai Second Medical University, Fudan University, Shanghai Zhongshan Hospital, Xinhua Hospital of Shanghai Second Medical University, Changzheng Hospital of the Second Military Medical University, Changhai Hospital of the Second Military Medical University and hospitals in Beijing such as Beijing Friendship Hospital Affiliated of Capital University of Medical Sciences and People’s Hospital of Beijing University were invited to conduct clinical trials to assess the effectiveness of our improved ATT tablets. As a result of this improvement, the coating technology developed by Chengdu Kinna was awarded the National Torch Plan Project (国家级火炬计划项目) in 1998. The Chengdu Municipal also awarded the first prize in Advances in Science and Technology (科技进步一等奖) and the Advanced Technological Science Achievement Conversion (高新技术成果转化项目认定) in 2000 to Chengdu Kinna in recognition of its achievements in developing the improved coating technology.

In 2001, Chengdu Kinna established new production facilities in Chengdu in accordance with GMP standards for the manufacturing of ATT tablets as manufacturers of pharmaceutical products have to be GMP certified by 1 July 2004 to continue manufacturing these products in the PRC. GMP certification for the new production facilities was obtained from the SFDA in the same year. In 2002, Chengdu Kinna made further improvements to the bioavailability of the ATT tablets. The improved ATT tablet was awarded the Advanced Technological Science Achievement Conversion (高新技术成果转化项目认定) award.

GENERAL INFORMATION ON OUR GROUP

OUR AWARDS AND ACCOLADES

The following table sets out the various awards and accolades which has been accorded for our ATT tablets with the “国嘉” brand, since 1998:-

Year	Awards/Accolades
1998	National Torch Plan Project (国家级火炬计划项目) Sichuan Torch Plan Project Prize (四川省火炬计划优秀奖)
2000	Advances in Science and Technology (科技进步一等奖) Advanced Technological Science Achievement Conversion (高新技术成果转化项目认定)
2002	Advanced Technological Science Achievement Conversion (高新技术成果转化项目认定) Sichuan Branded Product (四川名牌产品)
2003	Sichuan Branded Product (四川名牌产品)

We have also received the “Products of Designation of Origin and Geographical Indications of the PRC (中华人民共和国原产地域产品)”, for our Gansu granules.

GENERAL INFORMATION ON OUR GROUP

BUSINESS OVERVIEW

We are a pharmaceutical company specialising in the manufacturing of pharmaceutical products in the form of tablets, granules and pills etc, including TCM formulated products for the treatment of illnesses relating to the liver and gall bladder. The scope of our business includes the research and development, production, sale and marketing of pharmaceutical products. We primarily produce and sell ATT tablets and Gansu granules. Our pharmaceutical products sold in the PRC include western medicine products under the “国嘉” brand and TCM formulated products under the “郎中” brand.

OUR PRODUCTS

We produce Western medicine and TCM formulated products. Our Western medicine range consists mainly of ATT tablets and our TCM formulated products consist mainly of Gansu granules, both of which are not classified as OTC drugs.

(A) *Western medicine*

ATT was invented by German chemists B. Bottcher and A. Luttringhaus in 1947. French scientists Halpem and Gaudin then assessed that ATT was able to stimulate the secretion of the bile through animal testing in 1950. ATT was then produced by a West German company Chemic Gruentahl for use in clinical trials.

We produce primarily ATT tablets for oral application. The pharmacology of ATT is to improve the liver function, enhance the secretion of the bile as well as increase the detoxification capability by the liver so that ALT levels may be lowered in patients with acute or chronic hepatitis. ATT may also modulate the gastrointestinal digestion. Hence ATT tablets are used in the treatment of acute and chronic hepatitis, cholecystitis, cholelithiasis and dyspepsia. ATT tablets are not classified as an OTC drug.

We also produce compound procaine hydrochloride tablets (复方盐酸普鲁卡因片), which is used in the treatment of arteriosclerosis and menopausal symptoms, and Lianpushuangqing tablets (连蒲双清片), which is used in the treatment of acute inflammation such as acute dysentery and intestinal infection.

(B) *TCM*

Gansu granules are our main TCM formulated product and a drug that is not classified as an OTC drug. Gansu granules are typically used in the treatment of acute and chronic hepatitis. Gansu granules protect and improve the efficacy of the liver. In addition, Gansu granules are able to lower ALT, AST and bilirubin levels in patients. In doing so, symptoms of hepatitis which include nausea, jaundice and loss of appetite, etc, will be reduced.

Ganhuangcao was first described in Jiu Huang Ben Cao (救荒本草), a book on Chinese herbs written in the early Ming Dynasty in the 15th century. The name “Ganhuangcao” originated due to its efficacy in treating jaundice or jaundice-like conditions. It was used for the treatment of hepatitis B and can be found in the PRC, including the mountainous area in Wumeng (乌蒙).

Longlife collaborated with numerous research institutes and medical sciences research institutions to carry out research and development on TCM based Ganhuangcao. As a result, the Gansu granule (sugared version) was developed jointly with West China University of Medical Sciences, Chongqing University of Medical Sciences and Chengdu University of Traditional Chinese Medicine as a TCM formulated product for the treatment of hepatitis. Subsequently, a sugar-free version was developed and produced.

GENERAL INFORMATION ON OUR GROUP

Our Gansu granules were awarded the “Products of Designation of Origin and Geographical Indications of the PRC (中华人民共和国原产地域产品)”, which is the first TCM formulated product in the PRC to receive such protection and recognition.

ATT tablets are used in the treatment of acute and chronic hepatitis and Gansu granules protect and improve the efficacy of the liver. Thus, both ATT tablets and Gansu granules can be complementarily used in the treatment of acute and chronic hepatitis.

Production for compound procaine hydrochloride tablets commenced in 1997 and in 1999, we began to produce Lianpushuangqing tablets. The following are products that were produced in the past three years:-

No.	Product name	Usage	Approval Document No.
Western medicine			
1.	ATT tablets (25 mg) (茵三硫片)	Treatment of illnesses relating to the liver and gall bladder	H51023461
2.	Compound Procaine Hydrochloride tablets (复方盐酸普鲁卡因片)	Treatment of arteriosclerosis, menopausal symptoms, dyspepsia and adynamia	H51023681
3.	Lianpushuangqing tablets (连蒲双清片)	Treatment of acute inflammation such as acute dysentery and intestinal infection	Z19993379
TCM formulated product			
1.	Gansu granule (肝苏颗粒)	Treatment of acute and chronic hepatitis	Z51020703
2.	Gansu granule (sugar-free) (肝苏颗粒 (无糖型))	Treatment of acute and chronic hepatitis	Z51020709

In addition, as at the Latest Practicable Date, we have acquired licences to produce 49 other Western medicine and TCM formulated products. A majority of these licences were acquired pursuant to the Restructuring Exercise. Save as disclosed above, we have not commenced production and sale of other products. We are currently in the process of conducting informal market surveys and research on some of these 49 products and may commence production and sale of these products pending the outcome of the informal market surveys and research.

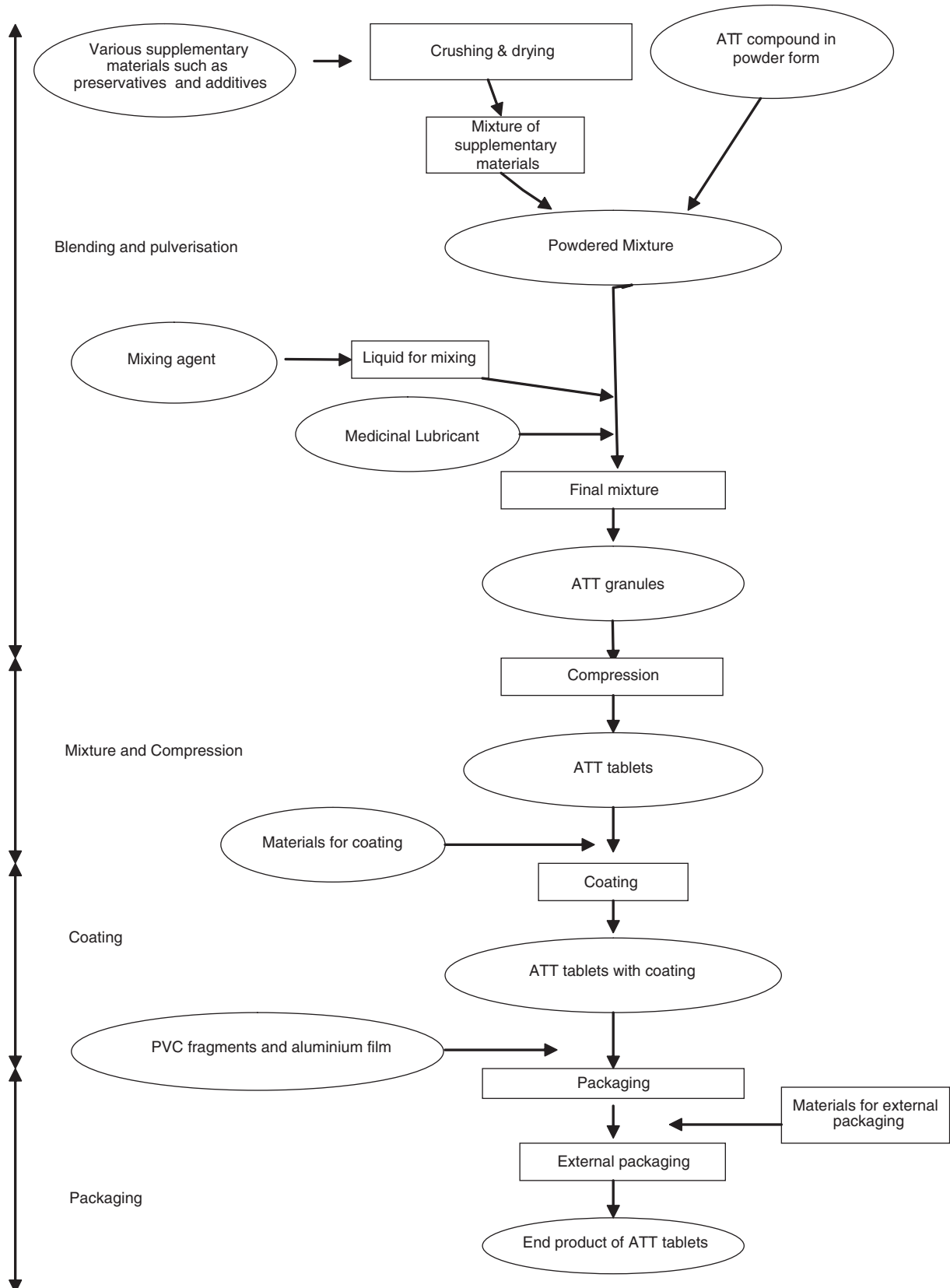
Further, we are also conducting research and development on other TCM formulated products and pharmaceutical products, including new applications of our existing products. Upon receiving the requisite approvals, we may start to market and sell our products in respect of the new applications. Please refer to the section “Research and Development” for further details.

GENERAL INFORMATION ON OUR GROUP

PRODUCTION PROCESS

The following figure shows the production process for our ATT tablets:-

(A) ATT tablets



GENERAL INFORMATION ON OUR GROUP

- *Blending and pulverisation*



Raw materials are ordered according to our production requirements and all raw materials which we purchase are subject to thorough inspection in accordance with our Group's quality standards. The procedures which we implement are in accordance with GMP standards.

The raw materials and supplemental materials are mixed in a multi-directional mixer. The final mixture is pulverised with mixing agents and medicinal lubricants.

- *Mixture and Compression*



The mixture is then compressed into tablets of the required weight and shape.

- *Coating*



The tablets are then coated with a protective coating to enable it to retain its shape and properties.

GENERAL INFORMATION ON OUR GROUP

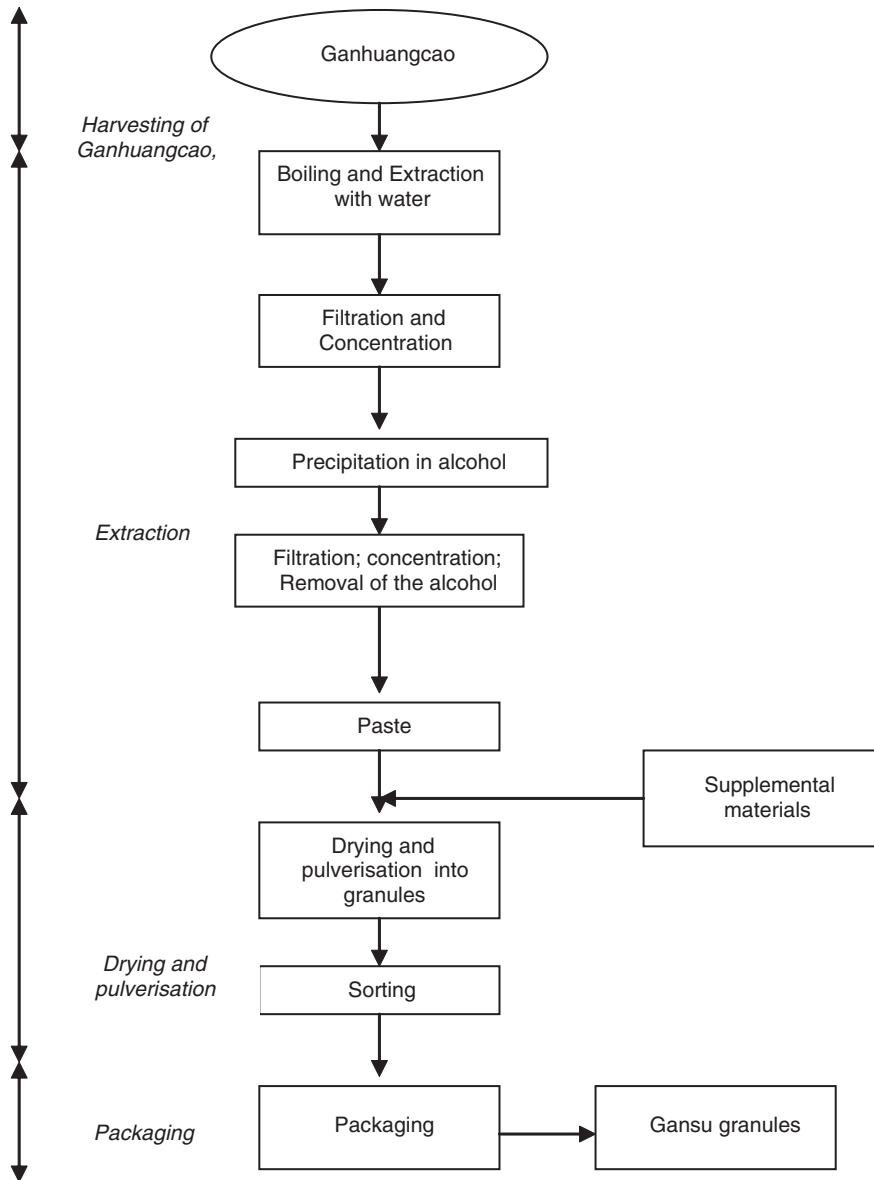
- *Packaging*



The finished tablets are then packaged and delivered to our customers.

(B) *Gansu granules*

The following figure shows the production process for our Gansu granules:-



GENERAL INFORMATION ON OUR GROUP

- *Harvesting of Ganhuangcao*



Ganhuangcao is typically harvested in October every year and stored in warehouses for our use throughout the entire year. The Ganhuangcao is then transported to our factory to be processed into Gansu granules. Every batch of Ganhuangcao is inspected to ensure that our Group's quality standards are met. The procedures which we implement are in accordance with GMP standards.

- *Extraction*



The required quantities of raw materials are boiled in water and the mixture undergoes filtration and a concentration process to allow the extraction of the active ingredients of Ganhuangcao. The concentrated mixture is then precipitated with alcohol. The alcohol solution undergoes another filtration and concentration process to form a paste.

- *Drying and pulverisation*



The paste is dried and pulverised using specialised machinery and supplementary materials to form granules. These granules are subsequently dried at controlled temperatures in our production facility. The dried granules are then arranged and blended with lubricants, and the resultant fine granules are packed into aluminium bags of the required weight.

GENERAL INFORMATION ON OUR GROUP

- *Packaging*



The finished product is then packaged and delivered to our customers.

QUALITY CONTROL

Our quality control team consists of six employees. All our quality control employees hold polytechnic diplomas and above. We monitor our production processes closely and carry out stringent tests to ensure that our pharmaceutical products conform to our quality control standards in accordance with GMP standards.

Our quality control team carries out inspection on all raw materials received from our suppliers to ensure that the quality and specifications meets our quality standards. We also perform checks on our suppliers every three years to ensure that they maintain the standards of their production processes. Our quality control team has put in place the following quality control procedures:-

(a) *Incoming quality control*

All raw materials that are purchased are inspected to ensure that they meet our production and quality requirements. Any raw materials that do not meet our stringent standards and requirements are immediately returned to the supplier for replacement. In particular, for our supply of Ganhuangcao from farmers, we stipulate and monitor the required water content level. If the water content exceeds 13.0 per cent, the Ganhuangcao will be rejected and replaced.

(b) *In-process quality control*

Every stage of our production process is monitored by our quality control team to ensure that the production process conforms to our stringent quality requirements.

(c) *Outgoing quality control*

Every batch of our finished products is subjected to a sample check by our quality control team prior to despatching to our customers. A sample of every batch of products is kept and stored for up to three years to ensure that we are able to trace immediately and analyse that specific batch should any need arise.

We have in place strict quality control procedures that stipulate the quality of our raw materials, production process and finished products. All production staff are trained to adhere strictly to our quality control procedures.

Both our production facilities in Chengdu and Gulin have received the GMP compliance certificates. These certificates are awarded to pharmaceutical companies whose production plants' standards conform to the GMP guidelines. The GMP guidelines are passed by the SFDA which sets out guidelines on the manufacture of pharmaceutical products in the PRC including quality control, inventory management and production process.

GENERAL INFORMATION ON OUR GROUP

STAFF TRAINING

We recognise that our employees are one of our important resources and thus aim to equip our employees with relevant skills and knowledge. Our employees are put through a planned training programme. All new staff undergo a one-week orientation programme where they are familiarised with our general working environment, our products and our quality requirements. During the orientation programme, the new staff are also provided with a preliminary understanding of his area of responsibility.

We also train our staff through continuous on-the-job training by our senior staff. The training programmes that we provide to each staff serves to enhance their technical knowledge and improve their production skills. In addition, we also send our senior staff overseas to attend international conferences and seminars to enable them to exchange information with other experts in the same industry.

Our employees' training needs are identified and monitored by our respective heads of department who will compile and submit their department's training plans at the end of each year to our management. Our human resource department maintains a training record for each employee. Each training programme is identified and selected based on its suitability for the individual to ensure its effectiveness.

The amount of expenditure incurred in relation to staff training for the past three financial years, as a percentage of our total revenue, has generally been insignificant.

SEASONALITY

The demand for our pharmaceutical products is not seasonal in nature. However, major festivals and holiday periods in the PRC affect our sales volume. In particular, our sales volume would generally decrease during the Chinese New Year periods in January and February due to shorter business days. Sales volume would generally increase during the months of November and December when our customers stock up and replenish supplies in anticipation of the festive season.

MAJOR SUPPLIERS

The following are the suppliers whose sales constituted 5.0 per cent or more of our purchases in each of the last three financial years ended 31 December:-

	Products and services supplied	FY2001 %	FY2002 %	FY2003 %
<i>Xian Global Printing Co. Ltd</i> (西安环球印务有限公司)	Packaging	12.34	19.53	26.53
<i>Zhong Jin Medical Packaging Group</i>	Packaging	4.63	10.18	13.28
<i>Shanghai No.6 Pharmaceutical Factory</i> (上海制药六厂) ⁽¹⁾	ATT	39.28	42.50	43.20

Note (1) : Shanghai No.6 Pharmaceutical Factory has transferred their operations to Shanghai Medical (Group) Co., Ltd (上海医药(集团)有限公司). We currently obtain our supplies of ATT from Shanghai Medical (Group) Co., Ltd (上海医药(集团)有限公司).

Currently, we purchase our supplies of ATT from only one supplier, Shanghai Medical (Group) Co., Ltd (上海医药(集团)有限公司). We have not entered into any supply contracts with Shanghai Medical (Group) Co., Ltd (上海医药(集团)有限公司) but our Directors are of the view that they will continue to supply to us as we are one of the three licensed manufacturers of ATT tablets in the PRC. Further, there are also other newly established suppliers for the raw materials of ATT tablets in the PRC, from whom we can obtain our supplies.

GENERAL INFORMATION ON OUR GROUP

We source our Ganhuangcao for our Gansu granules from individual farmers in Gulin, the Wumeng mountains in the PRC. We enter into supply contracts with the individual farmers and such contracts are renewed annually in accordance with our needs. None of the individual farmers' supplies accounts for 5.0 per cent or more of our total purchases.

None of our Directors, Executive Officers and Controlling Shareholders has any interest, direct or indirect in the above suppliers.

MAJOR CUSTOMERS

Due to the nature of the industry in which we operate in, our products are sold mainly to wholesalers who in turn sell those products mainly to hospitals. Our sales to wholesalers are therefore dependent on the demand of the hospitals, which are our end customers. The following are our customers whose purchases constituted 5.0 per cent or more of our sales in each of the last three financial years ended 31 December:-

	Products	FY2001 %	FY2002 %	FY2003 %
<i>Shanghai Pharmaceutical Industry Co. Ltd</i> (上海医药工业有限公司)	ATT tablets and Gansu granules	12.80	11.60	16.13
<i>Shanghai Medicine (Group) Co. Ltd</i> (上海医药股份有限公司)	ATT tablets and Gansu granules	6.55	4.22	4.90

None of our Directors, Executive Officers and Controlling Shareholders has any interest, direct or indirect in the above customers.

Although these are our major customers, we are not reliant on these customers for the sale of our pharmaceutical products as our end customers are hospitals in the PRC. We have approximately 1,200 customers whom we sell to. These consist of mainly wholesalers who in turn on-sell to mainly hospitals. To the best of our Executive Directors' knowledge, our products are utilised in approximately 2,000 hospitals throughout the PRC.

GENERAL INFORMATION ON OUR GROUP

RESEARCH AND DEVELOPMENT

We believe research and development to be one of the main drivers for our future growth and thus, place great emphasis on this area. The strategic direction of our research and development is set by our Board of Directors. Our Board assesses current trends in the pharmaceutical industry and sets the direction for our research and development team. Our research and development team consists of 16 employees, most of whom possess Bachelor and Master degrees. Our General Manager, Dr Chen Yaoming, who has 20 years of experience in the biomedical sciences and pharmaceutical industry, heads our research and development team.

Dr Chen holds a Bachelor of Science degree in Chemistry from Lanzhou University, PRC and a Masters of Science degree in medicinal chemistry from West China University of Medical Sciences, PRC. He received his Doctorate in 1997 from Osnabruck University, Germany for research on bio-organic chemistry.

The objectives of our research and development efforts are as follows:-

- Development of new applications for existing pharmaceutical products
- Development of new pharmaceutical products
- Improvement on our production process

Currently, our focus is on developing an improved version of ATT tablets. We have applied for patents in the PRC for the application of ATT for fatty liver and liver diseases arising from the consumption of alcohol. As at the Latest Practicable Date, we have not obtained approvals for the patents in relation to the application of ATT for fatty liver and liver diseases arising from the consumption of alcohol. We have obtained the patent in the PRC for our technology to be used in the production of ATT capsules and are waiting for the approval of the SFDA to commence production of ATT capsules.

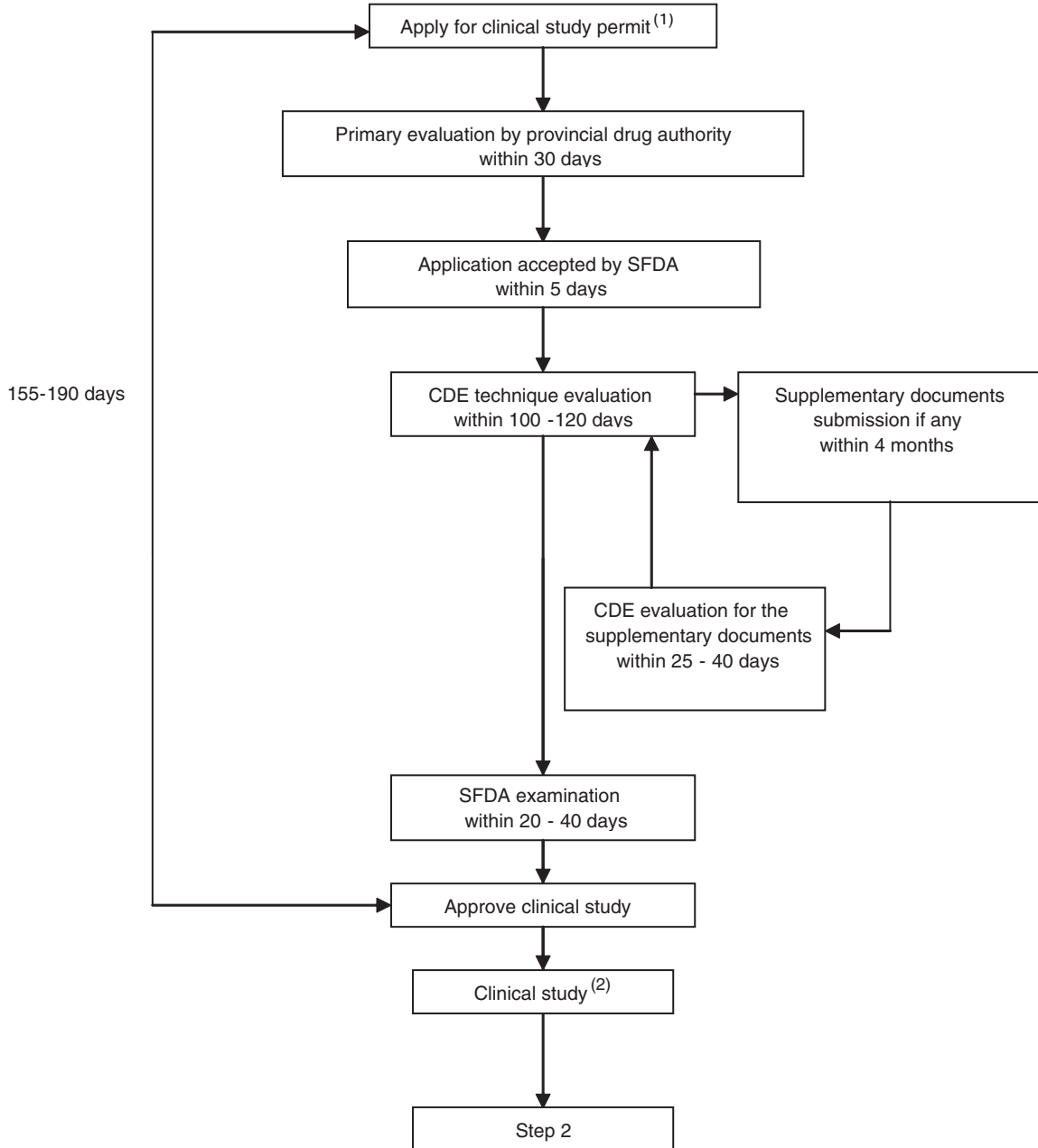
We are also conducting research on the usage of more advanced technology in isolating and finding new active ingredients in Ganhuangcao. We have also made improvements in the bioavailability of the ATT tablets. This enables the body to absorb the drug faster than the previous versions of our product. We also intend to apply for a patent for the production of ATT for injections in the PRC.

In addition, we are developing drugs such as lyophilised powder for injection which utilise the powdered extracts of ginkgo leaf in injections for cerebral and peripheral circulatory disturbances such as stroke, impaired circulation, memory loss and dementia.

GENERAL INFORMATION ON OUR GROUP

The following is a typical progression of the research and development process to secure the manufacturing permit for pharmaceutical products:-

Step 1: The process prior to obtaining approval for clinical study

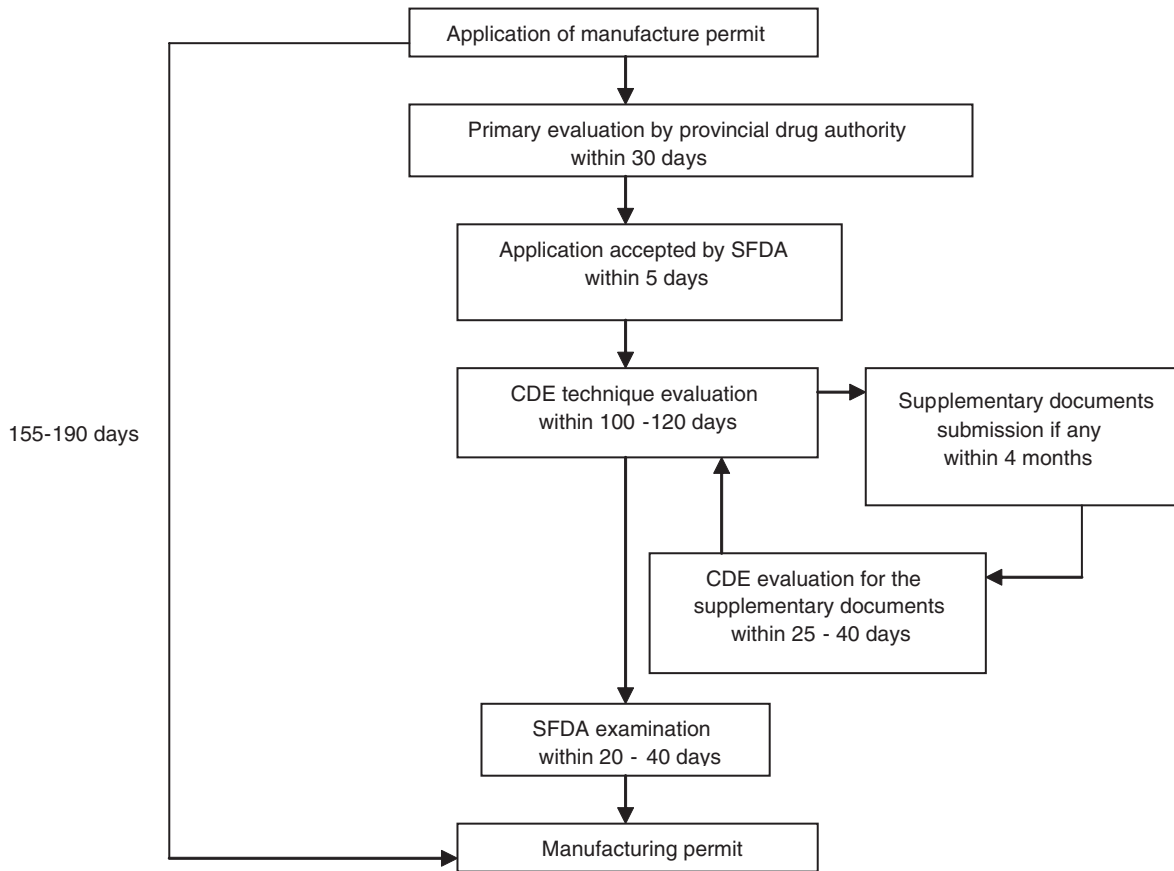


Notes:-

- (1) Prior to application for a clinical study permit, we may conduct pharmaceutical and pharmacology research which may generally vary between six months to three years.
- (2) Based on our experience for clinical studies conducted by our Group to date, the time taken for clinical studies varies between one month to one year. However, clinical studies may last beyond one year depending on the specific type of illness and drug.

GENERAL INFORMATION ON OUR GROUP

Step 2: The process prior to obtaining the Drug Manufacturing Permit



Currently, we have entered into contracts with certain research institutes and universities such as the Sichuan Industrial Institute of Antibiotics, West China University of Medical Sciences, Sichuan Institute of Chinese Medical Sciences, Beijing University School of Pharmaceutical Sciences, Guizhou University, China Japan Friendship Hospital and Xiyuan Hospital of China Academy of Traditional Chinese Medicine. We also have an alliance with the Osnabruck University, Germany. Through these cooperation, our research and development team is able to exchange technical know-how and further develop our technical capabilities.

Our contractual arrangements generally provide that any results that are achieved will belong to our Group.

GENERAL INFORMATION ON OUR GROUP

We are also currently jointly developing these TCM formulated product and pharmaceutical products :-

Research	Stage of development
Gansu capsules (肝苏胶囊) for its application on acute and chronic hepatitis	Awaiting approval for production
ATT capsule (茵三硫胶囊) for its application on the digestive system, especially liver and gall bladder	Clinical trials completed; awaiting approval for production
New applications of ATT for fatty liver and liver diseases arising from the consumption of alcohol	Awaiting approval for clinical trial
Lyophilised powder for injection containing extracts of ginkgo leaf 注射用银杏叶(冻干) for cerebral and peripheral circulatory disturbances	Pre-clinical study completed; awaiting approval for clinical trial
ATT injection solution used in the treatment of illnesses relating to the liver and gall bladder such as chronic and active hepatitis, cholecystitis, dyspepsia and cholelithiasis	Pre-clinical study completed; awaiting approval for clinical trial

We have incurred the following amounts for our research and development activities in FY2001, FY2002 and FY2003:-

	FY2001	FY2002	FY2003
Research and development expenditure (RMB million)	1.93	1.87	0.90

We intend to further strengthen our research and development capability. We intend to use approximately \$2.0 million from the net proceeds of the Invitation to purchase laboratory and other equipment and to hire additional research and development staff. This will allow us to intensify our efforts for our current projects and develop more products.

CREDIT CONTROL

We generally extend credit periods ranging from 90 to 180 days to our customers. Collections are usually made within this period.

We assess the credit worthiness of our new customers before commencing a business relationship with them. In making this evaluation, we take into consideration, amongst other things, their track record (if any), size, marketing reputation and dealings with other suppliers within the industry. We also monitor all our outstanding debtor balances on a regular basis.

We have not written off any bad debts for the last 3 financial years.

Our debtors' turnover for the past three financial years ended 31 December were as follows:-

	FY2001	FY2002	FY2003
Average debtors' turnover (days)	119	129	135

The main reason for the debtors' turnover (days) above was due mainly to the high lead time taken for the delivery of the products, the use of the pharmaceutical products by the hospitals, the application for reimbursement by the hospitals from the Social Insurance Fund of PRC (社会保险局) ("SIF") and the corresponding reimbursement paid back to us. We typically deliver our products to the wholesalers or directly to hospitals within 10 days of our customers placing their purchase orders. The costs of the pharmaceutical products used by hospitals are reimbursed by the SIF. Hospitals are required to apply to SIF for reimbursements whereupon the approved reimbursements will be given to the hospitals. The hospitals will then pay the wholesalers who will then make payment to us.

GENERAL INFORMATION ON OUR GROUP

Accordingly, the payment from our debtors is dependent on the administrative process for hospitals to obtain reimbursement by SIF. Our debtors' turnover has increased from 119 days in FY2001 to 135 days in FY2003, due mainly to a longer processing time taken for the hospitals' applications for reimbursement. This arises because of an increasing number of companies applying for the social insurance which was imposed as a compulsory insurance by the State government since 2002.

As at 31 December 2003, we have made an allowance of RMB 3.9 million for doubtful debts and our Directors believe that this allowance is adequate.

As at 31 July 2004, approximately 10.5 per cent or RMB 6.4 million of the RMB 60.5 million (before allowances for doubtful debts) trade receivables outstanding as at 31 December 2003, still remain uncollected and are more than 180 days old. Our Directors believe that these debts are collectible as these debts are owed by wholesalers and hospitals who have good credit history with our Group. The credit worthiness of all our new customers are screened before commencing a business relationship with them and we have not encountered any debt which has required us to write-off in our accounts in the past three years. We will continue to monitor these debts closely to ensure payment.

Our suppliers generally extend credit terms of up to 175 days. Up to the Latest Practicable Date, our suppliers have been able to deliver their goods to us on a timely basis.

INVENTORY MANAGEMENT

Our inventories comprise raw materials, work-in-progress and finished goods. We have established proper inventory control procedures to track in-coming and out-going inventory. Our raw materials are purchased according to projected sales which are determined by our management after consultation with our sales and marketing team. We monitor our inventory levels closely and any abnormality will be highlighted to management.

Our inventories are stated at the lower of cost or net realisable value. Allowance for our inventories are made upon our assessment that our inventories are slow moving. Full provision will be made for slow moving, obsolete and defective inventories. Allowances made for our inventories amounted to RMB 0.04 million, nil and RMB 0.1 million in FY2001, FY2002 and FY2003 respectively.

Our inventory turnover for the last three financial years ended 31 December were as follows:-

	FY2001	FY2002	FY2003
Average inventory turnover (days)	51	90	115




The increase in inventory turnover from 51 days in FY2001 to 90 days in FY2002 was attributable mainly to the longer average inventory turnover for our raw material, Ganhuangcao, as Ganhuangcao can only be harvested in October in each year. Thus, we are required to stock up Ganhuangcao for our use throughout the entire year.

Inventory turnover increased by 25 days from 90 days in FY2002 to 115 days in FY2003. This was due mainly to higher inventory levels maintained for Gansu granules. This was to enable us to maintain uninterrupted supplies to our customers during the rebuilding and construction of our GMP manufacturing facilities for Gansu granules during the period December 2002 to November 2003.

GENERAL INFORMATION ON OUR GROUP

INTELLECTUAL PROPERTY

Our Group owns/is licensed to use the following trademarks:-

Trademark	Place of application	Class	Trademark Number	Date of Expiry
国嘉	PRC	5	1512465	27 January 2011
GLOGO	PRC	5	1188256	6 July 2008
<i>KINNA</i>	PRC	5	1795515	27 June 2012
	PRC	5	1906041	20 September 2012
Pyinsuan	PRC	5	1973876	20 November 2012
郎中	PRC	5	1355252	20 January 2010
	PRC	5	1350254	6 January 2010
	PRC	5	1350270	6 January 2010

In addition to the above, our Group has applied for registration of the following trademarks which are pending as at the Latest Practicable Date:-

Trademark	Place of application	Class	Application Number	Date of Application
胆维他	PRC	5	3422674	31 December 2002
扶态甘	PRC	5	3509350	1 April 2003
伴多宁	PRC	5	3509349	1 April 2003

Our Group has applied for the registration of the following patents:-

Patent	Place of Application	Patent/ Application Number	Date of Application
Application of ATT in Pharmaceutical Industry I	PRC	01108416.2	11 May 2001
Application of ATT in Pharmaceutical Industry II	PRC	02113547.9	1 April 2002
New Oral Formulation of ATT ⁽¹⁾	PRC	02133575.3	5 August 2002
Preparation method of product used for treatment of liver diseases ⁽¹⁾	PRC	02133816.7	27 September 2002

Note (1) : As at the Latest Practicable Date, we have received the relevant approvals from the PRC authorities for these patent applications and are awaiting the issuance of the patent certificates.

GENERAL INFORMATION ON OUR GROUP

PROPERTIES AND FIXED ASSETS

The following table sets forth information relating to the properties we own:-

Description/Location	Site Area (sq meters)	Built-up Area (sq meters)	Tenure	Use
San She, Lu Jia Village, Dong Zikou, Jinniu District, Chengdu, PRC	2,000	2,400	50 years from 19 June 2000	Factory
No. 100 Mo Bao Si, Gulin County, Sichuan, PRC	4,636	6,482	50 years from the date of issue of the Certificate of Land Use Right ⁽¹⁾	Industrial
Huoxing Shilin Village, Gulin County, Sichuan, PRC	34,570	3,850	40 years from 30 September 2003	Office/ Industrial

Note:-

- (1) On 31 March 2004, the Land Bureau of China has issued a confirmation letter confirming that the land use right is granted to us and we will receive the Land Use Right certificate stating the tenure as a matter of course.

The following table sets forth information relating to the properties we lease:-

Description/Location	Gross Area (sq meters)	Tenure	Use	Annual Rent (RMB)
Yingbin Road No. 8, Chengdu, PRC ⁽¹⁾	2,890	1 January 2004 to 31 December 2007	Office premises	1,387,200
Building 1, No. 1 and Building 4, No. 1-2, Xin De Storage	2,890	1 November 2004 to 31 October 2005	Storage	10,800
Building 2, No. 1-3, Xin De Storage	245	10 October 2004 to 9 October 2005	Storage	10,800
No. 20 Storage	134	10 October 2004 to 9 October 2005	Storage	10,000
Building 1, No. 7.4 Storage	240	15 September 2004 to 14 September 2005	Storage	9,000
Building 2, No. 1, Midtown Storage	350	15 December 2003 to 14 December 2006	Storage	9,600

Note:-

- (1) Subsequent to the acquisition of the pharmaceutical business from Chengdu Kinna by our subsidiary, Kinna Pharm, we moved to the premises at Yingbin Road No. 8, Chengdu. We entered into a lease agreement on 3 January 2004 between our Group and Chengdu Kinna whereby our Group will pay an amount of approximately RMB 140,441 per month for the use of the office premises at Yingbin Road No. 8 and certain vehicles with effect from 1 January 2004. Prior to this, we have been renting our office premises at Vancouver Plaza from Chengdu Kinna. Please see the section "Interested Person Transactions" of this Prospectus for more details.

GENERAL INFORMATION ON OUR GROUP

Our production facilities are located at Chengdu and Gulin in the PRC. The average production capacity and extent of utilisation of our production facilities for FY2001, FY2002 and FY2003 are as follows:-

	<u>Maximum Production Capacity⁽¹⁾</u>	<u>Extent of Utilisation⁽¹⁾</u>
Chengdu		
FY2001	1,200,000,000 tablets	49.58%
FY2002	1,200,000,000 tablets	58.82%
FY2003	1,200,000,000 tablets	67.48%
Gulin		
FY2001	—	—
FY2002	15,000,000 packets	86.40%
FY2003 (January to October)	15,000,000 packets	86.40%
FY2003 (November to December)	50,000,000 packets ⁽²⁾	31.71%(calculated based on weighted average) ⁽²⁾

Notes:-

- (1) Based on 5.5 working days and 8 working hours per day.
- (2) Our new production facilities in Gulin started operations in November 2003. Our actual production capacity increased from 15 million packets to 50 million packets. The extent of utilisation is based on the weighted average of the production capacity of the old and new factory.

GOVERNMENT REGULATIONS

Regulations Governing The PRC Pharmaceutical Industry

Principal supervisory authority in the industry

The SFDA is the principal supervisory authority in the pharmaceutical industry in the PRC. It was established in March 2003. The former State Drug Administration of the PRC (“SDA”) was established on 19 August 1998 under the administration of the PRC State Council. The SFDA is responsible for the administrative and technological supervision of the research, production and trading of pharmaceutical products and the consolidated supervision of the safety management of food, health care products and cosmetic products.

The main responsibilities of the SFDA in connection of pharmaceutical products and health care products include:

- (a) formulation of the laws and administrative regulations in respect of the management of pharmaceutical products and health care products and the supervision and enforcement thereof;
- (b) registration of pharmaceutical products and formulation and revision of the PRC standards for pharmaceutical products;
- (c) formulation and administration of the classification of the prescription medicines and medicines sold over the counter; and
- (d) formation, revision and supervision of the enforcement of quality control regulations in respect of the research, production, trading and use of pharmaceutical products.

Legal framework governing the industry

The Law of the PRC on the Administration of Pharmaceuticals (Revised) (中华人民共和国药品管理法) was promulgated on 20 September 1984 and amended on 28 February 2001 by the Standing Committee of the National People’s Congress and came into effect on 1 December 2001. The Implementing Regulations of the Law of the PRC on the Administration of Pharmaceuticals (中华人民共和国药品管理法实施条例), which was promulgated by the State Council on 4 August 2002 and came into effect on 15 September 2002, marked the legal basis for the administration of the

GENERAL INFORMATION ON OUR GROUP

production and sale of pharmaceutical products. They also laid down the framework for the regulation of pharmaceutical products. It regulates and prescribes a framework for the administration of pharmaceutical manufacturers, pharmaceutical trading companies, and medicinal preparations of medical institutions, the development, research, manufacturing, distribution, packaging, pricing and advertisements of pharmaceutical products in the PRC.

Set forth below is the relevant regulations governing the pharmaceutical industry in the PRC:

- Certificates, permits and licenses for pharmaceutical manufacturing and trading enterprises;
- GMP;
- Registration of pharmaceutical products;
- Prescription medicines and medicines sold over the counter;
- Research and development of new pharmaceutical products;
- Import and export restrictions;
- Product liability and insurance;
- Trademarks; and
- Environment protection.

Certificates, permits and licenses for pharmaceutical manufacturing and trading enterprises

A pharmaceutical production enterprise or pharmaceutical trading enterprise must apply for the relevant permit from the relevant regulatory department in the PRC. The administration for industry and commerce will issue a “business license” (营业执照) only after the relevant pharmaceutical regulatory department has considered the application and approved the issue of either a “pharmaceutical production permit” (药品生产许可证) or a “pharmaceutical trading permit” (药品经营许可证). Such permits are valid for a period of five years and application for renewal must be made six months prior to its expiry date. A new permit will be issued after reassessment, examination and approval by the relevant pharmaceutical regulatory department.

GMP

GMP (药品生产质量管理规范) is a set of standards in respect of quality management of pharmaceutical products and their manufacturing industry. It encompasses requirements on personnel, plant and equipment and various management systems of production organization, such as production processes, hygiene standards and education level. These are applicable to the entire pharmaceutical production process and the key working procedures for the production of raw materials which affect the quality of finished medicine products.

GMP was developed for quality management of the pharmaceutical industry and was promoted by the World Health Organization (“WHO”). Many countries have formulated their own requirements for GMP based on the GMP promoted by WHO. The current GMP being implemented in the PRC was revised by the SDA in 1998 and became effective in August 1999.

