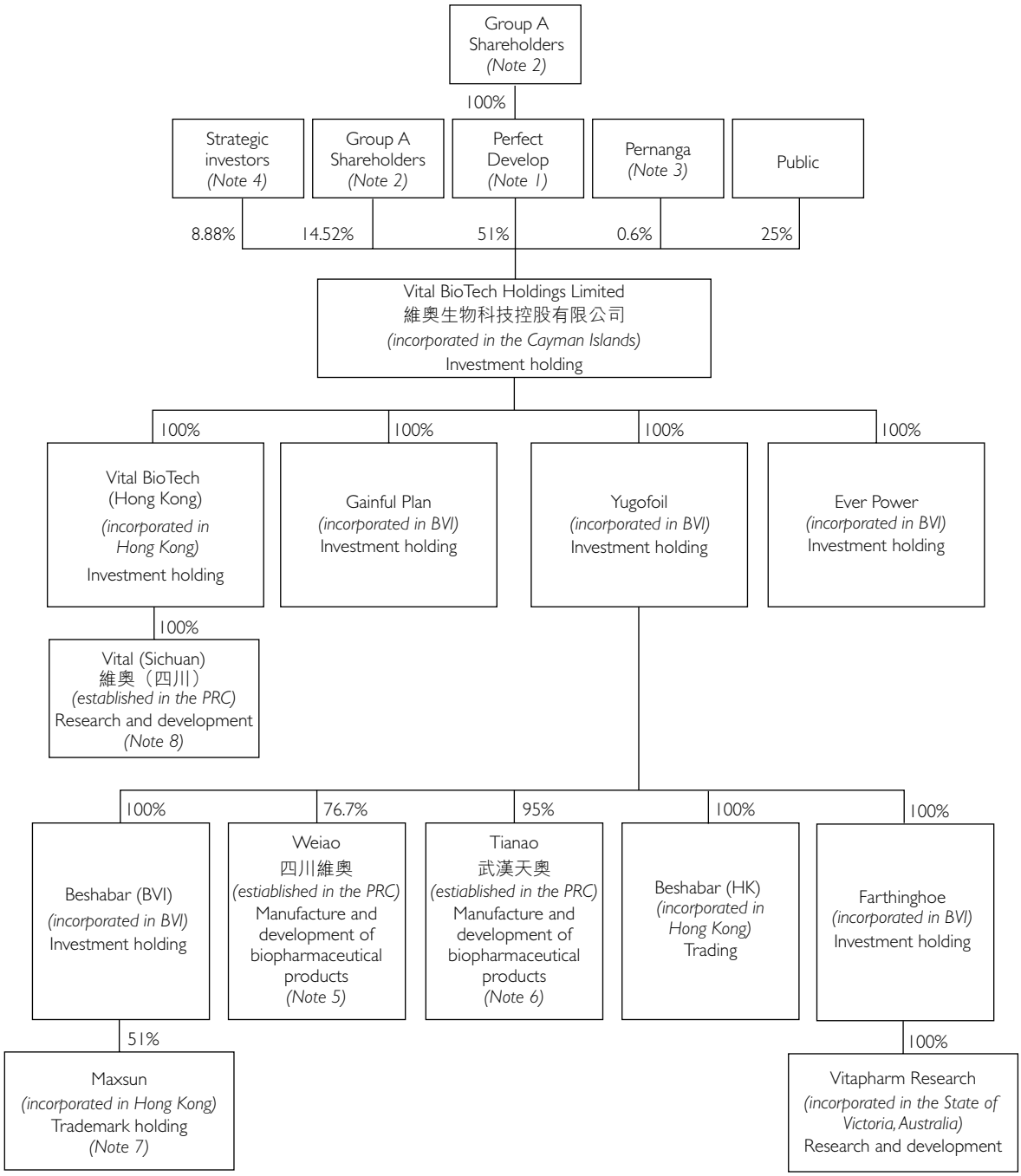
GROUP STRUCTURE

Set out below is the Group's corporate structure as at the date of this prospectus and upon completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme) and the principal activities of the members of the Group:



Notes:

1. The entire issued share capital of Perfect Develop is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 12% by Mr. Liu and 6% by Mr. Au Yeung (collectively, the "Group A Shareholders").

2. In addition to their attributable interest in Perfect Develop, each of the Group A Shareholders are the registered owners of certain Shares, the number and percentage of shareholding of which is set out below:

Group A Shareholders		Number of Shares	(%)
Mr. Tao		103,315,200 Shares	(8,61%)
Mr. Ko		48,422,400 Shares	(4.04%)
Mr. Au Yeung		7,852,800 Shares	(0.65%)
Mr. Liu		14,630,400 Shares	(1.22%)
	Total:	174,220,800 Shares	(14.52%)

3. The entire issued share capital of Pernanga is owned by Mr. Yeung Wing Sang.

4. The names of the strategic investors and the respective number and percentage of holding of Shares beneficially owned by them is set out below:

Strategic investors		Number of Shares	(%)
Chu Kwok Ching David		30,441,600 Shares	(2.54%)
Diamond Clear Associates Limited (a)		15,225,600 Shares	(1.27%)
Active Device Co., Ltd. (b)		15,225,600 Shares	(1.27%)
Ho Louis Kok Hay & Ho Yue Lai Fong		15,225,600 Shares	(1.27%)
Chu Chan Sai Wah Grace		7,612,800 Shares	(0.63%)
Chu Wing Cheong		7,612,800 Shares	(0.63%)
Canterbury 2000 Limited (c)		4,569,600 Shares	(0.38%)
Lam Yiu Cheung		3,043,200 Shares	(0.25%)
Kenneth Walter Glynn		3,043,200 Shares	(0.25%)
Margaret Carmel D' Arcy-Evans		1,526,600 Shares	(0.13%)
Elizabeth Wong Tuen Yee (d)		1,526,300 Shares	(0.13%)
Angela Cutri		1,526,300 Shares	(0.13%)
	Total:	106,579,200 Shares	(8.88%)

(a) These Shares are registered in the name of Diamond Clear Associates Limited, the entire issued share capital of which is beneficially owned by Ms. Choi Shui Hing.

(b) These Shares are registered in the name of Active Device Co., Ltd., the entire issued share capital of which is beneficially owned as to 50% by Mr. Fan Yok Hon and as to the remaining 50% by Ms. Kwok Sik Chun.

(c) These Shares are registered in the name of Canterbury 2000 Limited, the entire issued share capital of which is beneficially owned as to 50% by Mr. Tong Kwong Ming and as to the remaining 50% by Mr. Lai Wai Man.

(d) Dr. Wong Tuen Yee Elizabeth is a member of the senior management of the Company and an Initial Management Shareholder.

5. The remaining 23.3% of the registered capital of Weiao is beneficially owned by Sichuan Kangao Pharmaceutical Technology Development Co., Ltd.(四川康奧醫藥科技開發有限責任公司), a private enterprise in the PRC. Mr. Wu Qingjing, one of the shareholders and directors of Sichuan Kangao Pharmaceutical Technology Development Co., Ltd. holding 15% of the interest in that company, is a director of Weiao, a subsidiary of the Company. Apart from that, Sichuan Kangao Pharmaceutical Technology Development Co., Ltd. is an independent third party not connected with the Company, its Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

6. The remaining 5% of the registered capital of Tianao is beneficially owned by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) which is a subsidiary of a state-owned enterprise in the PRC. Wuhan Tianao Pharmaceutical Factory and its holding company, Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所), are independent third parties not connected with the Company, its Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

7. The remaining 49% of the entire issued capital of Maxsun is beneficially owned as to 24% by Ms. Betty Wei Bai and 25% by Mr. Tze-Rou Kuo. Ms. Betty Wei Bai and Mr. Tze-Rou Kuo are the beneficial owners of the entire issued share capital of Pharmco, one of the top 5 suppliers of the Group. Apart from their shareholding in Maxsun, each of Ms. Betty Wei Bai and Mr. Tze-Rou Kuo is an independent third party not connected with the Company, its Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

8. The registered capital of Vital (Sichuan) is US$1,400,000, (equivalent to approximately HK$10,920,000) of which US$210,000 (equivalent to approximately HK$1,638,000) has been paid up by Vital BioTech (Hong Kong) as at the Latest Practicable Date. The balance of US$1,190,000 (equivalent to approximately HK$9,282,000) is expected to be fully paid up by Vital BioTech (Hong Kong) from internally generated source of funds on or before 24th July, 2003 pursuant to the Articles of Association of Vital (Sichuan). Vital BioTech (Hong Kong) has agreed not to consolidate the accounts of Vital (Sichuan) until the registered capital of Vital (Sichuan) is fully paid up, as required by the relevant PRC authorities.

HISTORY AND ACTIVE BUSINESS PURSUITS

History

The Group is principally engaged in the research and development, production and distribution of biopharmaceutical and conventional pharmaceutical products. With its research and development capabilities, the Group focuses on an advanced drug delivery system built on a unique micro bio-encapsulation process for the delivery of active ingredients for human and veterinary applications via non-injection methods (e.g. through the mucosal membrane). The Group has developed a distribution network for pharmaceutical products in the PRC and has established collaboration alliances with pharmaceutical companies worldwide. The current products of the Group are Opin, Osteoform and Spray-on Bandage.

The family of Mr. Ko, one of the founders of the Company, has a history in the pharmaceutical industry for four generations, being involved in various pharmaceutical businesses including the manufacture and trading of antibiotics. Mr. Ko has been involved in the research and development, production and distribution of pharmaceutical products for human and veterinary applications since 1971. In 1997, recognising the potential of the biopharmaceutical market as well as the increasing demand for quality pharmaceutical products in the PRC, Mr. Ko formulated a business strategy aiming to establish a research and development based world-class biotechnology group in the pharmaceutical industry with an emphasis on biopharmaceutical products in the PRC market. The focuses on the PRC market and research and development work later on became two major areas of the Group's business.

Yugofoil

In April 1997, Mr. Ko, together with the other three founders of the Group, Mr. Au Yeung, Mr. Liu and Mr. Tao, and two other investors, namely Pernanga and Goldfield, acquired 33%, 6%, 12%, 41%, 3% and 4% interest in Yugofoil. Mr. Ko, Mr. Au Yeung and Mr. Liu were also appointed as directors at the time in addition to Mr. Tao who was previously appointed as a director on 11th May, 1993. Yugofoil was incorporated in 11th May, 1993 by

Mr. Tao who held one issued share of Yugofoil before the investment in 1997. Yugofoil was an inactive company before April 1997. It was only after Mr. Ko, together with the above investors, acquired his interest in Yugofoil that Yugofoil commenced its investment projects in that year. The above acquisitions were, for a consideration of US$33, US$6, US$12, US$41, US$3 and US$4, respectively (approximately equal to HK$257.4, HK$46.8, HK$93.6, HK$319.8, HK$23.4 and HK$31.2, respectively) the value of which were equal to the registered capital of the relevant shares. Yugofoil became owned as to 33%, 6%, 12%, 3%, 4% and 42% by Mr. Ko, Mr. Au Yeung, Mr. Liu, Pernanga, Goldfield and Mr. Tao. Through Yugofoil, various investments in the PRC as set out below were subsequently acquired.

