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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Yanion International Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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YANION INTERNATIONAL HOLDINGS LIMITED

(益安國際集團有限公司)*

(Incorporated in Bermuda with limited liability)

DISCLOSEABLE TRANSACTION

INVESTMENT IN A PHARMACEUTICAL ENTERPRISE IN THE PRC

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DEFINITIONS

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

“Acquisition”	the acquisition by the Group from the Vendor of 87% of the issued share capital of Korning Investments
“Agreement”	the conditional sale and purchase agreement entered into between the Vendor, the Purchaser and the Company on 2 January 2002 in connection with the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Yanion International Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s), including independent non-executive directors, of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Korning Investments”	Korning Investments Limited, a company incorporated in the British Virgin Islands on 19 January 2001
“Latest Practicable Date”	30 April 2002, being the latest practicable date prior to the printing of the circular for ascertaining information referred to in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“PRC JV”	a sino-foreign equity joint venture to be formed by Star Wisdom and the PRC Party which will be engaging in the pharmaceutical business in the PRC
“PRC Party”	華禾藥業股份有限公司, the PRC party to the PRC JV, being a subsidiary of 中國藥材集團公司 (Chinese National Group of Traditional and Herbal Medicine) which owns approximately 62% interests
“Purchaser”	Yacata Limited, a wholly owned subsidiary of the Company incorporated in the British Virgin Islands

DEFINITIONS

“Star Wisdom”	Star Wisdom Investments Limited, a company incorporated in the British Virgin Islands on 8 November 2001 and a wholly owned subsidiary of Korning Investments
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the agreement entered into between, amongst others, the Vendor and the Company on 11 April 2002 to revise certain terms of the Agreement
“Vendor”	Mr. Chen Wen-Suei, Brian
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	US dollars, the lawful currency of the United States of America

Unless otherwise stated, amounts quoted in US\$ are converted into HK\$ at the exchange rate of US\$1.0 to HK\$7.8.

LETTER FROM THE BOARD



YANION INTERNATIONAL HOLDINGS LIMITED

(益安國際集團有限公司)*

(Incorporated in Bermuda with limited liability)

Directors:

Leung Wah Chai
Butt Wing Han
Cheng Kwok Choi, Godwin
Cheng Shu Wing
Guo Duen How, Tom
Kao Ying Lun
Wu Fred Fong
Choy Tak Ho**
Tsui Chun Chung, Arthur**

Registered Office:

Cedar House
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of business in Hong Kong:*

6th Floor, Wah Lik Industrial Centre
459-469 Castle Peak Road
Tsuen Wan
New Territories
Hong Kong

** Independent non-executive Director

3 May 2002

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION INVESTMENT IN A PHARMACEUTICAL ENTERPRISE IN THE PRC

INTRODUCTION

Reference is made to the announcement and the circular of the Company dated 3 January 2002 and 21 January 2002 respectively which the Group announced that it had entered into the Agreement with the Vendor, a third party who is independent of and not connected with the directors, chief executives or substantial shareholders of the Group or its associates, to acquire the entire issued share capital of Korning Investments for a consideration of US\$12,800,000 (equivalent to HK\$99,840,000); and the announcement of the Company dated 12 April 2002 regarding the Supplemental Agreement entered into with the Vendor on 11 April 2002. The only asset of Korning Investments is a 100% interest in Star Wisdom.

STAR WISDOM AND THE PRC JV

The Directors are pleased to announce that the Company was informed by the Vendor that the joint venture agreement between Star Wisdom and the PRC Party, a subsidiary of 中國藥材集團公司 (Chinese National Group of Traditional and Herbal Medicine), and the respective articles of association for the establishment of the PRC JV had been entered into on 10 April 2002. The PRC JV is a limited liability sino-foreign equity joint venture to be established in the PRC. It will be owned as to 60% by Star Wisdom and as to 40% by the PRC Party. The total investment and registered capital of the PRC JV will both be RMB126,000,000. Its principal business activities will be the research, production and trading of both self-produced and other pharmaceutical and health care products. The PRC JV will be for a term of 30 years commencing from the date of

* for identification purposes only

LETTER FROM THE BOARD

establishment. The board of directors of the PRC JV will consist of 7 directors, of which 4 will be nominated by Star Wisdom and 3 will be nominated by the PRC Party.

中國藥材集團公司(Chinese National Group of Traditional and Herbal Medicine) is a leading pharmaceutical company in the PRC managed by the central government of the PRC. Its principal activities are the research and development, manufacture and sale of traditional and herbal Chinese medicines. It has a distribution network of more than 20,000 sales outlets widely spreaded over the PRC, Japan, South East Asia and Europe. Entities under its management also include more than 560 Chinese medicine production bases and over 30 Chinese medicine research and educational institutes.