The implementation of the GMP certification system in pharmaceutical manufacturing is a measure adopted by the PRC to enhance its regulation on pharmaceutical production enterprises. In April 1999, the SDA issued the “Measure regarding the administration of pharmaceutical GMP certification (药品 GMP 认证管理办法)” and the “Working procedures of pharmaceutical GMP certification (药品 GMP 认证工作程序)”. The Administration Centre of Pharmaceutical Certification of the SDA (国家药品监督管理局药品认证管理中心) is responsible for pharmaceutical GMP certification. A GMP certificate is valid for a term of five years and application for renewal has to be submitted three months prior to its expiry date.

According to Notice on the Overall Acceleration of the Implementation and Supervision of Good Manufacturing Practice for Pharmaceuticals (关于全面加快监督实施药品 GMP 工作进程的通知) (“Notice”) issued by the SDA on 12 October, 2001, if pharmaceutical manufacturing enterprises producing blood born products, powder injectable and large volume injection products, small volume injection products fail to obtain the relevant GMP certification by 31 December 1998, 31 December 2000 and 31 December

GENERAL INFORMATION ON OUR GROUP

2002, respectively, they cannot carry out the production of the relevant pharmaceutical products in the PRC. The Notice further provides that pharmaceutical manufacturing enterprises producing other types of pharmaceutical products or pharmaceutical products of other application forms (including oral formulations) are required to cease their production if they fail to obtain the relevant GMP certification by 30 June 2004.

Registration of pharmaceutical products

Regulations on the Registration of Pharmaceutical Products (Trial) (药品注册管理办法 (试行)) ("Registration Regulations") promulgated by the SDA in October 2002 and with effect from 1 December 2002 provide the legal framework for the administration of the registration of pharmaceutical products. Pursuant to the Registration Regulations, all the pharmaceutical products (including new medicines, pharmaceutical products with conformed existing PRC standards and imported pharmaceutical products) proposed to be launched in the PRC market are required to be registered and obtain an approved pharmaceutical number granted by the SFDA.

Classification of new medicines

Under the Registration Regulations, application for registration of new medicines refers to those new medicines not yet being launched in the PRC market. Change of forms or methods of administration of those products already launched in the PRC market are treated as new medicines in the course of regulation.

According to the Registration Regulations, medicines may be generally divided into three main categories, namely, Chinese and natural medicines, chemical medicines and biological medicines.

The classification of medicines under Chinese and natural medicines include the following 11 sub-categories:

Category 1:	ingredients extracted from Chinese medicines and natural medicines and their preparations which have not yet been sold in the PRC
Category 2:	preparations made of pharmaceutical ingredients extracted from plants, animals and minerals etc. which have not yet been sold in the PRC
Category 3:	substitutes of Chinese medicines
Category 4:	preparations made of pharmaceutical ingredients of Chinese medicines which have not yet been sold in the PRC
Category 5:	preparations made of effective ingredients extracted from Chinese medicines and natural medicines which have not yet been sold in the PRC
Category 6:	complex preparations made of Chinese medicines and natural medicines which have not yet been sold in the PRC
Category 7:	injections made of Chinese medicines and natural medicines which have not yet been sold in the PRC
Category 8:	preparations which have altered the form of intake
Category 9:	preparations which have altered the method of application
Category 10:	preparations which have altered the technology of manufacture
Category 11:	Chinese medicines and natural medicines which conform with existing state specifications

GENERAL INFORMATION ON OUR GROUP

The classification of medicines under chemical medicines includes the following six subcategories:

Category 1:	medicines which have not yet been sold in the PRC and overseas
Category 2:	medicines which have altered form of intake and have not yet been sold in the PRC and overseas
Category 3:	medicines which have been sold overseas but have not yet been sold in the PRC
Category 4:	bulk pharmaceuticals and preparations which have changed the acidity or alkalinity of medicines sold in the marketplace but have not changed their pharmacological effects
Category 5:	medicines which have changed the method of application of medicine sold in the PRC but have not changed the form of intake
Category 6:	bulk pharmaceuticals or preparations which conform with existing state specifications

The classification of medicines under biological medicines include the following 14 subcategories:

Category 1:	biological products which have not yet been marketed in the PRC and overseas
Category 2:	genetherapy, cellular therapy and its finished products
Category 3:	allergen products
Category 4:	complex preparations extracted from human or animal tissues or body fluid, or made by fermentation and are biologically active
Category 5:	new complex preparations made of biological products which have been sold in the market
Category 6:	biological products which are being sold in markets outside the PRC but not yet been marketed in the PRC
Category 7:	microorganism products made of fungi which have not yet been approved in the PRC
Category 8:	product structures (including structures arising from, removed or with altered translation caused by amino acid locus mutation, defects or different delivery system, or products which have undergone chemical modifications) which are not identical to the products that have already been sold within and outside the PRC
Category 9:	products with different methods of preparation from those being sold in the market, such as using different delivery system and host cell
Category 10:	products which apply the technology of DNA recombination for the first time
Category 11:	products which have altered its form of intake from non-injection to injection, or from partial administration to administration to the whole body, and which have not been marketed both within and outside the PRC
Category 12:	biological products which have altered the form of preparation, but not the method of administration, from products currently marketed in the PRC
Category 13:	biological products which have altered the method of administration (excluding the products referred to in Category 12 above)
Category 14:	biological products which have conformed to the PRC drug standard

GENERAL INFORMATION ON OUR GROUP

Registration procedures

The procedures for application for registration of new medicines can be generally divided into the following stages:

1. After completion of the pre-clinical research of the new medicine, application for registration of the new medicine shall be submitted to the drug regulatory authorities at the provincial level for review. The drug regulatory authorities at the provincial level after completion of its review may submit its opinion and report to the SFDA for review;
2. If all the requirements are complied with, the SFDA will issue a notice of acceptance and proceed with its assessment on whether to grant the approval for conducting the clinical research on the new medicine;
3. After obtaining the approval for conducting the clinical research by the SFDA, the applicant may proceed with the relevant clinical research (which is generally divided into three phases for new medicines under the Registration Regulations) at institutions with appropriate qualification;
4. After completion of the relevant clinical research, the applicant shall submit its clinical research report together with the relevant supporting documents to the drug regulatory authorities at the provincial level and provide the raw materials of the new medicine to the PRC Examination Bureau of Pharmaceutical and Biological Products (中国药品生物制品检定所) (the “PRC Examination Bureau”);
5. The PRC Examination Bureau will arrange for the conduct of examination of the raw materials supplied by the relevant medicine examination institutes which will then issue the examination result report;
6. The drug regulatory authorities at the provincial level shall then review the relevant documents, conduct site inspection, sample examination and thereafter submit its opinion, inspection reports and other application materials to the SFDA for review; and
7. If all the regulations are complied with, a certificate of new medicine and a pharmaceutical approval number (if the applicant has a valid Pharmaceutical Products Production Permit and the requisite production conditions for the new medicine) will be granted by the SFDA.

Prescription medicines and over-the-counter medicines

In order to promote safety, efficacy and convenience in the use of medicines, SDA has published “Trial administrative measures regarding the classification of prescription medicines and medicines which are sold over the counter” (处方药与非处方药分类管理办法 (试行)) in June 1999, which was implemented with effect from 1 January, 2000. These administrative measures divide medicines according to class, specifications, therapeutic functions, dosages and methods of intake. Over-the-counter medicines are further subdivided into type A and type B and administered by the State separately. Prescription medicines must be dispensed, purchased and taken with the prescription of practicing doctors or assistant doctors. Purchase of over-the counter medicines do not require doctors’ prescriptions and can be dispensed, purchased and taken by users. The SFDA is responsible for the selection, approval, publication, and revision of Over-the-counter medicine catalogue (非处方药物目录).

Wholesalers of prescription medicines and over-the-counter medicines and retailers of prescription medicines and over-the-counter type A medicines must hold a “pharmaceutical trading enterprise permit” (药品经营企业许可证). Commercial entities may engage in the retail of over-the-counter type B medicine subject to the approval of the provincial pharmaceutical regulatory authorities or their delegated bureaus. Prescription medicines may be advertised only in medical journals and over-the-counter medicines may be advertised in mass media.

GENERAL INFORMATION ON OUR GROUP

Research and development of new pharmaceutical products

Institutions engaging in research for application for clinical trial and production and sales of medicines are required to register in accordance with Pharmaceutical Product Research Institution Filing Procedures (药品研究机构登记备案管理办法). Research institutes engaging in conducting clinical research of medicines are required to carry out their clinical trial in accordance with Administrative Standards of Clinical Trials (药品临床试验管理规范) which applies to the design, organisation, implementation, supervision, record, analysis and reporting of clinical trials conducted upon the approval from the SFDA. Research institutes engaging in conducting non-clinical research are only required to carry out their research activities in accordance with Administrative Standards of the Non-clinical Research (药品非临床研究质量管理规范) which applies to the research on, among others, synthetic techniques, extraction method, chemical nature and purity, forms of intake, production method, examination method, quality standard, stability, toxicity studies of a medicine conducted prior to the submission of the application for clinical trial to the SFDA. If any pre-clinical trial research and clinical research conducted for application for clinical trial and sale and anything in the application procedures for registration of medicines are in violation of the relevant rules and regulations, SFDA will handle such cases according to Measures regarding Incompliance with Relevant Rules of Research and Application for Registration of Medicines (药品研究和申报注册违规处理办法).

Import and export restriction

According to both Law of the PRC on the Administration of Pharmaceuticals (中华人民共和国药品管理法) and Implementing Regulations of the Law of the PRC on the Administration of Pharmaceuticals (药品管理法实施条例) (the "Pharmaceutical Administration Regulations"), imported pharmaceutical products are required to meet certain safety and quality standards set by the PRC government. In addition, these products should have been approved for sale in the country or region where they are manufactured; if not, they can also be imported subject to the approval from SFDA according to the Pharmaceutical Administration Regulations, being proved that they are soft, effective and in clinical requirement.

The approval of certain anesthesia drugs and psychiatric drugs are required to be obtained from Compliance and Management Department of the State Council (国务院监督管理部门) for export. In addition, export of pharmaceutical products which are short of supply in the PRC may be restricted or prohibited.

Price control

In July 2000, in order to enhance market competition of the pharmaceutical industry and to reduce medical expenses, the former State Development and Planning Commission of the PRC (国务院发展计划委员会) has promulgated a new policy in respect of reforming the price control of pharmaceutical products in the PRC. According to the policy, the price of pharmaceutical products is subject to the control of the price supervising bureau at state and provincial levels. The bureau generally classifies pharmaceutical products into two groups: (1) government-pricing pharmaceutical products; and (2) market-pricing pharmaceutical products.

Pharmaceutical products which price are determined by National Development and Reform Commission of the PRC (中华人民共和国发展和改革委员会) are limited to Category A pharmaceutical products listed in the Medicine Catalogue of National Basic Medical Insurance (中华人民共和国发展和改革委员会) and pharmaceutical products with monopolistic attributes (including anaesthetic medicines, certain type of psychiatric medicines, vaccines and contraceptive drugs). The price of Category B pharmaceutical products listed in the Medicine Catalogue of National Basic Medical Insurance (国家基本医疗保险药品目录) are determined by the price supervising bureau at the provincial level according to the price determination policies adopted by the Central Government.

GENERAL INFORMATION ON OUR GROUP

On 21 November, 2000, the former State Development and Planning Commission of the PRC (中华人民共和国发展和改革委员会) promulgated the Notice Regarding Rules on Application for Approval for the Prices of Pharmaceutical Products set by the PRC Government (国家计委关于印发药品政府定价申报审批办法的通知), stating that:

- (i) for all pharmaceutical products first launched in the PRC as listed in the price index of the State Development and Planning Commission of the PRC (国家发展和改革委员会定价目录), drug manufacturing enterprises are required to submit their price-setting applications to the price supervising bureau at the provincial level. The provincial price supervising bureau would then transfer such applications to the former State Development and Planning Commission of the PRC (国家发展和改革委员会) after review for further approval;
- (ii) for all new pharmaceutical products first launched in the PRC as listed in the price index of the provincial government (省政府定价目录), drug manufacturing enterprises are required to submit their price-setting applications to price supervising bureau at the provincial level;
- (iii) for the patented pharmaceutical products, Categories 1 and 2 new pharmaceutical products not listed in Medicine Catalogue of National Basic Medical Insurance (国家基本医疗保险药品目录), after trial production in the PRC, drug manufacturing enterprises are required to submit their price-setting applications to the price supervising bureau at the provincial level for preliminary approval when they make applications for formal production. Then the provincial price supervising bureau would then transfer such applications to the former State Development and Planning Commission of the PRC (国家发展和改革委员会) to determine the price;
- (iv) for the patented pharmaceutical products, Categories 1 and 2 pharmaceutical products not listed in Medicine Catalogue of National Basic Medical Insurance (国家基本医疗保险药品目录), which are not required to carry out trial production in the PRC, drug manufacturing enterprises are required to submit their price-setting applications to the price supervising bureau at the provincial level for approval after one year from obtaining of the production approval or the first import permit. Then the provincial price supervising bureau would then transfer such applications to the Economic Planning Commission of the PRC for further approval;
- (v) for all pharmaceutical products currently sold in the PRC market as listed in The Price Index of the Provincial and the State Development and Planning Commission of the PRC (国家计委及省级政府定价目录), before new prices are set by the relevant price supervising authorities according to the market survey information, drug manufacturing enterprises can sell their products at the then prevailing price.

The Company has to comply strictly with an upper price limit set as follows:-

Product	Upper price limit (Ceiling Price) RMB
ATT (15 tablets)	25.47
ATT (12 tablets)	21.20
Gansu (sugar-free)	29.49
Gansu	23.68
Compound Procaine	34.02
Lianpushuangqing	20.34

GENERAL INFORMATION ON OUR GROUP

Product liability and insurance

Product liability claims may arise if harmful products are sold to members of the public or if there are any alleged harmful effects from the consumption of the Group's products. Under the current PRC laws, manufacturers and vendors of defective products in the PRC may incur liability for loss and injury caused by such products. Pursuant to General Principles of the Civil Law of the PRC (《中华人民共和国民法通则》) (the "PRC Civil Law"), which took effect in 1987, a manufacturer or vendor of any, defective product which causes property damage or physical injury to any person may be exposed to civil liability for such damage or injury.

On 22 February 1993, Product Quality Law of the PRC (《中华人民共和国产品质量法》) (the "PRC Product Quality Law") was enacted to protect the legitimate rights and interests of the end-users and consumers and to strengthen the supervision and control of the quality of products. Pursuant to the PRC Product Quality Law, manufacturers who produce defective products may be subject to revocation of business licences and (if applicable) criminal liability.

On 31 October 1993, the Laws on the Protection of Consumers' Rights and Interests of the People's Republic of China (《中华人民共和国消费者权益保护法》) (the "PRC Consumers' Protection Law") was promulgated to protect the legal rights and interests of customers in connection with the purchase or use of consumer goods and services. At present, all business operations must observe and comply with the PRC Consumers' Protection Law when they manufacture and sell their goods and/or provide services to the consumers.

Under Implementation Rules for Trademarks in the PRC (《中华人民共和国商标法实施细则》), all of the trademarks of pharmaceutical products for human use are required to be registered. According to Regulations Regarding to Pharmaceutical Product Packaging and Labelling (《药品包装、标签规范细则》), pharmaceutical products which have the same drug specification and packaging standard and are produced by one pharmaceutical enterprise are not allowed to use different trademarks.

Save as disclosed above and as at the Latest Practicable Date, our business operations in the PRC are not subject to any special legislation or regulatory controls other than those generally applicable to companies and businesses operating in those jurisdictions. For details on applicable PRC laws and regulations, please refer to the section "Summary of PRC Laws and Regulations" of this Prospectus.

INSURANCE

Our Group currently maintains the following insurance policies:-

- (i) personal accident and medical insurance policies for our employees;
- (ii) insurance policies pertaining to cargo transportation in respect of the delivery of our products to our customers; and
- (iii) insurance policies which cover our equipment and inventories against damage caused by accidents and natural disasters.

We do not maintain any insurance for product liabilities arising from the manufacture or sale of pharmaceutical products in the PRC. Our Directors believe that it is not an industry practice to procure such insurance coverage in the PRC as we have adopted stringent production procedures in accordance with PRC regulations to ensure the quality of our products and to reduce the risk of product liability claims.

GENERAL INFORMATION ON OUR GROUP

SALES AND MARKETING

As at 31 December 2003, our sales and marketing team comprises approximately 900 employees. Wu Xuedan, our Executive Director, heads the sales and marketing department and spends a substantial amount of time visiting our customers in the PRC to build and maintain close and long-term relationships.

Our sales and marketing activities are conducted mainly through our sales representatives who are located in most provinces and municipalities in the PRC. Our sales representatives market directly to potential and existing end customers which are mainly hospitals in the PRC. We conduct sales and marketing to more than 1,200 customers comprising both wholesalers and hospitals throughout the PRC. We sell our products through the wholesalers to approximately 2,000 hospitals located in many cities within the PRC.

We also publish the independent assessment reports issued collectively by the various hospitals in PRC such as Ruijin Hospital of Shanghai Second Medical University and Beijing University First Hospital. These reports state the findings after assessing the effectiveness of our ATT tablets. With favourable reports on our products in medical journals, people have a better knowledge and are more aware of our products.

We organise and participate actively in medical symposiums and conventions to promote our pharmaceutical products. During these seminars and conventions, we are also able to secure and establish relations with new customers. We are also one of the sponsors for the Second Digestive Disease Week (China Congress) (第二届中国消化疾病周) in Shanghai in November 2001. This is conducted once every four years in the PRC and is one of the largest gathering in the fields of gastroenterology, hepatology, endoscopy and gastrointestinal surgery. We were also one of the sponsors for the Fourth China Hepatology Conference (第四届全国肝脏病会议) in Haikou, PRC. We were also a sponsor in 2003 for the annual symposium for the Society of Gastroenterology and Hepatology in the PRC. Through these activities, we are able to promote our products, develop a close collaborative relationship with many medical societies and foster good relationships with physicians, researchers and academics who will then assess our products and their effectiveness.

We consider the establishment of an extensive and efficient sales and marketing network in the PRC crucial to the successful commercialisation of our pharmaceutical products. Our products are used in mainly hospitals as it is not classified as an OTC drug and there are restrictions on advertisements for such drugs. Thus, our marketing efforts are focused on hospitals.

COMPETITION

Our Directors believe there are over 6,000 companies producing pharmaceutical products in the PRC at the end of February 2004. To the best of our Directors' knowledge, there are currently only three companies in the PRC that are licensed by the SFDA to produce ATT tablets and they are based in Sichuan, of which we are one of them. The other two companies are:

Business activity	Major competitors
Production of pharmaceutical products	Sichuan Purui Pharmaceutical Co., Ltd
Production of pharmaceutical products	Chengdu Taixing Pharmaceutical Co., Ltd

To the best of our Directors' knowledge, we are the only company amongst the three producers of ATT tablets to have received the Sichuan Branded Product (四川名牌产品) for ATT tablets.

We are currently the only producer of Gansu granules in the PRC and thus have no competitors in relation to Gansu granules.

GENERAL INFORMATION ON OUR GROUP

COMPETITIVE STRENGTHS

We believe that the following are our competitive strengths:-

(a) Strong research and development capabilities and expertise in pharmaceutical products for the treatment of illnesses relating to the liver and gall bladder

Our research and development team is experienced in the pharmaceutical industry and are specialised in fields such as medicinal chemistry, pharmacy, pharmacology and product development. Our research and development team is headed by Dr Chen Yaoming, who has 20 years of experience in the biomedical sciences and pharmaceutical industry. Our research and development team is further enhanced by our alliances with certain research institutes in the PRC and in Germany. Some of these institutes include the Sichuan Industrial Institute of Antibiotics, West China University of Medical Sciences, Sichuan Institute of Chinese Medical Sciences, Beijing University School of Pharmaceutical Sciences, Guizhou University, China Japan Friendship Hospital and Xiyuan Hospital of China Academy of Traditional Chinese Medicine. We also have an alliance with the Osnabruck University, Germany. Through these alliances, we are able to exchange technical know-how and further develop our technical capabilities.

We have been conducting research and development on pharmaceutical products for liver and gallbladder related conditions for the past eight years. We believe that we possess the necessary technical expertise and know-how in this aspect of medical science.

(b) We are one of the three pharmaceutical companies who are licensed to produce ATT tablets in the PRC

Only companies that are licensed by the SFDA may produce ATT tablets in the PRC. To the best of our Directors' knowledge, there are only three pharmaceutical companies who are awarded the licence by the SFDA to produce ATT tablets in the PRC. As one of the three companies who have the licence to produce ATT tablets, we believe that we are placed in a good position to tap the demand for ATT tablets.

(c) Currently, only our Group has the right to produce Gansu granules in the PRC

We have been granted a licence by the PRC authorities to produce Gansu granules from Ganhuangcao. The Gansu granules were licensed as a protected TCM formulated product (中药保护品种) by the SFDA in 1999. Under this licence, only our Group has the right to produce Gansu granules in the PRC for seven years from 1999 and may apply for renewal of this right for another seven years when it expires in 2006, subject to the prevailing PRC laws and regulations.

In December 2003, our Gansu granules was awarded the "Products of Designation of Origin and Geographical Indications of the PRC (中华人民共和国原产地域产品)", which is the first TCM formulated product to receive such protection and recognition. As we are currently the only company to be awarded this certification in the PRC, we believe that we have a competitive edge over our competitors.

(d) Extensive sales and marketing network

As at 31 December 2003, we have established an extensive sales and marketing network of approximately 900 sales personnel in most provinces, municipalities and autonomous regions throughout the PRC. We conduct sales and marketing to more than 1,200 customers throughout the PRC. We sell our products through the wholesalers to approximately 2,000 hospitals located in many cities within the PRC. We are able to deliver quality sales services and after sales support to our end customers. Due to our extensive sales and marketing network, we are able to ensure timely delivery of our products to our customers and reach out to many other potential customers.

GENERAL INFORMATION ON OUR GROUP

In addition, due to our established sales and marketing network, we are able to quickly and effectively market any new products which we may develop. This will enable us to reach out to our customers and potential customers quickly and more effectively.

(e) Established goodwill and branding

Due to our marketing strategies, we believe that our brands “国嘉” and “郎中” are well-recognised brand names of pharmaceutical products in the PRC and one that is associated with delivering quality and safe products. This is evidenced by our growth in sales from RMB 67,044,000 in FY2001 to RMB 120,702,000 in FY2003. In addition, our products and innovations have received numerous awards. Please refer to the section “Our Awards and Accolades” of this Prospectus for more details.

(f) Experienced management team

We have an experienced management team who has extensive experience in the pharmaceutical industry. We are led by our Executive Chairman, Jiang Yun, who has approximately 21 years of experience in the pharmaceutical industry. He is assisted by a team of experienced managers such as our Executive Director, Wu Xuedan (who heads our sales and marketing team) and our General Manager, Dr Chen Yaoming (who heads our research and development team). Please refer to the section “Directors, Management and Staff” of this Prospectus for further details.

OUR PROSPECTS

There are currently more than 60,000 hospitals of varying sizes in the PRC. We believe that the demand for effective and affordable pharmaceutical products is likely to grow in tandem with the growing affluence of the PRC population which will lead to growing health awareness. Gall bladder and liver-related ailments are common within the PRC.

As such, with economic growth and hence, higher standards of living, we believe that the demand for quality and affordable pharmaceutical products will likely rise in the PRC. Our ATT tablets are complemented by our Gansu granules. Our aim is to capitalise our expertise in both pharmaceutical products based on Western medicine and TCM formulated products to provide comprehensive healthcare and treatment for the ultimate consumers of our products.

The Gansu granules which we produce is derived from Ganhuangcao. Generally, liver problems may lead to jaundice and jaundice-like conditions. Our Gansu granules have been certified by the SFDA for use in the protection of the liver, the treatment of liver-related conditions or relieving symptoms associated with the liver problems. Gansu granules also complement our existing Western medicine based product, ATT, giving practitioners in the medical field greater degree of flexibility in the care for their patients. We have modernised our production facilities for Gansu granules and other related products and adopted more advanced technology to enhance product quality. With this approach, we believe that through greater confidence in our product quality, there will be a higher demand for our products.

We believe that the TCM market has the potential to expand as TCM utilises natural ingredients. The use of natural ingredients will likely appeal to health conscious consumers.

GENERAL INFORMATION ON OUR GROUP

TREND INFORMATION

Barring any unforeseen circumstances, our Directors believe that the following are the salient trends for our business in the current financial year:

- (a) there is a trend of increased health consciousness in the PRC which will encourage the demand for pharmaceutical products such as our ATT tablets and Gansu granules which help preserve the consumers' health and alleviate the symptoms of liver and gall bladder related illnesses;
- (b) in line with our expansion plans, our sales and inventory are expected to increase;
- (c) we are strengthening our sales and marketing network in the PRC and increasing our advertising and promotional efforts to the hospitals. As a result, our selling and distribution costs are expected to increase in tandem with the expected increase in revenue; and
- (d) our overall gross margins are expected to decline marginally as we expect the contribution from our Gansu granules to increase. Gansu granules have a lower gross margin as compared to ATT tablets.

As at 25 August 2004, we have unfulfilled secured orders amounting to approximately RMB 13.7 million, all of which are expected to be fulfilled in FY2004.

OUR FUTURE PLANS AND BUSINESS STRATEGIES

In order to further expand and strengthen our business, we have the following plans:-

(a) To Purchase Equipment and Machinery for the Production of ATT and Gansu in Capsule Form

We intend to purchase new equipment and machinery for the production of our ATT and Gansu capsules at our Chengdu and Gulin manufacturing plants respectively, which will be partially financed by part of the Invitation proceeds. This production and sale of ATT and Gansu in capsule form will complement our existing range of products.

(b) To Promote Greater Brand Awareness in the PRC and Overseas Markets

We plan to increase our market presence and promote greater awareness of our brands within the PRC by building on our existing marketing network, advertising in medical journals and newspapers, organising and participating in seminars and exhibitions. With increased publicity, more people will have a better knowledge and understanding of our products. In addition, we intend to establish a corporate office in Singapore to raise our corporate profile outside the PRC. By establishing a business presence in Singapore, we believe that we will be better positioned to penetrate and tap into Singapore and the Asia Pacific markets.

(c) To Focus on Research and Development and Product Enhancement

We believe that our research and development team is and will be one of the main drivers for our future growth. We will continue to focus on research and development to enhance the quality of and developing new applications for our existing pharmaceutical products. We plan to expand our research and development team by recruiting more professionals. We also intend to establish more alliances with other institutions and universities to continue our research and development into fields such as cardiology to develop products which can be used in the treatment of cerebral and peripheral circulatory disturbances.

GENERAL INFORMATION ON OUR GROUP

In line with our strategic direction, we intend to set up a research and development centre which will increase our research and development capabilities, enhance existing products, develop new products and assist in the development of ongoing projects.

We also intend to apply for patents relating to ATT injection methods and conduct further research and development in the treatment of fatty liver.

(d) To Advance TCM Production Process and Technology

Through our technology agreement with Sunstar Process Technology (Xiamen) Co. Ltd, a wholly-owned subsidiary of Sinomem, we intend to integrate the advanced membrane technology into our TCM production process. Sinomem specialises in the provision of integrated processes and engineering solutions for separation, purification and cleaner production purposes utilising advanced membrane technology. This will enable us to modernise and upgrade our production methods and improve our production yields and product quality, thus giving us a competitive advantage over our competitors.

(e) To Produce New Products

We have obtained licences to produce 49 other western medicines and TCM formulated products. We are currently conducting informal market surveys and research on certain new products to assess their market demand and viability. As and when these informal market surveys and research generate favourable responses, we may commence production and sale of these new products. Please refer to the section “Our Products” of this Prospectus for more details.

(f) To Explore Other Acquisitions, Strategic Alliances and/or Joint Ventures

We will also continue to explore opportunities to acquire other pharmaceutical related businesses in the PRC through strategic alliances and joint venture partners that will give us access to new markets and to further develop our technological capabilities. In particular, we may acquire the remaining 49.0 per cent equity interest in Longlife if we consider it to be in the interests of our Group.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of our unaudited pro forma consolidated results of operations and consolidated financial position and should be read in conjunction with the Unaudited Pro Forma Consolidated Financial Statements and the related notes set out on pages II-1 to II-23 of this Prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward looking-statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly in the section "Risk Factors" of this Prospectus.

UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS ACCOUNTS⁽¹⁾

	← FY2001 RMB '000	Pro Forma FY2002 RMB '000	FY2003 RMB '000 →
Revenue	67,044	94,183	120,702
Cost of sales	(7,248)	(9,587)	(11,786)
Gross profit	59,796	84,596	108,916
Other income ⁽²⁾	5,676	3,573	7,000
Selling and distribution costs	(36,102)	(53,346)	(66,935)
Administrative costs	(8,561)	(11,146)	(8,271)
Other operating costs	(114)	(558)	(1,196)
Profit from operating activities	20,695	23,119	39,514
Finance costs	(600)	(1,814)	(3,078)
Profit before income tax and minority interest⁽³⁾	20,095	21,305	36,436
Income tax expense	(6,275)	(7,776)	(10,301)
Profit before minority interest	13,820	13,529	26,135
Minority interest	–	(500)	(1,881)
Net profit⁽³⁾	13,820	13,029	24,254
EPS (RMB cents) ^{(3), (4)}	9.21	8.69	16.17

Notes:-

- (1) The unaudited pro forma consolidated profit and loss accounts have been prepared on the assumption that the Pro Forma Group structure had been in existence since 1 January 2001, except for the results of Longlife, which were consolidated into the unaudited pro forma consolidated profit and loss accounts as if the Longlife has been a 51.0 per cent subsidiary of the Company from 1 August 2002, the date whereby Longlife was taken over from the state-owned enterprise. The financial statements of Longlife prior to 1 August 2002 have not been included in arriving at the unaudited pro forma consolidated financial statements of the Pro Forma Group as its inclusion will not reflect appropriately the performance of the Group's management.
- (2) Other income includes government grants received. With effect from 4 November 2003, pursuant to the Restructuring Exercise as disclosed under the section "Restructuring Exercise" of this Prospectus, our business and activities are now carried on by Kinna Pharm, a wholly-owned foreign enterprise. Thus, we are no longer eligible for such grants.
- (3) Had the service agreements for our Directors and Executive Officers (set out on in the section "Service Agreements" of this Prospectus) been in place for FY2003, our profit before income tax and minority interest, net profit and EPS for FY2003 would have been RMB 33.0 million, RMB 20.8 million and RMB 13.90 cents respectively.
- (4) For comparative purposes, the EPS for the period under review has been calculated based on our net profit and the pre-Invitation share capital of 150,000,000 Shares.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA
CONSOLIDATED RESULTS OF OPERATIONS**

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET⁽¹⁾

	Pro Forma 31 December 2003 RMB '000
Non-current assets	
Property, plant and equipment	28,068
Goodwill	3,195
	31,263
Current assets	
Cash and cash equivalents	20,973
Trade receivables	56,621
Prepayments, deposits and other receivables	4,580
Inventories	3,850
	86,024
Current liabilities	
Bank loans	49,300
Trade payables	5,668
Accrued liabilities and other payables	6,419
Tax payable	859
Amount due to related party	3,500
	65,746
Net current assets	20,278
Long term liabilities	
Bank loans	12,079
Amount due to related party	6,059
	(18,138)
Net assets	33,403
Represented by:	
Pro forma shareholders' equity	29,292
Minority interest	4,111
	33,403
NTA per Share (RMB cents) ⁽²⁾	17.40

Notes:

- (1) The unaudited pro forma consolidated balance sheet has been prepared on the assumption that the Pro Forma Group structure existed as at 31 December 2003.
- (2) For comparative purposes, our NTA per Share for the period under review has been calculated based on our net profit and our pre-Invitation share capital of 150,000,000 Shares.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA
CONSOLIDATED RESULTS OF OPERATIONS**

TRANSLATED UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS ACCOUNTS⁽¹⁾

	← FY2001 SGD '000	Pro Forma FY2002 SGD '000	→ FY2003 SGD '000
Revenue	14,528	20,365	25,405
Cost of sales	(1,570)	(2,073)	(2,481)
Gross profit	12,958	18,292	22,924
Other income ⁽²⁾	1,230	773	1,473
Selling and distribution costs	(7,823)	(11,535)	(14,088)
Administrative costs	(1,855)	(2,410)	(1,741)
Other operating costs	(25)	(121)	(252)
Profit from operating activities	4,485	4,999	8,316
Finance costs	(130)	(392)	(648)
Profit before income tax and minority interest⁽³⁾	4,355	4,607	7,668
Income tax expense	(1,360)	(1,681)	(2,168)
Profit before minority interest	2,995	2,926	5,500
Minority interest	–	(108)	(396)
Net profit⁽³⁾	2,995	2,818	5,104
EPS (\$ cents) ^{(3), (4)}	2.00	1.88	3.40

Notes:-

- (1) The unaudited pro forma consolidated profit and loss accounts have been prepared on the assumption that the Pro Forma Group structure had been in existence since 1 January 2001, except for the results of Longlife, which were consolidated into the unaudited pro forma consolidated profit and loss accounts as if the Longlife has been a 51.0 per cent subsidiary of the Company from 1 August 2002, the date whereby Longlife was taken over from the state-owned enterprise. The financial statements of Longlife prior to 1 August 2002 have not been included in arriving at the unaudited pro forma consolidated financial statements of the Pro Forma Group as its inclusion will not reflect appropriately the performance of the Group's management.
- (2) Other income includes government grants received. With effect from 4 November 2003, pursuant to the Restructuring Exercise as disclosed under the section "Restructuring Exercise" of this Prospectus, our business and activities are now carried on by Kinna Pharm, a wholly-owned foreign enterprise. Thus, we are no longer eligible for such grants.
- (3) Had the service agreements for our Directors and Executive Officers (set out on in the section "Service Agreements" of this Prospectus) been in place for FY2003, our profit before income tax and minority interest, net profit and EPS for FY2003 would have been \$7.0 million, \$4.4 million and 2.93 cents respectively.
- (4) For comparative purposes, the EPS for the period under review has been calculated based on our net profit and the pre-Invitation share capital of 150,000,000 Shares.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA
CONSOLIDATED RESULTS OF OPERATIONS**

TRANSLATED UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET⁽¹⁾

	Pro Forma 31 December 2003 SGD '000
Non-current assets	
Property, plant and equipment	5,768
Goodwill	657
	6,425
Current assets	
Cash and cash equivalents	4,310
Trade receivables	11,636
Prepayments, deposits and other receivables	941
Inventories	791
	17,678
Current liabilities	
Bank loans	10,132
Trade payables	1,165
Accrued liabilities and other payables	1,319
Tax payable	177
Amount due to a related party	719
	13,512
Net current assets	4,166
Long term liabilities	
Bank loans	(2,482)
Amount due to a related party	(1,244)
	(3,726)
Net assets	6,865
Represented by:	
Pro forma shareholders' equity	6,020
Minority interest	845
	6,865
NTA per Share (\$ cents) ⁽²⁾	3.58

Note:

- (1) The unaudited pro forma consolidated balance sheet has been prepared on the assumption that the Pro Forma Group structure existed as at 31 December 2003.
- (2) For comparative purposes, our NTA per Share for the period under review has been calculated based on our net profit and our pre-Invitation share capital of 150,000,000 Shares.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

OVERVIEW

Revenue

We are a pharmaceutical company specialising in the manufacture of Western medicine and TCM for the treatment of illnesses relating to the liver and gall bladder. We primarily produce and sell ATT tablets (under our Western medicine range) and Gansu granules (under our TCM range). Our products are sold throughout the PRC. For FY2003, sales of Western medicine and TCM accounted for 75.0 per cent and 25.0 per cent of our revenue respectively.

Our products are sold mainly to wholesalers who, in turn, on-sell the products to mainly hospitals. We also sell a very small amount direct to the smaller hospitals and clinics. Our revenue is recognised upon delivery of our products to our customers.

Our pro forma revenue is denominated in RMB in FY2001, FY2002 and FY2003.

The demand for our pharmaceutical products is generally not subject to any seasonality. However, sales volume tends to increase during the months of November and December due to the inventory procurement patterns of our customers in preparation for the Chinese New Year period which usually falls on January and February when production volume decreases due to the aforesaid festive season. As a result, revenue derived in the first quarter of the financial year is usually lower compared to rest of the year.

The key factors that affect our revenue include, *inter alia*:-

- (a) Our ability to develop new drugs and new applications for existing drugs. We are currently waiting for the relevant regulatory approval for the production of an improved version of ATT capsule and Gansu capsule. We also conduct research on improved cultivation methods to improve the yield and quality of Ganhuangcao harvested and identifying the active ingredients in Ganhuangcao;
- (b) The level of market acceptance for our products;
- (c) The effectiveness of our sales and marketing networks throughout the PRC;
- (d) Our ability to compete successfully with existing competitors and new market entrants;
- (e) Timeliness in obtaining regulatory approvals for clinical study and drug manufacturing permits for our new products. Typically, the time period from which a new drug is submitted for approval by SFDA generally varies between one to two years; and
- (f) Regulation of retail prices of our pharmaceutical products by the relevant PRC authorities.

Currently, the PRC Price Bureau (物价局) determines the retail prices of our pharmaceutical products on the basis of product category, costs of development and GMP system implementation status of the manufacturer. The PRC Price Bureau will prescribe an official maximum retail price for each pharmaceutical product marketed in the PRC. Our selling price is determined based on our negotiations with the wholesalers. Please refer to the section "Risk Factors" of this Prospectus for more details. The sale prices of our products have been relatively stable for FY2003 and we do not expect any material changes in the trend of our sale prices in the future.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA
CONSOLIDATED RESULTS OF OPERATIONS**

Cost of sales

Our cost of sales comprises direct materials, direct labour, and other manufacturing overheads. The proportion of these components as a percentage of revenue and cost of sales, respectively, are as follows:-

% of revenue	FY2001	FY2002	FY2003
Direct materials	7.2	6.7	6.7
Direct labour	0.8	0.8	0.8
Other manufacturing overheads			
– Depreciation	1.6	1.4	1.2
– Fuel & utilities	0.4	0.4	0.4
– Repair & maintenance	0.2	0.4	0.4
– Others	0.6	0.5	0.3
Total	10.8	10.2	9.8

% of Cost of sales	FY2001	FY2002	FY2003
Direct materials	66.9	66.0	68.6
Direct labour	7.8	7.8	8.2
Other manufacturing overheads			
– Depreciation	14.4	13.9	11.6
– Fuel & utilities	3.3	3.6	3.7
– Repair & maintenance	2.2	3.7	4.2
– Others	5.4	5.0	3.7
Total	100.0	100.0	100.0

Direct materials include mainly raw materials, packaging materials and additives for the production of ATT tablets and Gansu granules.

Direct materials as a proportion of cost of sales increased from 66.9 per cent in FY2001 to 68.6 per cent in FY2003. The cost of our raw materials is dependent on our negotiations with our suppliers. The raw material ATT, is supplied by Shanghai Medical (Group) Co., Ltd (上海医药(集团)有限公司), who is our sole supplier. Currently we have not entered into any supply contracts for our raw material for the ATT tablets, ATT. However, our Directors are of the view that Shanghai Medical (Group) Co., Ltd will continue to supply to us as we are one of the three licensed manufacturers of ATT tablets in the PRC.

We derive our raw material for Gansu granules i.e. Ganhuangcao, from amongst approximately 120 farmers in Gulin. For the raw material Ganhuangcao, we enter into supply contracts with the farmers and such contracts are renewed annually. We enter into such contracts with the farmers in the early part of each year.

We expect prices of raw materials to remain relatively stable in the foreseeable future. As we increased production, other cost components such as depreciation charges, which are largely fixed in nature, increased at a lower rate than sales.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA
CONSOLIDATED RESULTS OF OPERATIONS**

Direct labour relates mainly to salaries and bonuses paid to production personnel in the PRC. Factors affecting our direct labour costs include the number of employees, increments in salaries and bonuses. The number of personnel required for production is dependent on the demand for our products. Our direct labour costs as a percentage of cost of sales for the last three financial years has remained relatively stable at 7.8 per cent for FY2001 and FY2002, but increased to 8.2 per cent for FY2003 due to the inclusion of additional headcount and labour costs from Longlife, which has a more labour intensive production process.

Other manufacturing overheads comprise mainly depreciation of property, plant and equipment related to production, repair and maintenance, expenses incurred for quality checks, fuel and utilities, and others.

Other Income

Other income comprises solely various government grants for pharmaceutical companies owned by PRC individuals or companies incorporated in the PRC. These grants were mainly in relation to our research and development and business development activities. With effect from 4 November 2003, pursuant to the Restructuring Exercise as disclosed under the section "Restructuring Exercise" of this Prospectus, our business and activities are now carried on by Kinna Pharm, a wholly-owned foreign enterprise. Thus, we are no longer eligible for such grants.

Operating Expenses

Our operating expenses comprise selling and distribution costs, administrative costs and other operating costs. These expenses, expressed as a percentage of total operating expenses are as follows:-

% of total operating expenses	← FY2001	Pro Forma FY2002	FY2003 →
<u>Selling and distribution costs</u>			
Delivery	10.0	6.0	7.6
Salaries of salesmen	13.6	14.6	14.5
Advertising	2.6	1.0	0.5
Travelling allowances and marketing costs	42.9	51.9	53.1
Office expenses	10.2	8.2	11.8
Others	1.3	0.3	0.1
	80.6	82.0	87.6
<u>Administrative costs</u>			
Staff costs	0.7	1.6	1.5
Development costs	4.3	2.9	1.2
Depreciation	–	0.3	0.4
Travelling	2.6	2.6	1.2
Allowance for doubtful debts	3.1	1.6	0.3
Allowance for inventory obsolescence	0.1	–	0.2
Social Insurance	0.1	0.6	0.4
Others	8.2	7.5	5.6
	19.1	17.1	10.8
<u>Other operating costs</u>			
Amortisation of goodwill	–	0.4	0.8
Others	0.3	0.5	0.8
	0.3	0.9	1.6
Total	100.0	100.0	100.0

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

Selling and distribution costs comprise mainly delivery charges, salaries of salesmen, advertising costs, travelling allowances and marketing costs, office expenses and others. As our main products, ATT tablets and Gansu granules, are not classified as OTC drugs, they are typically marketed via our sales representatives to mainly the wholesalers and hospitals. As a result of this direct marketing approach, our selling and distribution expenses accounted for more than 80.0 per cent of our total operating expenses for each of the 3 financial years ended 31 December.

Our administrative costs comprise mainly staff costs, development costs, depreciation charges, travelling expenses, entertainment expenses, provision for doubtful debts, administrative expenses and others. Staff costs include Directors' and staff remuneration, social insurance expenses, staff welfare and staff training expenses. Development costs are incurred by our research and development department for the development of new products as well as our research for new applications for our existing products. Depreciation charges relate to our office equipment, motor vehicles and other equipment. Other administrative expenses include the rental of our office premise at Vancouver Plaza in Chengdu, insurance, office supplies and others. Our administrative expenses accounted for 19.1 per cent, 17.1 per cent and 10.8 per cent of our total operating expenses for FY2001, FY2002 and FY2003 respectively.

Other operating costs comprise mainly amortisation of goodwill, loss on disposal of plant and equipment and impairment loss for plant and machinery. Our other operating expenses accounted for 0.3 per cent, 0.9 per cent and 1.6 per cent of our total operating expenses for FY2001, FY2002 and FY2003 respectively.

Finance Costs

Finance costs include interest expenses on bank loans net of interest income from bank deposits and bank charges. Interest rates on bank loans for FY2001, FY2002 and FY2003 was 7.0 per cent, 3.0 per cent to 6.9 per cent and 5.3 per cent to 6.1 per cent per annum respectively.

Minority Interest

Minority interest represents the minority shareholder's share of profit in our subsidiary, Longlife.

Income Tax Expense

Our subsidiaries in the PRC are taxed in accordance with the Income Tax Law of the PRC. As both Kinna Pharm and Longlife are located in the region under the Development of Western China Plan, they are subject to the concessionary state tax rate of 15.0 per cent of their taxable income. However, our Group's overall effective tax rates for FY2001, FY2002 and FY2003 were 31.2 per cent, 36.5 per cent and 28.3 per cent respectively due to adjustment in non-deductible expenses comprising mainly travel allowances for our sales and marketing personnel, staff costs, donations and impairment loss on property, plant and equipment. We were not entitled to any tax relief during the last three financial years ended 31 December.

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", with effect from 1 January 2004, Kinna Pharm, will be entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. Thereafter, for the next three years, the tax rate will be at 15.0 per cent. This is due to the exemption of half of the 30.0 per cent state tax and a full exemption on the 3.0 per cent land taxes. As at the Latest Practicable Date, Longlife is in the process of applying for income tax exemption.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

We derive our revenue solely from the production and sale of pharmaceutical products to customers in the PRC. As all of our operating activities are carried out in the PRC, a segregation of our revenue by geographical region is not meaningful.

We have, however, provided tables setting out a breakdown of our revenue, gross profit and profit before income tax and minority interest by product segments for the last three financial years ended 31 December. This analysis should be read in conjunction with the unaudited pro forma consolidated financial statements and the related notes. Please refer to the section under "General Information of our Group" of this Prospectus for the classification of our drugs which were in production for the last three financial years as Western medicine and TCM.