Vitapharm Research

In April 1998, with a view to capturing the demand for high quality pharmaceutical products for human consumption, Vitapharm Research was incorporated in the State of Victoria, Australia with its entire issued share capital beneficially owned by Mr. Ko, Mr. Liu and Mr. Au Yeung as to 33.33%, 33.34% and 33.33% respectively. Such beneficial interests were held through trust arrangements which involved, first, declarations of trust dated 1st April, 1998 by King Laboratories Pty. Ltd. ("King Laboratories") and WB Nominees Pty. Ltd. ("WB Nominees") in favour of Mr. Ko in respect of the 20 issued shares of AUD1 (approximately HK$4) each in Vitapharm Research and second, declarations of trust dated 1st April, 1998 by Mr. Ko in respect of those 20 issued shares (being the entire issued share capital of Vitapharm Research) in favour of Farthinghoe. King Laboratories is a company wholly-owned by Ms. Rosa Sau Kam Ko, wife of Mr. Ko, whereas WB Nominees is a nominee company controlled by William Buck, a professional business consultancy and chartered accountants' firm in Australia. Accordingly, the 20 issued shares in Vitapharm Research have at all times been held by the trustees, King Laboratories, WB Nominees and Mr. Ko upon trust for Farthinghoe, the ultimate beneficial owner. In this connection, the Group has obtained Australian legal advice confirming that under Victorian law, the declarations of trust are valid and binding in accordance with their terms and entitle Farthinghoe to require transfers of shares to it, and also that the declarations of trust are not chargeable with stamp duty under Victorian law. The transfers of shares pursuant to the declarations of trust have also been properly denoted by the State Revenue Office of the State of Victoria, Australia as not stampable. The reasons for having two trust arrangements were as follows:

a) upon its establishment in 1998, Vitapharm Research was engaged in discussions with other pharmaceutical companies for co-operation in several projects, The arrangements of entrusting both King Laboratories and WB Nominees to hold the shares of Vitapharm Research on behalf of Mr. Ko were made to ensure that the name of Mr. Ko, who is instrumental in developing the concepts for such co-operation projects, would not be disclosed at that particular sensitive stage of development; and

b) the two other shareholders of Farthinghoe, Mr. Au Yeung and Mr. Liu, considered that by using the name of Mr. Ko, who is renowned in the pharmaceutical industry, would be more persuasive in the discussions for co-operation with other pharmaceutical companies. Hence, the arrangement of entrusting Mr. Ko to hold the shares of Vitapharm Research on behalf of Farthinghoe was made.

In August 2001, Mr. Ko, Mr. Au Yeung and Mr. Liu considered that the discussions with other pharmaceutical companies were in well-advanced stage and the shareholding of Vitapharm Research should be formalised. The shares of Vitapharm Research held by King Laboratories and WB Nominees were transferred back to Farthinghoe, whose name was thereafter entered into the register of members of Vitapharm Research.

Upon the establishment of Vitapharm Research in 1998, Mr. Ko, Mr. Lo-Fai Tsim, and Mr. John D'Arcy Evans were appointed as directors. Mr. Tsim and Mr. D'Arcy Evans were non-executive directors and were not involved in the daily operations of Vitapharm Research on a full-time basis. They had no equity interest in Vitapharm Research. Both of them took instructions from Mr. Ko in relation to management decisions of Vitapharm Research.

On the other hand, Mr. Ko has at all times since the incorporation of Vitapharm Research been actively involved in the management of its business and operation. Mr. Au Yeung has also been involved in the operation of the research centre operated by Vitapharm Research since its incorporation. He was not appointed as a director of Vitapharm Research until September 1999 because there was no need to do so, given the scale of operation of Vitapharm Research at the time.

To sustain the operations of Vitapharm Research, Mr. Ko and Mr. Au Yeung provided continuous financial support to Vitapharm Research. In April 1998, a shareholder's loan of AUD50,000 (approximately HK$200,000) was provided by Mr. Ko to Vitapharm Research. In June 1998, another shareholder's loan of AUD50,000 (approximately HK$200,000) was provided to Vitapharm Research by Mr. Ko. A loan of AUD50,000 (approximately HK$200,000) was provided in March 1999 by Seventeenth Sutus Nominees Pty. Ltd., a company owned by Mr. Au Yeung's wife. The above loans have been fully settled by the Group on 21st December, 2001.

Vitapharm Research has principally been engaged in the research and development of biopharmaceutical and conventional pharmaceutical products, which include biological and OTC products. In August 1998, the Company rented a site to serve as the research and development pilot plant and a laboratory of Vitapharm Research in a suburb in Melbourne, the State of Victoria, Australia to conduct research and development and pilot production work relating to processing technologies for (a) biological protein stabilisation and (b) various drug delivery systems. The principles and procedures of the PSD technology was first invented by Mr. Ko together with Mr. Au Yeung on or about 25th January, 2001 and that the SDDS technology was first invented by Mr. Ko on or about 23rd November, 1999. The most important objective of setting up Vitapharm Research was to commercialise the two platform technologies of the Group. Vitapharm Research adopted two main modes of commercialisation: (i) by way of using the platform technologies to develop sales and income generating products and (ii) by way of technology co-operation with third parties with the objective of realising future revenue through licence fees, royalties or operation of business joint ventures. In order to support these activities, the Group took steps to secure patent rights in the two platform technologies. These steps involved the initial filing of patent applications for the technologies in Australia after the conception of each technology by Mr. Ko and Mr. Au Yeung. Generally, under Australian Patent Law (Section 15(1), Patents Act 1990), a patent may only be granted to a person who is the inventor of the invention, or a person who would, on the grant of a patent, be entitled to have the patent assigned to him, or a person who derives title to the invention from either of these people. In accordance with these provisions, the Group's patent advisors in Australia were instructed to file the patent applications in the name of either Mr. Ko, or Mr. Ko and Mr. Au Yeung, as inventors of the technologies. The Group made two primary patent applications, which are detailed below, and which may form the basis for filing associated applications in various countries of interest:

- The patent application for the PSD technology was lodged with the Australian Patent Office on 25th January, 2001 under Australian Provisional Patent Application No. PR2729 (herein after referred to as the "Australian Application").

In order to secure patent rights in respect of the invention described in the Australian Application, the Group is required to file one or more formal applications in countries of interest within one year from the date of the Australian Application, i.e. by 25th January, 2002. In filing said formal applications by 25th January, 2002, these applications may claim priority from the Australian Application, filed on 25th January, 2001. The Group's legal advisers on the Australian Application have been instructed to make such applications. Accordingly, preparation has been made for the filing of applications in Taiwan, United States of America, and an international application in accordance with the Patent Co-operation Treaty, which international application designates all countries presently a party to the Patent Co-operation Treaty. Following the filing of such applications each application will be subject to relevant searching and/or examination procedures as generally explained below.

In the case of the application filed in accordance with the Patent Co-operation Treaty, in order to secure patent rights in designated countries of interest, at a period of either 20 months or 30 months from the date of filing the Australian Application, namely either 25th September, 2002 or 25th July, 2003, the applicant must physically file applications in those designated countries of interest. Following such filing, the applications will be subject to standard searching and examination procedures. Following searching and examination procedures, individual applications may be accepted for grant of patent by the relevant authorities.

- The patent application for the SDDS technology was lodged with the Australian Patent Office acting as the receiving office for the World Intellectual Property Organisation on 22nd November, 2000 under application No. PCT/AU00/01419 (the "International Application"), claiming priority from an Australian Provisional Application (PQ4190) filed on 23rd November, 1999. Searching and examination of the International Application has been conducted in accordance with the Patent Co-operation Treaty. In order to secure rights in the invention the subject of the International Application, the Group is required to file applications in those countries of interest which were designated in the International Application at the time of its filing. The deadline for taking this action is 23rd May, 2002. It is the intention of the Group to take such action. Following the filing of applications in those designated countries of interest, each such application will generally be subject to searching and examination procedures. Following searching and examination procedures, individual applications may be accepted for grant of patent by the relevant authorities.

During searching and examination processes, a patent examiner will review published documentation, which will include previously filed patents or patent applications, to test the novelty, and often also the inventiveness, of the invention the subject of the relevant patent application. It is possible that the eventual scope of a patent application may be narrowed depending on its similarity with any prior published material. There is also the possibility that an application may be rejected all together. Typically the examination process may last for a year or two, depending on the country in which it takes place, the type of objections raised, and on how much work is required to be done to place the application in order. In some countries the examination process may exceed two years. Upon completion of the examination process, a patent may be granted with effect from the date of filing the application; for example, in the case of PCT/AU00/01419 from 22nd November, 2000. The grant of a patent has the effect of affording the registered owner with the exclusive rights to exclude others from practising the invention defined in the patent during the term of the patent.

Rights in the inventions comprised in the patents applications for the two platform technologies were transferred from Mr. Ko and Mr. Au Yeung to the Group in June 2001.

Vitapharm Research has been involved in the later stage of the research and development work on the commercialisation and refinement of the platform technologies, i.e., the actual practical application of the platform technologies in the manufacture of biopharmaceutical and conventional medical drugs for sale on a commercial basis, as opposed to the earlier phase of research and development of the platform technologies on a theoretical and non-revenue generating basis and without targeting the application of the technologies in any particular pharmaceutical product.

During the commercialisation, research and development phase of its active business pursuit, Vitapharm Research rented a site in the outer suburb of Melbourne in Australia to set up a laboratory and pilot production facilities in August 1998. In or about August 1998, Vitapharm Research took delivery of a special key equipment from Germany which is required to implement the PSD technology and for the pilot production of commercial samples.

One of the very first jobs on this equipment was to modify the equipment to make it capable of performing the coating function that is part of the PSD technology. The modification work involved the application of the principles and procedures of the PSD technology to produce samples of Opin in November 1998 with improved stability. This is achieved by applying the work practice, procedures and principles of the PSD technology to the raw materials of interferon to make them more stable at room temperature.

An example of a project under the first mode of commercialisation of its platform technologies is Vitapharm Research's application of the principles and procedures of the SDDS technology to develop the Spray-on Bandage. The SDDS technology in the Spray-On-Bandage enables antiseptic to be incorporated into that product and the release of the antiseptic to the skin surface of a user by using a polymer film as a medium and without the use of the propellant in the spray. The product was successfully registered as an OTC drug by the Australian Therapeutic Goods Administration ("TGA") in April 1999 and hence allowed for free sale in Australia under the OTC therapeutic goods regulation.

After the above product registration, market trials of Spray-On Bandage were launched in Thailand, Australia, and Taiwan in January 2000, March 2000 and June 2000 respectively. After reviewing the market results, the Directors concluded that more marketing effort was required for promoting this product in the above markets, and the Directors at present do not consider it worthwhile to spend too much effort on promoting this product in those markets. The Group instead plans to allocate more resources to promote this product in the PRC. An application for registration of Spray-On Bandage in the PRC was lodged with the SDA in November 2001.

To protect the commercial interest of the Group in respect of the SDDS technology, Mr. Ko lodged a patent claim with the Australian Parent Office in November 1999. The Group subsequently applied for international patent in November 2000.

Mr. Ko and Mr. Au Yeung, as directors of Vitapharm Research, also worked on the commercialisation of the PSD technology by attempting to develop commercial products out of the technology. Some examples of the work in this regard included investigation on the stability of probiotic commenced in March 2000, pre-clinical investigation on the stability and bio-availability on erythropoietin (EPO) commenced in November 2000 and formulation on receptase commenced on November 2000.

To protect the commercial interest of the Group in respect of the PSD technology, Mr. Ko and Mr. Au Yeung lodged a patent application with the Australian Patent Office in January 2001.

A lysozyme based product has also been successfully developed. The product is categorised as a cosmetic product for hair tonic and is related to enzyme stabilisation. In addition, Vitapharm Research has utilised the platform technologies in enhancing the quality of Opin since the acquisition of Tianao in November 1998 by assigning Mr. Ko and Mr. Au Yeung to undertake further study of the stability of Opin, together with the assistance of Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所). Vitapharm Research has also developed other product concepts based on the two platform technologies which are currently under various stages of development as set out in the paragraph headed "Products under development" of this section.