Star Wisdom will contribute the HK dollar or the US dollar equivalent of RMB75,600,000 for its share of the capital of the PRC JV. The first installment of RMB75,600,000, being RMB11,340,000, will be payable within one month after the issue of the business licence of the PRC JV and the balance of RMB64,260,000 will be payable, subject to the completion of the PRC Party's capital contribution obligation, within six months after the issue of the business licence. The PRC Party will contribute RMB50,400,000 worth of tangible and intangible assets, including all approvals, licences and other intellectual properties, machineries and equipment, inventories and accounts receivables relating to the following medicines:

- (i) 威麥寧膠囊 (for curing lung cancer);
- (ii) 咽速康氣霧劑 (for curing sore throat);
- (iii) 七厘膠囊 (for curing pains in joints and strained tendons); and
- (iv) 通樂顆粒 (for curing constipation problem).

In addition, Star Wisdom and the PRC Party has entered into a shareholders agreement on 10 April 2002 where the PRC Party will transfer all intellectual properties relating to an additional of 12 medicines to the PRC JV upon its establishment. Such transaction will constitute a connected transaction between the PRC Party, a substantial shareholder of the PRC JV and the PRC JV, the Company's non-wholly owned subsidiary upon completion of the Acquisition, under the Listing Rules and the Directors confirmed that, subject to the completion of the Acquisition, the Company will comply with all applicable requirements under Chapter 14 of the Listing Rules for such transaction.

The total consideration of such transfer of intellectual properties of the 12 medicines is RMB15 million and will be payable by the PRC JV to the PRC Party in two installments. The first installment of RMB5 million will be payable within three days after the first capital contribution made by Star Wisdom and the balance of RMB10 million will be payable within three days after the final capital contribution made by Star Wisdom.

The PRC Party undertakes to Star Wisdom that, on a best effort basis, it will not conduct any business that will compete directly or indirectly with the business of the PRC JV and will preferentially transfer all the intellectual properties of newly developed medicines to the PRC JV.

It was also agreed that the PRC Party should use its best efforts and experience in the pharmaceutical business to help the PRC JV to achieve a profit target of RMB50 million in the first year of its establishment.

The Directors consider that the joint venture agreement coupled with the shareholders agreement signed between Star Wisdom and the PRC Party would have the effect of establishing a joint venture which possesses all intellectual properties of 16 medicines and related machineries and equipment, and working capital in excess of RMB60 million for business expansion upon full establishment. The Directors anticipate that the PRC JV will be able to focus in the development, production and marketing of Chinese medicines and will benefit from the fresh capital to be injected by Star Wisdom for such purposes.

LETTER FROM THE BOARD

THE SUPPLEMENTAL AGREEMENT

As a result of the increase in the total investment and registered capital of the PRC JV from RMB40,000,000 (as agreed previously in the Agreement) to RMB126,000,000, the Company, the Purchaser and the Vendor entered into the Supplemental Agreement on 11 April 2002. In addition, it was also agreed that the Group will purchase 87%, instead of 100%, of the issued share capital of Korning Investments and the long-stop date of the Acquisition will be extended from 30 April 2002 to 30 June 2002. The consideration to be paid by the Purchaser for the 87% interest will remain US\$12,800,000 (equivalent to HK\$99,840,000). The Directors understand from the Vendor that the remaining 13% interest will be acquired from the Vendor by an independent third party, an investment company not connected with the directors, chief executives or substantial shareholders of the Group or its associates. The Directors were also informed by the Vendor that a separate sale and purchase agreement between the Vendor and the independent third party relating to the 13% interest in Korning Investments would be entered into.

CONSIDERATION AND COMPLETION OF THE ACQUISITION

The consideration of US\$12,800,000 shall be payable upon completion of the Acquisition. The consideration, together with the Group's attributable capital contribution of RMB75,600,000 to be made by Star Wisdom to the PRC JV, will be paid by the Group from its internal resources and if necessary, external banking facilities and/or other fund raising activities. Presently, save as the aforementioned, there is no further capital commitment by Star Wisdom. As disclosed previously, no accounts have been prepared by both Korning Investments and Star Wisdom since their incorporation on 19 January 2001 and 8 November 2001 respectively.

Completion of the Acquisition shall take place on the fifth business day, excluding Saturday, immediately after all the conditions including, inter alia, the conditions referred to in the section headed "Conditions of the Acquisition" below have been duly fulfilled or waived by the Group on or before 30 June 2002 or at such later date as may mutually be agreed in writing between the Group and the Vendor.

CONDITIONS OF THE ACQUISITION

Completion of the Acquisition is conditional on the satisfaction of, among others, the following conditions:

- (a) the financial and legal due diligence review of the business to be engaged by the PRC JV to be conducted by the Purchaser and/or its advisers being satisfactory to the Purchaser (such review includes review of historical profitability, research and medical reports, market statistics and PRC legal opinion on patents of the medicines to be acquired by the PRC JV); and
- (b) a legal opinion issued by a reputable firm of PRC lawyers acceptable to the Purchaser confirming that (i) the formal joint venture agreement and the articles of association described above comply with all applicable laws and regulations of the PRC; and (ii) no laws or regulations have been promulgated or enacted by any government or regulatory or administrative bodies in the PRC which will prohibit or be materially prejudicial to the operation of the PRC JV as contemplated under such joint venture agreement and the articles of association of the PRC JV.