Breakdown of our past performance by product segments

Revenue

Nature of Products	FY2001		FY2002		FY2003	
	RMB '000	%	RMB '000	%	RMB '000	%
Western medicine	67,044	100	81,304	86.3	90,553	75.0
TCM ⁽¹⁾	–	–	12,879	13.7	30,149	25.0
Total	67,044	100	94,183	100	120,702	100

Gross profit

Products	FY2001		FY2002		FY2003	
	RMB '000	%	RMB '000	%	RMB '000	%
Western medicine	59,796	100	73,559	87.0	82,521	75.8
TCM ⁽¹⁾	–	–	11,037	13.0	26,395	24.2
Total	59,796	100	84,596	100	108,916	100

Gross margin

Products	FY2001	FY2002	FY2003
	%	%	%
Western medicine	89.2	90.5	91.1
TCM	–	85.7	87.5
Overall	89.2	89.8	90.2

Profit before income tax and minority interest

Products	FY2001		FY2002		FY2003	
	RMB '000	%	RMB '000	%	RMB '000	%
Western medicine	20,095	100.0	19,980	93.8	31,538	86.6
TCM ⁽¹⁾	–	–	1,325	6.2	4,898	13.4
Total	20,095	100.0	21,305	100.0	36,436	100.0

Note:

- (1) The unaudited pro forma consolidated profit and loss accounts have been prepared on the assumption that the Pro Forma Group structure had been in existence since 1 January 2001, except for the results of Longlife, which were consolidated into the unaudited pro forma consolidated profit and loss accounts as if the Longlife has been a 51.0 per cent subsidiary of the Company from 1 August 2002, the date whereby Longlife was taken over from a state-owned enterprise. The financial statements of Longlife prior to 1 August 2002 have not been included in arriving at the unaudited pro forma consolidated financial statements of the Pro Forma Group as its inclusion will not reflect appropriately the performance of the Group's management.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

REVIEW OF PAST PERFORMANCE

FY2001 vs FY2002

Revenue

Revenue increased by RMB 27.2 million or 40.5 per cent from RMB 67.0 million in FY2001 to RMB 94.2 million in FY2002. This was due mainly to:-

- (a) an increase of RMB 13.6 million from the sales of ATT tablets and an increase of RMB 0.7 million from the sales of various other Western medicine, particularly in Shanghai, Jiangsu, Shandong, Henan and Guangdong. The increased sales were a result of our increased marketing efforts in promoting the use of our drug which resulted in increased orders from our existing customers and us securing new customers; and
- (b) an increase of RMB 12.9 million from the sales of Gansu granules due to the five months contribution from Longlife. Please refer to the section "Restructuring Exercise" of this Prospectus for further details on our acquisition of Longlife.

Gross profit

Gross profit increased by RMB 24.8 million or 41.5 per cent from RMB 59.8 million in FY2001 to RMB 84.6 million in FY2002 in tandem with our increase in revenue. The slight improvement in gross margin from 89.2 per cent in FY2001 to 89.8 per cent in FY2002 was due mainly to the economies of scale achieved in tandem with the higher revenue.

Other income

Other income decreased by RMB 2.1 million from RMB 5.7 million in FY2001 to RMB 3.6 million in FY2002 due to a decrease in government grants received. The amounts of these grants vary from year to year and is dependent on the fiscal budgets. These government grants were given mainly to Kinna Pharm in support of our biopharmaceutical business. With effect from 4 November 2003, pursuant to the Restructuring Exercise as disclosed under the section "Restructuring Exercise" of this Prospectus, our business and activities are now carried on by Kinna Pharm, a wholly-owned foreign enterprise. Thus, we are no longer eligible for such grants.

Operating expenses

Selling and distribution costs

Our selling and distribution costs increased by RMB 17.2 million or 47.8 per cent from RMB 36.1 million in FY2001 to RMB 53.3 million in FY2002. This increase was due mainly to:

- (a) an increase in travelling allowances and marketing costs by RMB 14.6 million arising from our increased marketing activities within the PRC;
- (b) an increase in salaries of RMB 2.8 million due mainly to the increased headcount for sales and marketing from 500 in FY2001 to 861 in FY2002 to strengthen our sales and marketing network in the PRC;
- (c) an increase in office expenses of RMB 0.8 million due to our increased number of sales offices which is in line with the increase of our revenue; and
- (d) an increase in other miscellaneous selling and distribution costs of RMB 0.2 million.

The increase is partially offset by a decrease in delivery costs of RMB 0.6 million as we engaged lower-priced logistics companies and RMB 0.6 million decrease in advertising costs as we channelled more resources on promotion and marketing activities during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

Administrative costs

Administrative costs increased by RMB 2.5 million or 30.2 per cent from RMB 8.6 million in FY2001 to RMB 11.1 million in FY2002 due mainly to:-

- (a) a RMB 0.5 million increase in staff costs and RMB 0.3 million increase in social insurance expenses attributable to administrative costs incurred by Longlife for the period from 1 August 2002 to 31 December 2002 and an increase of our administrative support functions arising from our expansion of operations;
- (b) a RMB 0.5 million increase in travelling expense due to the consolidation of expenses from Longlife;
- (c) a RMB 0.3 million increase in rental expense related to our office premise and motor vehicles;
- (d) a RMB 0.2 million increase in depreciation expense arising from additions of property, plant and equipment;
- (e) a RMB 0.3 million increase in motor vehicle expenses due to the increase of our administrative support personnel;
- (f) a RMB 0.5 million increase in entertainment expenses;
- (g) a RMB 0.6 million increase in office expenses due to increased usage of office supplies;
- (h) a RMB 0.1 million increase in miscellaneous taxes consolidated from Longlife;
- (i) a RMB 0.1 million increase in insurance costs due mainly to the consolidation of Longlife's expenses; and
- (j) a RMB 0.1 million increase in other administrative costs.

The above increases were partially offset by a decrease in the following expenses:

- (a) a RMB 0.3 million decrease in provision of doubtful debts as a result of improved collections procedure imposed by management; and
- (b) a RMB 0.7 million decrease in logo design costs as no such costs were incurred during the year.

Other operating costs

Other operating costs increased by RMB 0.4 million due mainly to the amortisation of goodwill arising from our acquisition of Longlife of RMB 0.2 million and donations amounting to RMB 0.3 million, offset by a decrease in impairment of fixed assets of RMB 0.1 million.

Finance costs

Finance costs increased from RMB 0.6 million in FY2001 to RMB 1.8 million in FY2002. This was due mainly to the increased interest expense arising from the consolidation of debts from Longlife in FY2002. Interest rates on borrowings for FY2001 was 7.0 per cent per annum compared to interest rates ranging from 3.0 per cent to 6.9 per cent per annum in FY2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

Profit before income tax and minority interest

Profit before income tax and minority interest increased by approximately RMB 1.2 million or 6.0 per cent from RMB 20.1 million in FY2001 to RMB 21.3 million in FY2002 with profit before income tax and minority interest margin decreasing from 30.0 per cent in FY2001 to 22.6 per cent in FY2002. This is due mainly to the following:-

- (a) higher selling and distribution costs, in particular, the advertising and promotion as well as travelling allowances and marketing costs;
- (b) higher finance costs due to the consolidation of debts arising from the acquisition of Longlife; and
- (c) a decrease in government grants received.

Income tax expense

Income tax expense increased by RMB 1.5 million or 23.9 per cent from RMB 6.3 million in FY2001 to RMB 7.8 million in FY2002. This was due mainly to a RMB 1.4 million increase in tax expense arising from non-tax deductible expenses including certain staff costs and allowances, travelling allowances and marketing costs, donations and impairment loss of property, plant and equipment. The remaining RMB 0.1 million increase in tax expense arose from the tax payable on the RMB 1.0 million increase in profit before income tax and minority interest. As a result of our higher non-tax deductible expenses, our overall effective tax rate increased from 31.2 per cent in FY2001 to 36.5 per cent in FY2002.

Net profit

Our net profit decreased by RMB 0.8 million or 5.7 per cent from RMB 13.8 million in FY2001 to RMB 13.0 million in FY2002 after deducting minority interest in Longlife which amounted to RMB 0.5 million. The RMB 1.2 million increase in profit before income tax and minority interest was offset by an increase in income tax expense and minority interest arising from Longlife. This led to the RMB 0.8 million decrease in net profit.

FY2002 vs FY2003

Revenue

Our revenue increased by RMB 26.5 million or 28.2 per cent from RMB 94.2 million in FY2002 to RMB 120.7 million in FY2003. This was due mainly to:-

- (a) an increase in the sale of Western medicine by RMB 9.3 million from RMB 81.3 million in FY2002 to RMB 90.6 million in FY2003. This was attributable mainly to the increase in sales of ATT tablets in Shanghai, Guangxi, Hubei and Hunan as a result of the expansion of our sales and marketing network in the said regions; and
- (b) an increase in the sale of Gansu granules due mainly to the 12 months contribution from Longlife in FY2003 compared to approximately 5 months in FY2002. Revenue from Gansu granules increased by RMB 17.2 million from RMB 12.9 million in FY2002 to RMB 30.1 million in FY2003.

Gross profit

Our gross profit increased by RMB 24.3 million or 28.7 per cent from RMB 84.6 million in FY2002 to RMB 108.9 million in FY2003, in line with the increase in our revenue. Gross margin increased slightly from 89.8 per cent in FY2002 to 90.2 per cent in FY2003 due to the improved gross margins in our TCM and Western medicine segments. This was offset by a higher proportion of revenue from Gansu granules which has a lower gross margin compared to ATT tablets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

Other income

Other income increased by RMB 3.4 million or 95.9 per cent from RMB 3.6 million in FY2002 to RMB 7.0 million in FY2003 due mainly to an increase in government grants received by Kinna Pharm. The balance was due mainly to grants amounting to RMB 0.2 million received by Longlife. Longlife was also entitled to government grants given by Luzhou Science and Technology Committee (泸州市科委) for the research and development activities undertaken for Gansu granules. With effect from 4 November 2003, pursuant to the Restructuring Exercise as disclosed under the section "Restructuring Exercise" of this Prospectus, our business and activities are now carried on by Kinna Pharm, a wholly-owned foreign enterprise. Thus, we are no longer eligible for such grants.

Operating expense

Selling and distribution costs

Our selling and distribution costs increased by RMB 13.6 million or 25.5 per cent from RMB 53.3 million in FY2002 to RMB 66.9 million in FY2003 in tandem with the increase in revenue. Selling and distribution costs comprise 56.6 per cent and 55.5 per cent of total revenue for FY2002 and FY2003 respectively. The increase in selling and distribution costs was due mainly to:-

- (a) a RMB 6.8 million increase in travelling allowances and marketing costs and advertising expenses arising from increased marketing activities;
- (b) a RMB 1.6 million increase in salaries as a result of the recruitment of additional sales and marketing staff to strengthen Longlife's existing sales network in the PRC;
- (c) a RMB 1.9 million increase in delivery costs due to a wider delivery area of goods being delivered; and
- (d) an increase of approximately RMB 3.6 million in expenses for the sales offices across PRC due to higher office supplies utilisation by our sales personnel.

The increase was partially offset by a decrease of RMB 0.3 million due mainly to the following:

- (a) a RMB 0.2 million decrease in advertising costs as we have focused more on marketing to hospitals as compared to advertising through professional journals; and
- (b) a RMB 0.1 million decrease in other selling and distribution expenses.

Administrative costs

Administrative costs decreased by RMB 2.8 million or 25.8 per cent from RMB 11.1 million in FY2002 to RMB 8.3 million in FY2003 due mainly to:-

- (a) a RMB 0.8 million decrease in travelling expenses and RMB 0.4 million decrease in entertainment expenses associated with cost savings measures ;
- (b) a RMB 1.0 million decrease in development costs following several applications submitted by our Group to SFDA for approval;
- (c) a RMB 0.8 million decrease in allowance for doubtful debts as a result of improved credit control measures; and
- (d) a RMB 0.3 million decrease in miscellaneous assets expensed and RMB 0.4 million decrease in office and meeting expenses due to cost saving measures imposed.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

The decrease is partially offset by an increase of RMB 0.9 million in the following expenses:-

- (a) a RMB 0.2 million increase in staff costs arising from our expanding operations;
- (b) a RMB 0.4 million increase in expenses relating to road improvement works made within our factory premises;
- (c) a RMB 0.1 million increase in rental expenses arising from the rental of equipment from a related party;
- (d) a RMB 0.1 million increase in depreciation expenses; and
- (e) a RMB 0.1 million increase in allowances for inventory obsolescence.

Other operating costs

Other operating costs increased by RMB 0.6 million or 114.3 per cent from RMB 0.6 million in FY2002 to RMB 1.2 million in FY2003 due mainly to the increase in amortisation of goodwill amounting to RMB 0.3 million. The amortisation for goodwill was charged for 5 months in FY2002 as compared to 12 months in FY2003. The balance was due mainly to impairment of plant and equipment arising from the obsolescence of equipment and loss on disposal of plant and equipment amounting to RMB 0.3 million each. The above increases were partially offset by a decrease in donations amounting to RMB 0.3 million.

Finance costs

Finance costs increased by RMB 1.3 million or 69.7 per cent from RMB 1.8 million in FY2002 to RMB 3.1 million in FY2003. The increase was due mainly to the increase in long-term bank loans taken to partially finance the construction of the factory building in Gulin County.

Profit before income tax and minority interest

As a result of the above, profit before income tax and minority interest increased by approximately RMB 15.1 million or 71.0 per cent from RMB 21.3 million in FY2002 to RMB 36.4 million in FY2003. Profit before income tax and minority interest as a proportion of revenue increased from 22.6 per cent in FY2002 to 30.2 per cent in FY2003.

Income tax expense

Income tax expense increased by RMB 2.5 million or 32.5 per cent from RMB 7.8 million in FY2002 to RMB 10.3 million in FY2003 due to a RMB 15.1 million or 71.0 per cent increase in profit before income tax and minority interest. Despite the increase in income tax expense, our effective tax rate decreased from 36.5 per cent in FY2002 to 28.3 per cent in FY2003. This is principally due to a reversal of inventory provision previously disallowed by the Chinese Authorities a few years ago which had only been approved during FY2003.

Net profit

Our net profit increased by RMB 11.3 million or 86.2 per cent from RMB 13.0 million in FY2002 to RMB 24.3 million in FY2003 after deducting minority interest which amounted to RMB 1.9 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

REVIEW OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL POSITION

A review of our unaudited pro forma consolidated financial position as at 31 December 2003 is set out below:

Non current assets

Non current assets comprise property, plant and equipment, and goodwill, which comprise 23.9 per cent and 2.7 per cent of our total assets, respectively.

Property, plant and equipment consist of land use rights, buildings, plant and machinery, motor vehicles and other equipment, which are mainly financed from cash generated from our operations and loans from our banks. We employ the straight-line method to depreciate our property, plant and equipment over their estimated useful lives.

Goodwill arises from the acquisition of the pharmaceutical business from Chengdu Kinna which includes a 30.0 per cent equity interest in Longlife and an additional acquisition of 21.0 per cent equity interest in Longlife. The goodwill is amortised on a straight line basis over 10 years.

Current assets

Our current assets, which amounted to RMB 86.0 million as at 31 December 2003, comprise cash and cash equivalents, trade receivables, prepayments, deposits and other receivables and inventories.

Cash and cash equivalents of RMB 21.0 million constitute 24.4 per cent of current assets, which comprise mainly cash collections from our customers and capital contribution. Trade receivables amounted to RMB 56.6 million and represents 65.8 per cent of our current assets. Trade receivables include balances due mainly from wholesalers and hospitals. Prepayments, deposits and other receivables amount to RMB 4.6 million or 5.3 per cent of current assets, of which RMB 3.3 million are advances to our sales representatives for their sales and marketing activities in PRC. Inventories amounted to RMB 3.9 million or 4.5 per cent of current assets. Our inventories consisted mainly of raw materials which are used for production. It also comprises work-in-progress and finished goods.

Current liabilities

Our current liabilities, which amounted to RMB 65.7 million as at 31 December 2003, comprised bank loans, trade and bills payables, other payables and accruals, provision for taxation and amount due to a related party.

Bank loans amounted to RMB 49.3 million or 75.0 per cent of current liabilities. Our bank borrowings are obtained primarily as working capital to support the expansion of our selling and marketing network within PRC. Trade payables, which amounted to RMB 5.7 million or 8.6 per cent of our current liabilities, comprised mainly payables for raw materials and packaging materials. Other payables and accruals amounted to RMB 6.4 million and make up 9.8 per cent of current liabilities. Other payables and accruals consist mainly VAT payables amounting to RMB 2.4 million, personal income taxes payable on behalf of employees of RMB 0.3 million, construction taxes of RMB 0.2 million, other miscellaneous taxes of RMB 0.1 million, accruals and other payables of RMB 0.2 million and the amount payable for the acquisition of 21.0 per cent interest in Longlife. The amount is unsecured, interest free and repayable on demand. Provision for taxation amounted to RMB 0.8 million or 1.3 per cent of current liabilities. The amount comprises company taxes payable for profit generated from operations. The amount due to a related party amounting to RMB 3.5 million is non-trade in nature, unsecured, interest-free and with no fixed repayment terms.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

Long term liabilities

As at 31 December 2003, long term liabilities comprised long term interest bearing bank loans amounting to RMB 12.1 million and amount due to a related party amounting to RMB 6.1 million. The long term loan arose due to the capital required for the construction of our new factory building. Long term loan amounting RMB 10.0 million is due to be repaid during December 2005 and bears interest at 6.04 per cent per annum, and the balance of RMB 2.1 million is interest free and have no fixed terms of repayment. The amount due to a related party is interest free, unsecured and is repayable in January 2006.

Pro forma Shareholders' Equity

Pro forma shareholders' equity comprises issued share capital, share premium and net gain on disposal of Longlife Trading after the completion of the Restructuring Exercise. Our Group did not declare any dividends for the last three financial years ended 31 December. Minority interest amounted to RMB 4.1 million as at 31 December 2003, which is attributed to 49.0 per cent shareholding in Longlife held by Tong Lianggui, who is an unrelated third party.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA
CONSOLIDATED RESULTS OF OPERATIONS**

LIQUIDITY AND CAPITAL RESOURCES

A summary of our unaudited pro forma consolidated cash flow statement for the year ended 31 December 2003 is as follows:-

Unaudited Pro forma Consolidated Cash Flow Summary

RMB'000	FY2003
Net cash flows from operating activities	31,929
Net cash flows used in investing activities	(11,777)
Net cash flows from financing activities	821
	<hr/>
Net increase in cash and cash equivalents at the end of the year	20,973
Cash and cash equivalent at the beginning of financial year	-
	<hr/>
Cash and cash equivalents at the end of financial year	<u>20,973</u>

Net cash flows from operating activities

Our net cash flows from operating activities amounted to RMB 31.9 million in FY2003. Our operating cashflow before working capital changes amounted to RMB 43.2 million. The changes in working capital comprise net increase in trade receivable of RMB 9.2 million, inventories of RMB 0.4 million, trade and bills payables of RMB 3.7 million and amount due to a related party of RMB 3.5 million, whilst net decreases of prepayments, deposits and other receivables of RMB 2.5 million, amount due from related parties of RMB 4.7 million and accrued liabilities and other payables of RMB 3.6 million. We paid interest on our bank borrowings and taxes of RMB 3.3 million and RMB 9.3 million respectively.

Net cash flows used in investing activities

Net cash outflow from investing activities of RMB 11.8 million comprised mainly cash outflows relating to purchase of property, plant and equipment and construction in progress of RMB 0.4 million and RMB 11.6 million respectively, which is partly offset by interest income earned from bank deposits amounting to RMB 0.2 million.

Net cash flows used in financing activities

Net cash inflow from financing activities of RMB 0.8 million in FY2003 was due mainly to:-

- (a) proceeds from bank loans amounting RMB 15.1 million in which RMB 10.0 million was used for construction of factory building in Gulin and the remaining RMB 5.1 million for working capital purposes; and
- (b) an amount of RMB 14.3 million was retained by Chengdu Kinna pursuant to the Restructuring Exercise.

Liquidity

In the financial year ended 31 December 2003, our internal sources of cash comprised mainly cash generated from our operations while our external sources of cash comprised primarily credit extended to us by our suppliers and borrowings from financial institutions and capital contributed by our shareholders. Such sources of funds were principally used to finance the purchase of raw materials, staff costs, manufacturing overheads, selling and distribution expenses, capital expenditures and other operating expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA CONSOLIDATED RESULTS OF OPERATIONS

As at 31 December 2003, our total borrowings amounted to RMB 62.2 million. In managing our working capital requirements, our management will take into account the available cash and cash equivalents and the cash generated from our operations in light of our operating requirements for the relevant period. In addition to cash generated from internal sources, we have been able to service our interest commitment on a timely basis with respect to external loans from financial institutions.

Our Directors are of the opinion that after taking into account the present banking facilities and the cash flows generated from our operations and retained earnings, we have, as at the Latest Practicable Date, adequate working capital for our present requirements.

Borrowings and Gearing

As at 31 December 2003, our Group had total banking facilities of approximately RMB 87.1 million of which RMB 62.2 million or 70.9 per cent was utilised. Total utilised facilities comprise RMB 49.3 million which are interest-bearing short term revolving bank loans, bills payables amounting to RMB 0.8 million, RMB 10.0 million of long term interest-bearing bank loans which is due for repayment in December 2005, and long-term bank loan amounting to RMB 2.1 million obtained from the local finance bureau in Gulin (古蔺县财政局) which was interest-free and have no fixed terms of repayment. Out of the total bank facilities amounting to RMB 87.1 million, RMB 25.0 million is guaranteed by Chengdu Kinna and RMB 10.0 million is guaranteed by our Executive Chairman, Jiang Yun. The interest-bearing bank loans amounting to RMB 59.3 million bore interest rates ranging from 5.3 per cent to 6.1 per cent per annum. Bills payables bore interest rate of 2.0 per cent per annum.

As at the Latest Practicable Date, we had banking facilities of approximately RMB 87.1 million, of which RMB 40.0 million was utilised, comprising of solely interest-bearing bank loans and loan obtained from a third party, leaving a balance of RMB 47.1 million available for utilisation.

We have been able to service our loan payment commitments on a timely basis in each of the three financial years ended 31 December. Our Group's interest cover ratio (defined as profit from operating activities divided by interest expense) and gearing ratio (defined as total borrowings divided by shareholders' equity) for FY2003 based on the Unaudited Pro forma Consolidated Financial Information of our Group, were as follows:-

	Pro Forma FY2003
Interest Cover Ratio (times)	12.16
Total Borrowings (RMB '000)	62,261
Shareholders' Equity (RMB '000)	29,292
Gearing Ratio (times)	2.13

CONTINGENT LIABILITIES

As at 31 December 2003 and at the Latest Practicable Date, our Group does not have any material contingent liabilities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA
CONSOLIDATED RESULTS OF OPERATIONS**

CAPITAL EXPENDITURE, DIVESTMENT AND COMMITMENTS

Capital Expenditure

Our major capital expenditure comprises mainly additions of buildings, plant and machinery, motor vehicles and other equipment ("Property, Plant and Equipment"), construction in progress and investment in our subsidiaries. The purchase of such assets which are based in the PRC are financed mainly by funds generated from operations and bank borrowings. The details for such expenditure for each of the last 3 financial years are set out below:-

RMB '000	FY2001	FY2002	FY2003
Property, Plant and Equipment			
Buildings	–	–	–
Plant and machinery	119	61	35
Motor vehicles	–	237	164
Other equipment	369	229	170
Construction in progress	443	3,808	11,580
Investment in subsidiary	–	5,223	–
Total	931	9,558	11,949

Divestment

We disposed of Longlife Trading, one of our subsidiaries with net assets amounting RMB 1.1 million, to Chengdu Kinna for a total consideration of RMB 2.6 million on 31 December 2003. This gave rise to a gain of RMB 1.5 million of which RMB 0.7 million was attributable to minority interest.

Save as disclosed above, we did not have any material capital expenditure and divestment during the 3 financial years ended 31 December and up to the Latest Practicable Date we do not have any material capital divestment in progress.

Commitments

As at the Latest Practicable Date, we had the following outstanding commitments¹:-

RMB '000	As at Latest Practicable Date
Operating lease commitments	
Future minimum lease payments under non-cancellable operating leases for each of the following periods:	
– Within a year	1,772
– In the second to fifth years, inclusive	2,289
– Over five years	–
	<u>4,061</u>

We intend to fund the above commitments from cash generated from our operations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL CONDITION AND UNAUDITED PRO FORMA
CONSOLIDATED RESULTS OF OPERATIONS**

INFLATION

Inflation in the PRC did not have a material impact on our business in the last three financial years ended 31 December.

FOREIGN EXCHANGE

The books and records of our Group are maintained in RMB. All sales and purchases of our Group are denominated in RMB. Accordingly, our Group's functional and reporting currency is RMB.

Our Group did not have significant exposure to market risk for changes in foreign currency exchange rates during the years ended 31 December 2001, 2002 and 2003.

TAXATION

The following is a discussion of certain tax matters arising under the current tax laws in Singapore and is not intended to be and does not constitute legal or tax advice. While this discussion is considered to be a correct interpretation of existing laws in force, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws will not occur. The discussion is limited to a general description of certain tax consequences in Singapore with respect to ownership of our Shares by Singapore investors, and does not purport to be a comprehensive nor exhaustive description of all of the tax considerations that may be relevant to a decision to purchase our Shares. Prospective investors should consult their tax advisors regarding Singapore tax and other tax consequences of owning and disposing our Shares. It is emphasised that neither our Company, our Directors nor any other persons involved in the Invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of our Shares.

SINGAPORE INCOME TAX

General

Singapore tax residents are subject to Singapore income tax on income that is accrued in or derived from Singapore and on foreign income received in Singapore, subject to certain exceptions.

Non-resident corporate taxpayers are subject to income tax on income that is accrued in or derived from Singapore, and on foreign income received in Singapore, subject to certain exceptions. All individuals resident and non-resident, subject to certain exceptions, are subject to income tax on the income accrued in or derived from Singapore. With effect from year of assessment 2005 (i.e. for financial/calendar year ending in 2004), all foreign-source income received in Singapore by all individuals will be exempt from Singapore tax. The latter exemption will not apply to such income received from a partnership in Singapore.

A company is a tax resident in Singapore if control and management of its business is exercised in Singapore. An individual is tax resident in Singapore in a year of assessment if, in the preceding year, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if he resides in Singapore.

The corporate tax rate in Singapore will be 20.0 per cent with effect from the year of assessment 2005 i.e. the financial year ending in 2004. In addition, three-quarters of up to the first \$10,000 of a company's chargeable income, and one-half of up to the next \$90,000 will be exempt from corporate tax. The remaining chargeable income (after the tax exemption) will be taxed at 20.0 per cent. The above tax exemption will not apply to Singapore dividends received by companies.

For a Singapore tax resident individual, the rate of tax will vary according to the individual's circumstances but is subject to a maximum rate of 22.0 per cent with effect from the year of assessment 2003 i.e. calendar year 2002.

Dividend Distributions

Singapore moved to the one-tier corporate tax system with effect from 1 January 2003. Under this system, the tax collected from corporate profits is final and all Singapore dividends paid by Singapore tax resident companies to their shareholders are exempt from tax (referred hereinafter as "one-tier tax exempt dividends").

We are in the one-tier corporate tax system. Under this system, when we distribute dividends, we will pay one-tier tax exempt dividends to our shareholders. One-tier tax exempt dividends on our Shares are tax exempt in the hands of our shareholders.

TAXATION

Gains on disposal of our shares

Singapore does not impose tax on capital gains. However, there are no specific laws or regulations which deal with the characterisation of capital gains, and hence, gains may be construed to be of an income nature and subject to tax especially if they arise from activities which the Inland Revenue Authority of Singapore regards as the carrying on of a trade in Singapore.

Any profits from the disposal of our Shares are not taxable in Singapore unless the seller is regarded as having derived gains of an income nature, in which case, the disposal profits would be taxable.

Stamp duty

There is no stamp duty payable on the subscription of our Shares.

Stamp duty is payable on the instrument of transfer of our Shares at the rate of \$2.00 for every \$1,000 market value of our Shares registered in Singapore.

The purchaser is liable for stamp duty, unless there is an agreement to the contrary. No stamp duty is payable if no instrument of transfer is executed or the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the instrument of transfer which is executed outside Singapore is received in Singapore.

The above stamp duty is not applicable to electronic transfers of our shares through CDP.

Estate duty

Singapore estate duty is imposed on the value of immovable property situated in Singapore owned by individuals who are not domiciled in Singapore, subject to specific exemption limits. Movable assets of non-domiciles will be exempt from estate duty with respect to deaths occurring on or after 1 January 2002.

Singapore estate duty is imposed on the value of most immovable property situated in Singapore and on most movable property, wherever it may be, owned by individuals who are domiciled in Singapore, subject to specific exemption limits. Our Shares are considered to be movable property situated in Singapore as we are a company incorporated in Singapore.

Accordingly, our Shares held by an individual domiciled in Singapore are subject to Singapore estate duty upon such individual's death. Singapore estate duty is payable to the extent that the value of our Shares aggregated with any other assets subject to Singapore estate duty exceeds \$600,000. Unless other exemptions apply to the other assets, for example, the separate exemption limit for residential properties, any excess beyond \$600,000 will be taxed at 5.0 per cent of the first \$12,000,000 of the individual's Singapore chargeable assets and thereafter at 10.0 per cent. Individuals should consult their own tax advisors regarding Singapore estate duty consequences of their ownership of our Shares.

Goods and Services Tax ("GST")

The sale of our Shares by an investor belonging in Singapore to another person belonging in Singapore is an exempt supply not subject to GST. Any GST directly or indirectly incurred by the investor in respect of this exempt supply is a cost to the investor.

TAXATION

Where our Shares are sold by a GST-registered investor to a person belonging outside Singapore, the sale is a taxable supply subject to GST at zero-rate. Any GST incurred by the investor in the making of this sale, if the same is a supply in the course of furtherance of a business, is claimable as a refund from the Comptroller of GST.

Services such as brokerage, handling and clearing services rendered by a GST-registered person to an investor belonging in Singapore in connection with the investor's purchase, sale or holding of our Shares will be subject to GST at the current rate of 5.0 per cent. Similar services rendered to an investor belonging outside Singapore are subject to GST at zero-rate.

DIRECTORS, MANAGEMENT AND STAFF

DIRECTORS, SENIOR MANAGEMENT AND EXECUTIVE OFFICERS

The following table provides information regarding our Directors and Executive Officers as at the date of this Prospectus.

Directors

<u>Name</u>	<u>Age</u>	<u>Address</u>	<u>Principal Occupation</u>	<u>Country of Principal Residence</u>
Jiang Yun	41	#29 Tongche Lane, Jinniu District, Chengdu, PRC	Executive Chairman	PRC
Wu Xuedan	41	#4-10, New block 3, No. 46, Qinghua Road, Qingyang District, Chengdu, PRC	Executive Director, Sales and Marketing	PRC
Dr Lan Wei Guang	40	1 Rivervale Link #11-09 Singapore 545118	Managing Director, Sinomem Technology Limited	Singapore
Chew Thiam Keng	42	343 Upper Bukit Timah Road #09-09 The Hillside, Singapore 588196	Managing Director, KS Tech Ltd	Singapore
Teo Kean Eek	37	57 Cairnhill Road, #04-12 Singapore 229668	Managing Director, Agile Partners Pte Ltd	Singapore

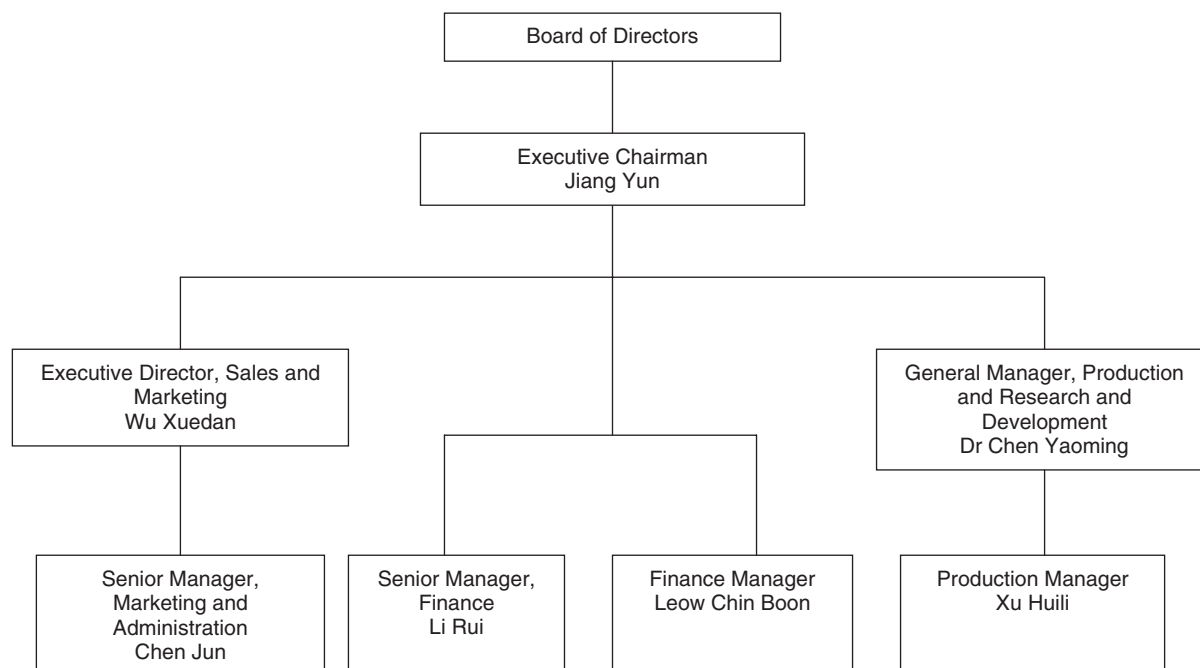
Executive Officers

<u>Name</u>	<u>Age</u>	<u>Address</u>	<u>Principal Occupation</u>	<u>Country of Principal Residence</u>
Dr Chen Yaoming	39	No. 289, 5-2-502, Shuhan Road, Chengdu, PRC	General Manager, Production and Research and Development	PRC
Chen Jun	33	Jingdu Garden, No. 526 Shuhan Road, Jinniu District, Chengdu, PRC	Senior Manager, Marketing and Administration	PRC
Li Rui	32	27-2-6 Kui Xing Lou Street Chengdu, PRC	Senior Manager, Finance	PRC
Leow Chin Boon	27	101B Upper Cross Street, #12-05, People's Park Centre Singapore 058359	Finance Manager	Singapore
Xu Huili	38	#3-1-4, Shuang Li Lane 2, Cheng Hua District, Chengdu, PRC	Production Manager	PRC

None of the Directors and Executive Officers are related to each other or the substantial shareholders.

DIRECTORS, MANAGEMENT AND STAFF

The following chart shows our management reporting structure as at the Latest Practicable Date.



Our Directors' working and business experience are set out below:

Jiang Yun is our Executive Chairman and oversees the overall management and operations of our Group, formulates our business strategies, as well as supervises our research and development activities. From 1983 to 1985, he was a resident fellow at the Sichuan Fulin Teachers' College. He then joined Sichuan Pharmaceuticals Co., Ltd as the Chief of Quality Control from 1988 to 1992. Prior to joining Chengdu Kinna in 1996, he was appointed Deputy General Manager at Chengdu Chuanli Pharmaceuticals Ltd from 1992 to 1996. Mr Jiang holds a Bachelor of Chemistry degree from the Chongqing Teachers' College Chemical Department, PRC and a Master of Medicinal Chemistry degree from West China University of Medical Sciences.

Wu Xuedan is our Executive Director and heads the sales and marketing department. He is responsible for building, expanding and supervising the operations of the sales and marketing network. Prior to joining Chengdu Kinna in 1996, he was the Production Manager at Chengdu Automobile Maintenance and Repair Factory under the Ministry of Communications (Transport) from 1983 to 1996. Mr Wu holds a Diploma in Mechanical Manufacturing from Wuhan Water Transport Secondary Specialized School and Diploma in Industrial Economic Management from Sichuan Institute of Social Sciences.

Dr Lan Wei Guang is our Non-executive Director and was appointed on 16 April 2004. From 1985 to 1992, he was an assistant professor at the Department of Food Engineering of Xiamen University in Xiamen, PRC. Dr Lan was appointed as the technical and sales director of Hydrochem Engineering (Singapore) Pte Ltd from 1994 to 1995. Dr Lan holds a Bachelor of Science degree in Chemistry from Xiamen University, PRC and a doctorate degree in Chemistry from the National University of Singapore. In 1997, Dr Lan was invited to be an associate professor at Xiamen University and was also invited to establish an Applied Membrane Research and Development Center in Xiamen University for scientific research purposes. In 1999, he was promoted to the position of professor of the faculty of Chemistry and Chemical Engineering of Xiamen University. Dr Lan is a director of the China Membrane Industry Association and the Fujian Chemical Engineering Association in the PRC. He is currently also the Managing Director of Sinomem Technology Limited, a company listed on the SGX-ST. Dr Lan won the 2003 Young Chinese Entrepreneur Award organised by Asia Week Magazine (亚洲周刊).

DIRECTORS, MANAGEMENT AND STAFF

Chew Thiam Keng is our Independent Director and was appointed on 25 August 2004. He started his career with DBS Bank Ltd for about ten years working in the areas of corporate finance and retail banking. Prior to joining KS Tech Ltd, Mr Chew was the Executive Director of another SGX-Mainboard listed company, Kian Ann Engineering Ltd, between 1996 and November 2001. Mr Chew is the Managing Director of KS Tech Ltd and is overall in charge of the operation of KS Tech Group, particularly in strategic planning, corporate management and business development. He is also a director and an audit committee member of several other listed companies. Mr Chew holds a Master Degree in Business Administration from the University of Hull and a Bachelor Degree (Honours) in Mechanical Engineering from the National University of Singapore.

Teo Kean Eek is our Independent Director and was appointed on 25 August 2004. He is the Managing Director of Agile Partners Pte Ltd, a financial advisory company. Prior to founding Agile Partners Pte Ltd, he was the Principal of Shanghai NewMargin Ventures, one of the leading venture capital firms in China. Between 1998 to 2001, Mr Teo was the Investment Manager of Strategic Alliance Capital Pte Ltd. He also has years of working experience in USA with Lattice Semiconductor Corporation and Household Credit Services, Inc. Mr Teo holds a Master of Science in Engineering Economic Science from Stanford University and a Bachelor of Science from Arizona State University. Mr Teo is a member of the Association for Investment Management and Research (AIMR) and a Chartered Financial Analyst (CFA) since year 2000.

Our executive officers' working and business experience are set out below:

Dr Chen Yaoming is our General Manager and is responsible for the research and development, production and quality control of our Group. Dr Chen was a Research Fellow at the Sichuan Industrial Institute of Antibiotics, PRC from 1987 to 1993. He was appointed as a research fellow in Osnabruck University, Germany from 1997 to 2000 before joining Chengdu Kinna in 2000. Dr Chen holds a Bachelor of Science degree in Chemistry from Lanzhou University, PRC and a Master of Science degree in Medicinal Chemistry from West China University of Medical Sciences, PRC. He received his doctorate in 1997 on bioorganic chemistry from Osnabruck University Germany. Dr Chen is a member of Chengdu Advisory Group for Sciences and Technology. Dr Chen also received the Felix Schoeller-Prize in 1997 for Chemistry in Germany.

Chen Jun is our Senior Manager responsible for overseeing all marketing and administrative matters, which include the promotion of pharmaceutical knowledge of our products. She was a Senior Pharmacist at the Field Surgery Institute and Daping Hospital of the Third Military Medical University from 1992 to 1998. Prior to joining our Group in 2002, Ms Chen was pursuing her Master Degree. Chen Jun holds a Bachelor of Science degree from the West China University of Medical Sciences and a Master of Science degree specialising in pharmaceuticals from West China Pharmacy School of Sichuan University.

Li Rui is our Senior Manager responsible for overseeing all financial matters relating to our Group. He was an accountant with Sichuan Pharmaceuticals Co., Ltd from 1991 to 1992 before joining Chengdu Chuanli Pharmaceuticals Ltd from 1992 to 1994 as a Financial Manager. Mr Li then returned to Sichuan Pharmaceuticals Co., Ltd as an accountant from 1994 to 1995 before joining Chengdu Kinna in 1996. Mr Li holds a Diploma of Business Administration from the Sichuan University.

Leow Chin Boon is our Finance Manager and responsible for the supervision of all the financial, accounting, tax and administration relating to Singapore laws and regulations as well as the maintenance of internal controls, policies, systems and procedures for our Company and ensuring compliance with all requirements of the SGX-ST. Prior to joining our Group in 2004, Mr Leow was an Audit Supervisor with Deloitte & Touche Singapore since 1999. He holds a Bachelor of Commerce (Major in Accounting and Finance, Minor in Business Law) from the University of Western Australia. Mr Leow is also a member of CPA Australia.

DIRECTORS, MANAGEMENT AND STAFF

Xu Huili is our Production Manager and is in charge of production control and production administration. Prior to joining Chengdu Kinna in 1998, Ms Xu was responsible for the quality control and management for Sichuan Pharmaceuticals Co., Ltd from 1982 to 1998. She holds a Diploma in Medicine from Sichuan Chengdu Medical Administration Bureau Staff University and a Diploma of Business Administration from Sichuan University. Ms Xu is also certified as a pharmacist.

COMPENSATION

The compensation paid to our Directors and top five Executive Officers for services rendered to us and our subsidiaries on an aggregate basis and in remuneration bands during FY2002 and FY2003 (being the last 2 most recent completed financial year) and the current financial year is as follows:

	Unaudited Pro Forma FY 2002	FY 2003	Estimated FY 2004
(a) <u>Directors</u>			
Jiang Yun	A	A	A
Wu Xuedan	A	A	A
Dr Lan Wei Guang	–	–	A
Teo Kean Eek	–	–	A
Chew Thiam Keng	–	–	A
(b) <u>Executive officers</u>			
Dr Chen Yaoming	A	A	A
Chen Jun	A	A	A
Li Rui	A	A	A
Leow Chin Boon	–	–	A
Xu Huili	A	A	A

Notes:-

- (1) Remuneration bands:-
 "A" refers to remuneration of up to \$250,000.
 "B" refers to remuneration from \$250,001 to \$500,000.
- (2) The estimated remuneration for FY2004 does not include any incentive bonus payable under the Service Agreements of the Executive Directors.

Neither our Company nor any of our subsidiaries have set aside or accrued any amount of money to provide for pension, retirement or similar benefits.

SERVICE AGREEMENTS

Save as disclosed below, none of our Directors or Executive Officers has entered into service agreements with us.

Our Company has entered into service agreements with our Executive Chairman, Jiang Yun, our Executive Director, Wu Xuedan and our General Manager, Dr Chen Yaoming, each for a period of three years with effect from the date of listing of our Company (unless otherwise terminated by any party giving not less than six months' notice to the other party). We may also terminate their service agreements if they are guilty of dishonest, serious or persistent misconduct, becomes bankrupt or otherwise acts to the prejudice of our Group. They will not be entitled to any benefits upon termination of their service agreements.

Under their respective service agreements, Jiang Yun, Wu Xuedan and Dr Chen Yaoming are entitled to a monthly salary of \$18,000, \$15,000 and \$15,000 respectively. They are also entitled to a 13th month bonus at the end of each completed year of service. They will also each be entitled to annual increments as may be determined by our Board.

DIRECTORS, MANAGEMENT AND STAFF

All travelling and travel-related expenses, entertainment expenses and other out-of-pocket expenses reasonably incurred by them in the process of discharging their duties on behalf of our Group will be borne by our Company. Under the terms of their service agreements, Jiang Yun will be entitled to the use of a vehicle to be provided by our Company. The value of the vehicle to be provided to Jiang Yun shall not exceed \$350,000.

Jiang Yun, Wu Xuedan and Dr Chen Yaoming are entitled to a performance bonus (the “Bonus”) to be determined based on our audited consolidated profit before income tax and minority interest (“PBT”) for the corresponding financial year as follows:-

PBT	Amount of Bonus as a percentage of PBT for Jiang Yun	Amount of Bonus as a percentage of PBT for Wu Xuedan	Amount of Bonus as a percentage of PBT for Dr Chen Yaoming
\$6 million and below	Nil	Nil	Nil
Between \$6 million and up to \$10 million	1.5%	1.0%	0.7%
Above \$10 million	2.5%	1.5%	1.3%

Further, under the term of the service agreements, each of Jiang Yun, Wu Xuedan and Dr Chen Yaoming has undertaken that they shall not at any time during the period of their employment and for a period of one year after the expiry or termination of their employment for whatever reason, do or permit any of the following without the prior written consent of our Board:

- (a) directly or indirectly carry on or be engaged or interested in any capacity in any other business, trade or occupation whatsoever, except in a business, trade or occupation which does not compete with any business carried on or proposed to be carried on by our Group or except as disclosed or declared in writing to our Group prior to the date hereof; or
- (b) either solely or jointly with or on behalf of any person, firm or corporation directly or indirectly carry on or be engaged or interested in any business competing with any business carried on or proposed to be carried on by our Group; or
- (c) be directly or indirectly engaged or concerned in the conduct of any business competing directly with our Group at any time during the period of their employment; or
- (d) carry on for their own account either alone or in partnership (or be concerned as a director in any company engaged in) any business competing directly with the business carried on or proposed to be carried on by our Group; or
- (e) assist any person, firm or company with technical advice in relation to any business competing directly with the business carried on or proposed to be carried on by our Group; or
- (f) otherwise be interested, directly or indirectly, in any business competing directly with the business carried on or proposed to be carried on by our Group; or
- (g) either on their own account or for any person, firm, company or organisation, solicit or entice or endeavour to solicit or entice away from the Group, or directly or indirectly employ, any person who has at any time during the preceding twelve months from the date of their appointment, been a Director, manager, servant or consultant whether or not such person would commit any breach of his contract of employment by reason of leaving the service of our Group; or
- (h) either on their own account or for any person, firm, company or organisation, solicit business from any person, firm, company or organisation which at any time during the preceding one year from the date of their appointment, has been a customer of our Group.

DIRECTORS, MANAGEMENT AND STAFF

Save for Dr Chen Yaoming, our Group had entered into various letters of employment with all of our Executive Officers. Such letters typically provide for the salaries payable to our Executive Officers, their working hours, annual leave, grounds of termination and certain restrictive covenants.

Had the service agreements mentioned above been in place for the financial year ended 31 December 2003, the aggregate remuneration (including contributions to the CPF and other benefits if any) paid or provided to our Executive Directors would have been approximately \$1.0 million instead of \$0.1 million and the consolidated profit before income tax and minority interest would be approximately \$6.8 million instead of \$7.7 million.