For the second mode of commercialisation of its platform technologies, Vitapharm Research has also engaged in soliciting contacts with potential technology co-operation partners, for co-operation in product testing, registration and other preliminary work for commercialisation. Vitapharm Research is discussing co-operation relationships with various international pharmaceutical companies. The Group has entered into confidentiality agreements for technological co-operation, some of which were prior to 2001. The work in this regard resulted in the Denmark based Chr. Hansen and the US based Alpharma signing technology cooperation confidentiality agreements with Vitapharm Research in January 2001, and Australian based Meditech in March 2001, PRC based Inner Mongolia Bio Products Factory in August 2001 and PRC based Sine in September 2001. Further details are set out in the paragraph headed "Strategic Alliance/Technology Transfer/Business Venture" of this section. These activities are also based on the two platform technologies of the Group. These two modes of commercialisation have been and will form the main pattern of the business activities of Vitapharm Research.

Tianao

One of the major investments of the Group in the PRC was the acquisition of Tianao, a joint venture established in the PRC. In 1996, the entire issued share capital of Tianao was held as to 30% by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠), as to 37% by Wuhan Heng Yuan Decoration Company Limited (武漢恒源裝飾有限公司) and as to 33% by Bright Future. Tianao possesses a pharmaceutical production licence granted by the Hubei Pharmaceutical Regulatory Department and is a manufacturer of "Opin", which was a "Class 2 new drug" (classified under the pre-1999 regulations) and an interferon based pessary for the treatment of chronic cervicitis. Bright Future is a company incorporated in Hong Kong which is engaged in the sub-contracting and manufacture of pharmaceutical products and an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

The acquisition of Tianao occurred in several stages. On 30th October, 1998, Yugofoil acquired from Bright Future a 70% interest in Tianao for a consideration of HK$500,000. Subsequent to Yugofoil entering into the relevant share transfer agreement with Bright Future, Bright Future made a declaration of trust dated 10th November, 1998 in respect of the interest in Tianao registered under its name in favour of Yugofoil. The declaration of trust was not stamped. The background of and reasons for such trust arrangement are explained below.

The Group's relationship with Bright Future prior to the acquisition of the interest in Tianao can be traced back to the long-term working relationship between Mr. Huang Jian Ming ("Mr. Huang") and Mr. Shen Song Qing ("Mr. Shen"), who were appointed as directors of Yugofoil on 1st May, 1997, and Mr. Chan Chak Yeung ("Mr. Chan") and Mr. Wong Cheong Moon ("Mr. Wong"), who are the directors of Bright Future. Mr. Shen and Mr. Huang were appointed as the directors of Tianao in October 1996 and January 1997, respectively. Prior to their becoming directors of Tianao, both Mr. Huang and Mr. Shen had extensive experience in managing

pharmaceutical business in the PRC. In particular, Mr. Shen had been closely involved in the sales and marketing of pharmaceutical products. Thus, they came to know Bright Future, which was promoting a pharmaceutical product quite successfully in the PRC at the time. In October 1996 and January 1997, Bright Future invited Mr. Huang and Mr. Shen to act as the directors of Tianao as nominees of Bright Future on the board of Tianao. Throughout the years, Mr. Huang and Mr. Shen developed a close working relationship with Mr. Chan.

Mr. Huang and Mr. Shen were also long-term acquaintances of Mr. Tao, one of the founders of the Group. Mr. Tao, Mr. Huang and Mr. Shen came to know each other when they were small as they came from the same region in Sichuan. When Mr. Tao, Mr. Ko, Mr. Au Yeung and Mr. Liu commenced their business plan which involved the using of Yugofoil as an investment vehicle for investment in the PRC, Mr. Tao thus proposed and Mr. Ko, Mr. Au Yeung and Mr. Liu agreed to invite Mr. Huang and Mr. Shen, who were experienced in the Chinese medicine business and familiar with the PRC business operation, to join the board of Yugofoil in May 1997 and to assist in exploring investment and business opportunities in the PRC. Mr. Shen and Mr. Huang acted as the directors of Yugofoil on a part-time basis in 1997 and received no salary from Yugofoil. Except for Mr. Ko, Mr. Au Yeung and Mr. Liu, all directors, including Mr. Shen and Mr. Huang, started to receive monthly salary from Yugofoil in August 2000.

In late 1998, when Mr. Huang and Mr. Shen, who were directors of Tianao, became aware of the intention of Bright Future to dispose of its interest in Tianao, they recommended to Yugofoil the investment opportunity as they believed that Tianao and Yugofoil had synergy in terms of the technology know-how which could improve the business and prospects of Tianao.

When Tianao was identified by the Group as the first investment project of developing the market of biopharmaceutical products in the PRC, Tianao was in financial difficulties. However, the Directors at that time believed that they could improve the operating results of Tianao by applying the platform technologies invented by Mr. Ko and Mr. Au Yeung to the production process of Opin. The Directors believe that the consideration of HK$500,000 for a 70% interest in Tianao was not unfair given the loss suffered by Tianao, and that the consideration was agreed upon between the parties at the relevant time based on arm's length negotiations. Although the consideration arrived at was not based on any financial figures of Tianao at the relevant time, the Directors believe that the consideration was fair and reasonable as far as Tianao is concerned. The HK$500,000 was borrowed by Mr. Tao from his uncle and was paid by Mr. Tao in cash to Mr. Chan, one of the controlling shareholders of Bright Future, on behalf of Yugofoil.

As a result of these long-standing relationships and the recommendation made by Mr. Huang and Mr. Shen that Mr. Chan and Mr. Wong were trustworthy, the Directors of the Group determined that Bright Future could be entrusted with the responsibility of holding the Group's interest in Tianao.

The Directors considered that as Tianao was at that time in financial difficulties, the trust arrangement would serve the purpose of maintaining the stability of Tianao, which was the first investment venture of the Group in the PRC, by avoiding or minimising the following possible unfavourable implications which may arise from disclosing the change in shareholding in Tianao:

- the creditors, in view of the change in controlling shareholder and in order to ensure recoverability of trade debts, might request for immediate settlement of debts (including undue debts) from Tianao. This would create an immediate cashflow problem to Tianao;

- Yugofoil, as a new controlling shareholder, might not be able to maintain the business relationship between the former investment parties of Tianao and its suppliers. This might possibly affect the supply of raw materials to Tianao; and

- customers might lose their confidence in the quality and readiness in supply of products by Tianao under the new management by Yugofoil, and thus reduce their sales orders placed to Tianao which would exacerbate the operational loss of Tianao.

Furthermore, in April 1997, Yugofoil held the entire issued share capital of Beshabar (BVI) which was also a sole distributor of Osteoform in the PRC. The Directors considered that should the goodwill of Yugofoil, being the ultimate holding company of Beshabar (BVI), be adversely affected as a result of the liquidation or other restructuring of Tianao, the sole distributorship of Osteoform held by Beshabar (BVI) might also be affected. Hence, the Directors considered that the trust arrangement would minimise the risk of jeopardising the goodwill of Yugofoil in the event of Yugofoil sustaining investment loss resulting from liquidation or other restructuring of Tianao.

The PRC legal advisers to the Company have confirmed that (a) although the Trust Agreement was not entered into under the laws of the PRC, which require that any changes in the shareholding of a foreign investment company should be approved by and registered with the relevant PRC authorities, the trust arrangement would normally be respected by the PRC authorities in the absence of disputes between the parties thereto, as it did not contravene any jus cogens of the laws of the PRC; (b) even if Bright Future now claims any entitlement to the interests in Tianao against Yugofoil, it would be time-barred under the laws of the PRC; and (c) therefore, under the laws of the PRC, there would not be any substantial legal risks in Yugofoil's interests obtained under such trust arrangement. The Group has also obtained a legal opinion from a leading counsel in Hong Kong that, on the basis of the facts set out in the prospectus and on the assumptions that Yugofoil's beneficial ownership in the shares of Tianao is recognised as valid and enforceable under the law of the PRC and that the various transfers of shares set out in this prospectus are valid and enforceable under the law of the PRC, the declaration of trust and the various transfers of interests in Tianao are, as a matter of Hong Kong law, valid and enforceable and that the declaration of trust is not chargeable to stamp duty. Each of the Directors has made a statutory declaration to confirm the following matters:

1. he was a director or proposed executive director of the Company incorporated in the Cayman Islands and having its head office and principal place of business at Units 1001 and 1002, 10th Floor, Kwai Hung Holdings Centre, No. 89 King's Road, Hong Kong.

2. he was duly authorised by the board of directors of the Company to make the statutory declaration for and on its behalf.

3. Tianao is an equity joint venture established in the PRC and is currently owned as to 95% by Yugofoil and as to 5% by Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠)..

   The Company was undergoing certain corporate reorganisation pursuant to which Yugofoil would become a wholly-owned subsidiary of the Company.

On 30th October, 1998, Yugofoil acquired 70% equity interest in Tianao from Bright Future and pursuant to a declaration of trust dated 10th November, 1998 between Yugofoil and Bright Future, such interest was held by Bright Future on trust for Yugofoil until Bright Future transferred such interest back to Yugofoil in December 2000.

In July 1999 and November 1999, Yugofoil, through Bright Future acting as its trustee, acquired a further 10% and 10% interest in Tianao, respectively.

On 15th September, 2000, Bright Future, upon instructions from Yugofoil, transferred back to Yugofoil the 20% interest in Tianao which was acquired by it on behalf of Yugofoil. On 8th December, 2000, the original PRC approving authority approved the change of the registered holder of the 90% interest in Tianao from Bright Future to Yugofoil.

Yugofoil has at all times since October 1998 been the beneficial owner of the interest held by Bright Future in Tianao.

In turn, Yugofoil has, since April 1997, been beneficially owned by Mr. Ko, Mr. Au Yeung, Mr. Liu, Mr. Tao, Goldfield and Pernanga as to 33%, 6%, 12%, 42%, 4% and 3%, respectively.

4. Vitapharm Research is a company incorporated in Australia. The Company was undergoing certain corporate reorganisation pursuant to which Vitapharm Research would become a wholly-owned subsidiary of the Company.

   Since its incorporation on 1st April, 1998, the entire issued share capital of Vitapharm Research has been held by King Laboratories Pty. Ltd. and WB Nominees Pty. Ltd. on trust for Mr. Ko who in turn held such shares on trust for Farthinghoe. Accordingly, the entire issued share capital of Vitapharm Research has at all times since its incorporation been held by Farthinghoe beneficially.

   The entire issued share capital of Farthinghoe has since its incorporation been held by each of Mr. Ko, Mr. Au Yeung and Mr. Liu as to one share of US$1 each in Farthinghoe.

5. The business of Vitapharm Research has since it incorporation been managed by Mr. Ko, Mr. Au Yeung and Mr. Liu with the assistance of other management and supporting staff.

6. After the acquisition of equity interest in Tianao in 1998, Yugofoil has appointed its representatives including, Mr. Huang Jian Ming and Mr. Shen Song Qing, directors of Yugofoil to the board of Tianao. Since 7th February, 1999, Mr. Shen Song Qing was relieved from his duties as a representative of Yugofoil on the board of Tianao but Mr. Huang Jian Ming remained as the representative of Yugofoil in Tianao. Subsequently, Yugofoil nominated another two of its directors, Mr. Au Yeung and Mr. Liu to be appointed as directors of Tianao respectively on 28th December, 2000.

7. Yugofoil, principally through Mr. Huang Jian Ming, Mr. Au Yeung and Mr. Liu, has been actively involved in the management of Tianao since the acquisition by Yugofoil of the equity interest in Tianao.

In light of the considerations set out above, the trust agreement was entered into between Bright Future and Yugofoil in November 1998 and the 70% interest in Tianao acquired by Yugofoil from Bright Future was held by Bright Future as a nominee on trust for Yugofoil until about September 2000. Taking into account the mutual trust among the parties arising from the long term relationship and considering that Tianao was at that time in serious financial difficulties and was therefore considerably less valuable than it is at present, the Group took the view that the documents and the relationship between the parties provided sufficient comfort and protection of the interest of the Group in Tianao and therefore had not taken any other action to further protect the Group's interest in Tianao.