LETTER FROM THE BOARD

REASONS FOR THE SUPPLEMENTAL AGREEMENT

The Directors are of the view that the proposed changes contemplated in the Supplemental Agreement will have the advantages of broadening the shareholder base of Korning Investments and the capital base of the PRC JV. The Directors believe that with the PRC's accession to the World Trade Organisation and the growth in the GDP of the PRC, there will be significant growth opportunities as well as increased competition in the pharmaceutical industry in the PRC. The Directors believe that only enterprises with sufficient resources could compete favourably with both local and foreign pharmaceutical enterprises and enjoy the growth opportunities. Accordingly, the Directors are of the opinion that the revised terms contemplated in the Supplemental Agreement are beneficial to the PRC JV and the Group as a whole.

The Directors consider that the Acquisition will enable the Group to establish a unique bonding with 中國藥材集團公司, an authoritative and unequivocal leader in the Chinese pharmaceutical business in the PRC. The Directors believe that the Acquisition will diversify the Group's business and will enhance the Group's long term competitive position in the pharmaceutical business in the PRC leveraging on the supply and distribution network of 中國藥材集團公司.

The revised terms were agreed after arm's length negotiation, having taken into account of the reasons of entering into the Supplemental Agreement mentioned above. The Directors anticipate that the Group's indirect investment in the PRC JV would become one of the major contributor of earnings sources to the Group in the future and estimate that the profits to be generated from the PRC JV will commensurate with the consideration payable for the Acquisition. Moreover, the Directors believe that upon completion of the Acquisition, the PRC JV will also have access to future medicines to be developed by the PRC Party which would further enhance the Company's profitability.

FINANCIAL IMPACT TO THE GROUP UPON COMPLETION OF THE ACQUISITION

Upon completion of the Acquisition, Korning Investments will become a subsidiary of the Company in which the Company will have 87% interest. Given that the consideration payable for the Acquisition will be satisfied by internal resources and if necessary, external banking facilities and/or other fund raising activities, the Directors are of the view that there would have no adverse impact on the financial position of the Group. The Group's share of profit to be generated from such investment in Korning Investments will be dependent on the future earning ability of the PRC JV.

GENERAL

The principal activity of the Company is investment holding.

As the Acquisition is conditional and may or may not be completed, shareholders and investors should exercise caution when dealing in the shares of the Company.

Your attention is also drawn to the information set out in Appendix I to this circular.

Yours faithfully,
For and on behalf of
Yanion International Holdings Limited
Wu Fred Fong
Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests of the Directors and their associates in the securities of the Company and its associated corporations within the meaning of the SDI Ordinance which have been notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Shares

Name of Directors	Personal interests held	Corporate interests held
	Number of Shares	Number of Shares
Leung Wah Chai	33,915,600	9,783,500*
Butt Wing Han	8,915,250	2,983,500*
Cheng Shu Wing	600,000	0
Guo Duen How, Tom	2,800,000	0
Kao Ying Lun	5,000,000	0
Wu Fred Fong	5,000,000	0
	<u>56,230,850</u>	<u>12,767,000</u>

* *Kamga Investments Limited held 2,983,500 Shares. Mr. Leung Wah Chai and Madam Butt Wing Han are controlling shareholders and directors of Kamga Investments Limited. Bestbond Company Limited held 6,800,000 Shares. Mr. Leung Wah Chai is a controlling shareholder and director of Bestbond Company Limited.*

Save as disclosed above, none of the Directors and their associates had any beneficial or other interest in the securities of the Company or any of its associated corporations, as defined in the SDI Ordinance, pursuant to Section 28, Section 29 and Section 31 of the SDI Ordinance and the Model Code in the Listing Rules.

MATERIAL CHANGE

Save as disclosed herein and in the announcement made on 25 April 2002 by the Company regarding the unaudited final results for the year ended 31 December 2001, there has been no material adverse change in the financial or trading position of the Company since 31 December 2000, the date to which the latest published audited financial statements of the Company were made up.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, no person, other than the Directors and the companies controlled by them, whose interests are disclosed above, had registered an interest of 10% or more in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any material litigation and the Directors are not aware of any claims of material importance pending or threatened against any member of the Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing service contract with any member of the Group which is not expiring or terminable by the employer within one year without payment of compensation other than statutory compensation.

OTHER INFORMATION

- (a) The secretary of the Company is Ms. Chiu Lai Chun, Rhoda, a fellow member of the Associate of Chartered Certificated Accountants and an associate member of the Hong Kong Society of Accountants.
- (b) The Company's branch registrar in Hong Kong is Tengis Limited of 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text.