EMPLOYEES

As at 31 December 2003, we had a workforce of 1096 full-time employees. Our employees are not unionised. The relationship and cooperation between the management and employees have been good and this is expected to continue in the future. There has not been any incidence of work stoppages or labour disputes which affected our operations.

The functional distribution of our full-time employees as at 31 December 2001, 2002 and 2003 were as follows:-

Function	FY2001	FY2002	FY2003
Finance	5	8	10
Administration and Logistics	15	37	49
Sales and Marketing	500	861	902
Manufacturing and Quality control ⁽¹⁾	46	92	119
Research and Development	6	15	16
Total number of employees	572	1013	1096

Note:-

- (1) The brother-in-law of our Executive Chairman is a director of Longlife and is also employed by our Group as a deputy manager and in charge of administration and logistics in Longlife.

CORPORATE GOVERNANCE

The Directors recognise the importance of corporate governance and the offering of high standards of accountability to the shareholders of our Company.

Our Group's Executive Chairman is also the de facto Chief Executive Officer. Our Board is of the opinion that it is not necessary to separate the roles of the Chairman and CEO after taking into account the size, scope and the nature of the operations of our Group. Our Group's Executive Chairman, Jiang Yun is the founder of our Group and has played an instrumental role in developing the business of our Group. Jiang Yun has considerable industry experience and has also provided our Group with strong leadership and vision. It is hence the view of the Board that it is in the best interests of our Group to adopt a single leadership structure. Our Board is of the view that there are sufficient safeguards and checks in place to ensure that the management is accountable to our Board as a whole.

Nominating Committee

Our Nominating Committee comprises of Jiang Yun, Teo Kean Eek and Chew Thiam Keng. The Chairman of the Nominating Committee is Teo Kean Eek. Our Nominating Committee will be responsible for (i) re-nomination of our Directors having regard to the Director's contribution and performance, (ii) determining annually whether or not a Director is independent and (iii) deciding whether or not a Director is able to and has been adequately carrying out his duties as a director. Our Nominating Committee will decide how our Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of our Board, which address how the Board has enhanced long term Shareholders' value. The performance evaluation will also include consideration of our Company's share price performance over a 5-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers. Our Board will also implement a process to be carried out by our Nominating Committee for assessing the effectiveness of our Board as a whole and for assessing the contribution by each individual Director to the effectiveness of our Board. Each member of our Nominating Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as director.

Audit Committee

Our Audit Committee is chaired by Teo Kean Eek, our Independent Director and includes Chew Thiam Keng, our Independent Director and Dr Lan Wei Guang, our Non-executive Director.

Our Audit Committee shall meet periodically in accordance with the requirements of the Listing Manual and the Code of Corporate Governance to perform the following functions:-

- (a) to review with the external auditors the audit plan;
- (b) to review with the internal auditors the audit plan, and the results of our internal auditors' examination and evaluation of our system of internal controls;
- (c) to review the consolidated financial statements and balance sheets and profit and loss accounts, and the external auditors' report on those financial statements, before submission to the Board of Directors for approval;
- (d) to review the co-operation given by our management to our auditors;
- (e) to consider the appointment and re-appointment of the external auditors;
- (f) to review and approve interested person transactions;
- (g) to generally undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

Apart from the duties listed above, our Audit Committee shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on our Company's operating results and/or financial position.

Remuneration Committee

Our Remuneration Committee comprises Wu Xuedan, Chew Thiam Keng and Teo Kean Eek. Chew Thiam Keng is the Chairman of our Remuneration Committee. Our Remuneration Committee will recommend to our Board of Directors a framework of remuneration for the Directors and key executives, and determine specific remuneration packages for each Executive Director. The recommendations of our Remuneration Committee should be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options issued under the ESOS and benefits in kind shall be covered by our Remuneration Committee. Each member of our Remuneration Committee shall abstain from voting on any resolutions in respect of his remuneration package.

SHARE OPTION SCHEME

PHARMESIS SHARE OPTION SCHEME

On 25 August 2004, our Shareholders adopted a share option scheme known as the Pharmesis Share Option Scheme (the “ESOS”), the rules of which are set out in Appendix V of this Prospectus. The ESOS complies with the relevant rules as set out in Chapter Eight of the Listing Manual of the SGX-ST (the “Listing Manual”). The ESOS will provide eligible participants with an opportunity to participate in the equity of our Company and to motivate them towards better performance through increased dedication and loyalty. The ESOS, which forms an integral and important component of a compensation plan, is designed to primarily reward and retain employees whose services are vital to our well being and success.

As at the Latest Practicable Date, no options (“Options”) have been granted under the ESOS.

Objectives of the ESOS

The objectives of the ESOS are as follows:-

- (a) to motivate participants to optimise their performance standards and efficiency and to maintain a high level of contribution to our Group;
- (b) to retain key employees whose contributions are essential to the long-term growth and prosperity of our Group;
- (c) to instil loyalty to, and a stronger identification by participants with the long-term prosperity of, our Company;
- (d) to attract potential employees with relevant skills to contribute to our Group and to create value for the Shareholders of our Company; and
- (e) to align the interests of participants with the interests of the Shareholders of our Company.

Summary of the ESOS

A summary of the rules of the ESOS is set out as follows:-

(1) Participants

Under the rules of the ESOS, executive and non-executive directors and employees of our Group, who are not controlling shareholders or their associates (as defined in the Listing Manual), are eligible to participate in the ESOS.

(2) Scheme administration

The ESOS shall be administered by a committee comprising of Directors (the “Committee”), with powers to determine, *inter alia*, the following:-

- (a) persons to be granted Options;
- (b) number of Options to be offered; and
- (c) recommendations for modifications to the ESOS.

As at the Latest Practicable Date, the Committee comprises Jiang Yun, Wu Xuedan and Chew Thiam Keng.

SHARE OPTION SCHEME

(3) Size of the ESOS

The aggregate number of shares over which the Committee may grant Options on any date, when aggregated with the number of shares issued and issuable in respect of all Options granted under the ESOS and any other share option schemes of our Company, shall not exceed fifteen per cent (15.0 per cent) of the issued Shares of our Company on the day preceding the date of the relevant grant.

Our Company believes that this fifteen per cent (15.0 per cent) limit set by the SGX-ST gives our Company sufficient flexibility to decide upon the number of Option Shares to offer to its existing and new employees. Fifteen per cent (15.0 per cent) of the issued share capital of our Company post Invitation constitutes approximately 30,000,000 Shares. As it is intended that the Scheme shall last for ten (10) years, assuming that there is no change in the total issued share capital of the Company, the number of Options that may be granted in a year will average approximately 3 million Shares.

The number of eligible participants is expected to grow over the years. Our Company, in line with its goals of ensuring sustainable growth, is constantly reviewing its position and considering the expansion of its talent pool which may involve employing new employees. The employee base, and thus the number of eligible participants will increase as a result. If the number of Options available under the ESOS is limited, our Company may only be able to grant a small number of Options to each eligible participant which may not be a sufficiently attractive incentive. Our Company is of the opinion that it should have sufficient number of Options to offer to new employees as well as to existing ones. The number of Options offered must also be significant enough to serve as a meaningful reward for contribution to our Group. However, it does not indicate that the Committee will definitely issue Option Shares up to the prescribed limit. The Committee shall exercise its discretion in deciding the number of Option Shares to be granted to each employee which will depend on the performance and value of the employee to our Group.

(4) Maximum entitlements

The number of shares comprised in any Options to be offered to a participant in the ESOS shall be determined at the absolute discretion of the Committee, who shall take into account criteria such as rank, past performance, years of service and potential for future development of that participant.

(5) Options, exercise period and exercise price

The Options that are granted under the ESOS may have exercise prices that are, at the Committee's discretion:-

- (a) set at a discount to a price (the "Market Price") equal to the average of the last dealt prices for the shares on the SGX-ST for the five (5) consecutive market days immediately preceding the relevant date of grant of the relevant Option of a Share (subject to a maximum discount of twenty per cent (20.0 per cent)), in which event, such Options may be exercised after the second anniversary from the date of grant of the Option ("Incentive Option"); or
- (b) fixed at the Market Price ("Market Price Option"). Market Price Options may be exercised after the first anniversary of the date of grant of that Option. Options granted under the ESOS will have a life span of ten (10) years.

In no circumstances shall the exercise price be less than the par value of a Share.

SHARE OPTION SCHEME

(6) Grant of Options

Under the rules of the ESOS, there are no fixed periods for the grant of Options. As such, offers of the grant of Options may be made at any time from time to time at the discretion of the Committee.

However, in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is imminent, offers may only be made after the second market day from the date on which the aforesaid announcement is made.

(7) Termination of Options

Special provisions in the rules of the ESOS deal with the lapse or earlier exercise of Options in circumstances which include the termination of the employment of the participant in our Group, the bankruptcy of the participant, the death of the participant, a take-over of our Company, and the winding-up of our Company.

(8) Acceptance of Options

The grant of Options shall be accepted within 30 days from the date of the offer. Offers of Options made to grantees, if not accepted before the closing date, will lapse. Upon acceptance of the offer, the grantee must pay our Company a consideration of \$1.00.

(9) Rights of Shares arising from the exercise of Options

Shares arising from the exercise of Options are subject to the provisions of the Memorandum and Articles of Association of our Company. The Shares so allotted will upon issue rank *pari passu* in all respects with the then existing issued Shares, save for any dividend, rights, allotments or distributions, the record date ("Record Date") for which falls on or before the relevant exercise date of the Option. "Record Date" means the date as at the close of business on which the Shareholders must be registered in order to participate in any dividends, rights, allotments or other distributions.

(10) Duration of the ESOS

The ESOS shall continue in operation for a maximum duration of ten (10) years and may be continued for any further period thereafter with the approval of our Shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

(11) Abstention from voting

Participants who are Shareholders are to abstain from voting on any Shareholders' resolution relating to the ESOS.

Grant of Options with a discounted exercise price

The ability to offer Options to participants of the ESOS with exercise prices set at a discount to the prevailing market prices of the Shares will operate as a means to recognise the performance of participants as well as to motivate them to continue to excel while encouraging them to focus more on improving the profitability and return of our Group above a certain level which will benefit all Shareholders when these are eventually reflected through share price appreciation. Discounted Options would be perceived in a more positive light by the participants, inspiring them to work hard and produce results in order to be offered Options at a discount as only employees who have made outstanding contributions to the success and development of the Group would be granted Options at a discount.

The flexibility to grant Options with discounted prices is also intended to cater to situations where the stock market performance has overrun the general market conditions. In such events, the Committee will have absolute discretion to:-

- (i) grant Options set at a discount to Market Price of a Share (subject to a maximum limit of twenty per cent (20.0 per cent)); and

SHARE OPTION SCHEME

- (ii) determine the participants to whom, and the Options to which, such reduction in exercise prices will apply.

In determining whether to give a discount and the quantum of the discount, the Committee shall be at liberty to take into consideration factors including the performance of our Company, our Group, the performance of the participant concerned, the contribution of the participant to the success and development of our Group and the prevailing market conditions.

It is envisaged that our Company may consider granting the Options with exercise prices set at a discount to the Market Price of the shares prevailing at the time of grant under circumstances including (but not limited to) the following:-

- (a) where, due to speculative forces in the stock market resulting in an overrun of the market, the market price of the Shares at the time of the grant of Options is not a true reflection of the financial performance of our Company;
- (b) to enable our Company to offer competitive remuneration packages in the event that the practice of granting Options with exercise prices that have a discount element becomes a general market norm. As share options become more significant components of executive remuneration packages, a discretion to grant Options with discounted prices will provide our Company with a means to maintain the competitiveness of our Group compensation strategy; and/or
- (c) where our Group needs to provide more compelling motivation for specific business units to improve their performance, grants of share options with discounted exercise prices will help to align the interests of employees to those of the Shareholders by encouraging them to focus more on improving the profitability and return of our Group above a certain level which will benefit all Shareholders when these are eventually reflected through share price appreciation, as such the Options granted at a discount would be perceived more positively by the employees who receive such Options.

The Committee will determine on a case-by-case basis whether a discount will be given, and if so, the quantum of the discount, taking into account the objective that is desired to be achieved by our Company and the prevailing market conditions. As the actual discount given will depend on the relevant circumstances, the extent of the discount may vary from one case to another, subject to a maximum discount of twenty per cent (20.0 per cent) of the Market Price of a Share, as described in paragraph (5) above.

The discretion to grant Options to subscribe for Shares at an exercise price set at a discount to the market price will, however, be used judiciously. The amount of the discount may vary from one offer to another, and from time to time, subject to a limit of twenty per cent (20.0 per cent) on the quantum of discount in respect of Options granted under the ESOS.

Such flexibility in determining the quantum of discount would enable the Committee to tailor the incentives in the grant of Options to be commensurate with the performance and contribution of each individual participant. By individually recognising the degree of performance and contribution of each participant, the granting of Options at a commensurate discount would enable the Committee to provide incentives for better performance, greater dedication and loyalty of the participants.

Our Company may also grant Options without any discount to the market price. Additionally, our Company may, if it deems fit, impose conditions on the exercise of the Options (whether such Options are granted at the market price or at a discount to the market price), such as restricting the number of Shares for which the Option may be exercised during the initial years following its vesting.

SHARE OPTION SCHEME

Participation of executive and non-executive directors and employees of our Group in the ESOS

The extension of the ESOS to executive and non-executive directors and employees of our Group (excluding controlling shareholders or their associates (as defined in the Listing Manual)), allows us to have a fair and equitable system to reward employees who have made and who continue to make significant contributions to the long-term growth of our Group.

We believe that the ESOS will also enable us to attract, retain and provide incentives to its participants to produce higher standards of performance as well as encourage greater dedication and loyalty by enabling our Company to give recognition to past contributions and services as well as motivating participants generally to contribute towards the long-term growth of our Group.

Cost of Options granted under the ESOS to our Company

Any Options granted under the ESOS would have a fair value. In the event that such Options are granted at prices below the fair value of the Options, there will be a cost to our Company. The amounts of such costs may be more significant in the case of Incentive Options, where such Options are granted with exercise prices set at a discount to the prevailing market price of the Shares. The cost to our Company of granting Options under the ESOS would be as follows:-

- (i) the exercise of an Option at the exercise price would translate into a reduction of the proceeds from the exercise of such Option, as compared to the proceeds that our Company would have received from such exercise had the exercise been made at the prevailing market price of the Shares. Such reduction of the exercise proceeds would represent the monetary cost to our Company;
- (ii) as the monetary cost of granting Options with a discounted exercise price is borne by our Company, the earnings of our Company would effectively be reduced by an amount corresponding to the reduced interest earnings that our Company would have received from the difference in proceeds from exercise price with no discount versus the discounted exercise price. Such reduction would, accordingly, result in the dilution of our Company's EPS; and
- (iii) the effect of the issue of new Shares upon the exercise of Options, is that the Company's NTA per Share will increase if the exercise price is above the NTA per Share and decrease, if the exercise price is below the NTA per Share.

The grant of Options under the ESOS will not have an impact on our Company's reported profit under current accounting rules set out in the Singapore Financial Reporting Standards ("FRS") applicable for financial years ended 31 December 2001, 2002, 2003 and 2004. However, a new accounting standard, which will be effective for financial periods beginning on or after 1 January 2005, will require the recognition of an expense in respect of Options granted under the ESOS. The expenses will be based on the fair value of the Options at the date of grant (as determined by an option-pricing model) and will be recognised over the vesting period. However, no expense will ultimately be recognised for any Options granted that do not vest (for example, through forfeiture). The requirement to recognise an expense in respect of options granted to employees is set out in FRS 102, Share-Based Payment, issued by the Council on Corporate Disclosure and Governance on 9 July 2004.

The exercise price of the options will be determined at the time the options are granted. As and when the Options are exercised, the cash inflow will add to the net tangible assets of our Company and its share capital will grow. The impact of the issue and allotment of new Shares upon the exercise of Options on our net tangible asset per Share will be accretive if the Exercise Price is above the net tangible asset per Share, but dilutive otherwise. This impact however will materialise only if and when the relevant Options are actually exercised.

SHARE OPTION SCHEME

Details of the number of Options granted pursuant to the ESOS, the number of Options exercised and the exercise price (as well as any applicable discounts) will be disclosed in our annual report.

We have made an application to the SGX-ST for permission to deal in and for quotation of the Shares which may be issued upon the exercise of the Options to be granted under the ESOS. The approval of the SGX-ST is not to be taken as an indication of the merits of our Company, our subsidiaries, our Shares, the New Shares or the Option Shares.

PRINCIPAL SHAREHOLDERS

OWNERSHIP STRUCTURE

The Shares held by our Directors and substantial Shareholders do not carry different voting rights from the Invitation Shares which are the subject of the Invitation. Our Directors are not aware of any arrangement, the operation of which may at a subsequent date, result in a change in the control of our Company.

The shareholders of our Company and their respective shareholdings immediately before and after the Invitation are set out below:

	Before the Invitation (Direct Interest)		Before the Invitation (Deemed Interest)		After the Invitation (Direct Interest)		After the Invitation (Deemed Interest)	
	Number of ordinary shares	%	Number of ordinary shares	%	Number of ordinary shares	%	Number of ordinary shares	%
Directors								
Jiang Yun	–	–	75,150,000	50.10	–	–	75,150,000	37.58
Wu Xuedan	–	–	75,150,000	50.10	–	–	75,150,000	37.58
Dr Lan Wei Guang	–	–	47,700,000	31.80	–	–	47,700,000	23.85
Chew Thiam Keng	–	–	–	–	–	–	–	–
Teo Kean Eek ⁽⁴⁾	–	–	–	–	–	–	–	–
Substantial shareholders								
Top Entrepreneur Limited ⁽¹⁾	75,150,000	50.1	–	–	75,150,000	37.58	–	–
Suntar Investment ⁽²⁾	47,700,000	31.8	–	–	47,700,000	23.85	–	–
Others								
United Choice Profits Ltd ⁽³⁾	2,400,000	1.60	–	–	2,400,000	1.20	–	–
Liu Wei	3,000,000	2.00	–	–	3,000,000	1.50	–	–
Wen Shihua	8,250,000	5.50	2,400,000	1.60	8,250,000	4.13	2,400,000	1.20
Li Bei	3,300,000	2.20	–	–	3,300,000	1.65	–	–
Chen Shiyu	6,450,000	4.30	2,400,000	1.60	6,450,000	3.22	2,400,000	1.20
Yang Yan	2,250,000	1.50	–	–	2,250,000	1.12	–	–
Zeng Wenqing	1,500,000	1.00	2,400,000	1.60	1,500,000	0.75	2,400,000	1.20
Qi Guorong ⁽¹⁾	–	–	75,150,000	50.10	–	–	75,150,000	37.58
Public (including reserved shares)	–	–	–	–	50,000,000	25	–	–
	150,000,000	100			200,000,000	100		

Notes:-

- (1) The shareholders of Top Entrepreneur Limited are Jiang Yun (46.28 per cent), Wu Xuedan (21.78 per cent), Liu Wei (15.15 per cent), Yang Yan (5.17 per cent), Zeng Wenqing (6.58 per cent) and Qi Guorong (5.04 per cent). Save for Qi Guorong, who is the wife of our Executive Chairman, Jiang Yun, none of the shareholders of Top Entrepreneur Limited are related to each other. Yang Yan is an employee of our Group and is employed in the capacity of sales manager.
- (2) Suntar Investment is a wholly-owned subsidiary of Sinomem. Our Non-executive Director, Dr Lan Wei Guang is a substantial shareholder of Sinomem.
- (3) The shareholders of United Choice Profits Ltd are Zeng Wenqing (30.43 per cent), Wen Shihua (39.14 per cent) and Chen Shiyu (30.43 per cent).
- (4) Our Independent Director, Teo Kean Eek, will be offered up to 300,000 Shares in our Company pursuant to the Invitation.

PRINCIPAL SHAREHOLDERS

Saved as disclosed above, there are no other relationships between the Directors and substantial shareholders.

Significant Changes in Percentage of Ownership

The significant changes in the percentage of ownership of our Company held by our Directors and substantial Shareholders since the date of incorporation are as follows:-

Name	As at 14 January 2004		After the Restructuring Exercise		As at the Latest Practicable Date	
	Number of ordinary shares of \$1.00 each	%	Number of ordinary shares of \$0.04 each	%	Number of ordinary shares of \$0.04 each	%
Directors						
Jiang Yun ⁽¹⁾	—	—	—	—	—	—
Wu Xuedan	—	—	—	—	—	—
Dr Lan Wei Guang ⁽²⁾	—	—	—	—	—	—
Chew Thiam Keng	—	—	—	—	—	—
Teo Kean Eek ⁽⁴⁾	—	—	—	—	—	—
Substantial shareholders						
Top Entrepreneur Limited ⁽¹⁾	2	100	75,150,000	50.1	75,150,000	50.1
Suntar Investment ⁽²⁾	—	—	47,700,000	31.8	47,700,000	31.8
Others						
United Choice Profits Ltd ⁽³⁾	—	—	2,400,000	1.60	2,400,000	1.60
Liu Wei	—	—	3,000,000	2.00	3,000,000	2.00
Wen Shihua	—	—	8,250,000	5.50	8,250,000	5.50
Li Bei	—	—	3,300,000	2.20	3,300,000	2.20
Chen Shiyu	—	—	6,450,000	4.30	6,450,000	4.30
Yang Yan	—	—	2,250,000	1.50	2,250,000	1.50
Zeng Wenqing	—	—	1,500,000	1.00	1,500,000	1.00
Qi Guorong ⁽¹⁾	—	—	—	—	—	—
TOTAL	2	100.0	150,000,000	100.0	150,000,000	100.0

Notes:-

- (1) As at 14 January 2004, the issued paid-up capital of Top Entrepreneur Limited comprised of one ordinary share of US\$1.00, which was held by Jiang Yun. After the issue of new ordinary shares in Top Entrepreneur Limited on 19 August 2004, the shareholders of Top Entrepreneur Limited are Jiang Yun (46.28 per cent), Wu Xuedan (21.78 per cent), Liu Wei (15.15 per cent), Yang Yan (5.17 per cent), Zeng Wenqing (6.58 per cent) and Qi Guorong (5.04 per cent). Save for Qi Guorong, who is the wife of our Executive Chairman, Jiang Yun, none of the shareholders of Top Entrepreneur Limited are related to each other. Yang Yan is an employee of our Group and is employed in the capacity of sales manager.
- (2) Suntar Investment is a wholly-owned subsidiary of Sinomem. Our Non-executive Director, Dr Lan Wei Guang is a substantial shareholder of Sinomem.
- (3) The shareholders of United Choice Profits Ltd are Zeng Wenqing (30.43 per cent), Wen Shihua (39.14 per cent) and Chen Shiyu (30.43 per cent).
- (4) Our Independent Director, Teo Kean Eek, will be offered up to 300,000 Shares in our Company pursuant to the Invitation.

PRINCIPAL SHAREHOLDERS

MORATORIUM

To demonstrate their commitment to our Group, our Company's substantial shareholders, namely Top Entrepreneur Limited and Suntar Investment who in aggregate hold a direct interest in 122,850,000 ordinary shares in our Company, representing approximately 61.43 per cent of our Company's enlarged issued and paid-up capital after the Invitation, have undertaken not to dispose of or transfer any part of their direct and indirect interests in our Company for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

The shareholders of Top Entrepreneur Limited are Jiang Yun, Wu Xuedan, Liu Wei, Yang Yan, Zeng Wenqing and Qi Guorong who own 46.28 per cent, 21.78 per cent, 15.15 per cent, 5.17 per cent, 6.58 per cent and 5.04 per cent respectively in Top Entrepreneur Limited. Jiang Yun, Wu Xuedan, Liu Wei, Yang Yan, Zeng Wenqing and Qi Guorong have undertaken not to dispose of or transfer any part of their interests in Top Entrepreneur Limited for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

Sinomem, which holds the entire registered capital of Suntar Investment, has undertaken not to dispose of or transfer any part of its interest in Suntar Investment for a period of six months from the date of our Company's admission to the Official List of the SGX-ST.

INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICTS OF INTERESTS

INTERESTED PERSON TRANSACTIONS

In general, transactions between our Group and any of its interested persons (namely, the Directors, Executive Officers or controlling shareholders of our Company or the Associates of such Directors, Executive Officers or controlling shareholders) are known as interested person transactions.

Save for the Restructuring Exercise, the following discussion sets out the material interested person transactions for the last three financial years ended 31 December and up to the Latest Practicable Date, is based on the Pro Forma Group and interested persons are construed accordingly.

Past Interested Person Transactions

Loan from Chengdu Century

On 12 December 2003, Kinna Pharm procured an interest free loan from Chengdu Century to the amount of RMB 3.5 million for working capital purposes. Chengdu Century is owned by Dr Chen Yaoming, Chengdu Kinna and Chengdu Fengxian Shiye Development Centre in the proportion of 30.0 per cent, 40.0 per cent and 30.0 per cent respectively. Our Executive Chairman, Jiang Yun and his wife hold in aggregate 47.0 per cent equity interest in Chengdu Kinna as at the Latest Practicable Date. Our Executive Director, Wu Xuedan holds 16.0 per cent equity interest in Chengdu Kinna as at the Latest Practicable Date. This loan has been repaid in full on 6 January 2004.

Guarantees provided to China Minsheng Bank by Jiang Yun

In 2003, Kinna Pharm procured a loan from China Minsheng Bank amounting to approximately RMB 10.0 million for working capital purposes. Pursuant to this loan, our Executive Chairman, Jiang Yun, executed a deed of guarantee whereby Jiang Yun agreed to be liable for the loan taken up by Kinna Pharm.

As at the Latest Practicable Date, the total outstanding loan owing to China Minsheng Bank has been repaid. As a result, this guarantee has been discharged as at the Latest Practicable Date.

Existing Interested Person Transactions

Guarantees provided to Agricultural Bank of China and China Everbright Bank by Chengdu Kinna

In 2003, Longlife procured loans from Agricultural Bank of China and China Everbright Bank amounting to approximately RMB 25 million for working capital purposes and purchase of raw materials (the "Loan Agreements"). As at the Latest Practicable Date, RMB 7 million has been repaid.

Pursuant to the Loan Agreements, Chengdu Kinna executed deeds of guarantee whereby Chengdu Kinna agreed to be liable for the loan taken up by Longlife. Our Executive Chairman, Jiang Yun and his wife hold in aggregate 47.0 per cent equity interest in Chengdu Kinna as at the Latest Practicable Date. Our Executive Director, Wu Xuedan holds 16.0 per cent equity interest in Chengdu Kinna as at the Latest Practicable Date. The guarantees have not been discharged as at the Latest Practicable Date. Chengdu Kinna has no intention to discharge its guarantees.

Guarantee provided to China Everbright Bank by Sichuan Neautus

In July 2004, Kinna Pharm procured loans from China Everbright Bank amounting to approximately RMB 12 million for working capital purposes and purchase of raw materials (the "Loan Agreement").

Pursuant to the Loan Agreement, Sichuan Neautus executed a deed of guarantee whereby Sichuan Neautus agreed to be liable for the loan taken up by Kinna Pharm. Sichuan Neautus is 70.0 per cent owned by Chengdu Kinna. Jiang Yun, our Executive Chairman and his wife Qi Guorong, hold in aggregate 47.0 per cent equity interest of Chengdu Kinna. Our Executive Director, Wu Xuedan holds 16 per cent equity interest in Chengdu Kinna. The guarantee has not been discharged as at the Latest Practicable Date. Sichuan Neautus has no intention to discharge its guarantee.

INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICTS OF INTERESTS

Lease agreement between our Group and Chengdu Kinna

Subsequent to the Restructuring Exercise as described in the section “Restructuring Exercise” of this Prospectus, our Company has entered into a lease agreement with Chengdu Kinna. Our Executive Chairman, Jiang Yun and his wife hold in aggregate 47.0 per cent equity interest in Chengdu Kinna as at the Latest Practicable Date. Our Executive Director, Wu Xuedan holds 16.0 per cent equity interest in Chengdu Kinna as at the Latest Practicable Date.

Pursuant to the lease agreement with Chengdu Kinna, we have agreed to lease the office premises and certain vehicles in Chengdu at the rate of approximately RMB 140,441 per month commencing on 1 January 2004 and expiring on 31 December 2006. Please refer to the section “Properties and Fixed Assets” for more details on this lease agreement. Our Executive Directors are of the opinion that the rental rates are commensurate with prevailing market rates and are on an arm’s length basis. They will also periodically review the existing lease arrangement in accordance with the procedures described in the section “Review by Audit Committee” of this Prospectus. Any future transactions with Chengdu Kinna will be subject to the provisions of Chapter 9 of the Listing Manual.

Technology development agreement between Longlife and Suntar Process Technology (Xiamen) Co. Ltd.

On 25 June 2003, Longlife entered into a technology agreement with Suntar Process Technology (Xiamen) Co. Ltd (“Suntar Process”) (the “Technology Agreement”) (as amended by the Addendum to Technology Agreement dated 1 January 2004). Pursuant to the Technology Agreement, Suntar Process agreed to provide our Group with the use of its proprietary advanced membrane technology that would be customised specifically for our TCM production process in consideration of the payment of US\$2.0 million (the “Payment”). The Payment is payable in five equal instalments which commences only after Suntar Process has submitted a technology development plan relating to the implementation of the technology that meets our requirements (the “Commencement”). The Technology Agreement, which is valid for five years, was entered into between the parties on a willing buyer and willing seller basis. Pursuant to the Addendum to Technology Agreement dated 1 January 2004, the parties have agreed to postpone the Commencement to a later date to be agreed by both parties. As at the Latest Practicable Date, no payment has been made to Suntar Process.

Suntar Process is owned by Suntar Membrane Technology (Singapore) Pte Ltd and Suntar Membrane Technology (Xiamen) Co., Ltd which are wholly-owned by Sinomem. Suntar Investment is wholly-owned by Sinomem. Suntar Investment holds an interest of approximately 31.8 per cent in our Group as at the Latest Practicable Date. Dr Lan Wei Guang is our Non-executive Director and the managing director of Sinomem. He holds directly approximately 67.5 per cent in Sinomem as at the Latest Practicable Date.

We may enter into future transactions with Suntar Process. Such future transactions will be reviewed by our Audit Committee in accordance with the review procedures set out on page 127 of this Prospectus to ensure that they are conducted on an arm’s length basis and on normal commercial terms. Such transactions will be subject to the provisions of Chapter 9 of the Listing Manual.

Save as disclosed in the section “Interested Person Transactions” of this Prospectus :-

- (a) None of our Directors, Executive Officers, substantial shareholders or any of their associates has had any interest, direct or indirect, in any transactions to which our Company was or is to be a party.
- (b) None of our Directors, Executive Officers, substantial shareholders or any of their associates has any interest, direct or indirect, in any company carrying on the same business or a similar trade which competes materially and directly with the existing business of our Group; and
- (c) None of our Directors, Executive Officers, substantial shareholders or any of their associates has any interest, direct or indirect, in any company that is our customer or supplier of goods and services.

INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICTS OF INTERESTS

POTENTIAL CONFLICTS OF INTERESTS

Undertaking by Chengdu Kinna

In connection with the Restructuring Exercise, our Company acquired all the business, assets and undertakings of Chengdu Kinna relating to the production, sale, research and development of pharmaceutical products. Our Executive Chairman, Jiang Yun and his wife hold in aggregate 47.0 per cent equity interest in Chengdu Kinna as at the Latest Practicable Date. Our Executive Director, Wu Xuedan holds 16.0 per cent equity interest in Chengdu Kinna as at the Latest Practicable Date.

Pursuant to the sale and purchase agreement (the "Sale and Purchase Agreement") entered into between Chengdu Kinna and Kinna Pharm on 4 November 2003, Chengdu Kinna has undertaken to Kinna Pharm that it shall not henceforth, directly or indirectly carry on any business which is similar to the business acquired by Kinna Pharm. In addition, Chengdu Kinna has also undertaken to procure that all its subsidiaries will not, directly or indirectly carry on any business which is similar to the business acquired by Kinna Pharm.

Undertaking by Chengdu Lijia

Chengdu Lijia is in the business of the processing and sale of cough mixtures in the PRC. Currently, the factory of Chengdu Lijia is under construction. Upon the completion of the aforementioned construction, Chengdu Lijia will begin processing and sale of cough mixtures. Chengdu Lijia is 64.0 per cent owned by Chengdu Kinna. Jiang Yun together with his wife Qi Guorong hold in aggregate 47.0 per cent equity interest of Chengdu Kinna. Our Executive Director, Wu Xuedan holds 16.0 per cent equity interest in Chengdu Kinna. Chengdu Lijia produces and sells medicine in the form of liquid mixture, while our pharmaceutical products is in the form of capsules, pills, tablets, granules, etc. As such, we believe that there is no direct competition between Chengdu Lijia and ourselves. Pursuant to a deed of non-competition dated 19 August 2004, Chengdu Lijia has undertaken that it shall not henceforth, directly or indirectly carry on any business which is similar to the business of our Group.

Undertaking by Sichuan Neautus

Sichuan Neautus produces and sells TCM in the PRC. Sichuan Neautus is 70.0 per cent owned by Chengdu Kinna. Jiang Yun, our Executive Chairman and his wife Qi Guorong, hold in aggregate 47.0 per cent equity interest of Chengdu Kinna. Our Executive Director, Wu Xuedan holds 16 per cent equity interest in Chengdu Kinna. Sichuan Neautus produces and sells TCM while we manufacture and sell TCM formulated products. TCM formulated products are produced from TCM. As such, we believe that there is no direct competition between Sichuan Neautus and ourselves. Pursuant to a deed of non-competition dated 19 August 2004, Sichuan Neautus has undertaken that it shall not henceforth, directly or indirectly carry on any business which is similar to the business of our Group.

Undertakings by Jiang Yun and Wu Xuedan

Our Executive Directors, Jiang Yun and Wu Xuedan (who are also our Shareholders) are directors and shareholders of Chengdu Kinna. The day-to-day operations of Chengdu Kinna is managed by a separate management team who is not related to Jiang Yun and Wu Xuedan.

Pursuant to their respective deeds of non-competition dated 19 August 2004, Jiang Yun and Wu Xuedan have each undertaken to our Company that he will not, for as long as he remains (i) a director of both Chengdu Kinna and our Company (or any of their respective subsidiaries and associated companies); and/or (ii) a shareholder with an interest of 5.0 per cent or more (whether direct or indirect) in the voting shares of both Chengdu Kinna and our Company, *inter alia*, directly or indirectly carry on or be engaged or interested in any capacity in any other business, trade or occupation whatsoever, except in a business, trade or occupation which does not compete with any business carried on or proposed to be carried on by the Group.

INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICTS OF INTERESTS

Save as disclosed above and under the section “Interested Person Transactions”, none of our Directors, Executive Officers, controlling shareholders or their respective associates has any material interest, direct or indirect, in:-

- (a) any other corporation carrying the same business or dealing in similar products as us;
- (b) businesses that are our competitors, suppliers or customers; and
- (c) any transaction to which we are a party.

REVIEW BY AUDIT COMMITTEE

Our Audit Committee will review and approve all interested person transactions as defined by the Listing Manual (“Interested Person Transactions”) to ensure that they are on normal commercial terms and arm’s length basis, that is, the transactions are transacted on terms and prices not more favourable to the interested persons than if they were transacted with a third party and are not prejudicial to the interests of our Shareholders in any way.

During its periodic review or such other review deemed necessary by it, our Audit Committee will carry out a review of records of all Interested Person Transactions to ensure that they are carried out in accordance with the following internal control procedures:

- (i) All Interested Person Transactions above \$100,000 are to be approved by a Director who shall not be an interested person in respect of that particular transaction. Interested Person Transactions below \$100,000 do not require such approval. Any sale or purchase contracts to be made with an interested person shall not be approved unless the pricing is:
 - (a) determined in accordance with our usual business practices and policies;
 - (b) consistent with the usual margin given or price received by us for the same or substantially similar type of transactions between us and unrelated parties; and
 - (c) the terms are no more favourable to the interested person than those extended to or received from unrelated parties.

For the purpose of the above, contracts for the same or substantially similar type of transactions entered into between us and unrelated third parties, if any, will be used as a basis for comparison to determine whether the price and terms offered to or received from the interested person are no more favourable than those extended to unrelated third parties.

- (ii) In addition, we shall monitor all Interested Person Transactions entered into by us and categorise these transactions as follows:
 - (a) a Category 1 Interested Person Transaction is one where the value thereof is in excess of 3.0 per cent of the NTA of the Group; and
 - (b) a Category 2 Interested Person Transaction is one where the value thereof is below or equal to 3.0 per cent of the NTA of the Group.

All Category 1 Interested Person Transactions must be approved by our Audit Committee prior to entry whereas Category 2 Interested Person Transactions need not be approved by our Audit Committee prior to entry but shall be reviewed on a quarterly basis by our Audit Committee.

We will prepare relevant information to assist our Audit Committee in its review.

INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICTS OF INTERESTS

Before any agreement or arrangement that is not in the ordinary course of business of our Group is transacted, prior approval must be obtained from our Audit Committee. In the event that a member of our Audit Committee is interested in any of the Interested Person Transactions, he will abstain from reviewing that particular transaction. Any decision to proceed with such an agreement or arrangement would be recorded for review by our Audit Committee.

Our Audit Committee will also review all Interested Person Transactions to ensure that the prevailing rules and regulations of the SGX-ST (in particular Chapter 9 of the Listing Manual) are complied with.

We will also comply with the provisions in Chapter 9 of the Listing Manual in respect of all future Interested Person Transactions, and if required under the Listing Manual or the Act, we will seek our Shareholders' approval (where necessary) for such transactions. We will also endeavour to comply with the principles of and best practices set out in the "Best Practices Guide" of the Listing Manual.

All the independent and non-executive Directors, who are members of our Audit Committee, are of the view that the review procedures and systematic monitoring mechanism of all Interested Person Transactions as mentioned above, are adequate in ensuring that such transactions will be on normal commercial terms and will not be prejudicial to the interests of our Shareholders in any way.

EXCHANGE CONTROLS

Most of our PRC subsidiaries' revenue and operating expenses are denominated in RMB.

Currently, RMB cannot be freely converted into foreign currency. The conversion of RMB into foreign currency is regulated by the PBOC and State Administration of Foreign Exchange ("SAFE"). Pursuant to the Regulations on the Administration of Foreign Exchange Settlement, Payment and Sale, effective on 1 July 1996, foreign exchange required for the payment of dividends to foreign investors by the Foreign Investment Enterprises ("FIEs"), may be purchased from designated foreign exchange banks upon presentation of board resolutions authorising the distribution of profits or dividends of the FIEs concerned if they are permitted to maintain accounts at designated PRC foreign exchange banks.

Nevertheless, there can be no assurance that there will be sufficient foreign exchange to satisfy exchange liabilities under "current account transactions" (as defined in the applicable regulations). Furthermore, there can be no assurance that the FIEs will be able to obtain sufficient foreign exchange to pay dividends or satisfy their foreign exchange requirements in the future. Foreign exchange transactions under the "capital account" (as defined in the applicable regulations) continue to be subject to limitations and require approvals of the SAFE, which could affect the receipt and payments of foreign exchange by our Group for loans, capital contributions, purchase of fixed assets and other capital account transactions.

The value of the RMB is subject to changes in the PRC government policies and to international economic and political developments. Since 1994, the official exchange rate for the conversion of the RMB to the \$ generally has been stable. However, there can be no assurance that the RMB will not become volatile against other currencies or the pressure to revalue the RMB will not increase. For further information, please see Appendix VI - "Summary of PRC Laws and Regulations" of this Prospectus.

Save as disclosed above, there are no restrictions on the ability of our subsidiaries to transfer funds to transfer funds to our Company in the form of cash dividends, loans or advances.

CLEARANCE AND SETTLEMENT

Upon listing and quotation on the SGX-ST, our Shares will be traded under the book-entry settlement system of the CDP, and all dealings in and transactions of the Shares through the SGX-ST will be effected in accordance with the terms and conditions for the operation of securities accounts with the CDP, as amended from time to time.

Our Shares will be registered in the name of CDP or its nominee and held by CDP for and on behalf of persons who maintain, either directly or through depository agents, securities accounts with CDP. Persons named as direct securities account holders and depository agents in the depository register maintained by the CDP, rather than CDP itself, will be treated, under our Articles of Association and the Act, as members of the Company in respect of the number of Shares credited to their respective securities accounts.

Persons holding the Shares in securities account with CDP may withdraw the number of Shares they own from the book-entry settlement system in the form of physical share certificates. Such share certificates will, however, not be valid for delivery pursuant to trades transacted on the SGX-ST, although they will be *prima facie* evidence of title and may be transferred in accordance with our Articles of Association. A fee of \$10.00 for each withdrawal of 1,000 Shares or less and a fee of \$25.00 for each withdrawal of more than 1,000 Shares is payable upon withdrawing the Shares from the book-entry settlement system and obtaining physical share certificates. In addition, a fee of \$2.00 or such other amount as our Directors may decide, is payable to the share registrar for each share certificate issued and a stamp duty of \$10.00 is also payable where our Shares are withdrawn in the name of the person withdrawing our Shares or \$0.20 per \$100.00 or part thereof of the last-transacted price where it is withdrawn in the name of a third party. Persons holding physical share certificates who wish to trade on SGX-ST must deposit with CDP their share certificates together with the duly executed and stamped instruments of transfer in favour of CDP, and have their respective securities accounts credited with the number of Shares deposited before they can effect the desired trades. A fee of \$20.00 is payable upon the deposit of each instrument of transfer with CDP.

Transactions in the Shares under the book-entry settlement system will be reflected by the seller's securities account being debited with the number of Shares sold and the buyer's securities account being credited with the number of Shares acquired. No transfer of stamp duty is currently payable for the Shares that are settled on a book-entry basis.

A Singapore clearing fee for trades in our Shares on the SGX-ST is payable at the rate of 0.05 per cent of the transaction value subject to a maximum of \$200.00 per transaction. The clearing fee, instrument of transfer deposit fee and share withdrawal fee may be subject to the prevailing Singapore Goods and Services Tax rate.

Dealings of our Shares will be carried out in Singapore dollars and will be effected for settlement on CDP on a scripless basis. Settlement of trades on a normal "ready" basis on the SGX-ST generally takes place on the third Market Day following the transaction date, and payment for the securities is generally settled on the following business day. CDP holds securities on behalf of investors in securities accounts. An investor may open a direct account with CDP or a sub-account with a CDP Depository Agent. The CDP agent may be a member company of the SGX-ST, bank, merchant bank or trust company.

GENERAL AND STATUTORY INFORMATION

INFORMATION ON DIRECTORS AND EXECUTIVE OFFICERS

1. The name, age, address, principal occupation and business and working experience of each of our Directors and Executive Officers are set out in the section “Directors, Management and Staff” of this Prospectus.
2. The present and past directorships other than directorships held in our Company (held in the five years preceding the Latest Practicable Date) of each of our Directors, in other companies are as follows:

<u>Name</u>	<u>Other Directorships</u>	<u>Past Directorships</u>
Jiang Yun	Chengdu Lijia Pharmaceutical Co., Ltd Chengdu Century United Biomed Co., Ltd Chengdu Kinna Bio&Pharm. Co., Ltd Top Entrepreneur Limited	Nil
Wu Xuedan	Chengdu Lijia Pharmaceutical Co., Ltd Chengdu Century United Biomed Co., Ltd Chengdu Kinna Bio&Pharm. Co., Ltd	Nil
Dr Lan Wei Guang	Prosoft International Pte Ltd Sinomem Technology Limited Suntar Desalination (Xiamen) Co., Ltd Suntar Industrial Park (Shanghai) Co., Ltd. Suntar International Pte Ltd Suntar Membrane Technology (Singapore) Pte Ltd Suntar Membrane Technology (Xiamen) Co., Ltd. Suntar Technological Park Development (Xiamen) Co., Ltd. Suntar Investment Pte Ltd	Hotech International Pte Ltd Lamtech Star Enterprise (S) Pte Ltd Suntar Industrial Park (Longyan) Co., Ltd. Yuda Enterprise (S) Pte Ltd
Chew Thiam Keng	Ban Joo & Company Limited Business Mark (M) Sdn Bhd China Dairy Group Ltd Dataran Pacifik (M) Sdn Bhd Dynamic Commerce (M) Sdn Bhd Multi-Chem Limited KS eVA Pte Ltd KS Tech Ltd S & E Tech Pte Ltd Showy International Ltd Sim Siang Choon Ltd Tan Khee Bak Foundation Ltd	Autohub 21 Pte Ltd Cyber Generation Pte Ltd Electronic Commerce Technology Sdn Bhd Flairis Technology Corp Ltd Horizon Knowledge Solutions Pte Ltd Indatronics Sdn Bhd Kian Ann Engineering (M) Sdn Bhd Kian Ann Engineering Ltd MoreRewards (Singapore) Pte Ltd Mthree Asia Pte Ltd Plant & Machinery Parts Pty Ltd Restuman Sdn Bhd S.M. Macinery Sdn Bhd Tat Hong Holdings Ltd
Teo Kean Eek	Agile Partners Pte Ltd CEC Mobile Singapore Pte Ltd	Hejia Software Technology Inc. Ocean International Holdings Pte Ltd Sheng Tong Food Industries Pte Ltd

GENERAL AND STATUTORY INFORMATION

3. The present and past directorships (held in the five years preceding the Latest Practicable Date of each of our Executive Officers are as follows:

<u>Name</u>	<u>Other Directorships</u>	<u>Past Directorships</u>
Dr Chen Yaoming	Chengdu Century United Biomed Co., Ltd Chengdu Kinna Bio & Pharm. Co., Ltd	Nil
Chen Jun	Chengdu Lijia Pharmaceutical Co., Ltd	Nil
Li Rui	Nil	Nil
Leow Chin Boon	Nil	Nil
Xu Huili	Nil	Nil

4. None of our Directors or Executive Officers is or was involved in any of the following events:-

- (i) during the last ten years, a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner;
- (ii) during the last ten years, a petition under any law of any jurisdiction filed against a corporation of which he was a director or key executive for the winding-up of that corporation on the ground of insolvency;
- (iii) any unsatisfied judgments against him;
- (iv) a conviction of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment for three months or more, or any criminal proceedings (including any pending criminal proceedings which he is aware of) for such purpose;
- (v) a conviction of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or any criminal proceedings (including pending criminal proceedings which he is aware of) for such breach;
- (vi) during the last ten years, judgement entered against him in any civil proceeding in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or any civil proceedings (including any pending civil proceedings which he is aware of) involving an allegation of fraud, misrepresentation or dishonesty on his part;
- (vii) a conviction in Singapore or elsewhere of any offence in connection with the formation or management of any corporation;
- (viii) disqualification from acting as a director of any corporation, or from taking part directly or indirectly in the management of any corporation;
- (ix) the subject of any order, judgement or ruling of any court, tribunal or governmental body permanently or temporarily enjoining him from engaging in any type of business practice or activity; and

GENERAL AND STATUTORY INFORMATION

- (x) to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of affairs of
 - (a) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or
 - (b) any corporation or partnership which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,

in connection with any matter occurring or arising during the period when he was so concerned with the corporation or partnership.