Bright Future is a company incorporated in Hong Kong on 2nd September, 1993 with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. As shown in the public records of Bright Future filed with the Companies Registry in Hong Kong, as at 2nd September, 2001, the entire issued share capital of Bright Future was held as to 9,999 shares by Bright Future Pharmaceutical Holdings Limited and as to the remaining one share by Mr. Wong, and Mr. Chan and Mr. Wong were directors of Bright Future. Bright Future is engaged in the sub-contracting and manufacture of pharmaceutical products. Bright Future is one of the pharmaceutical manufacturers operating a GMP compliant production plant, and the production plant of Bright Future, located in Yuen Long, New Territories, Hong Kong, consists of a dedicated building designed and constructed in accordance with the GMP standards.

On 30th December, 1998, Bright Future, acting as a trustee of Yugofoil and upon the instruction of Yugofoil, entered into a share transfer agreement with Shenzhen Jin Bei Sheng Investment Limited (深圳市金北聖投資有限公司) ("Jin Bei Sheng") to transfer a 45% equity interest in Tianao to Jin Bei Sheng at a consideration of RMB9,710,000. The reason for the disposal was that, Yugofoil considered that the consideration offered by Jin Bei Sheng for the 45% interest in Tianao was relatively high compared with that paid by Yugofoil for the acquisition of its 70% interest in October 1998 (having a return of approximately 30 times). Thus, Yugofoil considered it commercially appealing to dispose of certain of its interests in Yugofoil within a period of 2 months' time given such high rate of return while the Group would still be holding a 25% interest in Tianao. Further, Yugofoil considered at the time that the acquisition would be beneficial to Tianao and its then shareholders as a whole in that Jin Bei Sheng then appeared to be a company with solid financial background, Yugofoil believed Tianao's financial resources could be further improved for the benefit of the future development of Tianao. Taking these matters into consideration, Yugofoil thus agreed to sell 45% interest of Tianao to Jin Bei Sheng approximately 2 months after its initial acquisition. The transfer of the 45% interest in Tianao to Jin Bei Sheng was approved by the relevant authorities in January 1999. On or about 29th January, 1999 the appointment of four directors to the board of Tianao by Jin Bei Sheng was approved by the relevant authorities, the resignations of three of whom were approved on or about 2nd June, 1999 and the resignation of the remaining one was approved on or about 13th October, 1999. Jin Bei Sheng defaulted in payment of the purchase consideration and as a result, Bright Future, acting as a trustee of Yugofoil entered into a share transfer agreement with Jin Bei Sheng in May 1999, pursuant to which Jin Bei Sheng agreed to transfer the 45% equity interest in Tianao back to Bright Future. The transfer back of equity interest was considered a remedial action and no actual money changed hands. In June 1999, Yugofoil instructed Bright Future to acquire a 10% equity interest in Tianao from Jin Bei Sheng at a consideration of RMB1,000,000 (or approximately HK$943,396.23) settled in cash pursuant to an agreement with Jin Bei Sheng and Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) entered into by Bright Future acting as a trustee of Yugofoil. The background of the above acquisition is as follows: in December 1998 when Jin Bei Sheng acquired the 45% interest in Tianao from Yugofoil, Jin Bei Sheng also acquired a 10% interest in Tianao from the other shareholder of Tianao, Wuhan Tianao Pharmaceutical Factory. When Jin Bei Sheng later defaulted in payment to both Yugofoil and Wuhan Tianao Pharmaceutical Factory, while Yugofoil was prepared to acquire the 45% interest back, Wuhan Tianao

Pharmaceutical Factory was not prepared to do so and intended to dispose of the 10% interest which was due to be returned by repossession from Jin Bei Sheng. Following negotiation between Bright Future on behalf of Yugofoil with Wuhan Tianao Pharmaceutical Factory, Wuhan Tianao Pharmaceutical Factory agreed to allow Yugofoil to acquire that 10% interest from Jin Bei Sheng. On 7th December, 1999, Jin Bei Sheng made a declaration that it had not been involved in the management of Tianao and admitted that it was not entitled to any interest and right in Tianao thus far.

The approval for the above transfer was obtained in October 1999. On 20th October, 1999, Yugofoil, through its nominee, Bright Future, entered into an agreement with the PRC joint venture partner Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) for the acquisition of a further 10% interest in Tianao for a consideration of RMB1,050,000 (or approximately HK$990,566.04). The approval for the transfer was obtained in December 1999.

To formalise the shareholding of Tianao, on 22nd November, 2000, Tianao applied to the PRC original approving authority for the approval of the transfer of 90% interest from Bright Future back to Yugofoil. In December 2000, the PRC original approval authority approved the transfer. Nothing untoward was noted during the period when Bright Future was holding Yugofoil's interest in Tianao on trust which suggested that Bright Future acted in breach of the trust Yugofoil placed in it, and the Directors consider the trust arrangement to be a commercially viable strategy for the holding of its interests in Tianao for the reasons mentioned above and that the overall arrangement made good commercial sense and was actually effective in achieving the goals of the Group.

On 27th July, 2000, Yugofoil entered into an agreement with the then PRC joint venture partner Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) to acquire a further 5% interest in Tianao for a consideration of RMB600,000 (equivalent to approximately HK$566,038). The transfer was approved by the PRC original approving authority in January 2001 and, since then, the Group has an aggregate of 95% interest in Tianao. The consideration for the acquisition of the aggregate of 25% interest in Tianao from Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) in June and October 1999 and July 2000 was settled by the Group by three remittances in US dollars totalling US$314,630 (currently equivalent to approximately HK$2,454,114) as follows:

Remittance date	**Amount** *(USD)*
21st June, 2001	70,000
26th June, 2001	73,000
29th August, 2001	171,630
	314,630

The China Securities Regulatory Commission issued a no objection letter on 29th November, 2001 to the proposed listing of the Company. The letter contains a summary of submissions made by the PRC legal advisers on the trust arrangement and the circumstances under which the changes in shareholdings took place.

After the acquisition of interests in Tianao, the Group has exercised essential control over the management of that Company through the Group's management team led by Mr. Ko. When the Group acquired the 70% interest in Tianao on 30th October, 1998, the board of directors of Tianao consisted of seven directors, five of whom were appointees of Bright Future and two of whom were appointees of Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所). On the understanding that the five directors

appointed by Bright Future would represent the interests of Yugofoil, there were no changes in the board of directors of Tianao immediately before or after the Group's acquisition of the 70% interest in Tianao.

Tianao is principally engaged in the manufacture of Opin. On 30th October, 1998, Yugofoil appointed Mr. Huang and Mr. Shen, who were directors of Yugofoil, to be Yugofoil's representatives on the board of directors of Tianao. Mr. Huang and Mr. Shen were in charge of managing the daily operations of Tianao after the appointment. On 12th January, 1999, Mr. Shen resigned from the board of Tianao while Mr. Huang continuing his dual directorships of both Yugofoil and Tianao. Since then, Mr. Huang has been the designated representative from Yugofoil in Tianao's management board.

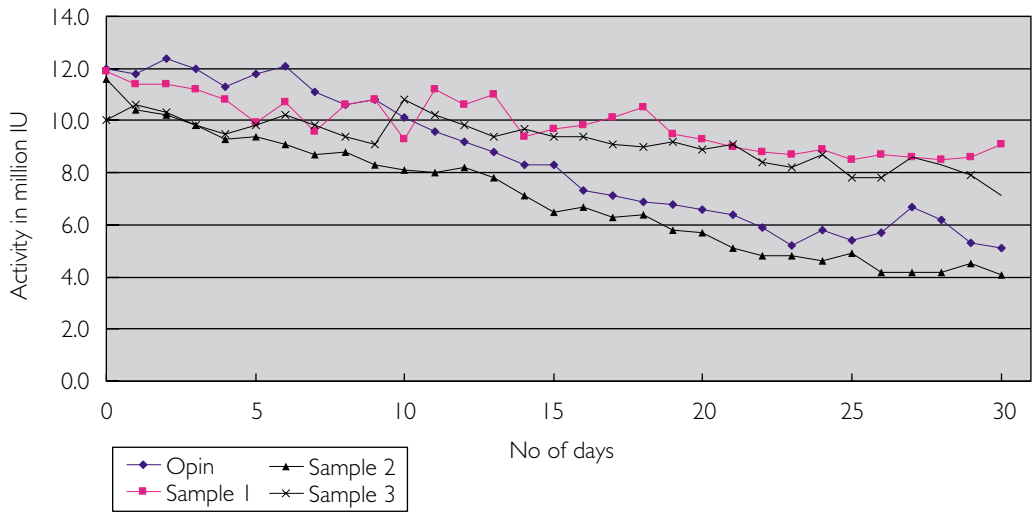
While Mr. Huang and Mr. Shen were authorised by Yugofoil as its representatives in managing the daily business of Tianao, Mr. Ko assisted Tianao's technical staff in solving various technical problems with the objective of improving the stability of Opin. Since November 1998, Mr. Ko, Mr. Liu and Mr. Au Yeung had paid numerous visits to the PRC and communicated with Tianao's technical staff, resulting in steady general improvement of the business. In particular, since the Group acquired Tianao, Mr. Ko's primary direct involvement with Tianao has been the provision of advice on the production and improvement of Opin. For this purpose, Mr. Ko travelled to Tianao initially to develop an on-site understanding of the production process and facilities. Mr. Ko also supplied samples from Australia for testing in the PRC to prove the applicability of the PSD technology. Mr. Au Yeung played a similar role at the time advising principally on the research and development of the Group's platform technologies and the application of such technologies to Opin.

In November 1998, Mr. Ko and Mr. Au Yeung assisted Tianao in performing a research study on the stability of Opin in collaboration with Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所) and shortly thereafter, a research report was issued by the Institute indicating that stability of the original Opin was not up to the standard of the samples provided by Mr. Au Yeung and Mr. Ko or the national standard. As stated in the research report, a temperature stability study was carried out with samples of Opin supplied from Tianao and 3 batches of interferon pessary with a slight variation in processing criteria and formulation details, supplied by Mr. Ko from Australia. The study was carried out among the temperature range 22-25°C, 37°C and 43°C for a period up to 30 days. The result indicated that two formulations have proven to be more stable and within the national standard at the end of the testing period which evidences the temperature stability of Opin can be improved by using the PSD technology.

A Summary of temperature stability study of Opin with and without PSD technology at 22°C to 25°C

Interferon activity in million IU	Time line in days			
Sample Name	0	10	20	30
Opin	12.0	10.1	6.6	5.1
Sample 1: Opin with PSD technology	11.9	9.3	9.3	9.1
Sample 2: Opin with PSD technology	11.6	8.1	5.7	4.1
Sample 3: Opin with PSD technology	10.0	10.8	8.9	7.1

Temperature stability study of Opin



Note: Samples 1, 2 and 3 were embedded with PSD technology with slight variation in processing criteria and formulation.

Mr. Ko travelled to Tianao initially to develop an on-site understanding of the production process and facilities. In the process, Mr. Ko identified that there was minimum pre-treatment to the active ingredient, interferon, which was added directly on to the base material unprotected and subject to unacceptable heat treatment in the subsequent process of manufacturing.

