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## **YANION INTERNATIONAL HOLDINGS LIMITED**

**(益安國際集團有限公司)\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 82)**

### **CONNECTED TRANSACTIONS: PURCHASES AND SALES**

The Directors wish to inform the Shareholders that the Group, through its non wholly-owned subsidiary Huayi, purchased Raw Materials that it required as ingredients for the manufacture of Chinese medicines from Huahe, a connected person, under normal commercial terms. The aggregate amount of the Raw Materials purchased was approximately Rmb1,641,000 (equivalent to approximately HK\$1,533,000) and approximately Rmb1,662,000 (equivalent to approximately HK\$1,553,000) for the five-month period ended 31 December 2002 and for the year ended 31 December 2003 respectively.

Huayi also sold medicines that it manufactured to China National Medicine group, an associate of Huahe and a connected person, under normal commercial terms utilizing the group's established sales network. The aggregate amount of such sales was approximately Rmb1,874,000 (equivalent to approximately HK\$1,751,000) and approximately Rmb4,508,000 (equivalent to approximately HK\$4,214,000) for the five-month period ended 31 December 2002 and for the year ended 31 December 2003 respectively.

For the purchases of Raw Materials and the sales of Medicines, despite the fact that each individual transaction was less than HK\$1,000,000, the Stock Exchange has informed the Company that it would exercise its power under Rule 14.04(5) of the Listing Rules to respectively aggregate (i) all the Purchases and (ii) all the Sales for the five months period ended 31 December 2002 and for the year ended 31 December 2003 for the purposes of determining the category into which such transactions would fall. As a result of such aggregation, the disclosure threshold for the connected transactions (as discussed below) had been exceeded and a public announcement by the Company should have been required under Rule 14.25(1) of the Listing Rules. As such, the inadvertent omission to make announcements at the relevant times for the aggregated transactions constituted a breach of the Listing Rules by the Company. The Stock Exchange has indicated that it reserves its rights to take appropriate action against the Company and/or its Directors as a result of such breach.

The Directors wish to inform the Shareholders that the Group engaged in the following connected transactions for the period from 1 August 2002 (the commencement of Huayi joint venture) to 31 December, 2003.

## **PURCHASES AND SALES TO CONNECTED PERSONS**

### **Purchases of the Raw Materials from Huahe**

Huayi purchased sporadically as raw materials, Artificial Musk (人工麝香) and two other herbs from Huahe in batches (“**Purchases**”). For the five-month period ended 31 December 2002 and for the year ended 2003, the Purchases amounted to approximately Rmb1,641,000 (equivalent to approximately HK\$1,533,000) and Rmb1,662,000 (equivalent to approximately HK\$1,553,000) respectively and represented approximately 13% and 34% of Huayi’s total purchases for the relevant periods respectively. The Purchases also represented approximately 1% of the Group’s total purchases for both of the relevant periods. The Raw Materials purchased are active ingredients required for the manufacture of certain medicines by Huayi and were sourced from Huahe for the prime reasons of relative competitive prices and quality considerations. For the Artificial Musk (人工麝香), since Huahe is the sole authorized distributor of this particular ingredient in China, therefore Huayi can only source such ingredient from Huahe.

### **Sales of Medicines to China National Medicine**

In the normal course of the business and on normal commercial terms, Huayi regularly sold Medicines (“**Sales**”) that it manufactured to China National Medicine. In addition to establishing its own sales team, Huayi considered that it is desirable to sell the Medicines through China National Medicine group so as to benefit from the latter’s more established distribution network for onward distribution of Medicines throughout the PRC. China National Medicine has been established for over fifty years and has gained substantial market penetration in hospital sales. For the five-month period ended 31 December 2002 and for the year ended 31 December 2003, there were three Medicines (namely, 七里膠囊, 銀翹解毒膠囊, 咽速康氣霧劑) sold to China National Medicine for a total of Rmb1,874,000 (equivalent to approximately HK\$1,751,000) and Rmb4,508,000 (equivalent to approximately HK\$4,214,000) respectively and represented approximately 7% and 16% of the total sales of Huayi for the relevant periods respectively. The Sales also represented approximately 1% and 2% of the Group’s total turnover for the relevant periods respectively.

### **The connected persons**

Huayi is a sino-foreign pharmaceutical joint venture established in the PRC. The Group, holds 94% interest in Korning Investments Limited (“**Korning**”). Star Wisdom, a wholly-owned subsidiary of Korning, holds 60% of the registered capital of Huayi. The Chinese party to the joint venture Huahe, a 62% subsidiary of China National Medicine, holds the remaining 40% of the registered capital of Huayi. As Huahe is a substantial shareholder of a subsidiary of the Company and China National Medicine is an associate of Huahe, both Huahe and China National Medicine are connected persons of the Company under the Listing Rules. The Purchases and the Sales, the details of which are described below, are considered connected transactions under the Listing Rules.