5. The aggregate remuneration paid to our Directors for services rendered in all capacities to our Company and our subsidiaries for the last financial year ended 2003 was \$0.1 million. For the current financial year ending 2004, the aggregate remuneration payable to Directors by our Group is estimated to be \$0.3 million (excluding performance bonus entitlements under the service agreements referred to in the section "Service Agreements" of this Prospectus).
6. Save as disclosed in the section "Service Agreements" of this Prospectus, there are no existing or proposed service contracts between our Executive Directors or Executive Officers and our Company or any of our subsidiaries.
7. Save as disclosed in the section "Restructuring Exercise", no option to subscribe for shares in, or debentures of, our Company or any of our subsidiaries has been granted to, or was exercised by, any of our Directors or Executive Officers within the last financial year.
8. Save as disclosed in the section "Restructuring Exercise" of this Prospectus, none of our Directors is interested, directly or indirectly, in the promotion of, or in any property or assets which have, within the two years preceding the date of this Prospectus, been acquired or disposed of by or leased to, our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries.
9. None of our Directors or Executive Officers or substantial shareholders of our Company has any substantial interest, direct or indirect, in any company carrying on a similar trade as our Company or our subsidiaries.
10. No sum or benefit has been paid or is agreed to be paid to any Director or expert, or to any firm in which such Director or expert is a partner or any corporation in which such Director or expert holds shares or debentures, in cash or shares or otherwise, by any person to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him or by such firm or corporation in connection with the promotion or formation of our Company.
11. None of our Directors has any interest in any existing contract or arrangement which is significant in relation to the business of our Company and our subsidiaries, taken as a whole.

SHARE CAPITAL

12. As at the Latest Practicable Date, there is only one class of shares in the capital of our Company. There are no founder, management or deferred shares. The rights and privileges attached to our Shares are stated in the Articles of Association of our Company.

GENERAL AND STATUTORY INFORMATION

13. The changes in the registered capital of our subsidiaries within the three years preceding the date of this Prospectus are set out below:-

Date	Purpose	Issue Price/ Consideration	Resultant registered capital
Kinna Pharm			
3 November 2003	Registered capital upon establishment	US\$3,100,000	US\$3,100,000
Longlife			
25 August 2002	Working capital	RMB 10,000,000	RMB 21,800,000

14. No person has been, or is entitled to be, granted an option to subscribe for shares in, or debentures of, our Company or any of our subsidiaries.

BANK BORROWINGS AND WORKING CAPITAL

15. Save as disclosed in the section “Capitalisation and Indebtedness” of this Prospectus and in the unaudited pro forma consolidated financial statements, our Group had no other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trading bills) or acceptance credits, mortgages, charges, hire purchase commitments, guarantees or other contingent liabilities as at the Latest Practicable Date.
16. Our Directors are of the opinion that, after taking into account our present banking facilities, our Group has adequate working capital for our requirements.

MATERIAL AGREEMENTS

17. The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by our Company and our subsidiaries within the two years preceding the date of lodgement of this Prospectus and are or may be material:-
- (a) Subscription Agreement dated 4 December 2003 between Suntar Investment, Jiang Yun and our Company;
 - (b) Sale and Purchase Agreement dated 4 November 2003 (as amended by a supplemental agreement dated 10 January 2004) between Kinna Pharm and Chengdu Kinna whereby Kinna Pharm acquired the pharmaceutical business of Chengdu Kinna and certain assets relating to the acquired pharmaceutical business comprising mainly of fixed assets, accounts receivables and trademarks and Chengdu Kinna’s 30.0 per cent equity interest in Longlife;
 - (c) Sale and purchase agreement dated 29 December 2003 (as amended by a supplemental agreement dated 31 December 2003) between Kinna Pharm, Tong Lianggui and Chengdu Jinrong whereby Kinna Pharm acquired 21.0 per cent equity interest in Longlife from Chengdu Kinna and Tong Lianggui for a total consideration of RMB 3,150,000 based on willing buyer and willing seller basis;
 - (d) Sale and purchase agreement dated 31 December 2003 (as amended by a supplemental agreement dated 31 December 2003) between Longlife and Chengdu Kinna whereby Longlife disposed off its 100.0 per cent interest in its wholly-owned subsidiary, Longlife Trading for a consideration of RMB 2,607,321.72 based on the registered capital of Longlife Trading;
 - (e) Deed of non-competition dated 19 August 2004 between Chengdu Lijia Pharmaceutical Co., Ltd and our Company;

GENERAL AND STATUTORY INFORMATION

- (f) Deed of non-competition dated 19 August 2004 between Sichuan Neautus Traditional Chinese Medicine Co., Ltd and our Company;
- (g) Deed of non-competition dated 19 August 2004 between Jiang Yun and our Company; and
- (h) Deed of non-competition dated 19 August 2004 between Wu Xuedan and our Company.

MANAGEMENT, UNDERWRITING AND PLACEMENT ARRANGEMENTS

18. Pursuant to the Management and Underwriting Agreement dated 27 September 2004 (the "Management and Underwriting Agreement") entered into between our Company and UOB Asia as the Manager and the Underwriter, our Company appointed UOB Asia to manage the Invitation. UOB Asia will receive a management fee from our Company for its services rendered in connection with the Invitation.

Pursuant to the Management and Underwriting Agreement, the Underwriter has agreed to underwrite the Offer Shares for a commission of 2.5 per cent of the Issue Price for each Offer Share payable by our Company pursuant to the Invitation. UOB Asia may, at its absolute discretion appoint one or more sub-underwriters to sub-underwrite the Offer Shares.

19. Pursuant to the Placement Agreement dated 27 September 2004 (the "Placement Agreement") entered into between our Company and UOB Asia as the Placement Agent, UOB Asia agreed to subscribe for and/or procure subscribers for the Placement Shares for a placement commission of 1.75 per cent of the Issue Price for each Placement Share, to be paid by our Company. UOB Asia may, at its absolute discretion appoint one or more sub-placement agents for the Placement Shares.
20. Brokerage will be paid by our Company at the rate of 0.25 per cent of the Issue Price for each Offer Share and 1.0 per cent of the Issue Price for each Placement Share. In respect of the Offer Shares, the brokerage will be paid to members of the SGX-ST, merchant banks and members of the Association of Banks in Singapore in respect of successful applications made on Application Forms bearing their respective stamps, or to Participating Banks in respect of successful applications made through Electronic Applications at their respective ATMs or their IB websites. In respect of the Placement Shares, the brokerage will be paid to the Placement Agents in accordance with the Placement Agreement. Subscribers of the Placement Shares (excluding Reserved Shares) may be required to pay brokerage of 1.0% of the Issue Price.
21. The Management and Underwriting Agreement may be terminated by UOB Asia at any time on or before the close of the Application List, if:-
- (a) there shall have been, since the date of the Management and Underwriting Agreement:
 - (i) any material adverse change, or any development involving a prospective material adverse change, in the condition (financial or otherwise), performance or general affairs of our Company or of our Group as a whole; or
 - (ii) any introduction or prospective introduction of or prospective change in any legislation, regulation, policy, rule, guideline or directive (whether or not having the force of law and including, without limitation, any directive or request issued by the Authority, the Securities Industry Council of Singapore or the SGX-ST) or in the interpretation or application thereof any court, government body, regulatory authority or other competent authority; or
 - (iii) any change, or any development involving a prospective change, in local, national, regional or international financial (including stock market, foreign exchange market, inter-bank or interest rates or money market), political, industrial, economic, legal or monetary conditions, taxation or exchange controls (including but without limitation, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the SGX-ST due to exceptional financial circumstances or otherwise); or

GENERAL AND STATUTORY INFORMATION

(iv) any imminent threat occurrence of any local national or international outbreak or escalation of hostilities, insurrection or armed conflict (whether or not involving financial markets); or

(v) any other occurrence of any nature whatsoever;

which event or events shall in the reasonable opinion of UOB Asia (1) result or be likely to result in a material adverse fluctuation or adverse conditions in the stock market in Singapore or overseas; or (2) be likely to materially prejudice the success of the subscription or offer of the Invitation Shares (whether in the primary market or in respect of dealings in the secondary market); or (3) make it impracticable, inadvisable, inexpedient or uncommercial to proceed with any of the transactions contemplated in the Management and Underwriting Agreement; or (4) be likely to have a material adverse effect on the business, trading position, operations or prospects of our Company or of our Group as a whole; or (5) be such that no reasonable underwriter would have entered into the Management and Underwriting Agreement; or (6) result or be likely to result in the issue of a stop order by the Authority in accordance with Section 242 of the Securities and Futures Act (notwithstanding that a supplementary or replacement prospectus is subsequently registered with the Authority pursuant to Section 241 of the Securities and Futures Act); or (7) make it uncommercial or otherwise contrary to or outside the usual commercial practices of underwriters in Singapore for UOB Asia to observe or perform or be obliged to observe or perform the terms of the Management and Underwriting Agreement; or

(b) without limiting the generality of the foregoing, if there comes to the notice of UOB Asia (1) any statement contained in this Prospectus or application forms relating hereto which in the sole and absolute opinion of UOB Asia has become untrue, incorrect or misleading in any material respect or (2) circumstance or matters have arisen or have been discovered, which would, if this Prospectus was to be issued at that time, constitute in the sole and absolute opinion of UOB Asia, a material omission of such information, and the Company or fails to lodge a supplementary or replacement prospectus or document within a reasonable time after being notified of such a material misrepresentation or omission or fails to promptly take such steps as UOB Asia may reasonably require to inform investors of the lodgement of such a supplementary prospectus or document. In such an event, UOB Asia reserves the right, at its absolute discretion to cancel the Invitation and any application monies received will be refunded (without interest or any share of revenue or other benefit arising therefrom) to the applicants for the Invitation Shares by ordinary post or telegraphic transfer at the applicant's own risk within fourteen days of the termination of the Invitation; or

22. The Placement Agreement is conditional upon the Management and Underwriting Agreement not having been terminated or rescinded pursuant to the provisions of the Management and Underwriting Agreement. In the event that the Management and Underwriting Agreement is terminated, our Company reserves the right, at the absolute discretion of our Directors, to cancel the Invitation.

23. Save as disclosed above, we do not have any material relationship with any of the Manager, Underwriter, Placement Agent, Primary Sub-Underwriters or Primary Sub-Placement Agents.

LITIGATION

24. Neither our Company nor any of our subsidiaries is engaged in any litigation as plaintiff or defendant in respect of any claims or amounts which are material in the context of the Invitation and our Directors have no knowledge of any proceedings pending or threatened against our Company or any of our subsidiaries or any facts likely to give rise to any litigation, claims or proceedings which might materially affect the financial position or profitability or the business of our Company or any of our subsidiaries.

GENERAL AND STATUTORY INFORMATION

MISCELLANEOUS

25. The nature of the business of our Company has been stated earlier in this Prospectus. The corporations which by virtue of Section 6 of the Companies Act are deemed to be related to our Company are set out below:-

Chengdu Kinna Pharmaceutical Co., Ltd
Sichuan Longlife Pharmaceutical Co., Ltd

26. There has been no previous issue of Shares by our Company or offer for sale of our Shares to the public within the two years preceding the date of this Prospectus.
27. The expenses in connection with the Invitation and the application for listing, including underwriting commission, placement commission, brokerage, management fees, auditors' fee, solicitors' fee, and all other incidental expenses in relation to the Invitation can be broken down as follows:-

	<u>\$'000</u>
Listing Fee	25
Professional Fees and charges	1,000
Underwriting and placement commission and brokerage	350
Miscellaneous expenses	200
	<hr/>
Total estimated expenses	1,575
	<hr/>

The listing fee, professional fees underwriting and placement commission and brokerage and miscellaneous expenses will be borne by our Company.

28. No amount of cash or securities or benefit has been paid or given to any promoter within the two years preceding the Latest Practicable Date or is proposed or intended to be paid or given to any promoter at any time.
29. Save as disclosed in the section "Management, Underwriting and Placement Agreements", no commission, discount or brokerage has been paid or other special terms granted within the two years preceding the Latest Practicable Date or is payable to any Director, promoter, expert, proposed director or any other person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in, or debentures of, our Company or any of our subsidiaries.
30. No expert is interested, directly or indirectly, in the promotion of, or in any property or assets which have, within the two years preceding the Latest Practicable Date, been acquired or disposed of by or leased to our Company or any of our subsidiaries or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries.
31. Application monies received by our Company in respect of successful applications (including successful applications which are subsequently rejected) will be placed in a separate non-interest bearing account with UOB (the "Receiving Bank"). In the ordinary course of business, the Receiving Bank will deploy these monies in the interbank money market. All profits derived from the deployment of such monies will accrue to the Receiving Bank. Any refund of all or part of the application monies to unsuccessful or partially successful applicants will be made without any interest or any share of revenue or any other benefit arising therefrom.
32. Save as disclosed in this Prospectus, our Directors are not aware of any relevant material information including trading factors or risks which are unlikely to be known or anticipated by the general public and which could materially affect the profits of our Company and our subsidiaries.

GENERAL AND STATUTORY INFORMATION

33. Save as disclosed in this Prospectus, the financial condition and operations of our Group are not likely to be affected by any of the following:-
- (a) known trends or demands, commitments, events or uncertainties that will result in or are reasonably likely to result in our Group's liquidity increasing or decreasing in any material way;
 - (b) material commitments for capital expenditure;
 - (c) unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from operations; and
 - (d) known trends or uncertainties that have had or that we reasonably expect will have a material favourable or unfavourable impact on revenues or operating income.
34. We currently have no intention of changing our auditors after the listing of our Company on the SGX-ST.
35. Save as disclosed in the section "Use of Proceeds" of this Prospectus, no property has been purchased or acquired or proposed to be purchased or acquired by our Company or our subsidiaries which is to be paid for wholly or partly out of the proceeds of the Invitation or the purchase or acquisition of which has not been completed at the date of the issue of this Prospectus other than property in respect of which the contract for the purchase or acquisition whereof was entered into in our ordinary course of business or in the ordinary course of business of our subsidiaries, such contract not being made in contemplation of the Invitation nor the Invitation in consequence of the contract.
36. Save as disclosed in this Prospectus, the Directors are not aware of any event which has occurred since 31 December 2003 which may have a material effect on the financial information provided in the Unaudited Pro Forma Consolidated Financial Statements and the Audited Financial Statements of Chengdu Kinna.

CONSENTS

37. The Joint Reporting Accountants have given and have not withdrawn their written consent to the issue of this Prospectus with the inclusion herein of the Report of the Joint Reporting Accountants in relation to the unaudited pro forma consolidated financial statements of the Pro Forma Group for the years ended 31 December 2001, 2002 and 2003, in the form and context in which it is included and references to their name in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus.
38. Ernst & Young, Hong Kong have given and have not withdrawn their written consent to the issue of this Prospectus with the inclusion herein of the Audited Consolidated Financial Statements of Chengdu Kinna for the years ended 31 December 2001, 2002 and 2003, in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus.
39. China United Assets Appraisal Co., Ltd have given and have not withdrawn their written consent to the issue of this prospectus with the inclusion herein of its name and references thereto in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus.
40. The Manager, Underwriter and Placement Agent, the Solicitors to the Invitation, the Solicitors to the Manager, Underwriter and Placement Agent, the Primary Sub-Underwriters and the Primary Sub-Placement Agents, the Solicitors to the Manager, Underwriter and Placement Agent, the Legal Advisers to the Company as to PRC Law, and the Share Registrar and the Share Transfer Office have each given and have not withdrawn their written consents to the issue of this Prospectus with the inclusion herein of their names and references thereto in the form and context in which they respectively appear in this Prospectus and to act in such respective capacities in relation to this Prospectus.

GENERAL AND STATUTORY INFORMATION

RESPONSIBILITY STATEMENT BY OUR DIRECTORS

41. This Prospectus has been seen and approved by our Directors and they individually and collectively accept full responsibility for the accuracy of the information given herein and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and the opinions expressed herein are fair and accurate in all material respects as of the date hereof and there are no material facts the omission of which would make any statements in this Prospectus misleading and that this Prospectus constitutes full and true disclosure of all material facts about the Invitation and our Group.

DOCUMENTS AVAILABLE FOR INSPECTION

42. The following documents or copies thereof may be inspected at our registered office at 21 Science Park Road, #03-13, The Aquarius, Singapore Science Park II, Singapore 117628 during normal business hours for a period of six months from the date of registration by the Authority of this Prospectus:-
- (a) the Memorandum and Articles of Association of our Company;
 - (b) the Report of the Joint Reporting Accountants in relation to the Unaudited Pro Forma Consolidated Financial Statements set out in Appendix I of this Prospectus;
 - (c) the Unaudited Pro Forma Consolidated Financial Statements set out in Appendix II of this Prospectus;
 - (d) the Audited Consolidated Financial Statements of Chengdu Kinna for the years ended 31 December 2001, 2002 and 2003 set out in Appendix III of this Prospectus;
 - (e) the material agreements referred to in paragraph 17 on pages 134 and 135 of this Prospectus;
 - (f) the letters of consent referred to in paragraphs 37, 38, 39 and 40 on page 138 of this Prospectus; and
 - (g) the service agreements referred to on pages 110 to 112 of this Prospectus.

APPENDIX I
REPORT OF THE JOINT REPORTING ACCOUNTANTS IN RELATION TO THE
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

27 September 2004

The Board of Directors
Pharmesis International Ltd.
21 Science Park Road
#03-13, The Aquarius
Singapore Science Park II
Singapore 117628

Dear Sirs:

We report on the unaudited pro forma consolidated financial statements of Pharmesis International Ltd. (the "Company") set out in pages II-1 to II-23 of the Prospectus dated 27 September 2004, which have been prepared for illustrative purposes only and based on certain assumptions and after making certain adjustments to show what :

- (a) the financial results and changes in equity of the Company and its subsidiary companies (collectively referred to as the "Group" or "Pro Forma Group") for the years ended 31 December 2001, 2002 and 2003 would have been if the Pro Forma Group structure as of the date of lodgement of Prospectus had been in place since the beginning of the periods being reported on, except as disclosed in Note 4 to the unaudited pro forma consolidated financial statements;
- (b) the financial position of the Pro Forma Group as of the date of the balance sheet as at 31 December 2003 would have been if the Pro Forma Group structure as of the date of lodgement of Prospectus had been in place on that date; and
- (c) the cash flows of the Pro Forma Group for the year ended 31 December 2003 would have been if the Pro Forma Group structure as of the date of lodgement of Prospectus had been in place since the beginning of the periods being reported on, except as disclosed in Note 4 to the unaudited pro forma consolidated financial statements.

The unaudited pro forma consolidated financial statements, because of their nature, may not give a true picture of the Pro Forma Group's actual financial position, financial results, changes in equity or cash flows.

The unaudited pro forma consolidated financial statements are the responsibility of the directors of the Company. Our responsibility is to express an opinion on the unaudited pro forma consolidated financial statements based on our work.

We carried out procedures in accordance with Singapore Statement of Auditing Practice : SAP 24 : "Auditors and Public Offering Documents". Our work, which involved no independent examination of the underlying financial statements, consisted primarily of comparing the unaudited pro forma consolidated financial statements to the financial statements of the entities of the Pro Forma Group, considering the evidence supporting the adjustments and discussing the unaudited pro forma consolidated financial statements with the directors of the Company.

APPENDIX I
REPORT OF THE JOINT REPORTING ACCOUNTANTS IN RELATION TO THE
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

In our opinion :

- (a) the unaudited pro forma consolidated financial statements have been properly prepared :
 - (i) from the relevant financial statements making up the Pro Forma Group which were prepared in accordance with International Financial Reporting Standards;
 - (ii) in a manner consistent with the format of the financial statements and the accounting policies of the Company; and
 - (iii) on the bases as set out in Note 4 to the unaudited pro forma consolidated financial statements.
- (b) each material adjustment made to the information used in the preparation of the unaudited pro forma consolidated financial statements is appropriate for the purpose of preparing such financial statements.

Yours faithfully,

ERNST & YOUNG
Certified Public Accountants

Hong Kong

Terence Ho Siu Fung
Partner-in-Charge

ERNST & YOUNG
Certified Public Accountants

Singapore

Daniel Soh Chung Hian
Partner-in-Charge

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

**Unaudited Pro Forma Consolidated Profit and Loss Accounts
for the years ended 31 December 2001, 2002 and 2003**

	Note	2001 RMB'000	2002 RMB'000	2003 RMB'000
Revenue	(7)	67,044	94,183	120,702
Cost of sales		(7,248)	(9,587)	(11,786)
Gross profit		59,796	84,596	108,916
Other income	(7)	5,676	3,573	7,000
Selling and distribution costs		(36,102)	(53,346)	(66,935)
Administrative costs		(8,561)	(11,146)	(8,271)
Other operating costs		(114)	(558)	(1,196)
Profit from operating activities	(8)	20,695	23,119	39,514
Finance costs	(9)	(600)	(1,814)	(3,078)
Profit before income tax and minority interest		20,095	21,305	36,436
Income tax expense	(10)	(6,275)	(7,776)	(10,301)
Profit before minority interest		13,820	13,529	26,135
Minority interest		–	(500)	(1,881)
Net profit		13,820	13,029	24,254
Basic and diluted earnings per share (RMB cents)	(11)	9.21	8.69	16.17

The accompanying accounting policies and explanatory notes on pages II-9 to II-23 form an integral part of the unaudited pro forma consolidated financial statements.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Pro Forma Consolidated Balance Sheet as at 31 December 2003

	Note	2003 RMB'000
Non-current assets		
Property, plant and equipment	(12)	28,068
Goodwill	(13)	3,195
		31,263
Current assets		
Cash and cash equivalents		20,973
Trade receivables	(14)	56,621
Prepayments, deposits and other receivables	(15)	4,580
Inventories	(16)	3,850
		86,024
Current liabilities		
Bank loans	(18)	49,300
Trade payables	(19)	5,668
Accrued liabilities and other payables		6,419
Tax payable		859
Amount due to a related party	(17)	3,500
		65,746
Net current assets		20,278
Long term liabilities		
Bank loans	(18)	12,079
Amount due to a related party	(17)	6,059
		(18,138)
Net assets		33,403
Represented by:		
Pro forma shareholders' equity		29,292
Minority interest		4,111
		33,403

The accompanying accounting policies and explanatory notes on pages II-9 to II-23 form an integral part of the unaudited pro forma consolidated financial statements.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

**Unaudited Pro Forma Consolidated Statements of Changes in Equity
for the years ended 31 December 2001, 2002 and 2003**

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Pro forma shareholders' equity			
At beginning of year	21,097	24,185	19,286
Net profit for the year	13,820	13,029	24,254
Retained by Chengdu Kinna Bio&Pharm Co., Ltd, net ⁽¹⁾ ("Chengdu Kinna")	(10,732)	(17,928)	(14,248)
At end of year	<u>24,185</u>	<u>19,286</u>	<u>29,292</u>

Note (1) : The transfer of the pharmaceutical business of Chengdu Kinna [Note 3(c)] took effect on 1 January 2004.

The accompanying accounting policies and explanatory notes on pages II-9 to II-23 form an integral part of the unaudited pro forma consolidated financial statements.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

**Unaudited Pro Forma Consolidated Cash Flows Statement
for the year ended 31 December 2003**

	2003 RMB'000
Cash flows from operating activities	
Profit before income tax	36,436
Adjustments for:	
Depreciation	1,674
Allowance for doubtful debts	240
Allowance for inventory obsolescence	124
Impairment loss on property, plant and equipment	311
Amortisation of goodwill	585
Write-off of property, plant and equipment	747
Interest income	(172)
Interest expenses	3,250
	43,195
Operating profit before working capital changes	43,195
Working capital adjustments:	
Increase in trade receivables	(9,191)
Increase in inventories	(433)
Decrease in prepayments, deposits and other receivables	2,521
Decrease in amounts due from related parties	4,744
Increase in trade payables	3,756
Decrease in accrued liabilities and other payables	(3,607)
Increase in amount due to a related party	3,500
	44,485
Cash generated from operations	44,485
Interest paid	(3,250)
Income tax paid	(9,306)
	31,929
Net cash flows provided by operating activities	31,929
Cash flows from investing activities	
Interest income	172
Acquisition of property, plant and equipment and construction in progress	(11,949)
	(11,777)
Net cash flows used in investing activities	(11,777)
Cash flows from financing activities	
Net proceeds from bank loans	15,069
Cash retained by Chengdu Kinna Bio&Pharm Co., Ltd ⁽¹⁾	(14,248)
	821
Net cash flows provided by financing activities	821
Net increase in cash and cash equivalents	20,973
Cash and cash equivalents at beginning of year	–
	20,973

Note (1) : The transfer of the pharmaceutical business of Chengdu Kinna [Note 3(c)] took effect on 1 January 2004.

The accompanying accounting policies and explanatory notes on pages II-9 to II-23 form an integral part of the unaudited pro forma consolidated financial statements.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Statement of Adjustments to Unaudited Pro Forma Consolidated Financial Statements

In arriving at the unaudited pro forma consolidated financial statements the following adjustments were made :

Unaudited pro forma consolidated profit and loss account for year ended 31 December 2001

	As stated in audited consolidated profit and loss account of Chengdu Kinna RMB'000	Pro forma adjustments (c) RMB'000	As stated in unaudited pro forma consolidated profit and loss account RMB'000
Revenue	67,044		67,044
Cost of sales	(7,248)		(7,248)
Gross profit	59,796		59,796
Other income	5,676		5,676
Selling and distribution costs	(36,102)		(36,102)
Administrative costs	(8,561)		(8,561)
Other operating costs	(144)	30	(114)
Profit from operating activities	20,665	30	20,695
Finance costs	(600)		(600)
Share of profit/(loss) of associated companies	-		-
Profit before income tax and minority interests	20,065	30	20,095
Income tax expense	(6,275)		(6,275)
Profit before minority interests	13,790	30	13,820
Minority interests	-		-
Net profit	13,790	30	13,820

Note :

- (c) Certain assets/liabilities were not acquired by the Pro Forma Group pursuant to the restructuring exercise [Note 3(c)]. The profit and loss arising from these assets/liabilities have been excluded with effect from 1 January 2001. The net assets not acquired have been excluded from the pro forma shareholders' equity as at 31 December 2003.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Statement of Adjustments to Unaudited Pro Forma Consolidated Financial Statements (cont'd)

Unaudited pro forma consolidated profit and loss account for year ended 31 December 2002

	As stated in audited consolidated profit and loss account of Chengdu Kinna RMB'000	Pro forma adjustments			As stated in unaudited pro forma consolidated profit and loss account RMB'000
		(a) RMB'000	(b) RMB'000	(c) RMB'000	
Revenue	81,304		12,879		94,183
Cost of sales	(7,745)		(1,842)		(9,587)
Gross profit	73,559		11,037		84,596
Other income	3,573				3,573
Selling and distribution costs	(46,189)		(7,157)		(53,346)
Administrative costs	(9,111)		(2,035)		(11,146)
Other operating costs	(665)		(124)	231	(558)
Profit from operating activities	21,167		1,721	231	23,119
Finance costs	(1,314)	(3)	(497)		(1,814)
Share of profit/(loss) of associated companies	221	34	(255)		-
Profit before income tax and minority interests	20,074	31	969	231	21,305
Income tax expense	(7,486)		(290)		(7,776)
Profit before minority interests	12,588	31	679	231	13,529
Minority interests	(1)	1	(500)		(500)
Net profit	12,587	32	179	231	13,029

Notes :

- (a) This relates to the results of certain entities of Chengdu Kinna not acquired by the Pro Forma Group pursuant to the restructuring exercise [Note 3(c)].
- (b) This relates to the consolidation of Longlife as a 51% subsidiary company from 1 August 2002 (Note 4).
- (c) Certain assets/liabilities were not acquired by the Pro Forma Group pursuant to the restructuring exercise [Note 3(c)]. The profit and loss arising from these assets/liabilities have been excluded with effect from 1 January 2001. The net assets not acquired have been excluded from the pro forma shareholders' equity as at 31 December 2003.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Statement of Adjustments to Unaudited Pro Forma Consolidated Financial Statements (cont'd)

Unaudited pro forma consolidated profit and loss account for year ended 31 December 2003

	As stated in audited consolidated profit and loss account of Chengdu Kinna RMB'000	Pro forma adjustments			As stated in unaudited pro forma consolidated profit and loss account RMB'000
		(a) RMB'000	(b) RMB'000	(c) RMB'000	
Revenue	91,553	(1,000)	30,149		120,702
Cost of sales	(9,055)	1,023	(3,754)		(11,786)
Gross profit	82,498	23	26,395		108,916
Other income	7,935		200	(1,135)	7,000
Selling and distribution costs	(50,308)	208	(16,835)		(66,935)
Administrative costs	(5,757)	239	(3,289)	536	(8,271)
Other operating costs	(839)		(502)	145	(1,196)
Profit from operating activities	33,529	470	5,969	(454)	39,514
Finance costs	(1,803)	(3)	(1,272)		(3,078)
Share of profit/(loss) of associated companies	272		(1,122)	850	-
Profit before income tax and minority interests	31,998	467	3,575	396	36,436
Income tax expense	(9,296)		(1,060)	55	(10,301)
Profit before minority interests	22,702	467	2,515	451	26,135
Minority interests	167	(167)	(1,881)		(1,881)
Net profit	22,869	300	634	451	24,254

Notes :

- (a) This relates to the results of certain entities of Chengdu Kinna not acquired by the Pro Forma Group pursuant to the restructuring exercise [Note 3(c)].
- (b) This relates to the consolidation of Longlife as a 51% subsidiary company from 1 August 2002 (Note 4).
- (c) Certain assets/liabilities were not acquired by the Pro Forma Group pursuant to the restructuring exercise [Note 3(c)]. The profit and loss arising from these assets/liabilities have been excluded with effect from 1 January 2001. The net assets not acquired have been excluded from the pro forma shareholders' equity as at 31 December 2003.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Statement of Adjustments to Unaudited Pro Forma Consolidated Financial Statements (cont'd)

Unaudited pro forma consolidated balance sheet as at 31 December 2003

	2003 RMB'000
<i>Shareholders' equity</i>	
As stated in the audited consolidated balance sheet	
As at 1 January 2003	57,377
Results for the year	22,869
	80,246
Pro forma adjustments :	
Net assets of Chengdu Kinna business not acquired [Note (c)]	(56,281)
Goodwill arising from acquisition of Chengdu Kinna business	1,496
	(54,785)
Net assets acquired – additional 21% of Longlife Group [Note (b)]	1,451
Goodwill arising from acquisition of 21% of Longlife Group	1,699
	3,150
Gain on disposal of Longlife Trading [Note (d)]	755
Others	(74)
	29,292
Shareholders' equity as stated in the unaudited pro forma consolidated balance sheet	29,292

Notes :

- (a) This relates to the results of certain entities of Chengdu Kinna not acquired by the Pro Forma Group pursuant to the restructuring exercise [Note 3(c)].
- (b) This relates to the consolidation of Longlife as a 51% subsidiary company from 1 August 2002 (Note 4).
- (c) Certain assets/liabilities were not acquired by the Pro Forma Group pursuant to the restructuring exercise [Note 3(c)]. The profit and loss arising from these assets/liabilities have been excluded with effect from 1 January 2001. The net assets not acquired have been excluded from the pro forma shareholders' equity as at 31 December 2003.
- (d) This relates to the gain attributable to the Pro Forma Group's shareholders arising from the disposal of Longlife Trading pursuant to the restructuring exercise [Note 3(e)].

APPENDIX II

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Unaudited Pro Forma Consolidated Financial Statements

1. Introduction

The unaudited pro forma consolidated financial statements of Pharmesis International Ltd. (the “Company”) and its subsidiary companies (collectively, the “Group” or “Pro Forma Group”) have been prepared for inclusion in the Prospectus dated 27 September 2004 in connection with the invitation in respect of new ordinary shares of 50,000,000 each in the capital of the Company (the “Invitation”).

2. Corporate information

The Company is a limited liability company incorporated in Singapore on 29 September 2003 under the name of Sinopharm Pte Ltd. On 16 April 2004, Sinopharm Pte Ltd changed its name to Pharmesis International Pte Ltd.

On 30 August 2004, the Company was converted from a private company limited by shares into a public company for purposes of the initial public offering and changed its name to Pharmesis International Ltd.

The registered office and principal place of business of the Company is located at 21 Science Park Road, #03-13, The Aquarius, Singapore Science Park II, Singapore 117628.

The Company is an investment holding company, incorporated for the purpose of acquiring shares of a subsidiary company. The subsidiary company, acquired on 1 January 2004 (effective date), is principally engaged in the investment holding and the development, manufacture and sale of western and traditional Chinese medicines.

The Pro Forma Group operates in the People’s Republic of China (“PRC”) and employed 1,096 employees as at 31 December 2003.

3. Restructuring exercise

To streamline and rationalise the Pro Forma Group structure, a restructuring exercise (the “Restructuring Exercise”) was carried out. Pursuant to the Restructuring Exercise, the following transactions were effected :

(a) ***Pharmesis International Ltd. (formerly known as Sinopharm Pte Ltd)***

On 29 September 2003, Sinopharm Pte Ltd (now known as Pharmesis International Ltd.) (the “Company”) was incorporated in Singapore as an investment holding company of the Pro Forma Group.

(b) ***Chengdu Kinna Pharmaceutical Co., Ltd (“Kinna Pharm”)***

(成都国嘉联合制药有限公司)

On 3 November 2003, Kinna Pharm was registered in Chengdu, Sichuan, PRC as a limited company wholly-owned by Pharmesis International Ltd. The registered office is located at Lujiaqiao Dongzikou, Jinniu District, Chengdu, Sichuan, the PRC.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

3. Restructuring exercise (cont'd)

(c) **Acquisition of the pharmaceutical business of Chengdu Kinna Bio&Pharm Co., Ltd**

On 1 January 2004, pursuant to a sale and purchase agreement dated 4 November 2003, Kinna Pharm acquired the business undertakings of Chengdu Kinna Bio&Pharm Co., Ltd (成都国嘉生物制药股份有限公司) (“Chengdu Kinna”) for the development, manufacturing and sale of western medicines, together with certain selected assets and liabilities thereof, which includes a 30% interest in Sichuan Longlife Pharmaceutical Co., Ltd (四川郎中药业有限公司) (“Longlife”) and its wholly-owned subsidiary company, Sichuan Longlife Trading Co., Ltd (四川郎中医药营销有限公司) (“Longlife Trading”) (collectively referred as the “Longlife Group”), for a purchase consideration of approximately RMB25,461,000 (the “Relevant Business and Net Assets”). The consideration for the acquisition was arrived at based on an independent valuation report dated 25 October 2003, performed on the Relevant Business and Net Assets as at 30 June 2003, and was satisfied via cash settlement.

(d) **Acquisition of an additional 21% interest in Longlife**

On 1 January 2004, Kinna Pharm acquired an additional 21% interest in Longlife from two minority shareholders of Longlife, thereby increasing its equity holding in Longlife to 51%. The consideration for the acquisition was RMB3,150,000 based on willing buyer and willing seller basis.

(e) **Disposal of Longlife Trading**

On 1 January 2004, Kinna Pharm disposed off its interest in Longlife Trading for a consideration of approximately RMB2,607,000. The sale consideration was arrived at based on the capital contribution made by Longlife.

Upon completion of the Restructuring Exercise referred to above and as at 27 September 2004 (date of registration of the Prospectus for which these pro forma financial statements are included), the following companies became subsidiary companies of the Company (referred collectively as the “Pro Forma Group”) :

Name of subsidiary company	Date and place of incorporation	Registered and contributed capital	Percentage of interest attributable to the Company %	Principal activities
Chengdu Kinna Pharmaceutical Co., Ltd (成都国嘉联合制药有限公司)	3 November 2003 PRC	US\$3,100,000 (equivalent to approximately RMB 25,648,000)	100	Development, manufacture and sale of western medicines
Sichuan Longlife Pharmaceutical Co., Ltd (四川郎中药业有限公司)	29 April 1999 PRC	RMB 21,800,000	51	Development, manufacture and sale of traditional Chinese medicines

APPENDIX II

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

4. Basis of preparation of the unaudited pro forma consolidated financial statements

The unaudited pro forma consolidated financial statements comprise the unaudited pro forma consolidated profit and loss accounts and the unaudited pro forma consolidated statement of changes in equity for the years ended 31 December 2001, 2002 and 2003, the unaudited pro forma consolidated balance sheet as at 31 December 2003, and unaudited pro forma consolidated cash flows statement for the year ended 31 December 2003.

The unaudited pro forma consolidated profit and loss accounts, unaudited pro forma consolidated statement of changes in equity and unaudited pro forma consolidated cash flows statement have been prepared on the assumption that the Pro Forma Group structure had been in existence since 1 January 2001, except for the results of Longlife, which were consolidated into the unaudited pro forma consolidated profit and loss accounts as if Longlife has been a 51% subsidiary company of the Company from 1 August 2002, the date whereby Longlife was taken over from a state-owned enterprise. The financial statements of Longlife prior to 1 August 2002 have not been included in arriving at the unaudited pro forma consolidated financial statements of the Pro Forma Group as their inclusion will not reflect appropriately the performance of the Group's management.

The unaudited pro forma consolidated balance sheet has been prepared on the assumption that the Pro Forma Group structure existed as at 31 December 2003.

The unaudited pro forma consolidated financial statements are for illustrative purposes only. The unaudited pro forma consolidated financial statements, because of their nature, are not necessary indicative of the results of the operations, changes in equity and cash flows that would have been attained had the above mentioned Pro Forma Group actually existed as at 1 January 2001. As the Group was only formed subsequent to 31 December 2003, the unaudited pro forma consolidated balance sheet as at 31 December 2003 is not indicative of the Group's financial position.

In arriving at the unaudited pro forma consolidated financial statements, adjustments have been made as considered necessary in order to present the financial statements on a consistent and comparable basis as if the Pro Forma Group had been in existence throughout the period, or since the respective date of incorporation or acquisition of the companies in the Pro Forma Group.

The unaudited pro forma consolidated financial statements are presented on the basis of the accounting policies set out in Note 5 to the unaudited pro forma consolidated financial statements.

The unaudited pro forma consolidated financial statements for the years ended 31 December 2001, 2002 and 2003 has been compiled based on the following :

- (a) the unaudited management financial statements of the Company as at 31 December 2003;
- (b) the unaudited management financial statements of Kinna Pharm as at 31 December 2003; and
- (c) the audited consolidated financial statements of Chengdu Kinna, for the years ended 31 December 2001, 2002 and 2003, prepared under International Financial Reporting Standards.

There has been no audit performed for Chengdu Kinna subsequent to 31 December 2003.

APPENDIX II

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

4. **Basis of preparation of the unaudited pro forma consolidated financial statements (cont'd)**

For the years ended 31 December 2001 and 2002, the PRC statutory auditors of Chengdu Kinna were Hua Xin Group Certified Public Accountants, members of the Chinese Institute of Certified Public Accountants ("CICPA"), who have audited the PRC statutory financial statements of Chengdu Kinna for the years ended 31 December 2001 and 2002 prepared in accordance with PRC accounting rules and regulations ("PRC GAAP") for PRC statutory filing purposes. For the year ended 31 December 2003, the PRC statutory auditors of Chengdu Kinna are Ernst & Young Da Hua Certified Public Accountants, members of CICPA, who have audited the PRC statutory financial statements of Chengdu Kinna for the year ended 31 December 2003 prepared in accordance with PRC GAAP for PRC statutory filing purposes.

For the years ended 31 December 2002 and 2003, the PRC statutory auditors of Longlife were Gulin Shuhong Certified Public Accountants, members of CICPA, who have audited the PRC statutory financial statements of Longlife for the years ended 31 December 2002 and 2003 prepared in accordance with PRC GAAP for PRC statutory filing purposes.

Ernst & Young, Certified Public Accountants, Hong Kong has been appointed as auditors to audit the consolidated financial statements of Chengdu Kinna and its subsidiary companies for the years ended 31 December 2001, 2002 and 2003 prepared in accordance with International Financial Reporting Standards. Ernst & Young, Singapore has been appointed as the Company's auditors since its incorporation on 29 September 2003.

The auditors' reports on the financial statements of Chengdu Kinna and Longlife were not subject to any audit qualification.

5. **Summary of significant accounting policies**

The significant accounting policies which have been consistently applied in preparing the unaudited pro forma consolidated financial statements are as follows:

(a) ***Basis of preparation***

The unaudited pro forma consolidated financial statements have been prepared on an historical cost basis and in accordance with International Financial Reporting Standards.

The Pro Forma Group's principal operations are conducted in the PRC. Accordingly, the unaudited pro forma consolidated financial statements are presented in Renminbi (RMB).

(b) ***Principles of consolidation***

The unaudited pro forma consolidated financial statements comprise the financial statements of the Company and its controlled subsidiary companies, after the elimination of all material inter-company transactions and balances.

Subsidiary company is consolidated from the date on which control is transferred to the Group and ceased to be consolidated from the date on which control is transferred out of the Group. Acquisition of a subsidiary company is accounted for using the purchase method of accounting.

The financial statements of subsidiary companies are prepared for the same reporting period as the Company which ends 31 December. The unaudited pro forma consolidated financial statements is prepared using uniform accounting policies for like transactions and other events in similar circumstances.

APPENDIX II

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

5. Summary of significant accounting policies (cont'd)

(c) ***Subsidiary companies***

A subsidiary company is a company in which the Group, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors.

An assessment of investments in subsidiary companies is performed when there is indication that the asset has been impaired or the impairment losses recognised in the prior years no longer exist. Investments in subsidiary companies are stated in the Company's balance sheet at cost less impairment losses.

(d) ***Foreign currencies***

Transactions in foreign currencies are measured in RMB and recorded at exchange rates approximating those ruling at the transaction dates. Foreign currency monetary assets and liabilities are measured using the exchange rates ruling at balance sheet date. All resultant exchange differences are recognised in the profit and loss account.

(e) ***Related parties***

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

(f) ***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of that property, plant and equipment. 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 taken to the profit and loss account.

The carrying amount of assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount, and where this exceeds the estimated recoverable amount, assets are written down to their recoverable amount.

Depreciation is calculated on the straight-line method so as to write off the cost of the assets over their estimated useful lives. The estimated useful lives are as follows:

Leasehold land	10 - 50 years
Buildings	8 - 40 years
Plant and machinery	5 - 18 years
Motor vehicles	5 - 10 years
Other equipment	5 - 7 years

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

5. Summary of significant accounting policies (cont'd)

(g) ***Goodwill***

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary company at the date of acquisition. Goodwill is amortised on a straight-line basis over its useful economic life up to a maximum of ten years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortisation and any impairment losses.

(h) ***Cash and cash equivalents***

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible into known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the unaudited pro forma consolidated cash flows statement, cash and cash equivalents consist of cash on hand and deposits in banks.

(i) ***Trade and other receivables***

Trade receivables, which generally have terms ranging from 90 to 180 days, are recognised and carried at original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognised and carried at cost less allowances for any uncollectible amounts.

Receivables from related parties are recognised and carried at cost less allowances for any uncollectible amounts.

(j) ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprised direct material, direct labour, and an appropriate proportion of overheads.

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

(k) ***Trade and other payables***

Liabilities for trade and other payables which are settled on varying terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to related parties are recognised and carried at cost.

(l) ***Borrowing costs***

Borrowing costs are generally expensed in the period in which they are incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and expenditures and borrowing costs are being incurred.

Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use are completed. If the resulting carrying amounts of the asset exceeds its recoverable amount, an impairment loss is recorded.

APPENDIX II

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

5. Summary of significant accounting policies (cont'd)

(m) **Research and development costs**

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

Development costs incurred on projects to develop new products are capitalised and deferred only when the projects are clearly defined, the costs are separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditures which do not meet these criteria are expensed as incurred.

(n) **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

(o) **Retirement benefits**

Obligatory retirement benefits in the form of contributions under the defined contribution retirement scheme administered by local government agencies are charged to the profit and loss account as incurred.

(p) **Operating leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

(q) **Impairment of assets**

The carrying value of an asset is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value of an asset exceeds the estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The recoverable amount of an asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the profit and loss account.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the assets no longer exist or have decreased. The reversal is recorded in the profit and loss account. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent that it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

APPENDIX II

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

5. Summary of significant accounting policies (cont'd)

(r) **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

- (a) Income from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which usually coincides with delivery and acceptance of the goods sold, unless collectibility is in doubt; and
- (b) Interest income is recognised on a time proportion basis, unless collectibility is in doubt.

(s) **Income tax**

Deferred income tax is provided, using the liability method, for all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the taxable income in the years in which those temporary differences are expected to be recovered or settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary companies, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

6. Segment information

(a) **Business segment**

The Group is principally engaged in the manufacture and sale of medicines. The products of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment.