Mr. Au Yeung and Mr. Ko then presented their recommendation on the pre-treatment of interferon to improve the production process of Opin. An official recommendation was made by Mr. Ko and Mr. Au Yeung to Tianao in November 1998 and a special type of processing equipment, fluid bed, was required to be used for the bio-encapsulation process. The PRC partner, the Wuhan Institute of Virology, the Chinese Academy of Sciences (中國科學院武漢病毒研究所), had a set of the equipment that satisfied Mr. Ko's requirements. Mr. Ko used this special equipment to apply the PSD technology and derived a set of production procedures that is applicable using the existing facilities and resources at that premises. This involved the following steps:

- pre-treating the interferon in the fluid bed using the bio-encapsulation process with a coating solution;

- the coating protects the interferon from excessive exposure to air;

- treating the base material in a separate process because this process involves the application of excessive heat; and

- the pretreated interferon is then added back into the process afterwards just prior to pressing into a pessary.

This procedures proposal was accepted and implemented by Tianao.

Wuhan Institute of Virology is a branch of the Chinese Academy of Sciences, one of the PRC's leading academic institution and comprehensive research and development centre in natural sciences, technological sciences and high-tech innovation. Other than having a 5% indirect interest in Tianao through its subsidiary Wuhan Tianao Pharmaceutical Factory, Wuhan Institute of Virology is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules). Except for the research report issued by Wuhan Institute of Virology, the Chinese Academy of Sciences, no other research report was issued regarding Opin.

During the implementation phase, Mr. Ko also travelled to Tianao frequently and provided training to production staff to improve the production process.

Beshabar (BVI) and Beshabar (HK)

Another major PRC business developed by the Group is the marketing and distribution of Osteoform, an American amino acid chelate calcium supplement, in PRC. This was the main reason for the establishment of Beshabar (BVI). Beshabar (BVI) was incorporated in the BVI on 22nd April, 1997 as a wholly-owned subsidiary of Yugofoil and is engaged in the business of marketing Osteoform. Beshabar (BVI) obtained the sole distribution right of Osteoform from Pharmco for the PRC market in May 1997. Pharmco is a Texas corporation carrying on business under the name of IMAX International, the entire issued capital of which is owned by Ms. Betty Bai and Mr. Tze-Rou Kuo. Save and except it is an associate (as defined in the GEM Listing Rules) of Ms. Betty Bai and Mr. Tze-Rou Kuo, it is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules).

Ms. Betty Bai and Mr. Tze-Rou Kuo are currently holding 24 and 25 shares of HK$1 each in Maxsun. Save and except for their beneficial interests in Maxsun, each of Ms. Betty Bai and Mr. Tse-Rou Kuo is independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules).

Taking into account the lack of experience and distribution network of the Group in the PRC at that time to promote pharmaceutical products, the Group entered into a co-operation agreement in June 1997 with Mas International (HK) Company Limited ("Mas"), a pharmaceutical trading company in Hong Kong and an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates. Pursuant to the co-operation agreement, Beshabar (BVI) agreed to procure that all the business of sales and distribution of Osteoform in the PRC would be done through the co-operation of Beshabar (BVI) and Mas and Mas agreed to assume all the costs of the said co-operation in the business of sales and distribution of

Osteoform in the PRC. Should the total turnover/sales volume of Osteoform reach an agreed quantity of 10 million bottles within the three years ended 30th June, 2000, Mas was required to pay the Group a fixed fee of HK$3.5 million. However, sales of Osteoform could not reach the quantity specified in the co-operation agreement up to August 2000 and the Group did not receive the fixed fee. Pursuant to the co-operation agreement, Beshabar (BVI) was responsible for, inter alia, ensuring the continuity of the sole distribution rights and the rights to use the trademark of Osteoform granted by Pharmco, participating in the determination of sales models, pricing, establishment of sales points and selection of distributors in the PRC in connection with the distribution of Osteoform, and providing training and introduction of the product to distributors in the PRC. Mas was responsible for, inter alia, providing all funds required for the co-operation in the business of sales and distribution of Osteoform in the PRC, handling of the whole process of import and export of Osteoform from the US and to the PRC. The co-operation agreement with Mas was extended by oral agreement between the parties for two months and was terminated in August 2000, as the Directors considered that the brand name of Osteoform was well established in the PRC market and the Group has also developed its own distribution network through the sales of Opin.

To delineate its investment holding activities from its trading activities, in August 2000, Beshabar (HK) (formerly known as Wise Shine Limited) entered into a sub-contracting agreement and a packaging agreement with Bright Future. Pursuant to the two agreements, Beshabar (HK) agreed to sub-contract the production and packaging process of Osteoform to Bright Future.

Pursuant to the marketing and distribution agreement entered into between the Group and Pharmco, the Group was granted the right to appoint any distributors for distributing Osteoform within the following specified territories: Australia, Cambodia, Hong Kong, Indonesia, Japan, Laos, Macau, Malaysia, New Zealand, North Korea, the PRC, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand and Vietnam. On 20th July, 2000, Beshabar (HK) entered into a non-exclusive distribution agreement with Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) for the distribution of Osteoform in the PRC. Shenzhen Foreign Trade Import and Export Transportation Company is an independent third party not connected with the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company and any of their respective associates. On 26th November, 2000, the two parties entered into a new non-exclusive distribution agreement for a term of 3 years for the distribution of Osteoform in the PRC. Subsequently, on 28th November, 2000, Beshabar (HK) entered into another non-exclusive distribution agreement for a term of 3 years with Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) with a view to expanding the market coverage of Osteoform in the PRC. Shanghai Pharmaceutical Company Limited is an independent third party not connected with the Director, the chief executive, Initial Management Shareholders and substantial shareholders of the Company and any of their respective associates.

On 26th December, 2000, Beshabar (HK) also entered into a new marketing and distribution agreement with Pharmco for a term of 20 years whereby Beshabar (HK) was granted an exclusive right to distribute Osteoform in the PRC and other markets consisting of Australia, Cambodia, Hong Kong, Indonesia, Japan, Laos, Macau, Malaysia, New Zealand, North Korea, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand and Vietnam. Beshabar (HK) was incorporated in Hong Kong on 25th August, 2000 as the Group's trading arm for Osteoform. The territories covered by the new marketing and distribution agreement can be amended by Pharmco unilaterally.

With the well-established distribution network through the successful launch of Osteoform and the efficient sales and marketing team, the Directors are confident that the Group's products could be promoted and distributed extensively in the PRC.

Weiao

Apart from the above PRC investments, the Group has recognised the vast potential of western PRC and been looking for investment opportunities in that region. Pursuant to a capital transfer agreement on 15th August, 2000 entered into between Yugofoil and Mas which was approved on 3rd November, 2000 by the relevant PRC authorities, Yugofoil acquired 30% of the registered capital in Weiao from Mas for a consideration of RMB900,000 (approximately HK$849,057). Furthermore, on 20th August, 2000, Yugofoil invested a sum of RMB6,000,000 (approximately HK$5,660,377) in Weiao, thereby increasing its shareholding interest in Weiao to 76.7%. Mas is an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders, significant shareholders of the Company or any of their respective associates. Weiao (formerly known as Sichuan Kangbai Pharmacy Co., Ltd.) is a pharmaceutical company established in the PRC on 8th January, 1998 and possesses a pharmaceutical production licence granted by the Sichuan Provincial Pharmaceutical Regulatory Department for the manufacture of drugs. Prior to the Group's acquisition of equity interest in Weiao. Weiao held production permits which allowed the manufacture of several Chinese pharmaceutical products and was engaged in the production of several such products, of which production was terminated after the acquisition of equity interest of Weiao by the Group. The purpose of the acquisition of Weiao is to utilise Weiao's existing business licence, certificates and permits to obtain approvals from the relevant PRC authorities for the construction of a new GMP compliant production plant in Chengdu City, Sichuan Province, the PRC. The Group does not plan to use Weiao's permits to manufacture the Chinese pharmaceutical products. The Chengdu production plant obtained its GMP certification from the relevant PRC authorities in December 2001 and commercial production is expected to commence in the first quarter of 2002.

Vital (Sichuan)

In order to further strengthen the research and development work of the Group and to capture opportunities arising from the development of the North and Western regions PRC, Vital (Sichuan) was established in the PRC in July 2001 as a subsidiary of Vital BioTech (Hong Kong), a company of the Group incorporated in Hong Kong on 17th November, 2000. Vital (Sichuan) will be engaged in the research and development of biopharmaceutical products.

Vital (Sichuan) at present has not commenced any business apart from the planning of the construction of the Group's research and development centre in Chengdu City, Sichuan Province, the PRC. This research and development centre will be held by Vital (Sichuan). Apart from employing some management staff who are engaged in the planning work, Vital (Sichuan) has not employed any staff. As at the Latest Practicable Date, the unaudited net asset value of Vital (Sichuan) was approximately RMB1.4 million and unaudited loss for the period from the date of establishment up to the Latest Practicable Date was approximately RMB0.3 million.

Under the business licence and the articles of association of Vital (Sichuan), Vital BioTech (Hong Kong) is required to contribute the full amount of the registered capital of US$1,400,000 (equivalent to approximately HK$10,920,000) on or before 24th July, 2003. The registered capital of Vital (Sichuan) is US$1,400,000, (equivalent to approximately HK$10,920,000) of which US$210,000 (equivalent to approximately HK$1,638,000) has been paid up by Vital BioTech (Hong Kong) as at the Latest Practicable Date. The balance of

US$1,190,000 (equivalent to approximately HK$9,282,000) is expected to be fully paid up by Vital BioTech (Hong Kong) from internally generated source of funds on or before 24th July, 2003 pursuant to the Articles of Association of Vital (Sichuan). Vital BioTech (Hong Kong) has agreed not to consolidate the accounts of Vital (Sichuan) until the registered capital of Vital (Sichuan) is fully paid up, as required by the relevant PRC authorities. Taking into account the due date for fulfilling the investment contribution by 24th July, 2003 and the financial resources of the Group after listing of the Company, the Directors are of the view that the risk to the Group resulting from failure to meet the requisite capital investment into Vital (Sichuan) on or before the required date is minimal.

Ever Power and Gainful Plan

Ever Power and Gainful Plan are the two companies in the Group holding the pending patent applications of the Group, particulars of which are set out in the paragraph headed "Intellectual property rights of the Group" of Appendix IV to this prospectus. Pursuant to a deed of assignment dated 16th June, 2001 entered into between Gainful Plan, as assignee, and Mr. Ko and Mr. Au Yeung, as assignors, for the assignment of all right, title and interest in an invention entitled "Method of preparing biological materials and preparations produced using the same" relating to the PSD technology which is the subject of Australian Provisional Patent Application No. PR2729, the Group acquired its ownership of this patent application.

Pursuant to a deed of assignment dated 16th June, 2001 entered into between Ever Power, as assignee, and Mr. Ko, as assignor, for the assignment of all right, title and interest in the International Patent Application No. PCT/AU00/01419, entitled "Novel compositions and methods" relating to the SDDS technology, the Group acquired its ownership of this patent application.

These assignments were effected in June 2001 when the applications for the relevant patent rights, which were filed during the period from November 2000 to January 2001, had reached a more advanced stage. Set out below are details of capital injections made into Ever Power and Gainful Plan.

Company	Shareholder	No. of share held	Amount paid per Share	Date of acquisition
Ever Power	Mr. Ko	1	US$1	16/6/2001
	Mr. Au Yeung	1	US$1	16/6/2001
		2	US$2	
Gainful Plan	Mr. Ko	1	US$1	16/6/2001
	Mr. Au Yeung	1	US$1	16/6/2001
		2	US$2	

Strategic Alliance/Technology Transfer/Business Venture

To improve the existing pharmaceutical products of the Group and to develop new markets, the Group has entered into, or is seeking to enter into, various collaboration arrangements.

a. Hengrui Project

On 28th November, 2001, Weiao and Vitapharm Research entered into an agreement for the co-operative development of applied technology of drug delivery systems with Jiangsu Hengrui Pharmaceutical Company Limited (江蘇恒瑞醫藥股份有限公司) ("Hengrui"). Under the first part of the agreement, Hengrui would acquire from Weiao a non-exclusive right to use two trial formulations of anti-cancer drugs for a term of 3 years. Under the second part of the agreement, Hengrui agreed to provide up to six existing anti-cancer drugs for the purposes of initial research and development of formulations. Furthermore, Weiao and Hengrui will jointly select up to three formulations for further clinical trials. Hengrui will pay a consideration of RMB3,000,000 under the first part of the agreement and a further RMB3,000,000 under the second part. All the research results, intellectual property rights and/or patent applications arising from any inventions or creations completed in the process of the joint development shall be shared by Hengrui, Weiao and Vitapharm Research in the ratio of 5:3:2.