The principle business of China National Medicine is investment holding. The key activities of its principal subsidiaries are in the herb plantation, supply, manufacturing, distribution and trading of herbs, medicines and related products and related product development in China. Huahe’s principal business is in the development and manufacturing of medicines and related products in China.

## **The Purchases and Sales transactions**

As the Purchases from Huahe and the Sales to China National Medicine involved different items and in some cases sporadic, and the consideration for each individual transaction of such Purchases and Sales was less than HK\$1,000,000, the Directors took the view that such transactions were not subject to any disclosure requirements under the Listing Rules at the time when each purchases and sales was made. In addition, no formal agreement has been entered into by Huayi with either Huahe or China National Medicine. The commercial terms (including the consideration) in respect of each of these transactions were determined by the parties on an arm's length basis with reference to the prevailing market prices and terms for such items offered by other independent third parties.

The Directors (including the independent non-executive Directors) consider that the Purchases and the Sales transactions are in the usual and ordinary course of business of Huayi and the terms of the transactions were negotiated between the parties involved on an arm's length basis and on normal commercial terms. The Purchases and the Sales utilise the networks of Huahe and China National Medicine for the purposes of developing the business of Huayi. The Directors (including the independent non-executive Directors) are of the view that as far as the Shareholders are concerned, these transactions are fair and reasonable and in the best interests of the Company and its Shareholders as a whole.

## **THE CONNECTED TRANSACTION RULE**

The Stock Exchange has informed the Company that it would exercise its power under Rule 14.04(5) of the Listing Rules to aggregate (i) all the purchases of the Raw Materials and (ii) all the sales of Medicines for the purposes of determining the category into which such transactions would fall. As a result of such aggregation, the respective aggregated consideration for the Purchases and the Sales with each of the connected persons for the five-month period ended 31 December 2002 and for the year ended 31 December 2003 were determined to have exceeded the higher of HK\$1,000,000 or 0.03% of the Group's preceding year's net tangible assets but fell below the higher of HK\$10 million or 3% of the Group's preceding year's net tangible assets. As such, the transactions so aggregated would have been subjected to the disclosure requirements under Rule 14.25(1) of the Listing Rules and should require the issue of a public announcement and the inadvertent omission to make announcements at the relevant times for the aggregated transactions would constitute a breach of the Listing Rules by the Company. The Stock Exchange has indicated that it reserves its rights to take appropriate action against the Company and/or its Directors as a result of such breach.

## **GENERAL**

The Group's principal activities include the manufacture, distribution and development of medicines, medical devices, the development of audio and high-tech products, telecommunication products and services, computer peripherals, video-on-demand reengineering services and office equipment. As stated in the Company's annual reports of the previous two years, the Company has explicitly adopted a diversification policy of investments into markets or industries with potentials for growth. The Group's developments are currently directed towards the medicine and related business field.

## DEFINITIONS

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

“China National Medicine”	中國藥材集團公司 (China National Group of Traditional and Herbal Medicine), a state-owned enterprise in the PRC
“Company”	Yanion International Holdings Limited, a company incorporated in Bermuda with limited liability
“Director(s)”	the director(s) of the Company
“Huahe”	華禾藥業股份有限公司 (Huahe Pharmaceutical Joint Stock Company Limited), the PRC party holding 40% of the issued capital of Huayi. Huahe is a 62% subsidiary of China National Medicine.
“Huayi”	Huayi Pharmaceutical Company Limited (華頤藥業有限公司), a sino-foreign joint venture formed between Huahe and Star Wisdom. Huayi is an indirect non-wholly owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Medicines”	Chinese medicines manufactured by Huayi and sold to China National Medicine and/or its subsidiaries
“PRC”	the People’s Republic of China
“Raw Materials”	the herbs or ingredients purchased by Huayi from Huahe and/or its associates
“Rmb”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	Shareholder(s) of the Company
“Star Wisdom	Star Wisdom Investments Limited, an indirect non-wholly owned subsidiary of the Company and the foreign party holding 60% of the issued capital of Huayi.

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

By order of the Board  
**Yanion International Holdings Limited**  
**Chiu Lai Chun Rhoda**  
*Company Secretary*

Hong Kong, 22 March, 2004

\* *For identification purpose only*

“Please also refer to the published version of this announcement in The Standard”.