(b) **Geographical segment**

No segmental analysis by geographical segment is provided as the principal assets employed by the Group are located in the PRC and the Group's turnover and profits were mainly derived from the sale of medicines to domestic customers in the PRC.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

7. Revenue and other income

Revenue represents the net invoiced value of goods sold, net of value-added tax, after allowance for returns, trade discounts and various types of business tax and government surcharges where applicable. All significant intra-Group transactions are eliminated on consolidation.

An analysis of revenue and other income is as follows:

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Revenue			
Sales of goods	67,044	94,183	120,702
Other income			
Government grants	5,676	3,573	7,000
Total revenue	<u>72,720</u>	<u>97,756</u>	<u>127,702</u>

Government grants represented funds received from the respective government departments in support of the research and development and the business development activities of the Group in the pharmaceutical industry.

8. Profit from operating activities

The profit from operating activities is arrived at after charging:

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Cost of goods sold	7,248	9,587	11,786
Depreciation	811	1,309	1,674
Directors' remuneration	500	500	500
Amortisation of goodwill	–	243	585
Operating lease rentals in respect of leasehold land and buildings	611	847	1,100
Staff costs:			
- Salaries and wages	34,784	46,670	50,208
- Staff welfare expenses	1,083	1,801	1,407
- Retirement scheme contributions	203	348	337
Auditors' remuneration	50	50	50
Research and development costs	1,935	1,591	895
Cost of goods sold includes the following expenses which are also included in the respective total amounts separately disclosed above for each of these expenses:			
- Depreciation	811	1,097	1,363
- Staff costs	599	699	1,185
	<u>599</u>	<u>699</u>	<u>1,185</u>

9. Finance costs

Interest on bank loans, secured	646	1,849	3,250
Interest income	(46)	(35)	(172)
	<u>600</u>	<u>1,814</u>	<u>3,078</u>

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

10. Income tax expense

Provision for PRC income tax has been provided at the applicable income tax rate of 15% of the assessable profits of the Group for the years ended 31 December 2001, 2002 and 2003.

Major components of income tax expenses for the years ended 31 December 2001, 2002 and 2003 and a numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Accounting profit	<u>20,095</u>	<u>21,305</u>	<u>36,436</u>
Tax at an applicable tax rate of 15%	3,014	3,196	5,465
Tax effect of: - non-deductible expenses	<u>3,261</u>	<u>4,580</u>	<u>4,836</u>
Income tax expense	<u>6,275</u>	<u>7,776</u>	<u>10,301</u>

11. Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the net profit by the pre-invitation share capital of 150,000,000 shares.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

12. Property, plant and equipment

	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Cons- tructions in progress RMB'000	Total RMB'000
Cost :							
At 1 January 2003	1,063	6,083	7,755	1,231	1,511	3,808	21,451
Additions	–	–	35	164	170	11,580	11,949
Transferred from/(to) construction in progress	2,968	9,437	2,823	–	160	(15,388)	–
Disposals	–	(161)	–	(691)	(271)	–	(1,123)
At 31 December 2003	4,031	15,359	10,613	704	1,570	–	32,277
Accumulated depreciation:							
At 1 January 2003	59	263	1,563	125	476	–	2,486
Charge for the year	19	303	858	187	307	–	1,674
Disposals	–	(31)	–	(208)	(137)	–	(376)
At 31 December 2003	78	535	2,421	104	646	–	3,784
Impairment loss:							
At 1 January 2003	–	–	113	–	1	–	114
Made during for the year	–	117	8	14	172	–	311
At 31 December 2003	–	117	121	14	173	–	425
Carrying amount, net of depreciation and impairment loss:							
At 31 December 2003	3,953	14,707	8,071	586	751	–	28,068

As at 31 December 2001 and 2002, land use rights and buildings with net book value of RMB2.72 million and RMB3.184 million, respectively, as set out in Note 18 below were pledged to banks to secure bank loans amounting to RMB2 million and RMB4 million, respectively.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

13. Goodwill

	2003 RMB'000
At 1 January 2003	—
Additions	3,195
	3,195
At 31 December 2003	3,195

Goodwill arose from the acquisition of 21% interest in Longlife Group and the acquisition of the Relevant Business and Net Assets.

14. Trade receivables

	2003 RMB'000
Trade receivables	60,515
Less: Allowance for doubtful debts	(3,894)
	56,621
	56,621

15. Prepayments, deposits and other receivables

	2003 RMB'000
Prepayments	361
Deposits and other receivables	4,219
	4,580
	4,580

16. Inventories

	2003 RMB'000
Raw materials	3,325
Work in process	248
Finished goods	353
	3,926
Less: Allowance for inventory obsolescence	(76)
	3,850
	3,850
Inventories are stated at :	
Cost	3,850
Net realisable value	—
	3,850
	3,850

17. Amounts due to a related party

The amounts due to a related party are unsecured, interest-free and are repayable on demand except for an amount of approximately RMB6,059,000 which is not repayable within the next 12 months.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

18. Interest-bearing loans and borrowings

	2003 RMB'000
Bank loans	
- Unsecured (1)	26,379
- Guaranteed (2)	35,000
	61,379
Balance repayable within one year and classified as current liabilities	(49,300)
Long-term portion	12,079

(1) As at 31 December 2003, unsecured bank loans in the amount of RMB24.3 million bore interest of 5.31% per annum. The balance of RMB2 million in 2003 obtained from the local Finance Bureau in Gulin was interest free and had no fixed terms of repayment.

(2) As at 31 December 2003, bank loans in the amount of RMB25 million were guaranteed by Chengdu Kinna and bore interest at rates ranging from 5.31% to 6.09% per annum.

As at 31 December 2003, bank loans in the amount of RMB10 million were guaranteed by Jiang Yun and bore interest at 5.31% per annum.

19. Trade payables

	2003 RMB'000
Accounts payable	4,786
Bills payable	882
	5,668

Bills payable bore interest of approximately 0.5% per quarter.

20. Dividends

There were no dividend declared, paid or proposed by the Company since its incorporation.

21. Commitments

The Pro Forma Group had the following commitments as at 31 December :

	2003 RMB'000
<i>Operating lease commitments</i>	
Future minimum lease payments under non-cancellable operating leases for each of the following periods:	
- Within one year	1,769
- In the second to fifth year, inclusive	3,385
- Over five years	-
	5,154

APPENDIX II

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

22. Related party transactions

In 2003, Chengdu Kinna, a company with common shareholders and directors, guaranteed bank loans of Longlife amounting to RMB25 million. There was no consideration paid by Longlife for this guarantee.

In 2002 and 2003, Chengdu Jin Rong Investment Co., Ltd., one of the minority shareholders of Longlife, borrowed an amount of RMB1.9 million from Longlife. This loan was non interest-bearing, unsecured and was repaid in 2003.

23. Financial instruments

Financial risk management objectives and policies

The Company is exposed to market risk, including primarily changes in interest rates. The Company does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's interest-bearing bank loans. The Company manages its interest cost using a mix of fixed and variable rate debts and by spreading out the timing of interest rate fixing.

The Company does not hedge interest rate fluctuations.

Exchange rate risk

The Company did not have significant exposure to market risk for changes in foreign currency exchanges rates during the years ended 31 December 2001, 2002 and 2003 due to limited foreign currency transactions.

Credit risk

Credit risk arising from the inability of a counterpart to meet the terms of the Company's financial instrument contracts is generally limited to the amounts, if any, by which the counterpart's obligations exceed the obligations of the Company. The Company minimises its exposure to credit risk by only dealing with counterparts with acceptable credit ratings.

Net fair values

The aggregate net fair values of the financial assets and financial liabilities of the Company are not materially different from their carrying amounts.

Credit risk exposures

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other securities held) in the event that the counterparts fail to perform their obligations as at 31 December 2001, 2002 and 2003 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheets.

Significant concentrations of credit risk

Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparts whose aggregate credit exposure is significant in relation to the Company's total credit exposure to substantial amounts due from hospitals and medical institutions operating in the PRC.

APPENDIX II
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

24. Subsequent events

In addition to the transactions in connection with the Restructuring Exercise as set out in Note 3, the following significant events have taken place subsequent to 31 December 2003 :

At an extraordinary general meeting held on 25 August 2004, the shareholders approved, inter alia, the following:-

- (a) the increase in the authorised share capital of the Company from \$100,000 divided into 100,000 ordinary shares of \$1.00 each to \$100,000,000 divided into 100,000,000 ordinary shares of \$1.00 each.
- (b) the capitalisation of \$5,999,000 out of the share premium account by way of a bonus issue of 5,999,000 ordinary shares of \$1.00 each fully paid to the shareholders of the Company (the "Bonus Issue");
- (c) the sub-division of each ordinary share of \$1.00 each in the authorised and issued share capital into 25 ordinary shares of \$0.04 each (the "Share Split");
- (d) the conversion of the Company into a public limited company and the consequential change of name to Pharmesis International Ltd.;
- (e) the adoption of the Pharmesis Share Option Scheme and that authority be given pursuant to section 161 of the Companies Act to the Directors to allot and issue shares upon the exercise of options granted under the Pharmesis Share Option Scheme;
- (f) the allotment and issue of the New Shares which are the subject of the Invitation. The New Shares, when issued and fully paid-up, will rank pari passu in all respects with the existing issued and fully paid-up Shares; and
- (g) that authority be given, pursuant to Section 161 of the Companies Act, to the Directors to (i) allot and issue shares in the Company ; and (ii) convertible securities and any shares in the Company pursuant to the convertible securities, (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors shall in their absolute discretion deem fit, provided that the aggregate number of shares and/or convertible securities to be issued pursuant to such authority does not exceed 50.0 per cent of the post-Invitation issued share capital of the Company and that the aggregate number of shares and/or convertible securities to be issued other than on a pro-rata basis to the then existing shareholders of the Company shall not exceed 20.0 per cent of the post-Invitation issued share capital of the Company. Unless revoked or varied by the Company in general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law or by the Articles of Association to be held, whichever is earlier, except that the Directors shall be authorised to allot and issue new shares pursuant to the convertible securities notwithstanding that such authority has ceased.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

REPORT OF THE AUDITORS

To the board of directors

成都国嘉生物制药股份有限公司

(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of 成都国嘉生物制药股份有限公司 (trading as Chengdu Kinna Bio&Pharm Co., Ltd) (the "Company") and its subsidiaries (collectively referred to as the "Group") for the years ended 31 December 2001, 2002 and 2003, which comprise the consolidated income statement, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial positions of the Group as at 31 December 2001, 2002 and 2003 and of the results of its operations and its cash flows for the years ended 31 December 2001, 2002 and 2003 in accordance with International Financial Reporting Standards.

Hong Kong
20 April 2004

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
CONSOLIDATED INCOME STATEMENT
Years ended 31 December 2001, 2002 and 2003

	Notes	Year ended 31 December 2001		
		Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Turnover	(5)	–	67,044	67,044
Cost of sales		–	(7,248)	(7,248)
Gross profit		–	59,796	59,796
Other revenue	(5)	–	5,676	5,676
Selling and distribution costs		–	(36,102)	(36,102)
Administrative costs		–	(8,561)	(8,561)
Other operating costs		(30)	(114)	(144)
Profit/(loss) from operating activities	(6)	(30)	20,695	20,665
Finance costs	(7)	–	(600)	(600)
Profit/(loss) before income tax and minority interests		(30)	20,095	20,065
Income tax expense	(8)	–	(6,275)	(6,275)
Profit/(loss) before minority interests		(30)	13,820	13,790
Minority interests		–	–	–
Net profit/(loss)		(30)	13,820	13,790

The accompanying accounting policies and explanatory notes form an integral part of the consolidated financial statements.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
CONSOLIDATED INCOME STATEMENT
Years ended 31 December 2001, 2002 and 2003

	Notes	Year ended 31 December 2002		
		Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Turnover	(5)	–	81,304	81,304
Cost of sales		–	(7,745)	(7,745)
Gross profit		–	73,559	73,559
Other revenue	(5)	–	3,573	3,573
Selling and distribution costs		–	(46,189)	(46,189)
Administrative costs		–	(9,111)	(9,111)
Other operating costs		(231)	(434)	(665)
Profit/(loss) from operating activities	(6)	(231)	21,398	21,167
Finance income/(costs)	(7)	3	(1,317)	(1,314)
Share of profit/(loss) of associates	(9)	(35)	256	221
Profit/(loss) before income tax and minority interests		(263)	20,337	20,074
Income tax expense	(8)	–	(7,486)	(7,486)
Profit/(loss) before minority interests		(263)	12,851	12,588
Minority interests		(1)	–	(1)
Net profit/(loss)		(264)	12,851	12,587

The accompanying accounting policies and explanatory notes form an integral part of the consolidated financial statements.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
CONSOLIDATED INCOME STATEMENT
Years ended 31 December 2001, 2002 and 2003

	Notes	Year ended 31 December 2003		
		Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Turnover	(5)	1,001	90,552	91,553
Cost of sales		(1,024)	(8,031)	(9,055)
Gross profit/(loss)		(23)	82,521	82,498
Other revenue	(5)	1,135	6,800	7,935
Selling and distribution costs		(208)	(50,100)	(50,308)
Administrative costs		(775)	(4,982)	(5,757)
Other operating expenses		(149)	(690)	(839)
Profit/(loss) from operating activities	(6)	(20)	33,549	33,529
Finance income/(costs)	(7)	3	(1,806)	(1,803)
Share of profit/(loss) of associates	(9)	(850)	1,122	272
Profit/(loss) before income tax and minority interests		(867)	32,865	31,998
Income tax expense	(8)	(56)	(9,240)	(9,296)
Profit/(loss) before minority interests		(923)	23,625	22,702
Minority interests		167	-	167
Net profit/(loss)		(756)	23,625	22,869

The accompanying accounting policies and explanatory notes form an integral part of the consolidated financial statements.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
CONSOLIDATED BALANCE SHEET
Years ended 31 December 2001, 2002 and 2003

	Notes	2001 RMB'000	2002 RMB'000	2003 RMB'000
Non-current assets				
Property, plant and equipment	(11)	16,693	16,806	58,798
Construction in progress	(12)	35	24,896	4,311
Prepaid investment in an associate	(13)	–	5,950	–
Goodwill	(14)	–	3,645	3,461
Interests in associates	(9)	–	(8,756)	9,974
		16,728	42,541	76,544
Current assets				
Cash and cash equivalents		11,812	23,807	17,560
Available-for-sale investments	(15)	–	1,284	1,515
Trade receivables	(16)	30,125	36,161	43,614
Prepayments, deposits and other receivables	(17)	6,120	17,705	9,797
Inventories	(18)	1,107	869	1,865
Amount due from a related party	(21)	–	–	14,226
		49,164	79,826	88,577
Total assets		65,892	122,367	165,121
Equity				
Share capital	(22)	27,000	27,000	27,000
Share premium		276	276	276
Reserves		17,514	30,101	52,970
		44,790	57,377	80,246
Current liabilities				
Current portion of interest-bearing bank loans	(19)	12,410	22,410	34,300
Trade payables	(20)	1,417	15,715	3,351
Accrued liabilities and other payables		2,168	3,000	2,684
Tax payable		4,307	8,064	8,776
Amount due to a related party	(21)	–	–	14,176
		20,302	49,189	63,287
Non-current liabilities				
Interest-bearing bank loans	(19)	–	15,000	15,000
Minority interests				
		800	801	6,588
Total equity and liabilities		65,892	122,367	165,121

The accompanying accounting policies and explanatory notes form an integral part of the consolidated financial statements.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
CONSOLIDATED CASH FLOW STATEMENT
Years ended 31 December 2001, 2002 and 2003

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Cash flows from/(used in) operating activities			
Profit before income tax and minority interests	20,065	20,074	31,998
Adjustments for:			
Depreciation	1,276	1,559	2,034
Provision for doubtful debts	1,233	931	–
Provision for/(reversal of) inventory obsolescence	38	–	(1)
Amortisation of goodwill	–	159	384
Share of profits of associates	–	(221)	(272)
Loss/(gain) on available-for-sale investments	–	231	(231)
Loss on disposal of fixed assets	–	–	130
Loss on impairment of fixed assets	114	–	311
Interest expenses, net	641	1,403	1,962
Interest income	(41)	(89)	(159)
Operating profit before working capital changes	23,326	24,047	36,156
Working capital adjustments:			
Increase in trade receivables	(8,471)	(6,967)	(7,476)
(Increase)/decrease in inventories	(335)	238	(995)
Increase in prepayments, deposits and other receivables	(5,063)	(11,585)	(3,579)
Increase in amount due from a related party	–	–	(14,226)
Increase/(decrease) in trade payables	865	13,078	(14,451)
Increase/(decrease) in accrued liabilities and other payables	(2,427)	832	(353)
Increase in amount due to a related party	–	–	14,176
Cash generated from operations	7,895	19,643	9,252
Interest paid	(641)	(1,403)	(1,962)
Income tax paid	(3,437)	(3,729)	(8,584)
Net cash flows from/(used in) operating activities	3,817	14,511	(1,294)

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
CONSOLIDATED CASH FLOW STATEMENT
Years ended 31 December 2001, 2002 and 2003

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Net cash flows from/(used in) operating activities	3,817	14,511	(1,294)
Cash flows used in investing activities			
Paid up capital subscribed by minority investors	800	–	–
Acquisition of subsidiaries	–	–	2,170
Investments in associates	–	(20,450)	(905)
Increase in due from associates	–	(317)	(968)
Increase in due to associates	–	19,990	–
Acquisition of available-for-sale investments	–	(1,515)	–
Acquisition of property, plant and equipment and construction in progress	(1,739)	(25,313)	(17,299)
Proceeds from fixed assets disposal	88	–	–
Interest received	41	89	159
Net cash flows used in investing activities	<u>(810)</u>	<u>(27,516)</u>	<u>(16,843)</u>
Cash flows from financing activities			
New bank loans	12,410	65,410	40,300
Repayment of bank loans	(7,410)	(40,410)	(28,410)
Net cash flows from financing activities	<u>5,000</u>	<u>25,000</u>	<u>11,890</u>
Net increase/(decrease) in cash and cash equivalents	8,007	11,995	(6,247)
Cash and cash equivalents at beginning of year	3,805	11,812	23,807
Cash and cash equivalents at end of year	<u><u>11,812</u></u>	<u><u>23,807</u></u>	<u><u>17,560</u></u>

The accompanying accounting policies and explanatory notes form an integral part of the consolidated financial statements.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
CONSOLIDATED CASH FLOW STATEMENT
Years ended 31 December 2001, 2002 and 2003

Notes to the consolidated cash flow statement

1. Acquisition of subsidiaries:

	2003 RMB'000
Net assets acquired:	
Construction in progress	3,783
Cash and cash equivalents	2,170
Prepayments, deposits and other receivables	4,880
Trade payables	(2,087)
Accrued liabilities and other payables	(37)
Minority interests	(3,134)
	5,575
Goodwill	180
	5,755
Satisfied by:	
Cash and cash equivalents	–
Prepayments, deposits and other receivables	1,400
Interests in associates	4,355
	5,755
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:	
Cash consideration	–
Cash and cash equivalents of the subsidiaries acquired	2,170
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	2,170

2. Non cash transaction:

In 2003, a minority shareholder contributed fixed assets at fair value of RMB2,800,000 as capital contribution of a subsidiary.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Years ended 31 December 2001, 2002 and 2003

	Notes	2001 RMB'000	2002 RMB'000	2003 RMB'000
Paid-up capital				
At beginning and end of year		27,000	27,000	27,000
Share premium				
At beginning and end of year		276	276	276
Statutory surplus reserve				
	(23)			
At beginning of year		452	1,831	3,090
Transferred from retained earnings		1,379	1,259	2,287
At end of year		1,831	3,090	5,377
Statutory public welfare fund				
	(24)			
At beginning of year		226	916	1,545
Transferred from retained earnings		690	629	1,143
At end of year		916	1,545	2,688
Retained earnings				
At beginning of year		3,046	14,767	25,466
Net profit for the year		13,790	12,587	22,869
Transferred to statutory surplus reserve		(1,379)	(1,259)	(2,287)
Transferred to statutory public welfare fund		(690)	(629)	(1,143)
At end of year		14,767	25,466	44,905
Reserves		17,514	30,101	52,970
Total equity		44,790	57,377	80,246

The accompanying accounting policies and explanatory notes form an integral part of the consolidated financial statements.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司

(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)

NOTES TO THE FINANCIAL STATEMENTS

Years ended 31 December 2001, 2002 and 2003

1. Corporate information

成都国嘉生物制药股份有限公司 (trading as Chengdu Kinna Bio&Pharm Co., Ltd., the “Company”) was incorporated on 3 April 1996 in Sichuan, the People’s Republic of China (“PRC”) as a limited company. The registered office is located at Dong Zi Kou Xiang Lu Jia Cun, Chengdu, the PRC.

The Company and its subsidiaries (the “Group”) are principally engaged in the development, manufacture and sale of western medicines.

The Group operates in the PRC and employed 703 (2002: 693; 2001: 623) employees as at 31 December 2003.

2. Group restructuring

As part of a group restructuring exercise (the “Restructuring Exercise”) in preparation for a proposed initial public offering (“IPO”) on the Singapore Exchange Securities Trading Limited (“SGX-ST”) of the shares of Pharmesis International Ltd. (formerly known as Sinopharm Pte Ltd), a company registered in Singapore, the entire business undertakings of the Group for the development, manufacture and sale of western medicines (the “Relevant Business”), together with certain selected assets and liabilities thereof, and a 30% interest in 四川郎中药业有限公司 (trading as Sichuan Longlife Pharmaceutical Co., Ltd., “Longlife”) (collectively the “Transferred Assets”) were transferred to 成都国嘉联合制药有限公司 (trading as Chengdu Kinna Pharmaceutical Co., Ltd., the “WOFE”), a Wholly Owned Foreign-invested Enterprise incorporated on 3 November 2003 in Sichuan, the PRC, for cash of RMB25,460,564 which was determined with reference to the net book value of the Transferred Assets of RMB25,460,564 as at 30 June 2003. The WOFE is wholly owned by Pharmesis International Ltd..

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

2. Group restructuring (continued)

The respective assets and liabilities of the Transferred Assets as at 1 January 2004 transferred to the WOFE and retained by the Company are as follows:

	Transferred to the WOFE RMB'000	As at 1 January 2004 Retained by the Company RMB'000	Consolidated RMB'000
Property, plant and equipment	8,388	50,410	58,798
Construction in progress	–	4,311	4,311
Goodwill	3,265	196	3,461
Interests in associates	3,359	6,615	9,974
Cash and cash equivalents	–	17,560	17,560
Available-for-sale investments	–	1,515	1,515
Trade receivables	42,901	713	43,614
Prepayments, deposits and other receivables	3,852	20,171	24,023
Inventories	1,021	844	1,865
Interest-bearing bank loans	(34,300)	(15,000)	(49,300)
Trade payables	(1,763)	(1,588)	(3,351)
Accrued liabilities and other payables	(2,061)	(623)	(2,684)
Tax payable	(8,776)	–	(8,776)
Amount due to a related party	–	(14,176)	(14,176)
Minority interests	–	(6,588)	(6,588)
Net assets	<u>15,886</u>	<u>64,360</u>	<u>80,246</u>

The results of the Relevant Business are included in the consolidated financial statements up to 31 December 2003, and are separately disclosed in the consolidated financial statements of the Company as discontinued operations for the years ended 31 December 2001, 2002 and 2003.

On 1 January 2004, the WOFE acquired an additional 21% interest in Longlife from two minority shareholders of Longlife.

3. Summary of significant accounting policies

The basis of preparation and principal accounting policies adopted by the Group in arriving at the financial information described in these consolidated financial statements are set out below:

Basis of preparation

The consolidated financial statements of the Group have been prepared on an historical cost basis, except for available-for-sale investments which are stated at the lower of cost and market value, in accordance with International Financial Reporting Standards, which comprise International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

3. Summary of significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the years ended 31 December 2001, 2002 and 2003. The results of the Relevant Business have been included in the consolidated financial statements up to 31 December 2003, and have been separately disclosed in the consolidated financial statements of the Company as discontinued operations for the years ended 31 December 2001, 2002 and 2003. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to its effective date of acquisition or disposal, respectively. All inter-company transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

Particulars of the subsidiaries as at 31 December 2003, which are all limited companies established and operate in the PRC, are as follows:

Company	Place and date of incorporation / establishment	Registered and paid-up capital	Attributable equity interest		Principal activities
			Direct %	Indirect %	
四川新荷花中药饮片有限公司 (trading as Sichuan Neautus Traditional Chinese Medicine Co., Ltd., "Sichuan Neautus")	PRC 30 December 2001	RMB12 million	70	–	Manufacture and sale of Chinese herbal medicine
成都丽嘉制药有限公司 (trading as Chengdu Lijia Pharmaceutical Co., Ltd., "Chengdu Lijia")	PRC 29 September 2002	RMB10 million	64	–	Dormant since incorporation

Interests in associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates are included in the consolidated income statements and consolidated reserves, respectively. The Group's investments in the associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司

(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)

NOTES TO THE FINANCIAL STATEMENTS

Years ended 31 December 2001, 2002 and 2003

3. Summary of significant accounting policies (continued)

Investment

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investments.

After initial recognition, available-for-sale investments which are classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale investments are recognised in the profit and loss accounts.

Unlisted investment held on a long term basis that does not have fixed maturity and quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost less provision for impairment losses deemed necessary by the directors, on an individual investment basis.

For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business date on the balance sheet date.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is amortised on a straight-line basis over its useful economic life up to a presumed maximum of ten years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortisation and any impairment in value.

Related parties

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

Foreign currency transactions

The books and records of the Group and its associates are maintained in Renminbi ("RMB"). The principal activities of the Group are transacted in RMB. Accordingly, the Group's functional and reporting currency is RMB.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the appropriate rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司

(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)

NOTES TO THE FINANCIAL STATEMENTS

Years ended 31 December 2001, 2002 and 2003

3. Summary of significant accounting policies (continued)

Impairment of assets

The carrying value of an asset is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value of an asset exceeds the estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The recoverable amount of an asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the assets no longer exists or has decreased. The reversal is recorded in the income statement. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, 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 that asset. When an asset is sold or returned, its cost and accumulated depreciation are removed from the accounts and any gain or loss resulting from its disposal is dealt with in the income statement.

The carrying amount of assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount, and where this exceeds the estimated recoverable amount, assets are written down to their recoverable amount.

Depreciation is calculated on the straight-line method so as to write off the cost of the assets over their estimated useful lives. The estimated useful lives are as follows:

Leasehold land	Over the lease term of 10 ~ 50 years
Buildings	10 ~ 40 years
Plant and machinery	5 ~ 10 years
Motor vehicles	10 years
Other equipment	5 years

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

3. Summary of significant accounting policies (continued)

Construction in progress

Construction in progress represents property, plant and equipment during acquisition period and is stated at cost. The acquisition period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of acquisition or construction, installation and testing and interest charges on related borrowings during the period of construction, installation and testing.

Construction in progress is transferred to the appropriate category of property, plant and equipment when it is completed and ready for its intended use. No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

Research and development costs

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

Development costs incurred on projects to develop new products are capitalised and deferred only when the projects are clearly defined, the costs are separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditures which do not meet these criteria are expensed when incurred.

Cash and cash equivalents

Cash on hand and in banks is carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible into known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour and an appropriate proportion of overheads.

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

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司

(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)

NOTES TO THE FINANCIAL STATEMENTS

Years ended 31 December 2001, 2002 and 2003

3. Summary of significant accounting policies (continued)

Trade and other receivables

Trade receivables, which generally have terms ranging from 90 to 180 days, are recognised and carried at original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognised and carried at cost less allowances for any uncollectible amounts.

Trade and other payables

Liabilities for trade and other payables which are settled on varying terms are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

The amounts due to a related company and directors are recognised and carried at cost.

Loans and borrowings

All loans and borrowings, which are interest bearing and held to maturity, are initially recognised at cost, being the fair value of the consideration received, and subsequently measured at amortised cost.

Borrowing costs

Property, plant and equipment during acquisition period is initially recognised as construction in progress. The acquisition period of an asset includes the period when the asset is under construction, installation and testing. Borrowing costs during the asset's acquisition period that theoretically could have been avoided if expenditure for the asset had not been made are capitalised as part of the cost of such asset when it is probable that the borrowing costs will result in future economic benefits to the Group and the costs can be measured reliably. Other borrowing costs are recognised as expenses in the period in which they are incurred.

Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use are completed.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual installments.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司

(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)

NOTES TO THE FINANCIAL STATEMENTS

Years ended 31 December 2001, 2002 and 2003

3. Summary of significant accounting policies (continued)

Retirement benefits

Obligatory retirement benefits in the form of contributions under the defined contribution retirement scheme administered by local government agencies are charged to the profit and loss account as incurred.

Operating leases

Leases where the lessor retain substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as expense in the consolidated income statement on a straight-line basis over the lease terms.

Revenue recognition

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

- (a) Income from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Deferred tax

Deferred tax is provided, using the liability method, for all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable (greater than 50%) that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

4. Segment information

- (a) Business segment

The Group is principally engaged in the manufacture and sale of medicines. The products of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

4. Segment information (continued)

(b) Geographical segment

No segmental analysis by geographical segment is provided as the principal assets employed by the Group are located in the PRC and the Group's turnover and profits were mainly derived from the sale of medicines to domestic customers in the PRC.

5. Turnover and other income

Turnover represents the net invoiced value of goods sold, net of value-added tax, after allowance for returns, trade discounts and various types of business tax and government surcharges where applicable. All significant intra-Group transactions are eliminated on consolidation.

An analysis of turnover and other income is as follows:

	31 December 2001		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
<u>Turnover</u>			
Sales of goods	–	68,699	68,699
Sales taxes	–	(1,655)	(1,655)
	–	67,044	67,044
<u>Other income</u>			
Government grants	–	5,676	5,676
Total revenue	–	72,720	72,720
	31 December 2002		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
<u>Turnover</u>			
Sales of goods	–	83,018	83,018
Sales taxes	–	(1,714)	(1,714)
	–	81,304	81,304
<u>Other income</u>			
Government grants	–	3,573	3,573
Total revenue	–	84,877	84,877

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

5. Turnover and other income (continued)

	31 December 2003		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
<u>Turnover</u>			
Sales of goods	1,003	92,244	93,247
Sales taxes	(2)	(1,692)	(1,694)
	1,001	90,552	91,553
<u>Other income</u>			
Government grants	–	6,800	6,800
Gain on available-for-sale investments	231	–	231
Others	904	–	904
	1,135	6,800	7,935
Total revenue	2,136	97,352	99,488

6. Profit from operating activities

The profit from operating activities is arrived at after charging:

	31 December 2001		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Cost of goods sold	–	7,248	7,248
Depreciation	–	1,276	1,276
Operating lease rentals in respect of leasehold land and buildings	–	146	146
Staff costs:			
Salaries and wages	–	34,784	34,784
Staff welfare expenses	–	1,083	1,083
Retirement scheme contributions	–	203	203
Auditors' remuneration	–	50	50
Research and development costs	–	1,935	1,935
Cost of goods sold includes the following expenses which are also included in the respective total amounts separately disclosed above for each of these expenses:			
Depreciation	–	991	991
Staff costs	–	599	599
	–	59,935	59,935

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司

(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)

NOTES TO THE FINANCIAL STATEMENTS

Years ended 31 December 2001, 2002 and 2003

6. Profit from operating activities (continued)

	31 December 2002		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Cost of goods sold	–	7,745	7,745
Depreciation	–	1,559	1,559
Amortisation of goodwill	–	159	159
Operating lease rentals in respect of leasehold land and buildings	–	247	247
Staff costs:			
Salaries and wages	–	45,138	45,138
Staff welfare expenses	–	1,514	1,514
Retirement scheme contributions	–	310	310
Auditors' remuneration	–	50	50
Research and development costs	–	1,591	1,591
Share of loss/(profit) of associates (excluding amortisation of goodwill)	35	(256)	(221)
Cost of goods sold includes the following expenses which are also included in the respective total amounts separately disclosed above for each of these expenses:			
Depreciation	–	1,146	1,146
Staff costs	–	685	685
	<u>–</u>	<u>685</u>	<u>685</u>
	31 December 2003		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Cost of goods sold	1,024	8,031	9,055
Depreciation	214	1,820	2,034
Amortisation of goodwill	4	380	384
Operating lease rentals in respect of leasehold land and buildings	32	242	274
Staff costs:			
Salaries and wages	566	36,938	37,504
Staff welfare expenses	181	1,003	1,184
Retirement scheme contributions	26	236	262
Auditors' remuneration	–	50	50
Research and development costs	–	729	729
Share of loss/(profit) of associates (excluding amortisation of goodwill)	850	(1,122)	(272)
Cost of goods sold includes the following expenses which are also included in the respective total amounts separately disclosed above for each of these expenses:			
Depreciation	184	1,044	1,228
Staff costs	94	723	817
	<u>184</u>	<u>1,044</u>	<u>1,228</u>
	<u>94</u>	<u>723</u>	<u>817</u>

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

7. Finance costs

	31 December 2001		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Interest on bank loans, secured	–	641	641
Interest income	–	(41)	(41)
	<u>–</u>	<u>600</u>	<u>600</u>
	<u><u>–</u></u>	<u><u>600</u></u>	<u><u>600</u></u>
	31 December 2002		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Interest on bank loans, secured	–	1,403	1,403
Interest income	(3)	(86)	(89)
	<u>(3)</u>	<u>1,317</u>	<u>1,314</u>
	<u><u>(3)</u></u>	<u><u>1,317</u></u>	<u><u>1,314</u></u>
	31 December 2003		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Interest on bank loans, secured	–	1,962	1,962
Interest income	(3)	(156)	(159)
	<u>(3)</u>	<u>1,806</u>	<u>1,803</u>
	<u><u>(3)</u></u>	<u><u>1,806</u></u>	<u><u>1,803</u></u>

Borrowing costs capitalised in construction in progress amounted to approximately RMB557,000 and RMB465,000 during the years ended 31 December 2002 and 2003, respectively.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

8. Income tax

Provision for PRC income tax has been provided at the applicable income tax rate of 15% of the assessable profits of the Group for the years ended 31 December 2001, 2002 and 2003.

Major components of income tax expenses for the years ended 31 December 2001, 2002 and 2003 and a numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

	31 December 2001		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Accounting (loss)/profit	(30)	20,095	20,065
Tax at an applicable tax rate of 15%	(4)	3,014	3,010
Tax effect of:			
– non-taxable loss	–	17	17
– non-deductible expenses	4	3,244	3,248
Current tax expense	–	6,275	6,275
	31 December 2002		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Accounting (loss)/profit	(263)	20,337	20,074
Tax at an applicable tax rate of 15%	(39)	3,051	3,012
Tax effect of:			
– non-taxable loss	34	–	34
– non-taxable share of loss/(profit) of associates	5	(38)	(33)
– non-deductible expenses	–	4,473	4,473
Current tax expense	–	7,486	7,486

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

8. Income tax (continued)

	31 December 2003		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Accounting (loss)/profit	(867)	32,865	31,998
Tax at an applicable tax rate of 15%	(130)	4,930	4,800
Tax effect of:			
– non-taxable loss	36	–	36
– non-taxable share of loss/(profit) of associates	128	(168)	(40)
– non-deductible expenses	22	4,478	4,500
Current tax expense	56	9,240	9,296

9. Interests in associates

	31 December 2002		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Share of net assets	9,965	952	10,917
Amounts due from associates	69	248	317
Amounts due to associates	(19,990)	–	(19,990)
	(9,956)	1,200	(8,756)

	31 December 2003		
	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
Share of net assets	6,615	2,074	8,689
Amounts due from associates	–	1,285	1,285
	6,615	3,359	9,974

The balances with associates are unsecured, interest-free and are repayable on demand.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

9. Interests in associates (continued)

Particulars of associates as at 31 December 2003, which are all limited companies established and operate in the PRC, are as follows:

Associates	Percentage of equity held by the Group	Principal activities
成都世纪联合生物医药有限公司 (trading as Chengdu Century United Biomed Co., Ltd. "Chengdu Century")	40%	Dormant since incorporation
Longlife	30%	Manufacture and sale of a Chinese medicine and various kinds of chemical and healthcare products
四川郎中医药营销有限公司 (trading as Sichuan Longlife Trading Co., Ltd., "Longlife Trading")	(Note)	Trading of medicines

Note: Longlife Trading is a wholly-owned subsidiary of Longlife.

10. Related party transactions

In 2003, Mr. Jiang Yun, founder, chairman and general manager of the Company, guaranteed bank loans of the Company in an amount of RMB10 million free of charge.

In 2002, the Company transferred 40% of the rights to a proprietary technology to Dr. Chen Yao Ming, a director of the Company, as a gift.

In 2002, the Company transferred the rights to three other proprietary technologies to Chengdu Kinna Research Centre, of which Dr. Chen Yao Ming is one of the directors and shareholders, as a gift.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

11. Property, plant and equipment

	Leasehold land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2001	1,063	4,400	3,902	2,513	506	12,384
Additions	380	268	120	125	369	1,262
Transferred from construction in progress	–	3,074	2,432	–	–	5,506
Disposals	–	–	(31)	–	(145)	(176)
At 31 December 2001	1,443	7,742	6,423	2,638	730	18,976
Additions	–	8	34	1,431	199	1,672
Disposals	–	–	–	–	–	–
At 31 December 2002	1,443	7,750	6,457	4,069	929	20,648
Additions	–	–	59	576	105	740
Transferred from construction in progress	–	42,572	938	–	217	43,727
Disposals	–	(161)	–	–	–	(161)
At 31 December 2003	1,443	50,161	7,454	4,645	1,251	64,954
Accumulated depreciation:						
At 1 January 2001	12	320	228	260	161	981
Provided during the year	52	268	588	256	112	1,276
Disposals	–	–	(4)	–	(84)	(88)
At 31 December 2001	64	588	812	516	189	2,169
Provided during the year	62	296	655	384	162	1,559
Disposals	–	–	–	–	–	–
At 31 December 2002	126	884	1,467	900	351	3,728
Provided during the year	57	473	689	592	223	2,034
Disposals	–	(31)	–	–	–	(31)
At 31 December 2003	183	1,326	2,156	1,492	574	5,731

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

11. Property, plant and equipment (continued)

	Leasehold land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Total RMB'000
<u>Value before impairment loss:</u>						
At 31 December 2001	1,379	7,154	5,611	2,122	541	16,807
At 31 December 2002	1,317	6,866	4,990	3,169	578	16,920
At 31 December 2003	1,260	48,835	5,298	3,153	677	59,223
<u>Impairment loss:</u>						
At 1 January 2001	-	-	-	-	-	-
Additions	-	-	113	-	1	114
Disposals	-	-	-	-	-	-
At 31 December 2001	-	-	113	-	1	114
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2002	-	-	113	-	1	114
Additions	-	117	8	14	172	311
Disposals	-	-	-	-	-	-
At 31 December 2003	-	117	121	14	173	425
<u>Net book value:</u>						
At 31 December 2001	1,379	7,154	5,498	2,122	540	16,693
At 31 December 2002	1,317	6,866	4,877	3,169	577	16,806
At 31 December 2003	1,260	48,718	5,177	3,139	504	58,798

As at 31 December 2003, the Group's title deeds for leasehold land and buildings with net book value of RMB899,000 had expired and as at the date of approval of these financial statements, the renewal of the relevant title deeds are in progress. The directors do not envisage any impediment in the renewal of the relevant title deeds save for the consummation of the relevant administrative procedures in the PRC.

As at 31 December 2001 and 2002, leasehold land and buildings with net book value of RMB2.72 million and RMB2.651 million, respectively, as set out in note 19 below were pledged to banks to secure bank loans amounting to RMB2 million. The bank loans were repaid in November 2003.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

12. Construction in progress

	2001 RMB'000	2002 RMB'000	2003 RMB'000
At beginning of year	5,064	35	24,896
Additions	477	24,861	19,359
Acquisition of subsidiaries	–	–	3,783
Transferred to property, plant and equipment	(5,506)	–	(43,727)
At end of year	<u>35</u>	<u>24,896</u>	<u>4,311</u>

13. Prepaid investment in an associate

	2001 RMB'000	2002 RMB'000	2003 RMB'000
At beginning of year	–	–	5,950
Payments made	–	5,950	–
Transferred to interests in associates	–	–	(5,950)
At end of year	<u>–</u>	<u>5,950</u>	<u>–</u>

14. Goodwill

An analysis of goodwill recognised in the balance sheet, arising from the acquisition of an associate, is as follows:

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Cost:			
At beginning of year	–	–	3,804
Additions	–	3,804	200
At end of year	<u>–</u>	<u>3,804</u>	<u>4,004</u>
Accumulated amortisation:			
At beginning of year	–	–	159
Charge for the year	–	159	384
At end of year	<u>–</u>	<u>159</u>	<u>543</u>
Net book value:			
At beginning of year	<u>–</u>	<u>–</u>	<u>3,645</u>
At end of year	<u>–</u>	<u>3,645</u>	<u>3,461</u>

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

15. Available-for-sale investments

Available-for-sale investments represent 1,499,850 units of an open-ended fund held by the Company. The market bid prices of the open-ended fund held by the Company at the close of business of 31 December 2002 and 2003 were RMB0.8562 and RMB0.9971 per unit, respectively.

16. Trade receivables

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Trade receivables	32,565	39,532	47,008
Less: Provision for doubtful debts	(2,440)	(3,371)	(3,394)
	<u>30,125</u>	<u>36,161</u>	<u>43,614</u>

17. Prepayments, deposits and other receivables

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Prepayments	3,171	1,100	1,948
Deposits and other receivables	2,949	16,605	7,849
	<u>6,120</u>	<u>17,705</u>	<u>9,797</u>

18. Inventories

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Raw materials	537	461	884
Work-in-progress	8	98	696
Finished goods	600	348	322
	<u>1,145</u>	<u>907</u>	<u>1,902</u>
Less: Provision for inventory obsolescence	(38)	(38)	(37)
Inventories carried at net realisable value	<u>1,107</u>	<u>869</u>	<u>1,865</u>

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

19. Interest-bearing loans and borrowings

	Notes	2001 RMB'000	2002 RMB'000	2003 RMB'000
Bank loans				
– Unsecured	(1)	–	–	24,300
– Guaranteed	(2)	10,410	35,410	25,000
– Secured	(3)	2,000	2,000	–
		<u>12,410</u>	<u>37,410</u>	<u>49,300</u>
Balance repayable:				
– Within one year		12,410	22,410	34,300
– In the second to fifth years, inclusive		–	15,000	15,000
		<u>12,410</u>	<u>37,410</u>	<u>49,300</u>
Portion classified as current liabilities		<u>(12,410)</u>	<u>(22,410)</u>	<u>(34,300)</u>
Long term portion		<u>–</u>	<u>15,000</u>	<u>15,000</u>

(1) As at 31 December 2003, unsecured bank loans in the amount of RMB24.3 million bore interest at 5.31% per annum.

(2) As at 31 December 2001 and 2002, bank loans in the amount of RMB10.41 million were guaranteed by Sichuan Lan Ling Group free of charge, and bore interest at 7.02% and 6.372% per annum, respectively.

As at 31 December 2002 and 2003, bank loans in the amount of RMB25 million and RMB15 million, respectively, were guaranteed by Sichuan Hua Li Estate Development Co., Ltd. free of charge, and bore interest at 6.138% per annum.

As at 31 December 2003, bank loans in the amount of RMB10 million were guaranteed by Mr. Jiang Yun, a director of the Company, free of charge.

(3) As at 31 December 2001 and 2002, bank loans in the amount of RMB2 million were secured by the Company's leasehold land and buildings with net book value of RMB2.72 million, and RMB2.651 million, respectively, and bore interest at 7.02% per annum.

20. Trade payables

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Notes payable	–	12,655	2,208
Accounts payable	1,417	3,060	1,143
	<u>1,417</u>	<u>15,715</u>	<u>3,351</u>

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

21. Amount due from/to a related party

The amount due from/to a related party is unsecured, interest-free and repayable on demand.

22. Share capital

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Authorised:			
27 million ordinary shares of RMB1 each	<u>27,000</u>	<u>27,000</u>	<u>27,000</u>
Issued and fully paid:			
27 million ordinary shares of RMB1 each	<u>27,000</u>	<u>27,000</u>	<u>27,000</u>

23. Statutory surplus reserve ("SSR")

In accordance with the Company Laws of the PRC and the respective articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to allocate 10% of their profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the SSR until such reserve reaches 50% of the registered capital of the Company and its subsidiaries. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

24. Statutory public welfare fund ("SPWF")

In accordance with the Company Laws of the PRC and the respective articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to transfer 5% to 10% of their profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the SPWF which is a non-distributable reserve, other than in the event of liquidation of the Company and its subsidiaries. The SPWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of the Company and its subsidiaries.

When the SPWF is utilised, an amount equal to the lower of the cost of the assets and the balance of the PWF is transferred from the SPWF to the general surplus reserve ("GSR"). The GSR is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the SPWF are reversed.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

25. Commitments

The Group had the following commitments as at 31 December 2001, 2002 and 2003:

	2001 RMB'000	2002 RMB'000	2003 RMB'000
Capital commitments			
Capital commitments in respect of property, plant and equipment:			
– Contracted, but not provided for	9,424	8,902	4,738
– Authorised but not contracted	–	–	8,485
	9,424	8,902	13,223
Operating lease commitments			
Future minimum lease payments under non-cancellable operating leases for each of the following periods:			
– Within one year	128	133	160
– In the second to fifth years, inclusive	439	419	944
– Over five years	2,911	2,798	2,670
	3,478	3,350	3,774

26. Contingent liabilities

The Group had the following contingent liabilities as at 31 December 2003:

- (1) The Company provided a counter-guarantee in an amount of RMB3 million to Sichuan Lan Ling Group, an independent third party, in connection with the corporate guarantee in the amount of RMB10.41 million it has given on the Company's bank loans.
- (2) The Company provided a counter-guarantee in an amount of RMB3.5 million to Sichuan Hua Li Estate Development Co., Ltd., an independent third party, in connection with the corporate guarantee in the amount of RMB15 million it has given on the Company's bank loans.