Hengrui is a company established in the PRC principally engaged in the research and development, production and sales of pharmaceutical products. It is an independent third party not connected with the Company or the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

b. Sine Project

A confidentiality agreement was signed on 3rd September, 2001 between Vitapharm Research and Shanghai Sine Pharmaceutical Corp. Ltd., a PRC company engaged in the research and development, production and sales of biotechnology and pharmaceutical products, regarding a proposed joint development of a room temperature stable probiotic product based on a formulation of Shanghai Sine Pharmaceutical Corp. Ltd. which is listed as a "Class 1 new drug" in the PRC. Shanghai Sine Pharmaceutical Corp. Ltd. is an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

c. Inner Mongolia Bio Products Factory Project

A confidentiality agreement was signed on 13th August, 2001 between Inner Mongolia Jinyu Group Co. Ltd., (內蒙古金宇集團股份有限公司) a PRC company principally engaged in the research and development, production and sales of biotechnology and pharmaceutical products, and Vitapharm Research regarding a proposed joint development of room temperature stabilised drugs, including vaccines and veterinary drugs (疫苗及獸葯), such as enzyme based products (酶制劑) and probiotic (益生菌). Inner Mongolia Jinyu Group Co. Ltd. is an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

d. Chr. Hansen Project

A confidentiality agreement was signed on 25th January, 2001 between Chr. Hansen Pty. Ltd., and Vitapharm Research regarding a proposed joint development of a series of probiotic products. Chr. Hansen Pty Ltd. is a company of the Chr. Hansen, Inc. group. Chr. Hansen, Inc. is a Danish biotechnology company founded in 1874, and is principally engaged in the development of the natural biological and microbiological products for use in the agricultural and environmental industries.

e. Meditech Project

A confidentiality agreement was signed on 5th March, 2001 between Vitapharm Research and Meditech Research Limited, a drug development company listed in Australia, regarding a proposed joint development of new formulations of anti-cancer drugs.

f. Alpharma Project

A confidentiality agreement was signed on 25th January, 2001 between Alpharma Animal Health Pty. Ltd., a company principally engaged in the supply of human and animal pharmaceutical products and listed on the New York Stock Exchange, and Vitapharm Research regarding a proposed joint development project on room temperature stable protein formulation for pharmaceutical and veterinary applications.

Active Business Pursuits

The following is a statement of active business pursuits of the Group for the two years ended 31st December, 2000 and the period from 1st January, 2001 to the Latest Practicable Date:

		Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999	Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000	Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date
Research and development	Australia	– Refinement of micro bio-encapsulation technology on the stablisation of biological protein and drug delivery technology – Lodged Australian Provisional Patent PQ4190 application entitled "A propellant free spray-on skin patch composition for improving wound healing and for drug administration" – Australian Registration approval of Spray-On Bandage, Aust L68718	– Filed international patent PCT/AU00/01419 application entitled "A propellant free spray-on skin patch composition for improving wound healing and for drug administration"	– A confidentiality agreement was signed with Chr. Hansen Pty. Ltd. – A confidentiality agreement was signed with Meditech Research Limited – A confidentiality agreement was signed with Alpharma Animal Health Pty. Ltd. – A confidentiality agreement was signed with Shanghai Sine Pharmaceutical Corp. Ltd. – A co-operation agreement was signed with Inner Mongolia Jinyu Group Co. Ltd. (內蒙古金宇集團股份有限公司) – Filed Australian Provisional Patent PR2729 application entitled "Method for preparing biological materials and preparations produced using same"

		Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999	Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000	Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date
Research and development	PRC			– China Intellectual Property Bureau (中華人民共和國國家知識產權局) approved transfer of patent no. 94101255.7 of hard porous lossefoam body bolt and its manufacturing process (硬質多孔松泡體栓及其製造工藝) being transferred from Wuhan Tianao Pharmacy Factory (武漢天奧製藥廠) (formerly known as Wuhan Zhongke Kangyi Biology Medicine Factory (武漢中科康益生物製藥廠)) to Tianao

	Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999	Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000	Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date
Business development	– Continued marketing operation regarding sub-licensing to third party for launching Osteoform in the PRC under licence from Pharmco, including determination of sales models, pricing, establishment of sales points, selection of distributors in the PRC, and training to distributors – Continued improvement of Opin by implementing the Group's PSD technology – Obtained Technology Certificate (科學技術進步獎勵證書) from the People's Government of Hubei Province (湖北省人民政府)	– Tianao obtained Certificate of New High Technology Enterprise (高新技術企業證書) from the People's Government of Wuhan City (武漢市人民政府) – Beshabar (HK) was incorporated in Hong Kong – Trademark license agreement and marketing and distribution agreement for the distribution of Osteoform were entered into between Pharmco, Maxsun and Beshabar (HK) – Assignment of trademark of Osteoform was entered into between Pharmco and Maxsun – Yugofoil entered into a transfer agreement with Mas International (HK) Limited for the transfer of a 30% interest in Weiao	– Weiao obtained the Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證) for the production of oral liquid-dose, tablets, capsules, granules and compound medicine issued by the Drug Administration Bureau of Wubei Province (湖北省藥品監督管理局) – The agreement entered into between Yugofoil and Wuhan Tianao Pharmaceutical Factory (武漢天奧製藥廠) for the transfer of 5% interest of Tianao was approved by relevant authorities – Weiao obtained Land Use Certificate (國有土地使用證) in respect of a piece of land with an area of 12,288.50 sq.m. for the construction of the production facilities of Weiao – Weiao obtained Land Use Certificate (國有土地使用證) in respect of a piece of land with an area of 18,626.7 sq.m. for the construction of the production facilities of Weiao

Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999

Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000

- Leasing agreement was entered into between Weiao and Chengdu Hai Ke Investment Limited (成都海科投資有限責任公司) on 9th December, 2000 regarding the leasing of a piece of land with an area of 120 acres for further development of the Group
- 3 leasing contracts were entered into between Weiao and State Land Bureau of Wen Jiang County, Sichuan Province, the PRC (中華人民共和國四川省溫江縣國土局) for the lease of land with a total area of 26,666.7 sq. m.
- Tianao obtained the Pharmaceutical Manufacturing Enterprise Permit (藥品生產企業許可證) for the production of pessary issued by the Drug Administration Bureau of Wubei Province (湖北省藥品監督管理局)
- Tianao obtained Top ten business enterprises (十強企業) from Information Centre of the Statistical Bureau of Hubei Province (湖北省統計局信息中心)

Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date

- Weiao obtained the Building Ownership Certificate (房權證) issued by the People's Government of Wen Jiang County (溫江縣人民政府) for its new production facility
- Ever Power was incorporated in the BVI
- Gainful Plan was incorporated in the BVI
- The Company was incorporated in the Cayman Islands
- Vital (Sichuan) was established in the PRC
- Tianao obtained Star privately owned technology enterprises (明星民營科技企業) from the Science and Technology Committee of Wuchang District (武昌區科學技術委員會)
- Tianao obtained Certificate of New High Technology Enterprise (高新技術企業證書) from the People's Government of Wuhan City (武漢市人民政府)

Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999

Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000

– Vitapharm Research was awarded "Finalist of the 2000 HSBC Business Award" by the Hong Kong Australia Business Association

Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date

– 3 land use right grant contracts were entered into between Weiao and the State Land Bureau of Wen Jiang County, Sichuan Province, the PRC (中華人民共和國四川省溫江縣國土局) for acquiring the land with a total area of 30,910.03 sq. m. The relevant land use right certificates were subsequently granted by the approving authorities.

	Business pursuits of the Group during the period from 1st January, 1999 to 31st December, 1999	Business pursuits of the Group during the period from 1st January, 2000 to 31st December, 2000	Business pursuits of the Group during the period from 1st January, 2001 to the Latest Practicable Date
Sales and marketing	– Continued co-operation with Mas for distribution of Osteoform in PRC – Continued appointment of a sole distributor for distribution of Opin in the PRC	– preparation for the establishment of marketing team and representative offices – Tianao was approved by the Economic Technology Co-operation Committee Office of Wuhan City (武漢市經濟技術協作委員會辦公室) and the relevant Industrial and Commerce Administration Bureau (工商行政管理局) to set up representative offices, in various places in the PRC, including, inter alia, Huhhot, Changsha, Zhengzhou, Chongqing and Nanjing – Beshabar (HK) entered into an agency agreement with Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) which would act as an agent for distribution of Osteoform in the PRC – Beshabar (HK) entered into an agency agreement with Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) which would act as an agent for distribution of Osteoform in the PRC	– Tianao was approved by the Economic Technology Co-operation Committee Office of Wuhan City (武漢市經濟技術協作委員會辦公室) and/or the respective Industrial and Commerce Administration Bureau (工商行政管理局) to set up representative offices in various places in the PRC, including, inter alia, Lanzhou, Shenyang, Harbin, Xiangfan (襄樊), Urumqi and Tianjin – Continued appointment of Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) as an agent for distribution of Osteoform in the PRC – Representative offices for marketing and after sales services of the Group's products commenced operations – the production facilities of the Group in Sichuan received GMP approval – Shanghai Pharmaceutical Company Limited started to be an agent for distribution of Osteoform in the PRC

MISSION STATEMENT

The Group's objective is to become a world-class research and development based biotechnology group in the pharmaceutical industry with emphasis on biopharmaceutical products that can be distributed to the mass market at an affordable price.

The Directors believe that the Group can accomplish its mission in the following ways:

(a) the Group's management are well-trained in either the PRC or overseas specialising in the biotechnology or pharmaceutical industry. The Directors believe that by applying the successful management philosophy and the capabilities of the Group to its research and development of biopharmaceutical products, the Group can effectively and successfully implement its expansion plan to match the anticipated growing trend of the biotechnology and pharmaceutical industry worldwide;

(b) building on the skills and experience of its team of high calibre professionals and technologists in the biotechnology and pharmaceutical industry;

(c) capitalising on the following strengths:

- research and development capability: the Group has its own research centre in Australia where the Group commercialised and refined its PSD and SDDS technologies. The Directors expect that the research capability the Group will be further strengthened upon the completion of its proposed research and development centre in Chengdu City, Sichuan Province, the PRC;

- quality assurance: GMP is a set of standards set for pharmaceutical companies for assurance of the quality of their products. The Company plans to gradually raise the current production standard in a structured manner to the PRC GMP standards and then to international GMP standards in preparation for the launching of the Group's products to international market in the near future;

- established distribution channels: the Group has established various distribution channels through which its products are distributed to end-users, including hospitals, clinics and drug stores in major PRC cities. The Directors believe that the Group's experience in establishing distribution network in the PRC will serve as the base for the launching of its products to overseas markets, such as Taiwan, Singapore and Russia;

- the Group's platform technologies: the Group applies the micro bio-encapsulation platform technology to stabilise biological protein products and to deliver them through non-injectable means (e.g. through various mucosal surface). The Group also uses a polymer based dermal drug delivery system for chemical drugs. These technologies can be applied to a broad range of biopharmaceutical and conventional pharmaceutical products which will in turn be released as mass-market products for the prevention and treatment of diseases. The Group's technologies aim at lowering production costs, improving drug efficiency, and making drug delivery more user-friendly. The technologies can be commercialised for new and existing pharmaceutical products via the Group's in-house manufacturing and distribution systems, through cooperation with strategic partners or through joint venture, licensing and other collaborative methods; and

- strategic alliances: the Group has entered into co-operation and strategic alliances with various established pharmaceutical companies and research institutes in the PRC and abroad for the joint development and production of pharmaceutical products in a cost effective and timely manner. The Directors believe that the growth of the Group will be expedited by the synergy generated from the Group's research capabilities and its strategic alliances and co-operation with biotechnology and pharmaceutical research institutes in the PRC and abroad.