27. Financial instruments

Financial risk management objectives and policies

The Company is exposed to market risk, including primarily changes in interest rates. The Company does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's interest-bearing bank loans.

The Company does not hedge interest rate fluctuations.

APPENDIX III
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHENGDU KINNA
FOR THE YEARS ENDED 31 DECEMBER 2001, 2002 AND 2003

成都国嘉生物制药股份有限公司
(Trading as Chengdu Kinna Bio&Pharm Co., Ltd)
NOTES TO THE FINANCIAL STATEMENTS
Years ended 31 December 2001, 2002 and 2003

27. Financial instruments (continued)

Exchange rate risk

The Company did not have significant exposure to market risk for changes in foreign currency exchange rates during the years ended 31 December 2001, 2002 and 2003.

Credit risk

Credit risk arising from the inability of a counterpart to meet the terms of the Company's financial instrument contracts is generally limited to the amounts, if any, by which the counterpart's obligations exceed the obligations of the Company. The Company minimises its exposure to credit risk by only dealing with counterparts with acceptable credit ratings.

Net fair values

The aggregate net fair values of the financial assets and financial liabilities of the Company are not materially different from their carrying amounts.

Credit risk exposures

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other securities held) in the event that the counterparts fail to perform their obligations as at 31 December 2001, 2002 and 2003 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheets.

Significant concentrations of credit risk

Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparts whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Significant concentration of credit risk arises from exposure to substantial amounts due from hospitals and medical institutions operating in the PRC.

28. Subsequent events

Save for certain transactions in connection with the Restructuring Exercise as set out in note 2, no significant disclosable events have taken place subsequent to 31 December 2003.

29. Approval of the financial statements

The financial statements were approved by the directors on 20 April 2004.

APPENDIX IV

SUMMARY OF THE CONSTITUTION OF THE COMPANY

The description below provides, among other things, information on the principal objects of our Company as set out in our Memorandum and Articles of Association and a summarised version of the main provisions in our Articles of Association which relate to the Directors' borrowing powers and remuneration, Directors' retirement and restrictions on voting powers of Directors in interested transactions. It also describes shareholders' voting rights, restrictions on the transferability of shareholdings and shareholders' rights to share in any surplus in the event of liquidation. This description is only a summary and is qualified by reference to Singapore law and our Memorandum and Articles of Association.

MEMORANDUM OF ASSOCIATION AND REGISTRATION NUMBER

We are registered in Singapore with the Registrar of Companies and Businesses. Our company registration number is 200309641E. Our Memorandum of Association sets out the objects for which our Company was formed, including acting as a holding and investment company, and the powers of our Company.

SUMMARY OF OUR ARTICLES OF ASSOCIATION

1. Directors

(a) Ability of interested directors to vote

A Director shall not vote in respect of any contract, proposed contract or arrangement or any other proposal in which he has any personal material interest, and he shall not be counted in the quorum present at the meeting.

(b) Remuneration

Fees payable to non-executive Directors shall be a fixed sum (not being a commission on or a percentage of profits or turnover of the Company) as shall from time to time be determined by the Company in general meeting. Fees payable to Directors shall not be increased except at a general meeting convened by a notice specifying the intention to propose such increase.

Any Director who holds any executive office, or who serves on any committee of the Directors, or who performs services outside the ordinary duties of a Director, may be paid extra remuneration by way of salary, commission or otherwise, as the Directors may determine.

The remuneration of a Managing Director shall be fixed by the Directors and may be by way of salary or commission or participation in profits or by any or all of these modes but shall not be by a commission on or a percentage of turnover. The Directors shall have the power to pay pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any Director for the time being holding any executive office and for the purpose of providing any such pensions or other benefits, to contribute to any scheme or fund or to pay premiums.

(c) Borrowing

Our Directors may exercise all the powers of our Company to raise or borrow money, to mortgage or charge its undertaking, property and uncalled capital, and to secure any debt, liability or obligation of our Company.

(d) Retirement Age Limit

There is no retirement age limit for Directors under our Articles of Association. Section 153 of the Act however, provides that no person of or over the age of 70 years shall be appointed a director of a public company, unless he is appointed or re-appointed as a director of the Company or authorised to continue in office as a director of the Company by way of an ordinary resolution passed at an annual general meeting of the Company.

APPENDIX IV

SUMMARY OF THE CONSTITUTION OF THE COMPANY

(e) Shareholding Qualification

There is no shareholding qualification for Directors in the Memorandum and Articles of Association of the Company.

2. Share rights and restrictions

Our Company currently has one class of shares, namely, ordinary shares. Only persons who are registered on our register of shareholders and in cases in which the person so registered is CDP, the persons named as the depositors in the depository register maintained by CDP for the ordinary shares, are recognised as our shareholders.

(a) Dividends and distribution

We may, by ordinary resolution of our shareholders, declare dividends at a general meeting, but we may not pay dividends in excess of the amount recommended by our Board of Directors. We must pay all dividends out of our profits; however, we may capitalise our share premium account and apply it to pay dividends, if such dividends are satisfied by the issue of shares to our shareholders. All dividends are paid pro-rata amongst our shareholders in proportion to the amount paid up on each shareholder's ordinary shares, unless the rights attaching to an issue of any ordinary share provide otherwise. Unless otherwise directed, dividends are paid by cheque or warrant sent through the post to each shareholder at his registered address. Notwithstanding the foregoing, the payment by us to CDP of any dividend payable to a shareholder whose name is entered in the depository register shall, to the extent of payment made to CDP, discharge us from any liability to that shareholder in respect of that payment.

The payment by the Directors of any unclaimed dividends or other moneys payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof. All dividends unclaimed after being declared may be invested or otherwise made use of by the Directors for the benefit of the Company. Any dividend unclaimed after a period of six (6) years after having been declared may be forfeited and shall revert to the Company but the Directors may thereafter at their discretion annul any such forfeiture and pay the dividend so forfeited to the person entitled thereto prior to the forfeiture.

The Directors may retain any dividends or other moneys payable on or in respect of a share on which our 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.

(b) Voting rights

A holder of our ordinary shares is entitled to attend, speak and vote at any general meeting, in person or by proxy. Proxies need not be a shareholder. A person who holds ordinary shares through the SGX-ST book-entry settlement system will only be entitled to vote at a general meeting as a shareholder if his name appears on the depository register maintained by CDP 48 hours before the general meeting. Except as otherwise provided in our Articles of Association, two or more shareholders must be present in person or by proxy to constitute a quorum at any general meeting. Under our Articles of Association, on a show of hands, every shareholder present in person and by proxy shall have one vote, and on a poll, every shareholder present in person or by proxy shall have one vote for each ordinary share which he holds or represents. A poll may be demanded in certain circumstances, including by the Chairman of the meeting or by any shareholder present in person or by proxy and representing not less than 10.0 per cent of the total voting rights of all shareholders having the right to attend and vote at the meeting or by any two shareholders present in person or by proxy and entitled to vote. In the case of a tie vote, whether on a show of hands or a poll, the Chairman of the meeting shall be entitled to a casting vote.

APPENDIX IV
SUMMARY OF THE CONSTITUTION OF THE COMPANY

3. Change in capital

Changes in the capital structure of our Company (for example, an increase, consolidation, cancellation, sub-division or conversion of our share capital) require shareholders to pass an ordinary resolution. Ordinary resolutions generally require at least 14 days' notice in writing. The notice must be given to each of our shareholders who have supplied us with an address in Singapore for the giving of notices and must set forth the place, the day and the hour of the meeting. However, we are required to obtain our shareholders' approval by way of a special resolution for any reduction of our share capital, redemption reserve, fund or any share premium account or other undistributable reserve, subject to the conditions prescribed by law.

4. Variation of rights of existing shares or classes of shares

Subject to the Act, whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may be varied or abrogated either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of our Articles of Association relating to general meetings of the Company and to the proceedings thereat shall *mutatis mutandis* apply, except that the necessary quorum shall be two persons at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class, and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him, provided always that where the necessary majority for such a special resolution is not obtained at such general meeting, consent in writing if obtained from the holders of three-quarters in nominal value of the issued shares of the class concerned within two months of such general meeting shall be as valid and effectual as a special resolution carried at such general meeting. These provisions shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class the special rights whereof are to be varied or abrogated.

The relevant Article does not impose more significant conditions than the Act in this regard.

5. Limitations on foreign or non-resident shareholders

There are no limitations imposed by Singapore law or by our Articles of Association on the rights of our shareholders who are regarded as non-residents of Singapore, to hold or vote their shares.

APPENDIX V
PHARMESIS SHARE OPTION SCHEME

RULES OF THE PHARMESIS SHARE OPTION SCHEME

1. NAME OF THE SCHEME

The Scheme shall be called the “Pharmesis Share Option Scheme”.

2. DEFINITIONS

2.1 In the Scheme, unless the context otherwise requires, the following words and expressions shall have the following meanings:-

<i>“Adoption Date”</i>	The date on which the Scheme is adopted by the Company in general meeting.
<i>“Aggregate Subscription Cost”</i>	The total amount payable for Shares which may be acquired on the exercise of an Option.
<i>“Articles”</i>	The Articles of Association of the Company, as amended from time to time.
<i>“Auditors”</i>	The auditors of the Company for the time being.
<i>“Board”</i>	The board of directors of the Company.
<i>“CDP”</i>	The Central Depository (Pte) Limited.
<i>“CPF”</i>	Central Provident Fund.
<i>“Committee”</i>	A committee comprising directors of the Company duly authorized, appointed and nominated by the Board pursuant to the Rules to administer the Scheme.
<i>“Company” or “Pharmesis”</i>	Pharmesis International Ltd., a public company incorporated in Singapore with limited liability.
<i>“Companies Act”</i>	The Companies Act, Chapter 50 of Singapore, as amended, modified or supplemented from time to time.
<i>“control”</i>	The capacity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of the Company.
<i>“Controlling Shareholder”</i>	A Shareholder exercising control over the Company and unless rebutted, a person who controls directly or indirectly a shareholding of fifteen (15) per cent or more of the Company’s issued share capital shall be presumed to be a Controlling Shareholder of the Company.
<i>“Date of Grant”</i>	In relation to an Option, the date on which the Option is granted pursuant to Rule 6.
<i>“Director”</i>	A person holding office as a director for the time being of the Company and/or its subsidiaries, as the case may be.

APPENDIX V
PHARMESIS SHARE OPTION SCHEME

<i>“Employee”</i>	An employee of the Group (including any Group Executive Director) selected by the Committee to participate in the Scheme in accordance with Rule 4.1.
<i>“Exercise Period”</i>	The period for the exercise of an Option, being a period commencing:- <ol style="list-style-type: none">(1) after the first anniversary of the Date of Grant and expiring on the fifth anniversary of such Date of Grant in the case of a Market Price Option; and(2) after the second anniversary of the Date of Grant and expiring on the fifth anniversary of such Date of Grant in the case of an Incentive Option.
<i>“Exercise Price”</i>	The price at which a Participant shall subscribe for each Share upon the exercise of an Option which shall be the price as determined in accordance with Rule 7.1, as adjusted in accordance with Rule 12.
<i>“Grantee”</i>	The person to whom an offer of an Option is made.
<i>“Group”</i>	The Company and its subsidiaries.
<i>“Incentive Option”</i>	An Option granted with the Exercise Price set at a discount to the Market Price.
<i>“Market Day”</i>	A day on which the Stock Exchange is open for trading in securities.
<i>“Market Price”</i>	A price equal to the average of the last dealt prices for the Shares on the Stock Exchange over the five (5) consecutive Trading Days immediately preceding the Date of Grant of that Option, as determined by the Committee by reference to the daily official list or any other publication published by the Stock Exchange, rounded to the nearest whole cent in the event of fractional prices.
<i>“Market Price Option”</i>	An Option granted with the Exercise Price set at the Market Price.
<i>“Option”</i>	The right to subscribe for Shares granted or to be granted to an Employee pursuant to the Scheme and for the time being subsisting.
<i>“Participant”</i>	The holder of an Option.
<i>“Rules”</i>	Rules of the Pharmesis Share Option Scheme.
<i>“Scheme”</i>	The Pharmesis Share Option Scheme, as the same may be modified or altered from time to time.
<i>“Securities Account”</i>	The securities account maintained by a Depositor with CDP.

APPENDIX V PHARMESIS SHARE OPTION SCHEME

- “Shareholders”* Registered holders of Shares, except where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the Depositors whose Securities Accounts are credited with Shares.
- “Shares”* Ordinary shares of par value \$0.04 each in the capital of the Company.
- “Stock Exchange”* The Singapore Exchange Securities Trading Limited and any other stock exchange on which the Shares are quoted or listed.
- “Trading Day”* A day on which the Shares are traded on the Stock Exchange.
- “\$”* Singapore dollar.
- 2.2 The terms “Depositor” and “Depository Agent” shall have the meanings ascribed to them respectively by Section 130A of the Companies Act and the term “associate” shall have the meaning ascribed to it by the SGX-ST Listing Manual or any other publication prescribing rules or regulations for corporations admitted to the Official List of the SGX-ST (as modified, supplemented or amended from time to time).
- 2.3 Words importing the singular number shall, where applicable, include the plural number and *vice versa*. Words importing the masculine gender shall, where applicable, include the feminine and neuter gender.
- 2.4 Any reference to a time of a day in the Scheme is a reference to Singapore time.
- 2.5 Any reference in the Scheme to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act or any statutory modification thereof and used in the Scheme shall have the meaning assigned to it under the Companies Act.

3. OBJECTIVES OF THE SCHEME

The Scheme is a share incentive plan. The Scheme is proposed on the basis that it is important to retain staff whose contributions are essential to the well-being and prosperity of the Group and to give recognition to outstanding Employees who have contributed to the growth of the Group. The Scheme will give Participants an opportunity to have a personal equity interest in the Company at no direct cost to its profitability and will help to achieve the following positive objectives:-

- (a) the motivation of each Participant to optimise his performance standards and efficiency and to maintain a high level of contribution to the Group;
- (b) the retention of key employees of the Group whose contributions are essential to the long-term growth and profitability of the Group;
- (c) to instil loyalty to, and a stronger identification by the Participants with the long-term prosperity of, the Company;
- (d) to attract potential employees with relevant skills to contribute to the Group and to create value for the Shareholders of the Company; and
- (e) to align the interests of the Participants with the interests of the Shareholders.

APPENDIX V PHARMESIS SHARE OPTION SCHEME

4. ELIGIBILITY OF PARTICIPANTS

- 4.1 The Employee's eligibility to participate in the Scheme shall be at the absolute discretion of the Committee, which would be exercised judiciously, and in addition, such person must:-
- (i) be confirmed in his/her employment with the Group;
 - (ii) have attained the age of twenty-one (21) years on or before the Date of Grant; and
 - (iii) not be an undischarged bankrupt and must not have entered into a composition with his creditors.
- 4.2 Non-executive Directors who satisfy the eligibility requirements in Rule 4.1(ii) and (iii) shall also be eligible to participate in the Scheme.
- 4.3 Persons who are Controlling Shareholders and their associates shall not be eligible to participate in the Scheme.
- 4.4 Subject to the Companies Act and any requirement of the Stock Exchange, the terms of eligibility for participation in the Scheme may be amended from time to time at the absolute discretion of the Committee, which would be exercised judiciously.

5. MAXIMUM ENTITLEMENT

Subject to Rule 4 and Rule 11, the aggregate number of Shares in respect of which Options may be offered to a Grantee for subscription in accordance with the Scheme shall be determined at the discretion of the Committee, which would be exercised judiciously, who shall take into account criteria such as the rank and responsibilities within the Group, performance, years of service/appointment and potential for future development of the Grantee and the performance of the Company.

6. GRANT AND ACCEPTANCE OF OPTIONS

- 6.1 Subject as provided in Rule 10, the Committee may grant Options at any time during the period when the Scheme is in force, provided that in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is made, Options may only be granted on or after the second Market Day from the date on which such announcement is released.
- 6.2 The Letter of Offer to grant an Option shall be in, or substantially in, the form set out in Schedule A, subject to such modification as the Committee may from time to time determine.
- 6.3 An Option shall be personal to the person to whom it is granted and shall not be transferred (other than to a Participant's personal representative on the death of that Participant), charged, assigned, pledged or otherwise disposed of, in whole or in part, except with the prior approval of the Committee.
- 6.4 The grant of an Option under this Rule 6 shall be accepted by the Grantee within 30 days from the Date of Grant of that Option and, in any event, not later than 5.00 p.m. on the 30th day from such Date of Grant by completing, signing and returning the Acceptance Form in or substantially in the form set out in Schedule B, subject to such modification as the Committee may from time to time determine, accompanied by payment of \$1.00 as consideration.
- 6.5 If a grant of an Option is not accepted in the manner as provided in Rule 6.4, such offer shall, upon the expiry of the 30 day period, automatically lapse and become null, void and of no effect.

APPENDIX V
PHARMESIS SHARE OPTION SCHEME

7. EXERCISE PRICE

7.1 Subject to any adjustment pursuant to Rule 12, the Exercise Price for each Share in respect of which an Option is exercisable shall be determined by the Committee, in its absolute discretion, on the Date of Grant, at:-

- (a) a price equal to the Market Price; or
- (b) a price which is set at a discount to the Market Price, provided that:-
 - (i) the maximum discount shall not exceed twenty (20) per cent of the Market Price (or such other percentage or amount as may be determined by the Committee and permitted by the Stock Exchange); and
 - (ii) the Shareholders in general meeting shall have authorised, in a separate resolution, the making of offers and grants of Options under the Scheme at a discount not exceeding the maximum discount as aforesaid.

7.2 The Exercise Price shall in no event be less than the nominal value of a Share.

8. RIGHTS TO EXERCISE OPTIONS

8.1 Subject as provided in Rules 8 and 9, a Market Price Option shall be exercisable, in whole or in part, during the Exercise Period applicable to that Option.

8.2 An Option shall, to the extent unexercised, immediately lapse without any claim whatsoever against the Company:-

- (a) in the event of misconduct on the part of the Participant as determined by the Committee in its discretion;
- (b) subject to Rule 8.3 and 8.4, where the Participant ceases at any time to be in the employment of any of the Group, for any reason whatsoever;
- (c) the bankruptcy of the Participant or the happening of any other event which results in his being deprived of the legal or beneficial ownership of an Option; or
- (d) the company by which he is employed ceasing to be a company within the Group, or the undertaking or part of the undertaking of such company being transferred otherwise than to another company within the Group.

For the purpose of Rule 8.2(b), the Participant shall be deemed to have ceased to be so employed as of the last day of his employment.

For avoidance of doubt, no Option shall lapse pursuant to Rule 8.2(b) in the event of any transfer of employment of a Participant between the Group.

8.3 In any of the following events, namely:-

- (a) where the Participant ceases at any time to be in the employment of any of the Group by reason of:-
 - (i) ill health, injury or disability (in each case, evidenced to the satisfaction of the Committee);
 - (ii) redundancy;

APPENDIX V
PHARMESIS SHARE OPTION SCHEME

- (iii) retirement at or after the legal retirement age; or
 - (iv) retirement before the legal retirement age with the consent of the Committee; or
- (b) any other event approved in writing by the Committee,
- the Participant may exercise any Option:-
- (i) in the case where the cessation of employment or cessation to be a director, as the case may be, occurs after the first day of the Exercise Period in respect of such Option, within the period of 18 months after the date of such cessation of employment or such cessation to be a director, as the case may be, or before the expiry of the Exercise Period in respect of that Option, whichever is earlier, and upon expiry of such period the Option shall lapse; and
 - (ii) in the case where the cessation of employment or cessation to be a director, as the case may be, occurs before the first day of the Exercise Period in respect of such Option, within the period of 18 months after the first day of the Exercise Period in respect of that Option, and upon expiry of such period, the Option shall lapse.
- 8.4 If a Participant dies, whether or not while still in the employment of any of the Group Companies and at the date of his death holds any unexercised Option, such Option shall continue to be exercisable by the duly appointed personal representatives of the Participant:-
- (a) in the case where death occurs after the first day of the Exercise Period in respect of such Option, within the period of 18 months after the date of such cessation of employment or before the expiry of the Exercise Period in respect of that Option, whichever is earlier, and upon expiry of such period the Option shall lapse; and
 - (b) in the case where the death occurs before the first day of the Exercise Period in respect of such Option, within the period of 18 months after the first day of the Exercise Period in respect of that Option, and upon expiry of such period, the Option shall lapse.

9. TAKE-OVER AND WINDING-UP OF THE COMPANY

- 9.1 Notwithstanding Rule 8 but subject to Rule 9.5, in the event of a take-over being made for the Shares, a Participant shall be entitled to exercise any Option held by him and as yet unexercised, in respect of such number of Shares comprised in that Option as may be determined by the Committee in its absolute discretion, in the period commencing on the date on which such offer is made or, if such offer is conditional, the date on which such offer becomes or is declared unconditional, as the case may be, and ending on the earlier of:-
- (a) the expiry of six (6) months thereafter, unless prior to the expiry of such six-month period, at the recommendation of the officer and with the approvals of the Committee and the Stock Exchange, such expiry date is extended to a later date (in either case, being a date falling not later than the expiry of the Exercise Period relating thereto); or
 - (b) the date of expiry of the Exercise Period relating thereto,
- whereupon the Option then remaining unexercised shall lapse.

Provided that if during such period, the offeror becomes entitled or bound to exercise rights of compulsory acquisition under the provisions of the Companies Act and, being entitled to do so, gives notice to the Participants that it intends to exercise such rights on a specified date, the Option shall remain exercisable by the Participant until the expiry of such specified date or the expiry of the Exercise Period relating thereto, whichever is earlier. Any Option not so exercised shall lapse provided that the rights of acquisition or obligations to acquire shall have been

APPENDIX V

PHARMESIS SHARE OPTION SCHEME

exercised or performed, as the case may be. If such rights or obligations have not been exercised or performed, the Option shall, notwithstanding Rule 8, remain exercisable until the expiry of the Exercise Period relating thereto.

- 9.2 If under any applicable laws, the court sanctions a compromise or arrangement proposed for the purposes of, or in connection with, a scheme for the reconstruction of the Company or its amalgamation with another company or companies, each Participant shall be entitled, notwithstanding Rule 8 but subject to Rule 9.5, to exercise any Option then held by him, in respect of such number of Shares comprised in that Option as may be determined by the Committee in its absolute discretion, during the period commencing on the date upon which the compromise or arrangement is sanctioned by the court and ending either on the expiry of 60 days thereafter or the date upon which the compromise or arrangement becomes effective, whichever is later (but not after the expiry of the Exercise Period relating thereto), whereupon the Option shall lapse and become null and void.
- 9.3 If an order is made for the winding-up of the Company on the basis of its insolvency, all Options, to the extent unexercised, shall lapse and become null and void.
- 9.4 In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it dispatches such notice to each member of the Company give notice thereof to all Participants (together with a notice of the existence of the provision of this Rule 9.4) and thereupon, each Participant (or his personal representative) shall be entitled to exercise all or any of his Options at any time not later than two (2) business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the Aggregate Subscription Cost whereupon the Company shall as soon as possible and in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Participant credited as fully paid.
- 9.5 If in connection with the making of a general offer referred to in Rule 9.1 or the scheme referred to in Rule 9.2 or the winding-up referred to in Rule 9.4, arrangements are made (which are confirmed in writing by the Auditors, acting only as experts and not as arbitrators, to be fair and reasonable) for the compensation of Participants, whether by the continuation of their Options or the payment of cash or the grant of other options or otherwise, a Participant holding an Option, as yet not exercised, may not, at the discretion of the Committee, be permitted to exercise that Option as provided for in this Rule 9.
- 9.6 To the extent that an Option is not exercised within the periods referred to in this Rule 9, it shall lapse and become null and void.

10. EXERCISE OF OPTIONS, ALLOTMENT AND LISTING OF SHARES

- 10.1 Subject to Rule 8.1, an Option may be exercised, in whole or in part, by a Participant giving notice in writing to the Company in or substantially in the form set out in Schedule C, subject to such modification as the Committee may from time to time determine. Such notice must be accompanied by payment in cash for the Aggregate Subscription Cost in respect of the Shares for which that Option is exercised and any other documentation the Committee may require. An Option shall be deemed to be exercised upon receipt by the Company of the said notice, duly completed, and the Aggregate Subscription Cost. All payments made shall be made by cheque, cashiers' order, banker's draft or postal order made out in favour of the Company or such other mode of payment as may be acceptable to the Company.

APPENDIX V
PHARMESIS SHARE OPTION SCHEME

- 10.2 Subject to such consents or other required action of any competent authority under any regulations or enactment for the time being in force as may be necessary and subject to the compliance with the terms of the Scheme and the Memorandum and Articles of Association of the Company, the Company shall, within ten (10) Market Days after the exercise of an Option, allot the relevant Shares and despatch to CDP the relevant share certificates by ordinary post or such other mode as the Committee may deem fit.

The Company shall, as soon as practicable after such allotment, apply to the Stock Exchange for permission to deal in and for quotation of such Shares, if necessary.

- 10.3 Shares which are allotted on the exercise of an Option by a Participant shall be issued in the name of CDP to the credit of the securities account of that Participant maintained with CDP, the securities sub-account of that Participant maintained with a Depository Agent or the CPF investment account maintained with a CPF agent bank.

- 10.4 Shares allotted and issued on exercise of an Option shall:-

- (a) be subject to all the provisions of the Memorandum and Articles of Association of the Company; and
- (b) rank in full for all entitlements, including dividends or other distributions declared or recommended in respect of the then existing Shares, the Record Date for which is on or after the relevant date upon which such exercise occurred, and shall in all other respects rank *pari passu* with other existing Shares then in issue.

“Record Date” means the date fixed by the Company for the purposes of determining entitlements to dividends or other distributions to or rights of holders of Shares.

- 10.5 The Company shall keep available sufficient unissued Shares to satisfy the full exercise of all Options for the time being remaining capable of being exercised.

11. LIMITATION ON THE SIZE OF THE SCHEME

The aggregate nominal amount of new Shares over which the Committee may grant Options on any date, when added to the nominal amount of new Shares issued and issuable in respect of (a) all Options granted under the Scheme, and (b) all awards granted under any other share option, share incentive, performance share or restricted share plan implemented by the Company and for the time being in force, shall not exceed fifteen (15) per cent of the issued share capital of the Company on the day preceding that date.

12. ADJUSTMENT EVENTS

- 12.1 If a variation in the issued ordinary share capital of the Company (whether by way of a capitalisation of profits or reserves or rights issue, reduction, subdivision, consolidation, distribution or otherwise) shall take place, then:-

- (a) the Exercise Price of the Shares, the nominal amount, class and/or number of Shares comprised in an Option to the extent unexercised; and/or
- (b) the nominal amount, class and/or number of Shares over which Options may be granted under the Scheme,

shall be adjusted in such manner as the Committee may determine to be appropriate.

APPENDIX V

PHARMESIS SHARE OPTION SCHEME

- 12.2 Unless the Committee considers an adjustment to be appropriate, the issue of securities as consideration for an acquisition or a private placement of securities, or the cancellation of issued Shares purchased or acquired by the Company by way of a market purchase of such Shares undertaken by the Company on the Stock Exchange during the period when a share purchase mandate granted by the Shareholders (including any renewal of such mandate) is in force, shall not normally be regarded as a circumstance requiring adjustment.
- 12.3 Notwithstanding the provisions of Rule 12.1:-
- (a) no such adjustment shall be made if as a result:-
 - (i) the Exercise Price shall fall below the nominal amount of a Share and if such adjustment would, but for this paragraph (a), result in the Exercise Price being less than the nominal amount of a Share, the Exercise Price payable shall be the nominal amount of a Share; or
 - (ii) the Participant receives a benefit that a Shareholder does not receive; and
 - (b) any adjustment (except in relation to a capitalisation issue) must be confirmed in writing by the Auditors (acting only as experts and not as arbitrators) to be in their opinion, fair and reasonable.
- 12.4 Upon any adjustment required to be made pursuant to this Rule 12, the Company shall notify the Participant (or his duly appointed personal representatives where applicable) in writing and deliver to him (or his duly appointed personal representatives, where applicable) a statement setting forth the Exercise Price thereafter in effect and the nominal value, class and/or number of Shares thereafter to be issued on the exercise of the Option. Any adjustment shall take effect upon such written notification being given.

13. ADMINISTRATION OF THE SCHEME

- 13.1 The Scheme shall be administered by the Committee in its absolute discretion with such powers and duties as are conferred on it by the Board, provided that no member of the Committee shall participate in any deliberation or decision in respect of Options to be granted to him or held by him.
- 13.2 The Committee shall have the power, from time to time, to make and vary such regulations (not being inconsistent with the Scheme) for the implementation and administration of the Scheme as they think fit. Any matter pertaining or pursuant to the Scheme and any dispute and uncertainty as to the interpretation of the Scheme, any rule, regulation or procedure thereunder or any rights under the Scheme shall be determined by the Committee.
- 13.3 Neither the Scheme nor the grant of Options under the Scheme shall impose on the Company or the Committee any liability whatsoever in connection with:-
- (a) the lapsing or early expiry of any Options pursuant to any provision of the Scheme;
 - (b) the failure or refusal by the Committee to exercise, or the exercise by the Committee of, any discretion under the Scheme; and/or
 - (c) any decision or determination of the Committee made pursuant to any provision of the Scheme.

Any decision or determination of the Committee made pursuant to any provision of the Scheme (other than a matter to be certified by the Auditors) shall be final, binding and conclusive.

APPENDIX V
PHARMESIS SHARE OPTION SCHEME

14. NOTICES

- 14.1 Any notice required to be given by a Participant to the Company shall be sent or made to the principal place of business of the Company or such other addresses (including electronic mail addresses) or facsimile number, and marked for the attention of the Committee, as may be notified by the Company to him in writing.
- 14.2 Any notices or documents required to be given to a Participant or any correspondence to be made between the Company and the Participant shall be given or made by the Committee (or such person(s) as it may from time to time direct) on behalf of the Company and shall be delivered to him by hand or sent to him at his home address, electronic mail address or facsimile number according to the records of the Company or the last known address, electronic mail address or facsimile number of the Participant.
- 14.3 Any notice or other communication from a Participant to the Company shall be irrevocable, and shall not be effective until received by the Company. Any other notice or communication from the Company to a Participant shall be deemed to be received by that Participant, when left at the address specified in Rule 14.2 or, if sent by post, on the day following the date of posting or, if sent by electronic mail or facsimile transmission, on the day of despatch.

15. MODIFICATIONS TO THE SCHEME

- 15.1 Any or all the provisions of the Scheme may be modified and/or altered at any time and from time to time by resolution of the Committee, except that:-
- (a) no modification or alteration shall alter adversely the rights attaching to any Option granted prior to such modification or alteration except with the consent in writing of such number of Participants who, if they exercised their Options in full, would thereby become entitled to not less than three-quarters in nominal amount of all the Shares which would fall to be allotted upon exercise in full of all outstanding Options;
 - (b) any modification or alteration which would be to the advantage of Participants under the Scheme shall be subject to the prior approval of the Shareholders in general meeting; and
 - (c) no modification or alteration shall be made without the prior approval of the Stock Exchange and such other regulatory authorities as may be necessary.
- 15.2 Notwithstanding anything to the contrary contained in Rule 15.1, the Committee may at any time by resolution (and without other formality, save for the prior approval of the Stock Exchange) amend or alter the Scheme in any way to the extent necessary to cause the Scheme to comply with any statutory provision or the provision or the regulations of any regulatory or other relevant authority or body (including the Stock Exchange).

Written notice of any modification or alteration made in accordance with this Rule 15 shall be given to all Participants.

16. TERMS OF EMPLOYMENT UNAFFECTED

The terms of employment of a Participant shall not be affected by his participation in the Scheme, which shall neither form part of such terms nor entitle him to take into account such participation in calculating any compensation or damages on the termination of his employment for any reason.

APPENDIX V
PHARMESIS SHARE OPTION SCHEME

17. DURATION OF THE SCHEME

- 17.1 The Scheme shall continue to be in force at the discretion of the Committee, subject to a maximum period of ten (10) years commencing on the Adoption Date, provided always that the Scheme may continue beyond the above stipulated period with the approval of the Shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.
- 17.2 The Scheme may be terminated at any time by the Committee, at the discretion of the Committee, or by resolution of the Company in general meeting, subject to all relevant approvals which may be required and if the Scheme is so terminated, no further Options shall be offered by the Company hereunder.
- 17.3 The termination of the Scheme shall not affect Options which have been granted and accepted as provided in Rule 6.4, whether such Options have been exercised (whether fully or partially) or not.

18. TAXES

All taxes (including income tax) arising from the exercise of any Option granted to any Participant under the Scheme shall be borne by that Participant.

19. COSTS AND EXPENSES OF THE SCHEME

- 19.1 Each Participant shall be responsible for all fees of CDP relating to or in connection with the issue and allotment of any Shares pursuant to the exercise of any Option in CDP's name, the deposit of share certificate(s) with CDP, the Participant's securities account with CDP, or the Participant's securities sub-account with a Depository Agent or CPF investment account with a CPF agent bank.
- 19.2 Save for the taxes referred to in Rule 18 and such other costs and expenses expressly provided in the Scheme to be payable by the Participants, all fees, costs and expenses incurred by the Company in relation to the Scheme including but not limited to the fees, costs and expenses relating to the allotment and issue of Shares pursuant to the exercise of any Option shall be borne by the Company.

20. DISCLAIMER OF LIABILITY

Notwithstanding any provisions herein contained, the Committee and the Company shall not under any circumstances be held liable for any costs, losses, expenses and damages whatsoever and howsoever arising in any event, including but not limited to the Company's delay in issuing the Shares or applying for or procuring the listing of the Shares on the Stock Exchange in accordance with Rule 10.2.

21. DISCLOSURE IN ANNUAL REPORT

The following disclosures (as applicable) will be made by the Company in its annual report for so long as the Scheme continues in operation:-

- (a) the names of the members of the Committee administering the Scheme;
- (b) the information in respect of Options granted to the following Participants in the table set out below:-
- (i) Directors of the Company; and

APPENDIX V
PHARMESIS SHARE OPTION SCHEME

- (ii) Participants, other than those in (i) above, who receive five (5) per cent or more of the total number of Shares available under the Scheme.

Name of Participant	Number of Shares comprised in Options granted during financial year under review (including terms)	Aggregate number of Shares comprised in Options granted since commencement of Scheme to end of financial year under review	Aggregate number of Shares comprised in Options exercised since commencement of Scheme to end of financial year under review	Aggregate number of Shares comprised in Options outstanding as at end of financial year under review

- (c) the number of Incentive Options during the financial year under review in the following bands:-

Discount to the Market Price %	Aggregate number of Incentive Options granted during the financial year under review	Proportion of Incentive Options to Market Price Options granted during the financial year under review
0-10		
11-20		

22. ABSTENTION FROM VOTING

Participants who are Shareholders are to abstain from voting on any Shareholders' resolution relating to the Scheme.

23. DISPUTES

Any disputes or differences of any nature arising hereunder shall be referred to the Committee and its decision shall be final and binding in all respects.

24. GOVERNING LAW

The Scheme shall be governed by, and construed in accordance with, the laws of the Republic of Singapore. The Participants, by accepting Options in accordance with the Scheme, and the Company submit to the exclusive jurisdiction of the courts of the Republic of Singapore.

**APPENDIX V
PHARMESIS SHARE OPTION SCHEME**

Schedule A

PHARMESIS SHARE OPTION SCHEME

LETTER OF OFFER

Serial No: _____

Date: _____

To: [Name]
[Designation]
[Address]

Private and Confidential

Dear Sir/Madam,

1. We have the pleasure of informing you that, pursuant to the Pharmesis Share Option Scheme (“ESOS”), you have been nominated to participate in the ESOS by the Committee (the “Committee”) appointed by the Board of Directors of Pharmesis International Ltd. (the “Company”) to administer the ESOS. Terms as defined in the ESOS shall have the same meaning when used in this letter.
2. Accordingly, in consideration of the payment of a sum of \$1.00, an offer is hereby made to grant you an option (the “Option”), to subscribe for and be allotted _____ Shares at the price of \$_____ for each Share.
3. The Option is personal to you and shall not be transferred, charged, pledged, assigned or otherwise disposed of by you, in whole or in part, except with the prior approval of the Committee.
4. The Option shall be subject to the terms of the Scheme, a copy of which is available for inspection at the business address of the Company.
5. If you wish to accept the offer of the Option on the terms of this letter, please sign and return the enclosed Acceptance Form with a sum of \$1.00 not later than 5.00 p.m. on _____, failing which this offer will lapse.

Yours faithfully,
For and on behalf of
Pharmesis International Ltd.

Name:
Designation:

**APPENDIX V
PHARMESIS SHARE OPTION SCHEME**

Schedule B

PHARMESIS SHARE OPTION SCHEME

ACCEPTANCE FORM

Serial No: _____

Date: _____

To: The Committee,
Pharmesis Share Option Scheme,
●

Closing Date for Acceptance of Offer: _____
Number of Shares Offered: _____
Exercise Price for each Share: \$ _____
Total Amount Payable: \$ _____

I have read your Letter of Offer dated _____ and agree to be bound by the terms of the Letter of Offer and the ESOS referred to therein. Terms defined in your Letter of Offer shall have the same meanings when used in this Acceptance Form.

I hereby accept the Option to subscribe for _____ Shares at \$ _____ for each Share. I enclose cash for \$1.00 in payment for the purchase of the Option/I authorise my employer to deduct the sum of \$1.00 from my salary in payment for the purchase of the Option.

I understand that I am not obliged to exercise the Option.

I confirm that my acceptance of the Option will not result in the contravention of any applicable law or regulation in relation to the ownership of shares in the Company or options to subscribe for such shares.

I agree to keep all information pertaining to the grant of the Option to me confidential.

I further acknowledge that you have not made any representation to induce me to accept the offer and that the terms of the Letter of Offer and this Acceptance Form constitute the entire agreement between us relating to the offer.

**APPENDIX V
PHARMESIS SHARE OPTION SCHEME**

Please print in block letters

Name in full : _____

Designation : _____

Address : _____

Nationality : _____

*NRIC/Passport No. : _____

Signature : _____

Date : _____

Note:-

* *Delete accordingly*

**APPENDIX V
PHARMESIS SHARE OPTION SCHEME**

Schedule C

PHARMESIS SHARE OPTION SCHEME

FORM OF EXERCISE OF OPTION

Total number of ordinary shares of \$0.04 each (the " <u>Shares</u> ") offered at \$_____ for each Share (the " <u>Exercise Price</u> ") under the Scheme on _____ (Date of Grant)	:	_____
Number of Shares previously allotted thereunder	:	_____
Outstanding balance of Shares to be allotted thereunder	:	_____
Number of Shares now to be subscribed	:	_____

To: The Committee,
Pharmesis Share Option Scheme,
●

1. Pursuant to your Letter of Offer dated _____ and my acceptance thereof, I hereby exercise the Option to subscribe for _____ Shares in Pharmesis International Ltd. (the "Company") at \$_____ for each Share.
2. I enclose a *cheque/cashier's order/banker's draft/postal order no. _____ for \$_____ by way of subscription for the total number of the said Shares.
3. I agree to subscribe for the said Shares subject to the terms of the Letter of Offer, the Pharmesis Share Option Scheme and the Memorandum and Articles of Association of the Company.
4. I declare that I am subscribing for the said Shares for myself and not as a nominee for any other person.
5. I request the Company to allot and issue the Shares in the name of The Central Depository (Pte) Limited ("CDP") for credit of my *Securities Account with CDP/Sub-Account with the Depository Agent/CPF investment account with my Agent Bank specified below and I hereby agree to bear such fees or other charges as may be imposed by CDP in respect thereof.

**APPENDIX V
PHARMESIS SHARE OPTION SCHEME**

Please print in block letters

Name in full : _____

Designation : _____

Address : _____

Nationality : _____

*NRIC/Passport No. : _____

*Direct Securities
Account No. : _____

OR

*Sub-Account No. : _____

Name of Depository Agent : _____

OR

*CPF Investment
Account No. : _____

Name of Agent Bank : _____

Signature : _____

Date : _____

Note:-

**** Delete accordingly***

APPENDIX VI

SUMMARY OF PRC LAWS AND REGULATIONS

1. PRC legal system

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules and regulations enacted by the State Council and the State Council has the power to annul such directives, orders and regulations issued by its ministries and commissions.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全国人民代表大会常务委员会关于加强法律解释工作的决议) passed on 10th June, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgate. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

APPENDIX VI

SUMMARY OF PRC LAWS AND REGULATIONS

2. Judicial system

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution (中华人民共和国宪法) and the Law of Organisation of the People's Courts of the People's Republic of China (中华人民共和国人民法院组织法), the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal, administrative and economic divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中华人民共和国民事诉讼法) (the "Civil Procedure Law") adopted on 9th April 1991. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

APPENDIX VI

SUMMARY OF PRC LAWS AND REGULATIONS

3. Arbitration and enforcement of arbitral awards

The Arbitration Law of the PRC (中华人民共和国仲裁法) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31st August 1994 and came into effect on 1st September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on 10th June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

4. Foreign exchange control

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China, China's central bank, with the authorisation of the State Council, issued on 28th December, 1993 the Notice on the Further Reform of the Foreign Exchange Control System (中国人民银行关于贯彻《国务院关于进一步改革外汇管理体制的通知》有关操作问题的通知) and on 26th March, 1994 the Provisional Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理暂行规定) which came into effect on 1st April, 1994 respectively. On 29th January 1996, the State Council promulgated the PRC Foreign Exchange Administration Regulations (中华人民共和国外汇管理条例) which took effect on 1st April 1996. On 20th June 1996, the PBOC issued the Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理规定), which took effect on 1st July 1996. On 25th October 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap

APPENDIX VI

SUMMARY OF PRC LAWS AND REGULATIONS

Business which stated that from 1st December 1998, all foreign exchange transactions for FIEs may only be conducted through authorised banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organisations in the PRC.

Under the new regulations, the previous dual exchange rate system for Renminbi was abolished and an unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the Renminbi exchange rates against major foreign currencies.

In general, all organisations and individuals within the PRC, including foreign investment enterprises, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the State Administration of Foreign Exchange.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by a foreign investment enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise.

Despite the relaxation of foreign exchange control over current account transaction, the capital account transaction, including loans in foreign currency, foreign exchange guarantee or investment outside of the PRC, is subject to more stringent control.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre ("CFETC") was formally established and came into operation on 1st January 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to 1st December 1998, enterprises with foreign investment may at their own choice enter into exchange transactions through Swap Centre or through designated PRC banks. From 1st December 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks.

APPENDIX VI

SUMMARY OF PRC LAWS AND REGULATIONS

5. Taxation

The applicable income tax laws, regulations, notices and decisions (collectively referred to as “Applicable Foreign Enterprises Tax Law”) related to foreign investment enterprises and their investors include the follows:-

- (1) Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法) adopted by the NPC on 9th April 1991
- (2) Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法实施细则) promulgated by the State Council, which came into effect on 1st July 1991
- (3) Notice Relating to taxes Applicable to Foreign Investment Enterprises / Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares (国家税务总局关于外商投资企业/外国企业和外籍个人取得股票(股权)转让收益和股息所得税收问题的通知) promulgated by the State Tax Bureau on 21 July 1993
- (4) The Income Tax Law Applicable to Individuals of the PRC (中华人民共和国个人所得税法) amended by the Standing Committee of the NPC on 30 August 1999
- (5) Notice on Relevant Policies Concerning Individual Income Tax (关于个人所得税若干政策问题的通知) issued by Ministry of Finance and the State Tax Bureau on 13 May 1994

(a) *Income tax on foreign investment enterprises*

According to the Applicable Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) is required to pay a national income tax at a rate of 30.0 per cent of their taxable income and a local income tax at a rate of three per cent of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first and the second years from the first profit-making year and a 50.0 per cent reduction in the income tax payable for the next three years. The income tax concession for foreign investment enterprises engaged in the exploitation of resources such as petroleum, natural gas, rare metals and precious metals are regulated separately by the State Council.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15.0 per cent. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24.0 per cent. A reduced income tax rate of 15.0 per cent may apply to an enterprise located in such regions which is engaged in energy, communication, harbour, wharf or other projects encouraged by the State.

Losses incurred in a tax year may be carried forward for not more than five years.

APPENDIX VI

SUMMARY OF PRC LAWS AND REGULATIONS

The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

(b) *Value added tax*

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例) promulgated by the State Council came into effect on 1st January 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例实施细则), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13.0 per cent or 17.0 per cent (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17.0 per cent on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

(c) *Business tax*

With effect from 1st January 1994, businesses that provide services (except entertainment business), assign intangible assets or sell immovable property became liable to business tax at a rate ranging from three to five per cent of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

(d) *Tax on dividends from PRC enterprise with foreign investment*

According to the Applicable Foreign Enterprises Tax Law, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 20.0 per cent withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable Foreign Enterprises Tax Law.

6. **Wholly foreign-owned enterprise**

Wholly foreign-owned enterprises are governed by the Law of the People's Republic of China Concerning Enterprises with Sole Foreign Investments (中华人民共和国外资企业法), which was promulgated on 12th April 1986, and its Implementation Regulations promulgated on 12th December 1990 (together the "Foreign Enterprises Law").

(a) *Procedures for establishment of a wholly foreign-owned enterprise*

The establishment of a wholly foreign-owned enterprise will have to be approved by Ministry of Commerce (or its delegated authorities) (hereinafter referred to as "MOFCOM"). If two or more foreign investors jointly apply for the establishment of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to MOFCOM (or its delegated authorities) for its record. A wholly foreign-owned enterprise must also obtain a business licence from SAIC (or its delegated authorities) before it can commence business.

APPENDIX VI

SUMMARY OF PRC LAWS AND REGULATIONS

(b) *Nature*

A wholly foreign-owned enterprise is a limited liability company under the Foreign Enterprise Law. It is a legal person that may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOFCOM (or its delegated authorities) in accordance with relevant regulations.