DESCRIPTION OF THE BUSINESS

The Group is principally engaged in the research and development, production and distribution of biopharmaceutical and conventional pharmaceutical products. The research and development of the Group focuses on downstream value adding biotechnology processing systems. Downstream research and development work refers to processing technology, which tends to be industrially oriented and is usually performed in large scale in terms of quantity. The Group has commercialised and refined two platform technologies, namely the "Protein Stabilisation and Delivery (PSD)" and the "Skin Drug Delivery System (SDDS)" technologies. Further details of these two platform technologies are set out in the paragraph headed "Platform Technologies" in the section headed "Business" in this prospectus.

With its research and development capabilities, the Group focuses on advanced drug delivery system built on a unique micro bio-encapsulation platform for the delivery of active ingredients for human and veterinary applications via non-injection methods, such as through the mucosal membrance. The Group has also utilised the micro bio-encapsulation platform technologies and various other drug delivery systems to enhance or develop its own products, namely Opin and Spray-On Bandage. Details of the Group's products are set out in the paragraph headed "Products" in the section headed "Business" in this prospectus.

Equipped with these technologies, the Group has established alliances with biotechnology and pharmaceutical companies worldwide.

The Group co-operates with biotechnology and pharmaceutical companies to improve and expand the applications of their existing pharmaceutical products for existing and emerging markets. The co-operation can be in form of joint venture, licensing, services arrangement and joint development. Further details of the co-operative agreements are set out under the paragraph headed "Strategic alliance/technology transfer/business venture" in the section headed "History" in this prospectus.

The Group has also developed an extensive distribution network of pharmaceutical products in the PRC. Pending the commercialisation of the Group's products utilising its own developed platform technologies, the Group has, through its distributors, used Osteoform to establish distribution channels for its products to the consumer markets in the PRC. The sales of Osteoform also provides a stable income stream on which the research and development functions of the Company can flourish. Currently, the Group distributes Osteoform throughout the PRC through two distributors in Shenzhen and Shanghai respectively. Opin is distributed to end-users including hospitals, clinics and drug stores in the PRC through its own sales and marketing team and independent distributors not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

To enhance its sales and marketing efforts, the Group has established 22 marketing and liaison offices to promote its products and to provide after-sales services since April 2000.

Opin is produced by the Group at its production facilities located at Wuhan, the PRC. Osteoform is produced at the production facility operated by an independent third party in Hong Kong. Detailed description of the production facilities are set out in the paragraph headed "Production facilities" in the section headed "Business" of this prospectus.

Sales generated by pharmaceutical products accounted for approximately 100%, 99.4% and 100% of the Group's turnover respectively for the two years ended 31st December, 2000 and for the six months ended 30th June, 2001.

The gross profit percentage for the sales of the Group's products were 36.9%, 40.9% and 45.1% respectively for the two years ended 31st December, 2000 and for the six months ended 30th June, 2001.

The platform technologies developed by the Group are applicable to many biopharmaceutical products, it is expected that the Group's product range will be further expanded upon the commissioning of its production facilities and the completion of the construction of its research and development centre in Chengdu City, Sichuan Province, the PRC and the further strengthening of its co-operation with other pharmaceutical companies.

RESEARCH AND DEVELOPMENT

The Directors believe that growth strategies based solely on the discovery and development of new pharmaceutical products are expensive and risky. Accordingly, the Group does not focus its resources on new drug discovery, but specialises in downstream value adding processing development.

Based on this strategy, the Group further developed two platform technologies, PSD and SDDS, originally jointly-invented by Mr. Ko and Mr. Au Yeung and solely by Mr. Ko respectively, with wide applications which offer customer focused solutions to optimise formulation, production and commercialisation of biological and pharmaceutical products. Vitapharm Research was responsible for performing the research and development activities for the Group.

The Directors believe that as living standard continues to improve, average life expectancy in the PRC is expected to improve. This has led to an increase in health consciousness among the general public and the demand for health care services and products is expected to grow significantly. The Directors believe that the platform technologies, together with the Group's established marketing and distribution network in PRC, will make alliance partnership with international pharmaceutical companies possible.

Aiming to achieve a leading position in technology development, the Group actively participates in trade exhibitions and seminars of biotechnology industry. In 2001, Vitapharm Research was selected by the state government of the State of Victoria, Australia, as one of the 11 companies to receive financial support from the State government to participate in the exhibition display at Bio 2001. Bio 2001 was a biotechnology industry event held in San Diego, the US in June 2001 where 16,000 industry practitioners from around the world met to exchange views and explore business opportunities. The Group took this opportunity to expand its global networking and to fine-tune strategies to commercialise the platform technologies to other companies.

During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group spent approximately HK$21,000, HK$216,000 and HK$534,000 respectively on research and development, representing approximately 0.1%, 0.3% and 1.0% of the Group's turnover respectively and approximately 0.1%, 0.5% and 1.4% of the Group's total expenses (including cost of sales) respectively.

PLATFORM TECHNOLOGIES

Two platform technologies, namely Protein Stabilisation and Delivery (PSD) and Skin Drug Delivery System (SDDS), were commercialised and refined by Vitapharm Research. PSD focuses on biological proteins and SDDS is designed for chemical pharmaceuticals.

(a) Protein Stabilisation and Delivery

The PSD technology utilises the micro bio-encapsulation process to achieve room temperature stabilisation and mucosal delivery of biological proteins.

Peptide- and protein-based pharmaceuticals are rapidly becoming a very important class of therapeutic agents and are likely to replace many existing organic chemical based pharmaceuticals in the near future. The field of biotechnology and genetic engineering is rapidly developing, and an increasing number of such peptide- and protein-based pharmaceuticals will be produced on a large scale by biotechnology processes and will become available commercially for therapeutic use. This poses an urgent challenge to the pharmaceutical industry to develop viable delivery systems for the efficient delivery of these complex therapeutic agents in biologically-active forms. Much work needs to be done on the development of viable delivery systems for nonparenteral administration to make peptide-and protein-based pharmaceuticals commercially viable and therapeutically useful.

The PSD technology makes peptide-and protein-based pharmaceuticals commercially viable and therapeutically useful.

Traditionally, the following two major problems have made the commercialisation of biological products unviable, such as the use of peptide-and protein-based pharmaceuticals as therapeutic agents.

(i) Protein stability

Biological molecules such as peptides and proteins are normally unstable at room temperature. Therefore they normally are refrigerated between 2 – 8°C, which, the Directors believe, would make the commercialisation of these biological molecules as pharmaceutical products expensive and difficult for mass-markets (especially in developing countries). For this reason, not many biological molecules can become commercially viable products.

The stability problem also leads to difficulties in the development of solid dose formulations, e.g. tablets. The tablet making process usually requires mechanical wet mixing of active materials with bulking materials, heating and drying. These processes tend to destroy the bioactivities of the peptides and proteins.

(ii) Protein drug delivery

Drugs must be delivered to the target tissue for pharmacological response. The best situation is to directly deliver the drug to the target tissue, but it is not always achievable.

Different delivery systems are available.

Oral delivery (ingestion):

It is widely accepted that oral route of delivery of biological active peptides and proteins has low systemic bioavailability and short duration of therapeutic activity. Proteins are easily destroyed in the stomach and digested by protease enzymes in the intestine.

Parenteral delivery (injections):

Parenteral delivery, although offer high systemic bioavailability, is impractical for the therapeutic regime which required daily or even multiple daily administration.

Mucosal delivery (via sublingual, ocular, nasal, pulmonary, rectal, and vaginal):

Mucosal delivery routes allow elimination of first-pass hepatic degradation. Drugs can be directly delivered to systemic circulation where interchange of blood stream and lymphatic system and distribution to the target tissues occur. These routes of administration are practical for self-medication.

(iii) Protein stabilisation and delivery technology

The PSD technology is based on a process known as micro bio-encapsulation which takes place within a nitrogen environment or air stream at 30-50°C. The biological material in the liquid formulation is instantaneously immobilised onto the seed particles being fluidised. The process can yield up to 2000kg and 3000kg of free flowing product per batch. The micro bio-encapsulation process avoids the expensive freeze-drying process, resulting in a faster, higher yield and a lower cost production process.

The encapsulated products are biologically stable. This allows the extension of product storage time at room temperature, reducing the need for refrigeration and avoiding short product expiration period.

The encapsulated products can be administered in more convenient dose forms–oral, sublingual, vaginal or nasal presentations instead of parenteral or nebulised. This allows a wide choice of commercially viable delivery systems. Depending on the properties of the medicine, a suitable route can be selected to achieve best efficacy. For example, oral route is chosen for the direct delivering probiotics to the gastrointestinal tract where they act as microecological modulators. The Directors believe that sublingual, vaginal and nasal deliver products via mucosal delivery provide therapeutic responses with reduced side effects or degradation. In general, the process allows preparation of tailor-made formulations according to the properties, the designated routes and therapeutic target and regime of the biological products.

One of the major developments of the Group was the application of this technology to interferon, a natural protein present in human body that has a modulating effect on human immunity and protects the human body from viral infection. With this technology, it is intended that a series of interferon based products will form a major product pipeline for the Group. Opin is a launched product using the technology to form interferon tablet designed for vaginal delivery for the treatment of chronic erosive cervicitis and was granted an award of "Class 2 New Drug" by the SDA in 1998 (classified under the pre-1999 regulations). Under development is a nasal interferon spray with an indication for upper respiratory tract viral infections including treatment of flu and cold. Taking advantage of this technology, many new products are under development; for example, sublingual EPO for the treatment of chronic anaemia and oral probiotics for harmonising intestinal microbial ecological environment.

(b) Skin Drug Delivery System

The polymer based SDDS technology is invented to deliver drugs to the systemic circulation system through topical application to the intact skin surface. This technology is effective for chemical pharmaceuticals and not designed for protein delivery.

The system is based on sophisticated polymer membrane technology. Drugs are stored as liquid form. When spraying on the skin surface, a flexible polymer film will be formed. The film is water resistant, porous, flexible, durable, and self-disintegrated. Most importantly, the flexible polymer structure of the film serves as a drug depot that continuously releases medication for dermal absorption. In case of applying to a wounded area, the film, serves additionally as a physical barrier to protect the wound from infection by air-born micro-organisms. Like mucosal delivery, it by-passes the first hepatic degradation. Delivery is direct to the systemic circulation from where drugs are distributed to the target tissue.

The technology relates to a non-aerosol spray-on skin patch composition and methods of using it in improving wound healing, and/or administering a physiologically active ingredient to a patient. This also relates to a spray on skin patch drug delivery system.

As an embodiment of the *technology*, a typical spray patch skin delivery composition comprises:

(a) at least one substantially water insoluble film forming agent;

(b) at least one film plasticiser agent;

(c) at least one water soluble compound;

(d) at least one organic solvent; and

(e) one or more physiologically active ingredient or a pro-drug thereof;

The composition forming a flexible, porous and physiologically compatible skin patch when sprayed onto skin and allowed to dry, and which provides a skin drug delivery system.

SDDS is only manufacturing technologies. The technologies have no specific therapeutic claim or efficacy claim. Such claims are claims of the product that uses the technology. Clinical trails or empirical studies are conduct on the actual proposed products. Example in this case is Spray-On Bandage.