(c) *Profit distribution*

The Foreign Enterprise Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10.0 per cent of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50.0 per cent of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

7. **Environmental Protection Regulations**

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on 26th December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have cause severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate any losses or damages suffered as a result of such environmental pollution.

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

You are invited to apply for 50,000,000 Invitation Shares subject to the following terms and conditions:-

1. **YOUR APPLICATION MUST BE MADE IN LOTS OF 1,000 INVITATION SHARES AND INTEGRAL MULTIPLES THEREOF. YOUR APPLICATION FOR ANY OTHER NUMBER OF INVITATION SHARES WILL BE REJECTED.**
2. Your application for Offer Shares may be made by way of Offer Shares Application Forms or by way of Electronic Applications through ATMs belonging to the Participating Banks (“ATM Electronic Applications”) or through Internet Banking (“IB”) websites of the relevant Participating Banks (“Internet Electronic Applications”, which together with ATM Electronic Applications, shall be referred to as “Electronic Applications”). Your application for the Placement Shares (other than Reserved Shares) may only be made by way of printed Placement Shares Application Forms. Your application for Reserved Shares may only be made by way of printed Reserved Shares Application Forms. **YOU MAY NOT USE CPF FUNDS TO APPLY FOR THE SHARES.**
3. **You are allowed to submit only one application in your own name for the Offer Shares or the Placement Shares (other than Reserved Shares). If you submit an application for Offer Shares by way of an Application Form, you MAY NOT submit another application for Offer Shares by way of an Electronic Application and *vice versa*. Such separate applications shall be deemed to be multiple applications and may be rejected at the discretion of our Company, except in the case of applications by approved nominees companies, where each application is made on behalf of a different beneficiary.**

If you submit an application for Offer Shares by way of an ATM Electronic Application, you MAY NOT submit another application for Offer Shares by way of an Internet Electronic Application and *vice versa*. Such separate applications shall be deemed to be multiple applications and may be rejected at the discretion of our Company.

If you, other than an approved nominee company, have submitted an application for Offer Shares in your own name, you should not submit any other application for Offer Shares, whether by way of an Application Form or by way of an Electronic Application, for any other person. Such separate applications shall be deemed to be multiple applications and may be rejected at the discretion of our Company.

If you have made an application for Placement Shares (other than Reserved Shares), you should not make any application for Offer Shares either by way of an Application Form or by way of an Electronic Application and *vice versa*. Such separate applications shall be deemed to be multiple applications and may be rejected at the discretion of our Company.

Conversely, if you have made an application for Offer Shares either by way of an Electronic Application or by way of an Application Form, you may not make any application for Placement Shares (other than Reserved Shares). Such separate applications shall be deemed to be multiple applications and may be rejected at the discretion of our Company.

If you have made an application for Reserved Shares, you may submit one separate application for the Offer Shares in your own name by way of an Application Form or by way of an Electronic Application, or submit one separate application for Placement Shares (other than Reserved Shares) by way of an Application Form, provided that you adhere to the terms and conditions of this Prospectus. Such separate applications shall NOT be treated as multiple applications.

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Joint applications shall be rejected. Multiple applications for Invitation Shares shall be liable to be rejected at the discretion of our Company. If you submit or procure submissions of multiple share applications for Offer Shares, Placement Shares or both Offer Shares and Placement Shares, you may be deemed to have committed an offence under the Penal Code, Chapter 224 of Singapore and the Securities and Futures Act, and your applications may be referred to the relevant authorities for investigation. Multiple applications or those appearing to be or suspected of being multiple applications may be rejected at the discretion of our Company.

4. We will not accept applications from any person under the age of 21 years, undischarged bankrupts, sole-proprietorships, partnerships, chops or non-corporate bodies, joint Securities Account holders of CDP and from applicants whose addresses (furnished in their Application Forms or, in the case of Electronic Applications, contained in the records of the relevant Participating Banks) bear post office box numbers.
5. We will not recognise the existence of a trust. An application by a trustee or trustees must therefore be made in his/her/their own name(s) and without qualification or, where the application is made by way of an Application Form by a nominee, in the name(s) of an approved nominee company or companies after complying with paragraph 6 below.
6. **WE WILL ONLY ACCEPT APPLICATIONS FROM APPROVED NOMINEE COMPANIES.** Approved nominee companies are defined as banks, merchant banks, finance companies, insurance companies, licensed securities dealers in Singapore and nominee companies controlled by them. Applications made by nominees other than approved nominee companies shall be rejected.
7. **IF YOU ARE NOT AN APPROVED NOMINEE COMPANY, YOU MUST MAINTAIN A SECURITIES ACCOUNT WITH CDP IN YOUR OWN NAME AT THE TIME OF YOUR APPLICATION.** If you do not have an existing Securities Account with CDP in your own name at the time of your application, your application will be rejected (if you apply by way of an Application Form), or you will not be able to complete your Electronic Application (if you apply by way of an Electronic Application). If you have an existing Securities Account with CDP but fail to provide your Securities Account number or provide an incorrect Securities Account number in Section B of the Application Form or in your Electronic Application, as the case may be, your application is liable to be rejected. Subject to paragraph 8 below, your application shall be rejected if your particulars such as name, NRIC/passport number, nationality and permanent residence status provided in your Application Form or in the records of the relevant Participating Bank at the time of your Electronic Application, as the case may be, differ from those particulars in your Securities Account as maintained with CDP. If you possess more than one individual direct Securities Account with CDP, your application shall be rejected.
8. **If your address as stated in the Application Form or, in the case of an Electronic Application, contained in the records of the relevant Participating Bank, as the case may be, is different from the address registered with CDP, you must inform CDP of your updated address promptly, failing which the notification letter on successful allotment and other correspondence from CDP will be sent to your address last registered with CDP.**
9. **Our Company reserves the right to reject any application which does not conform strictly to the instructions set out in the Application Form and in this Prospectus or which does not comply with the instructions for Electronic Applications or with the terms and conditions of this Prospectus or, in the case of an application by way of an Application Form, which is illegible, incomplete, incorrectly completed or which is accompanied by an improperly drawn remittance or improper form of remittance. Our Company further reserves the right to treat as valid any applications not completed or submitted or effected in all respects in**

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

accordance with the instructions set out in the Application Forms or the instructions for Electronic Applications or the terms and conditions of this Prospectus and also to present for payment or other processes all remittances at any time after receipt and to have full access to all information relating to, or deriving from, such remittances or the processing thereof.

10. Our Company reserves the right to reject or to accept, in whole or in part, or to scale down or to ballot any application, without assigning any reason therefor, and no enquiry and/or correspondence on the decision of our Company will be entertained. This right applies to applications made by way of Application Forms and by way of Electronic Applications. In deciding the basis of allotment which shall be at our discretion, due consideration will be given to the desirability of allotting the Invitation Shares to a reasonable number of Applicants with a view to establishing an adequate market for the Shares.
11. Share certificates will be registered in the name of CDP and will be forwarded only to CDP. It is expected that CDP will send to you, at your own risk, within 15 Market Days after the close of the Application List, a statement of account stating that your Securities Account has been credited with the number of Invitation Shares allotted to you, if your application is successful. This will be the only acknowledgement of application monies received and is not an acknowledgement by our Company. You irrevocably authorise CDP to complete and sign on your behalf, as transferee or renounee, any instrument of transfer and/or other documents required for the issue or transfer of the Invitation Shares allotted to you. This authorisation applies to applications made by way of Application Forms and by way of Electronic Applications.
12. In the event that our Company lodges a supplementary or replacement prospectus (“Relevant Document”) pursuant to the Securities and Futures Act or any applicable legislation in force from time to time prior to the close of the Invitation, and the Invitation Shares have not been issued, we will (as required by law) at our Company’s sole and absolute discretion either:-
 - (i) within 7 days of the lodgement of the Relevant Document give you a copy of the Relevant Document and provide you with an option to withdraw; or
 - (ii) deem your application as withdrawn and cancelled and refund your application monies (without interest or any share of revenue or other benefit arising therefrom) to you within 7 days from the lodgement of the Relevant Document.

Where you have notified us within 14 days from the date of lodgement of the Relevant Document of your wish to exercise your option under paragraph 12(i) above to withdraw your application, we shall pay to you all monies paid by you on account of your application for the Invitation Shares without interest or any share of revenue or other benefit arising therefrom and at your own risk, within seven days from the receipt of such notification.

In the event that at any time at the time of the lodgement of the Relevant Document, the Invitation Shares have already been issued but trading has not commenced, we will (as required by law) either:-

- (iii) within 7 days of the lodgement of the Relevant Document give you a copy of the Relevant Document and provide you with an option to return the New Shares; or
- (iv) deem the issue as void and refund your payment for the New Shares (without interest or any share of revenue or other benefit arising therefrom) within 7 days from the lodgement of the Relevant Document.

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Any applicant who wishes to exercise his option under paragraph 12(iii) above to return the Invitation Shares issued to him shall, within 14 days from the date of lodgement of the Relevant Document, notify us of this and return all documents, if any, purporting to be evidence of title of those Invitation Shares, whereupon we shall, within 7 days from the receipt of such notification and documents, pay to him all monies paid by him for the Invitation Shares without interest or any share of revenue or other benefit arising therefrom and at his own risk, and the Invitation Shares issued to him shall be void.

Additional terms and instructions applicable upon the lodgement of the supplementary or replacement prospectus, including instructions on how you can exercise the option to withdraw, may be found in such supplementary or replacement prospectus.

13. In the event of an under-subscription for Offer Shares as at the close of the Application List, that number of Offer Shares under-subscribed shall be made available to satisfy applications for Placement Shares to the extent that there is an over-subscription for Placement Shares as at the close of the Application List.

Any of the Reserved Shares not taken up will be made available first to satisfy applications for the Placement Shares to the extent that there is an over-subscription for the Placement Shares and then to satisfy applications for Offer Shares to the extent that there is an over-subscription for Offer Shares.

In the event of an under-subscription for Placement Shares (other than Reserved Shares) as at the close of the Application List, that number of Placement Shares (other than Reserved Shares) under-subscribed shall be made available to satisfy applications for Offer Shares to the extent that there is an over-subscription for Offer Shares as at the close of the Application List.

In the event of an over-subscription for Offer Shares as at the close of the Application List and Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for Offer Shares will be determined by ballot or otherwise as determined by our Company and approved by the SGX-ST, if required.

In all the above instances, the basis of allotment of the Invitation Shares as may be decided by our Directors in ensuring a reasonable spread of shareholders of our Company, shall be made public, as soon as practicable, via an announcement through the SGX-ST and by advertisement in a generally circulating daily press.

14. You irrevocably authorise CDP to disclose the outcome of your application, including the number of Invitation Shares allotted to you pursuant to your application, to us, the Manager, the Underwriter, the Placement Agent and any other parties so authorised by the forgoing persons.
15. Any reference to “you” or the “Applicant” in this section shall include an individual, a corporation, an approved nominee and trustee applying for the Offer Shares by way of an Application Form or by way of an Electronic Application, a person applying for the Placement Shares through the Placement Agents and a person applying for the Reserved Shares.

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

16. By completing and delivering an Application Form or by making and completing an Electronic Application by (in the case of an ATM Electronic Application) pressing the “Enter” or “OK” or “Confirm” or “Yes” or any other relevant key on the ATM (as the case may be) or by (in the case of an Internet Electronic Application) clicking “Submit” or “Continue” or “Yes” or “Confirm” or any other relevant button on the IB website screen (as the case may be) in accordance with the provisions of this Prospectus, you:-
- (a) irrevocably offer to subscribe for the number of Invitation Shares specified in your application (or such smaller number for which the application is accepted) at the Issue Price and agree that you will accept such Invitation Shares as may be allotted to you, in each case subject to the conditions set out in this Prospectus and the Memorandum and Articles of Association of our Company;
 - (b) agree that, in the event of any inconsistency between the terms and conditions for application set out in this Prospectus and those set out in the IB websites or ATMs of the Participating Banks, the terms and conditions set out in this Prospectus shall prevail;
 - (c) agree that the aggregate Issue Price for the Invitation Shares applied for is due and payable to the Company forthwith;
 - (d) warrant the truth and accuracy of the information provided in your application, and acknowledge and agree that such information, representations and declarations will be relied on by our Company in determining whether to accept your application and/or whether to allot any New Shares to you; and
 - (e) agree and warrant that, if the laws of any jurisdictions outside Singapore are applicable to your application, you have complied with all such laws and none of our Company, the Manager, the Underwriter, the Placement Agent, the Primary Sub-Underwriter and/or the Primary Sub-Placement Agent will infringe any such laws as a result of the acceptance of your application.
17. Our acceptance of applications will be conditional upon, *inter alia*, our Company being satisfied that:-
- (a) permission has been granted by the SGX-ST to deal in and for quotation of all our existing Shares and the Invitation Shares on the Official List of the SGX-ST;
 - (b) the Management and Underwriting Agreement and the Placement Agreement referred to on pages 135 and 136 of this Prospectus have become unconditional and have not been terminated; and
 - (c) the Authority has not served a stop order which directs that no or no further shares to which this Prospectus relates be allotted.
18. In the event that a stop order in respect of the Invitation Shares is served by the Authority or other competent authority, and
- (a) the Invitation Shares have not been issued, we will (as required by law) deem all applications withdrawn and cancelled and our Company shall refund the application monies (without interest or any share of revenue or other benefit arising therefrom) to you within 14 days of the date of the stop order; or

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- (b) If the Invitation Shares have already been issued but trading has not commenced, the issue will (as required by law) be deemed void and:
- (i) if documents purporting to evidence title had been issued to you, our Company shall, inform you to return such documents to our Company within 14 days from that date; and
 - (ii) we will refund the application monies (without interest or any share of revenue or other benefit arising therefrom) to you within 7 days from the date of receipt of those documents (if applicable) or the date of the stop order, whichever is later.

This shall not apply where only an interim stop order has been served.

- 19. In the event that an interim stop order in respect of the Invitation Shares is served by the Authority or other competent authority, no Invitation Shares shall be issued to you until the Authority revokes the interim stop order.
- 20. The Authority is not able to serve a stop order in respect of the Invitation Shares if the Invitation Shares have been issued and listed on a securities exchange and trading in them has commenced.
- 21. In the event of any changes in the closure of the Application List or the time period during which the Invitation is open, we will publicly announce the same through a MASNET announcement to be posted on the Internet at the SGX-ST website <http://www.sgx.com> and through a paid advertisement in a local newspaper.
- 22. We will not hold any application in reserve.
- 23. We will not allot shares on the basis of this Prospectus later than six months after the date of registration of this Prospectus.
- 24. Additional terms and conditions for applications by way of Application Forms are set out on pages VII-7 to VII-10 of this Prospectus.
- 25. Additional terms and conditions for applications by way of Electronic Applications are set out on pages VII-10 to VII-19 of this Prospectus.

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

ADDITIONAL TERMS AND CONDITIONS FOR APPLICATIONS USING APPLICATION FORMS

Applications by way of an Application Form shall be made on, and subject to, the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing below as well as those set out under the section on “TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE” on pages VII-1 to VII-6 of this Prospectus, as well as the Memorandum and Articles of Association of our Company.

1. Your application must be made using the **WHITE** Application Forms and **BEIGE** official envelopes “A” and “B” for Offer Shares, the **BLUE** Application Forms for Placement Shares (other than Reserved Shares) or the **PINK** Application Forms for Reserved Shares accompanying and forming part of this Prospectus. We draw your attention to the detailed instructions contained in the respective Application Forms and this Prospectus for the completion of the Application Forms which must be carefully followed. **Our Company reserves the right to reject applications which do not conform strictly to the instructions set out in the Application Forms and this Prospectus or to the terms and conditions of this Prospectus or which are illegible, incomplete, incorrectly completed or which are accompanied by improperly drawn remittances or improper form of remittance.**
2. Your Application Forms must be completed in English. Please type or write clearly in ink using **BLOCK LETTERS**.
3. All spaces in the Application Forms except those under the heading “FOR OFFICIAL USE ONLY” must be completed and the words “NOT APPLICABLE” or “N.A.” should be written in any space that is not applicable.
4. Individuals, corporations, approved nominee companies and trustees must give their names in full. If you are an individual, you must make your application using your full names as it appears in your identity card (if you have such an identification document) or in your passport and, in the case of a corporation, in your full name as registered with a competent authority. If you are not an individual, you must complete the Application Form under the hand of an official who must state the name and capacity in which he signs the Application Form. If you are a corporation completing the Application Form, you are required to affix your Common Seal (if any) in accordance with your Memorandum and Articles of Association or equivalent constitutive documents of the corporation. If you are a corporate applicant and your application is successful, a copy of your Memorandum and Articles of Association or equivalent constitutive documents must be lodged with our Company’s Share Registrar and Share Transfer Office. Our Company reserves the right to require you to produce documentary proof of identification for verification purposes.
5.
 - (a) You must complete Sections A and B and sign page 1 of the Application Form.
 - (b) You are required to delete either paragraph 7(a) or 7(b) on page 1 of the Application Form. Where paragraph 7(a) is deleted, you must also complete Section C of the Application Form with particulars of the beneficial owner(s).
 - (c) If you fail to make the required declaration in paragraph 7(a) or 7(b), as the case may be, on page 1 of the Application Form, your application is liable to be rejected.
6. You (whether you are an individual or corporate applicant, whether incorporated or unincorporated and wherever incorporated or constituted) will be required to declare whether you are a citizen or permanent resident of Singapore or a corporation in which citizens or permanent residents of Singapore or any body corporate constituted under any statute of Singapore having an interest in the aggregate of more than 50.0 per cent of the issued share capital of or interests in such corporations. If you are an approved nominee company, you are required to declare whether the beneficial owner of the Shares is a citizen or permanent resident of Singapore or a corporation, whether incorporated or unincorporated and wherever incorporated or constituted, in which

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

citizens or permanent residents of Singapore or any body corporate whether incorporated or unincorporated and wherever incorporated or constituted under any statute of Singapore have an interest in the aggregate of more than 50.0 per cent of the issued share capital of or interests in such corporation.

7. Your application must be accompanied by a remittance in Singapore currency for the full amount payable, in respect of the number of Invitation Shares applied for, in the form of a BANKER'S DRAFT or CASHIER'S ORDER drawn on a bank in Singapore, made out in favour of **"PHARMESIS SHARE ISSUE ACCOUNT"** crossed **"A/C PAYEE ONLY"**, and with your name and address written clearly on the reverse side. Applications not accompanied by any payment or accompanied by ANY OTHER FORM OF PAYMENT WILL NOT BE ACCEPTED. We will reject remittances bearing "NOT TRANSFERABLE" or "NON TRANSFERABLE" crossings. No acknowledgement or receipt will be issued by our Company or the Manager for applications and application monies received.
8. Monies paid in respect of unsuccessful applications are expected to be returned (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post within 24 hours of balloting of applications at your own risk. Where your application is rejected or accepted in part only, the full amount or the balance of the application monies, as the case may be, will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post at your own risk within 14 days after the close of the Application List. In the event that the Invitation is cancelled by us following the termination of the Management and Underwriting Agreement and/or the Placement Agreement, the application monies received will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post or telegraphic transfer at your own risk within 5 Market Days of the termination of the Invitation. In the event that the Invitation is cancelled by us following the issuance of a stop order by the Authority, the application monies received will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post or telegraphic transfer at your own risk within 14 days from the date of the stop order.
9. Capitalised terms used in the Application Forms and defined in this Prospectus shall bear the meanings assigned to them in this Prospectus.
10. By completing and delivering the Application Form, you agree that:-
 - (a) in consideration of our Company having distributed the Application Form to you and agreeing to close the Application List at 12.00 noon on 4 October 2004 or such other time or date as our Company may, in consultation with the Manager, decide and by completing and delivering the Application Form:-
 - (i) your application is irrevocable; and
 - (ii) your remittance will be honoured on first presentation and that any monies returnable may be held pending clearance of your payment without interest or any share of revenue or other benefit arising therefrom;
 - (b) all applications, acceptances and contracts resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and that you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
 - (c) in respect of the Invitation Shares for which your application has been received and not rejected, acceptance of your application shall be constituted by written notification and not otherwise, notwithstanding any remittance being presented for payment by or on behalf of our Company;

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application;
- (e) in making your application, reliance is placed solely on the information contained in this Prospectus and that none of our Company, the Manager, the Underwriter, the Placement agents, the Primary Sub-Underwriters, the Primary Sub-Placement Agents or any other person involved in the Invitation shall have any liability for any information not so contained;
- (f) you consent to the disclosure of your name, NRIC/passport number, address, nationality, permanent resident status, CDP Securities Account number, and share application amount to our Share Registrar, CDP, SCCS, SGX-ST, our Company, the Manager, the Underwriter, the Placement Agent or other authorised operators; and
- (g) you irrevocably agree and undertake to subscribe for the number of New Shares applied for as stated in the Application Form or any smaller number of such New Shares that may be allocated to you in respect of your application. In the event that our Company decides to allocate a smaller number of New Shares or not to allocate any New Shares to you, you agree to accept such decision as final.

Applications for Offer Shares

1. Your application for Offer Shares **MUST** be made using the **WHITE** Offer Shares Application Forms and **BEIGE** official envelopes "A" and "B". **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. You must:-
 - (a) enclose the **WHITE** Offer Shares Application Form, duly completed and signed, together with the correct remittance in accordance with the terms and conditions of this Prospectus in the **BEIGE** envelope "A" provided;
 - (b) in the appropriate spaces on **BEIGE** envelope "A":-
 - (i) write your name and address;
 - (ii) state the number of Offer Shares applied for; and
 - (iii) affix adequate Singapore postage;
 - (c) SEAL **BEIGE** ENVELOPE "A";
 - (d) write, in the special box provided on the larger **BEIGE** envelope "B" addressed to **UOB ASIA LIMITED, 1 RAFFLES PLACE, #13-01, OUB CENTRE, SINGAPORE 048616**, the number of Offer Shares you have applied for; and
 - (e) insert **BEIGE** envelope "A" into **BEIGE** envelope "B", seal **BEIGE** envelope "B" and thereafter **DESPATCH BY ORDINARY POST OR DELIVER BY HAND at your own risk to UOB ASIA LIMITED, 1 RAFFLES PLACE, #13-01, OUB CENTRE, SINGAPORE 048616**, to arrive by **12.00 noon on 4 October 2004 or such other time as our Company may, in consultation with UOB Asia, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.
3. Applications that are illegible, incomplete or incorrectly completed or accompanied by improperly drawn remittances or improper form of remittance or which are not honoured upon their first presentation are liable to be rejected.
4. **ONLY ONE APPLICATION** should be enclosed in each envelope. No acknowledgement of receipt will be issued for any application or remittance received.

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Applications for Placement Shares (other than Reserved Shares)

1. Your application for Placement Shares (other than Reserved Shares) **MUST** be made using the **BLUE** Placement Shares Application Forms. **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. The completed **BLUE** Placement Shares Application Form and the correct remittance in full in respect of the number of Placement Shares applied for (in accordance with the terms and conditions of this Prospectus) with your name and address written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by you. The sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND at your own risk to UOB ASIA LIMITED, 1 RAFFLES PLACE, #13-01, OUB CENTRE, SINGAPORE 048616**, to arrive by **12.00 noon on 4 October 2004 or such other time as our Company may, in consultation with UOB Asia, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.
3. Applications that are illegible, incomplete or incorrectly completed or accompanied by improperly drawn remittances or improper form of remittance or which are not honoured upon their first presentation are liable to be rejected.

Applications for Reserved Shares

1. Your application for Reserved Shares **MUST** be made using the **PINK** Reserved Shares Application Forms. **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. The completed **PINK** Reserved Shares Application Form and the correct remittance (in accordance with the terms and conditions of this Prospectus) with your name and address written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by you. The sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND at your own risk to our Company's registered office at 21 Science Park Road, #03-13, The Aquarius, Singapore Science Park II, Singapore 117628** to arrive by **12.00 noon on 4 October 2004 or such other time as our Company may, in consultation with UOB Asia, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.
3. Applications that are illegible, incomplete or incorrectly completed or accompanied by improperly drawn remittances or improper form of remittance or which are not honoured upon their first presentation are liable to be rejected.

ADDITIONAL TERMS AND CONDITIONS FOR ELECTRONIC APPLICATIONS

The procedures for Electronic Applications are set out on the ATM screens (in the case of ATM Electronic Applications) and the IB website screens (in the case of Internet Electronic Applications) of the relevant Participating Banks. Currently, UOB Group and DBS, are the only Participating Banks through which Internet Electronic Applications can be made. For illustration purposes, the procedures for Electronic Applications through ATMs and the IB website of UOB are set out respectively in the "Steps for an Electronic Application through ATMs of UOB" and the "Steps for an Internet Electronic Application through the IB website of UOB" (collectively, the "Steps") appearing on pages VII-15 to VII-19 of this Prospectus. The Steps set out the actions that you must take at an ATM or the IB website of UOB to complete an Electronic Application. Please read carefully the terms of this Prospectus, the Steps and the terms and conditions for Electronic Applications set out below before making an Electronic Application. Any reference to "you" in the additional terms and conditions for Electronic Applications and the Steps shall refer to you making an application for Offer Shares through an ATM or the IB website of a relevant Participating Bank.

You must have an existing bank account with and be an ATM cardholder of one of the Participating Banks before you can make an Electronic Application at the ATMs. An ATM card issued by one Participating Bank cannot be used to apply for Offer Shares at an ATM belonging to other Participating Banks. For an Internet Electronic Application, you must have an existing bank account with and an IB

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

User Identification (“User ID”) and a Personal Identification Number/Password (“PIN”) given by the relevant Participating Bank. The Steps set out the actions that you must take at ATMs or the IB website of UOB to complete an Electronic Application. The actions that you must take at ATMs or the IB websites of other Participating Banks are set out on the ATM screens or the IB website screens of the relevant Participating Banks. Upon the completion of your ATM Electronic Application transaction, you will receive an ATM transaction slip (“Transaction Record”), confirming the details of your Electronic Application. Upon completion of your Internet Electronic Application through the IB website of UOB Group, there will be an on-screen confirmation (“Confirmation Screen”) of the application which can be printed for your record. The Transaction Record or your printed record of the Confirmation Screen is for your retention and should not be submitted with any Application Form.

You must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. If you fail to use your own ATM card or if you do not key in your own Securities Account number, your application will be rejected. If you operate a joint bank account with any of the Participating Banks, you must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. Using your own Securities Account number with an ATM card which is not issued to you in your own name will render your ATM Electronic Application liable to be rejected.

You must ensure, when making an Internet Electronic Application, that your mailing address for the account selected for the application is in Singapore and the application is being made in Singapore and you will be asked to declare accordingly. Otherwise your application is liable to be rejected.

You shall make an Electronic Application in accordance with and subject to the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing below and those set out under the section on “TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE” on pages VII-1 to VII-6 of this Prospectus as well as the Memorandum and Articles of Association of our Company.

1. In connection with your Electronic Application for Offer Shares, you are required to confirm statements to the following effect in the course of activating your Electronic Application:-
 - (a) **that you have received a copy of this Prospectus (in the case of an ATM Electronic Application only) and have read, understood and agreed to all the terms and conditions of application for Offer Shares and this Prospectus prior to effecting the Electronic Application and agree to be bound by the same;**
 - (b) **that you consent to the disclosure of your name, NRIC/passport number, address, nationality, permanent residence status, share application amount, CPF Investment Account number (if applicable) and CDP Securities Account number and application details (the “Relevant Particulars”) maintained with the relevant Participating Bank to the CDP, CPF, SCCS, SGX-ST, Share Registrar, our Company and the Manager or other authorised operators (the “Relevant Parties”); and**
 - (c) **that this is your only application for Offer Shares and it is made in your own name and at your own risk.**

Your application will not be successfully completed and cannot be recorded as a completed transaction in the ATM or on the IB website unless you press the “Enter” or “Confirm” or “Yes” or “OK” or any other relevant key in the ATM or click “Confirm” or “OK” or “Submit” or “Continue” or “Yes” or any other relevant button on the IB website screen. By doing so, you shall be treated as signifying your confirmation of each of the above three statements. In respect of statement 1(b) above, such confirmation, shall signify and shall be treated as your written permission, given in accordance with the relevant laws of Singapore including Section 47(2) of the Banking Act (Chapter 19) of Singapore to the disclosure by the relevant Participating Bank of the Relevant Particulars to the Relevant Parties.

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

2. **BY MAKING AN ELECTRONIC APPLICATION, YOU CONFIRM THAT YOU ARE NOT APPLYING FOR OFFER SHARES AS A NOMINEE OF ANY OTHER PERSON AND THAT ANY ELECTRONIC APPLICATION THAT YOU MAKE IS THE ONLY APPLICATION MADE BY YOU AS THE BENEFICIAL OWNER.**

YOU SHOULD MAKE ONLY ONE ELECTRONIC APPLICATION FOR OFFER SHARES AND SHOULD NOT MAKE ANY OTHER APPLICATION FOR OFFER OR PLACEMENT SHARES (OTHER THAN RESERVED SHARES), WHETHER AT THE ATMS OR THE IB WEBSITES (IF ANY) OF ANY PARTICIPATING BANK OR ON THE APPLICATION FORMS. IF YOU HAVE MADE AN APPLICATION FOR OFFER SHARES OR PLACEMENT SHARES (OTHER THAN RESERVED SHARES) ON AN APPLICATION FORM, YOU SHALL NOT MAKE AN ELECTRONIC APPLICATION FOR OFFER SHARES.

3. You must have sufficient funds in your bank account with your Participating Bank at the time you make your Electronic Application, failing which your Electronic Application will not be completed or accepted. **Any Electronic Application which does not conform strictly to the instructions set out in this Prospectus or on the screens of the ATM or the IB website of the relevant Participating Bank through which your Electronic Application is being made shall be rejected.**

You may make an ATM Electronic Application at the ATM of any Participating Bank or an Internet Electronic Application at the IB website of the relevant Participating Bank for the Offer Shares using only cash by authorising such Participating Bank to deduct the full amount payable from your account with such Participating Bank.

4. You irrevocably agree and undertake to subscribe for and to accept the number of Offer Shares applied for as stated on the Transaction Record or the Confirmation Screen or any lesser number of Offer Shares that may be allotted to you in respect of your Electronic Application. In the event that our Company decides to allot any lesser number of such Offer Shares or not to allot any Offer Shares to you, you agree to accept such decision as final. If your Electronic Application is successful, your confirmation (by your action of pressing the “Enter” or “Confirm” or “Yes” or “OK” or any other relevant key on the ATM or clicking “Confirm” or “OK” or “Submit” or “Continue” or “Yes” or any other relevant button on the IB website screen) of the number of Offer Shares applied for shall signify and shall be treated as your acceptance of the number of Offer Shares that may be allotted to you and your agreement to be bound by the Memorandum and Articles of Association of our Company.
5. **We will not keep any applications in reserve.** Where your Electronic Application is unsuccessful, the full amount of the application monies will be refunded in Singapore currency (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your bank account with your Participating Bank within 24 hours of balloting of the applications provided that the remittance in respect of such application which has been presented for payment or other processes have been honoured and the application monies have been received in the designated Share issue account. **Trading on a “WHEN ISSUED” basis, if applicable, is expected to commence after such refund has been made.**

Where your Electronic Application is rejected or accepted in part only, the full amount or the balance of the application monies, as the case may be, will be refunded in Singapore currency (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank within 14 days after the close of the Application List provided that the remittance in respect of such application which has been presented for payment or other processes have been honoured and the application monies have been received in the designated Share issue account.

APPENDIX VII
TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Responsibility for timely refund of application monies arising from unsuccessful or partially successful Electronic Applications lies solely with the respective Participating Banks. Therefore, you are strongly advised to consult your Participating Bank as to the status of your Electronic Application and/or the refund of any monies to you from unsuccessful or partially successful Electronic Application, to determine the exact number of Offer Shares allotted to you before trading the Offer Shares on SGX-ST. You may also call CDP Phone at 6535 7511 to check the provisional results of your application by using your T-pin (issued by CDP upon your application for the service) and keying in the stock code (that will be made available together with the results of the allotment via an announcement through the SGX-ST and by advertisement in a generally circulating daily press). To sign for the service, you may contact CDP customer service officers. Neither the SGX-ST, the CDP, the SCCS, the Participating Banks, our Company nor the Manager assume any responsibility for any loss that may be incurred as a result of you having to cover any net sell positions or from buy-in procedures activated by the SGX-ST.

6. If your Electronic Application is unsuccessful, no notification will be sent by the Participating Banks.

If you make Electronic Applications through the ATMs of the following Participating Banks, you may check the results of your Electronic Applications as follows:-

Bank	Telephone	Available at ATM/Internet	Operating Hours	Service expected from
UOB Group	1800 222 2121	ATM (Other Transactions – “IPO Enquiry”) ⁽¹⁾ http://www.uobgroup.com ⁽¹⁾⁽²⁾	ATM / Phone Banking – 24 hours a day Internet Banking 24 hours a day	Evening of the balloting day Evening of the balloting day
DBS	1 800 339 6666 (for POSB Account holders) 1800 111 1111 (for DBS Account holders)	Internet Banking http://www.dbs.com ⁽²⁾	24 hours a day	Evening on the balloting day
OCBC	1 800 363 3333	ATM	ATM / Phone Banking – 24 hours a day	Evening of the balloting day

(1) If you make your Electronic Application through the ATMs or IB website of UOB, you may check the results of your application through UOB Personal Internet Banking, UOB Group ATMs or UOB PhoneBanking Services.

(2) If you make your Internet Electronic Application through the IB website of UOB Group or DBS, you may check the result of your application through the same channels listed in the table above in relation to ATM Electronic Application made at ATMs of UOB Group or DBS.

7. You irrevocably agree and acknowledge that your Electronic Application is subject to risks of electrical, electronic, technical and computer-related faults and breakdowns, fires, acts of God and other events beyond the control of the Participating Banks, our Company, and the Manager and if, in any such event, our Company, the Manager and/or the relevant Participating Bank does not receive your Electronic Application, or data relating to your Electronic Application or the tape or any other devices containing such data is lost, corrupted or not otherwise accessible, whether wholly or partially for whatever reason, you shall be deemed not to have made an Electronic Application and you shall have no claim whatsoever against our Company, the Manager and/or the relevant Participating Bank for Offer Shares applied for or for any compensation, loss or damage.

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

8. Electronic Applications shall close at **12.00 noon on 4 October 2004** or such other time as our Company may, in consultation with UOB Asia, decide. Subject to the paragraph above, an Internet Electronic Application is deemed to be received only upon its completion, that is, when there is an on-screen confirmation of the application.
9. You are deemed to have irrevocably requested and authorised our Company to:-
 - (a) register the Offer Shares allotted to you in the name of CDP for deposit into your Securities Account;
 - (b) send the relevant Share certificate(s) to CDP;
 - (c) return or refund (without interest or any share of revenue earned or other benefit arising therefrom) the application monies, should your Electronic Application be unsuccessful, by automatically crediting your bank account with your Participating Bank with the relevant amount within 24 hours of the balloting of applications; and
 - (d) return or refund (without interest or any share of revenue or other benefit arising therefrom) the balance of the application monies, should your Electronic Application be accepted in part only, by automatically crediting your bank account with your Participating Bank with the relevant amount within 14 days after the close of the Application List.
10. We do not recognise the existence of a trust. Any Electronic Application by a trustee must be made in your own name and without qualification. Our Company will reject any application by any person acting as nominee except those made by approved nominee companies only.
11. All your particulars in the records of your relevant Participating Bank at the time you make your Electronic Application shall be deemed to be true and correct and your relevant Participating Bank and the Relevant Parties shall be entitled to rely on the accuracy thereof. If there has been any change in your particulars after the time of the making of your Electronic Application, you shall promptly notify your relevant Participating Bank.
12. **You should ensure that your personal particulars as recorded by both CDP and the relevant Participating Bank are correct and identical, otherwise, your Electronic Application is liable to be rejected.** You should promptly inform CDP of any change in address, failing which the notification letter on successful allotment and other correspondences from the CDP will be sent to your address last registered with CDP.
13. By making and completing an Electronic Application, you are deemed to have agreed that:-
 - (a) in consideration of our Company making available the Electronic Application facility, through the Participating Banks acting as the agents of our Company, at the ATMs and IB websites (if any):-
 - (i) your Electronic Application is irrevocable; and
 - (ii) your Electronic Application, our acceptance and the contract resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
 - (b) neither our Company, the Manager nor the Participating Banks shall be liable for any delays, failures or inaccuracies in the recording, storage or in the transmission or delivery of data relating to your Electronic Application to our Company or CDP due to breakdowns or failure of transmission, delivery or communication facilities or any risks referred to in paragraph 7 above or to any cause beyond our respective controls;

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- (c) in respect of Offer Shares for which your Electronic Application has been successfully completed and not rejected, acceptance of your Electronic Application shall be constituted by written notification by or on behalf of our Company and not otherwise, notwithstanding any payment received by or on behalf of our Company;
- (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application; and
- (e) in making your application, reliance is placed solely on the information contained in this Prospectus and that none of our Company, the Manager, the Underwriter, the Placement Agent or any other person involved in the Invitation shall have any liability for any information not so contained.

Steps for Electronic Applications through ATMs and the IB website of UOB

The instructions for Electronic Applications will appear on the ATM screens and the IB website screens of the respective Participating Banks. For illustrative purposes, the steps for making an Electronic Application through the ATMs or IB website of UOB are shown below. Instructions for Electronic Applications appearing on the ATM screens and the IB website screens (if any) of the relevant Participating Banks (other than UOB Group) may differ from that represented below.

Owing to space constraints on UOB's ATM screens, the following terms will appear in abbreviated form:-

"&"	:	and
"A/C" and "A/CS"	:	ACCOUNT AND ACCOUNTS, respectively
"ADDR"	:	ADDRESS
"AMT"	:	AMOUNT
"APPLN"	:	APPLICATION
"CDP"	:	THE CENTRAL DEPOSITORY (PTE) LIMITED
"CPF"	:	CENTRAL PROVIDENT FUND BOARD
"CPFINVT A/C"	:	CPF INVESTMENT ACCOUNT
"ESA"	:	ELECTRONIC SHARE APPLICATION
"IC/PSSPT"	:	NRIC or PASSPORT NUMBER
"NO" or "NO."	:	NUMBER
"PERSONAL NO"	:	PERSONAL IDENTIFICATION NUMBER
"REGISTRARS"	:	SHARE REGISTRARS
"SCCS"	:	SECURITIES CLEARING & COMPUTER SERVICES (PTE) LTD
"YR"	:	YOUR

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Steps for an ATM Electronic Application through ATMs of UOB

- Step 1 : Insert your personal Unicard, Uniplus card or UOB VISA/MASTER card and key in your personal identification number.
- 2 : Select "CASHCARD/OTHER TRANSACTIONS".
- 3 : Select "SECURITIES APPLICATION".
- 4 : Select "ESA FIXED".
- 5 : Select share counter which you wish to apply for.
- 6 : Read and understand the following statements which will appear on the screen:-
- THIS OFFER OF SECURITIES (OR UNITS OF SECURITIES) WILL BE MADE IN, OR ACCOMPANIED BY, A COPY OF THE PROSPECTUS/DOCUMENT OR SUPPLEMENTARY DOCUMENTS. ANYONE WISHING TO ACQUIRE THESE SECURITIES (OR UNITS OF SECURITIES) WILL NEED TO MAKE AN APPLICATION IN THE MANNER SET OUT IN THE PROSPECTUS/DOCUMENT OR SUPPLEMENTARY DOCUMENTS
(Customer to press "ENTER" to continue)
 - PLEASE CALL 1800-22-22-121 IF YOU WOULD LIKE TO FIND OUT WHERE YOU CAN OBTAIN A COPY OF THE PROSPECTUS/DOCUMENT OR SUPPLEMENTARY DOCUMENT
 - WHERE APPLICABLE, A COPY OF THE PROSPECTUS/DOCUMENT OR SUPPLEMENTARY DOCUMENT HAS BEEN LODGED WITH AND REGISTERED BY THE MONETARY AUTHORITY OF SINGAPORE WHO ASSUMES NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS/DOCUMENT OR SUPPLEMENTARY DOCUMENT
(Customer to press "ENTER" key to confirm that you have read and understood the above statements)
- 7 : Read and understand the following terms which will appear on the screen:-
- YOU HAVE READ, UNDERSTOOD & AGREED TO ALL TERMS OF THE PROSPECTUS/DOCUMENT/SUPPLEMENTARY DOCUMENT & THIS ELECTRONIC APPLICATION
 - YOU CONSENT TO DISCLOSE YOUR NAME, IC/PSSPT, NATIONALITY, ADDR, APPLN AMT, CPFINVT A/C NO & CDP A/C NO FROM YOUR A/CS TO CDP, CPF, SCCS, REGISTRARS, SGX-ST & ISSUER/VENDOR(S)
 - THIS IS YR ONLY FIXED PRICE APPLN & IS IN YR NAME & AT YR RISK
(Customer to press "ENTER" to continue)
- 8 : Screen will display:-
- NRIC/Passport No. XXXXXXXXXXXXX**
- IF YOUR NRIC NO / PASSPORT NO IS INCORRECT, PLEASE CANCEL THE TRANSACTION AND NOTIFY THE BRANCH PERSONALLY.**
(Customer to press "CANCEL" or "CONFIRM")

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- 9 : Select mode of payment i.e. "CASH ONLY". You will be prompted to select Cash Account type to debit (i.e., "CURRENT ACCOUNT / I- ACCOUNT" , "CAMPUS" OR "SAVINGS ACCOUNT / TX ACCOUNT"). Should you have a few accounts linked to your ATM card, a list of linked account numbers will be displayed for you to select
- 10 : After you have selected the account, your CDP Securities Account number will be displayed for you to confirm or change (This screen with your CDP Securities Account number will be shown if your CDP Securities Account number is already stored in the ATM system of UOB). If this is the first time you are using UOB's ATM to apply for Shares, your CDP Securities Account number will not be stored in the ATM system of UOB, and the following screen will be displayed for your input of your CDP Securities Account number
- 11 : Read and understand the following terms which will appear on the screen:-
1. **PLEASE DO NOT APPLY FOR YOUR JOINT A/C HOLDER OR OTHER THIRD PARTIES**
 2. **PLEASE USE YOUR OWN ATM CARD**
 3. **DO NOT KEY IN THE CDP A/C NO. OF YOUR JOINT A/C HOLDER OR OTHER THIRD PARTIES**
 4. **KEY IN YOUR CDP A/C NO. (12 DIGITS) 1681-XXXX-XXXX**
 5. **PRESS ENTER KEY**
- 12 : Key in your CDP Securities Account number (12 digits) and press the "ENTER" key
- 13 : Select your nationality status
- 14 : Key in the number of Shares you wish to apply for and press the "ENTER" key
- 15 : Check the details of your Electronic Application on the screen and press "ENTER" key to confirm your Electronic Application
- 16 : Select "NO" if you do not wish to make any further transactions and remove the Transaction Record. You should keep the Transaction Record for your own reference only

Owing to space constraints on UOB's IB website screens, the following terms will appear in abbreviated form:-

"CDP"	:	The Central Depository (Pte) Limited
"CPF"	:	The Central Provident Fund
"NRIC" or "I/C"	:	National Registration Identity Card
"PR"	:	Permanent Resident
"SGD" or "\$"	:	Singapore Dollars
"SCCS"	:	Securities Clearing & Computer Services (Pte) Ltd
"SGX"	:	Singapore Exchange Securities Trading Limited

APPENDIX VII

TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

Steps for an Internet Electronic Application through the IB website of UOB

- Step 1 : Connect to UOB website at <http://www.uobgroup.com>
- 2 : Locate the Login icon on the left hand side next to “Internet Banking”
- 3 : Click on Login and at drop list select “UOB Personal Internet Banking”
- 4 : Enter your Username and Password and click “Submit”
- 5 : Select “Investment Services” (“IPO” should be the default transaction that appears, select “Application”)
- 6 : Read the IMPORTANT notice and complete the declarations found on the bottom of the page by answering Yes/No to the questions
- 7 : Click “Continue”
- 8 : Select your country of residence (you must be residing in Singapore to apply), and click “Continue”
- 9 : Select the IPO counter from the drop list (if there are concurrent IPOs) and click “Continue”
- 10 : Check the share counter, select the mode of payment and account number to debit and click on “Continue”
- 11 : Read the important instructions and click on “Continue” to confirm that:-
1. **You have read, understood and agreed to all terms and conditions of the application and Prospectus/Document or Supplementary Document.**
 2. **You consent to disclose your name, I/C or passport number, address, nationality, CDP Securities Account number, CPF Investment Account number (if applicable) and application details to the share registrars, SGX, SCCS, CDP, CPF Board and issuer/vendor(s).**
 3. **This application is made in your own name for your own account and at your own risk.**
 4. **For FIXED/MAX price shares application, this is your only application. For TENDER price shares application, this is your only application at the selected tender price.**
 5. **For FOREIGN CURRENCY securities, subject to the terms of the issue, please note the following: The application monies will be debited from your bank account in \$, based on the Bank’s prevailing board rates at the time of application. The different prevailing board rates at the time of the application and at the time of refund of application monies may result in either a foreign exchange profit or loss, or application monies may be debited and refunds credited in \$ at the same exchange rate.**
 6. **For 1st-Come-1st Serve securities, the number of securities applied for may be reduced, subject to the availability at the point of application.**

APPENDIX VII
TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

- 12 : Check your personal details, details of the share counter you wish to apply for and account to debit
- Select (a) Nationality;
Enter (b) your CDP securities account number; and
 (c) the number of shares applied for
Click "Submit"
- 13 : Check the details of your application, your NRIC /Passport number, CDP securities account number and the number of shares applied for, share counter, payment mode and account to debit
- 14 : Click "Confirm", "Edit" or "Cancel"
- 15 : Print the Confirmation Screen (optional) for your own reference