The most significant feature of products made from SDDS technology is that it can deliver drug through the polymer membrane. In the case of the Spray-On Bandage, the drug to be delivered is the disinfectants. This function was clearly demonstrated by a study conducted by a consultant microbiologist in Australia who is an independent third party. In the experiment, the product was spray on to a piece of paper and allowed to dry. This simulated the product spraying onto a skin surface. The loaded paper was than laid onto a lawn of live bacteria and left alone to growth. At the end of the experiment, a clear inhibition zone was clearly demonstrated around the paper. This indicated the disinfectant had been successfully released into its surround thus prohibiting bacterial growth in that clear neighborhood region.

This system is highly convenient and user-friendly. There are no tablets or capsules to swallow, or injections given. It also allows the formulation of an environmental friendly non-aerosol spray.

The Spray-On Bandage is a product using this delivery system both as an artificial skin membrane covering a wound, and also as a vehicle to deliver antiseptic to treat and guard the wound against infection.

(c) The application of the two platform technologies

The Directors believe that the PSD and the polymer based SDDS technologies have high commercial value and potential and they both offer product protection and user-friendly drug delivery system.

The PSD technology is applicable to many biological, synthetic and natural herbal pharmaceutical products. When it is applied to currently known unstable therapeutic biological products, the technology may allow the products to be room temperature stable and acceptable for oral or mucosal delivery instead of by injection. The PSD process may also increase production yield and reduce production time and cost.

The SDDS technology is applicable to many chemical pharmaceutical products. It offers an easy way to achieve systemic delivery by releasing drugs from an artificial skin membrane to human skin through dermal delivery.

The effectiveness of both technologies has been proven in the commercial products of Opin and Spray-on Bandage and various testings performed on the products such as a stability report on Opin and clinical trial on Opin and the germ killing ability of Spray-on Bandage.

SDDS and PSD are only manufacturing technologies. The technologies have no specific therapeutic claim or efficacy claim. Such claims are claims of the product that uses the technology. Clinical trials or empirical studies are conducted on the actual proposed products. No clinical study has been conducted on either platform technologies. These products' clinical trials or studies have been disclosed in the relevant sections of this prospectus on the specific products e.g. Opin and Spray-On Bandage.

The Directors believe that the platform technologies can achieve the following benefits:

(i) Improved stability

The PSD technology developed by the Group target to enhance the stability of the biological products to useful commercial biopharmaceutical products. Currently, the Group also has conducted research on bifidus, an unstable probiotics micro-organism, the commercial value of which was limited by its room temperature stability.

(ii) Improved production yield and lowering production costs

The PSD technology may also improve production yield, thus production costs can be reduced. For example, since the application of the PSD technology to Opin in 1998, the retail pack unit production costs of Opin had been reduced from RMB21.0 in 1998 to RMB16.3 in 1999.

The Group also conducts research and development work on the yield improvement of live lactobacillus. Traditionally, the harvest of lactobacillus from the fermentation tank is through freeze-drying, which takes about two days. Preliminary data indicated that the Group's processing technology could potentially improve the yield at least 10 folds in a much shorter time.

(iii) Improve efficacy

The PSD technology can also improve the efficacy of the products. For example, the established procedure to use interferon for viral hepatitis is by injection in term of millions of IU (International Unit). The first generation oral-sublingual interferon for hepatitis B and C required less than 2000 IU per dose. According to the Journal of Interferon and Cytokine Research, Vol 19, No. 8 published in August 1999, low dose oral or nasal interferon may achieve similar efficacy when compared with injection based interferon treatment. In commercial terms, this will lower the treatment cost significantly and expand the application of the anti-viral property of interferon into other mass market applications, such as the prevention and treatment of flu and cold, oral ulcers and cancer.

The Group is conducting research and development work to improve the efficacy of Opin, with the objective of reducing the dosage requirement.

(iv) User friendly drug delivery systems

The Directors believe that currently, most biological proteins for medical applications are delivered by injection. This limited the commercial viability and therapeutic usefulness of biological products. The Group is conducting research and development work on mucosal delivery system by using the PSD technology. The Group is in the process of preparing for registration of the nasal interferon in the PRC. Research and development progress is also being made on delivering EPO for chronic anemia via a similar way.

The Group also extends the application of the SDDS technology to athlete's foot spray for anti-fungal treatment.

COMMERCIALISATION OF THE PLATFORM TECHNOLOGIES

The Group has commercialised the two platform technologies in the following ways: (i) development and distribution of own branded products; (ii) joint development and distribution arrangement; (iii) establishment of joint venture; and (iv) licensing and services arrangement.

(i) Development and distribution of own branded products

The Group has used its in-house resources and expertise to develop its own new line of products, or products to complement existing products. These products will be distributed through its existing marketing and distribution networks.

In deciding whether a new product is to be developed, the Group conducts a process of new project evaluation. The process includes market research and technical assessment to ensure market viability and technical feasibilities.

The nasal interferon project is an example of this method of commercialisation. The Group is also engaged in the development of sublingual EPO for chronic anemia.

All products developed for the PRC market are developed in accordance with the regulations of the SDA in respect of development of new medicine in the PRC.

The product development process can be generally divided into the following stages:

- Concept development
- Preliminary market survey
- Preclinical study is conducted to prove the product development principals.
- Application for approval of clinical trials from the SDA
- Conducting clinical trials
- Intensive market research for the preparation of new product launch plan
- Application for marketing approval from the SDA
- Product launch

To speed up the process, some stages could be progressed concurrently.

(ii) Joint development and distribution arrangement

The Group has entered into agreements with overseas pharmaceutical companies which have existing products that can be improved through the application of the Group's technology and distribution networks in the PRC. The Group is using this business model in its current negotiations with Chr. Hansen. Pty. Ltd., a company of the group of Chr. Hansen, Inc. in Denmark, and to distribute their probiotic products.

The Directors consider that this type of joint development and distribution arrangement model is beneficial to the Group because new products that are currently not available in the PRC can be introduced to the PRC, while, at the same time, the platform technologies of the Group can be introduced to the world.

(iii) Establishment of joint venture

The Group also plans to use the platform technologies as capital assets to form joint venture business with potential business partners. The Group has conducted initial discussion in this regard with the Shanghai Sine Pharmaceutical Group Ltd. Further details of the co-operative agreement are set out under the paragraph headed "Strategic alliance/technology transfer/business venture" in the section headed "History" of this prospectus.

(iv) Licensing and services arrangement

The Group has also entered into licensing agreements to license the two platform technologies to third parties to use these technologies to manufacture pharmaceutical products. This arrangement will form a new revenue stream for the Group without the traditional costs involved in the manufacturing of products.

The Group may also enter into services agreements with independent third parties. Services fees will be charged and the Group will provide its knowhow in the two platform technologies to assist such parties to solve their production problems or product stability problems. The Hengrui Project set out under the paragraph headed "Strategic Alliance/Technology Transfer/Business Venture", in the section headed "History and active business pursuits " of this prospectus is an example of this service arrangement.

During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group had spent approximately HK$21,000, HK$216,000 and HK$534,000 respectively on research and development, representing approximately 0.1%, 0.3% and 1.0% of the Group's turnover respectively and representing approximately 0.1%, 0.5% and 1.4% of the Group's total expenses respectively.

As at the Latest Practicable Date, the Group has a total of 35 research and development staff members.

PRODUCTS

A. Existing Products

(i) Opin

Opin is a medication for chronic erosive cervicitis with interferon as its active ingredient. As a pharmaceutical agent, interferon has the general properties of anti-viral, anti-inflammatory, promote tissue regeneration, improve immunity and suppress micobial growth. Interferon induces some tissue cells to produce intermediate materials which interfere with viral reproduction. These materials are also known as anti-viral proteins. It is through this process that interferon can cure chronic erosive cervicitis. According to a series of reports published in Practical Gynaecology Magazine, Vol. 14, 1998 (實用婦產科雜誌1998年第14卷專刊), a total of 16 clinical multi-centre studies including a total of 1,815 patients concluded Opin is an effective alternative for the treatment of chronic erosive cervicitis to other traditional treatment procedures.

A summary of the clinical studies on Opin published in Practical Gynaecology Magazine, Vol 14 in 1998 are shown as below:

Paper Title	Institute performing the study	Number of cases studied	% effective rate	Criteria for effectiveness
50 case studies of using Opin for erosive cervicitis	No. 2 Hospital of Wubei Medical University (湖北醫科大學附屬第二醫院)	50	98	Improvement by clinical observation after 2-3 post treatment examination
342 case studies of using Opin and metronidazole for the treatment of erosive cervicitis	Wunan Province Hengyang City Nuclear Industry No. 415 Hospital (湖南省衡陽市核工業415醫院)	342	77	Improvement by clinical observation

Paper Title	Institute performing the study	Number of cases studied	% effective rate	Criteria for effectiveness
Investigation into the use of Opin in gynaecology practice	Chengdu City Birth Control Technique and Instruction Institute (成都市計劃生育技術指導所)	53	94	Improvement by clinical observation, reduction in discharge, PCR test
190 case studies of using Opin and laser treatment for chronic erosive cervicitis	Shanxi Province Taiyuan City Central Hospital (山西省太原市中心醫院)	190	83	Improvement by clinical observation
160 case studies of Opin for erosive cervicitis	Zhejiang Province Wuzhou City No. 2 People's Hospital (浙江省湖洲市第二人民醫院)	160	93	Improvement by clinical observation
30 case studies of using Opin (Interferon) for the treatment of erosive cervicitis	Shanxi Province Xi'an City No. 4 Hospital (陝西省西安市第四醫院)	30	83	Improvement by clinical observation
41 case studies of using Opin for the treatment of erosive cervicitis	Yunnan Province Kunming City Central Hospital (雲南省昆明市中醫院)	41	85	Improvement by clinical observation
73 case studies of using Opin (a-interferon) for the treatment of chronic cervicitis	Yunnan Province Kunming City Central Hospital (雲南省昆明市中醫院)	73	75	Improvement by clinical observation, reduction in discharge
Effective treatment observation of 50 cases of using Opin for the treatment of cervicitis	Guangdong Province Dongguan City Guancheng Hospital (廣東省東莞市莞城醫院)	50	88	Improvement by clinical observation, reduction in discharge, discomfort of lower limb, back pain
81 case studies of using Opin for the treatment of cervicitis	Guangdong Province Guangzhou City Skin Diseases Prevention Institute (廣東省廣州市皮膚病防治所)	81	88	Improvement by clinical observation
Observation of using Opin for the treatment of chronic cervicitis	Gansu Provincial People's Hospital (甘肅省人民醫院)	65	85	Improvement by clinical observation
116 case studies of using Opin for the treatment of chronic cervicitis	Yunnan Province Kunming City Yan'an Hospital (雲南省昆明市延安醫院)	116	93	Improvement by clinical observation
Observation of the clinical using Opin in 92 cases	Taiyuan City Xishan Mining Bureau Hospital (太原市西山礦務局醫院)	92	88	Improvement by clinical observation
Analysis of 126 case of using Opin for the treatment of erosive cervicitis	Studies on Skin Diseases (《皮膚性病學》)	126	96	Improvement by clinical observation, iodine staining on cervical surface
116 case studies of using a-interferon for the treatment of chronic cervicitis	Jiangxi Province Women & Children Healthcare Institute (江西省婦幼保健院)	116	93	Improvement by clinical observation
230 case studies of using Opin for the treatment of erosive cervicitis	Henan Province Zhengzhou City No. 3 People's Hospital (河南省鄭州市第三人民醫院)	230	98	Improvement by clinical observation

In June 1998, Opin was granted a drug registration certificate and an approval for manufacturing issued by the SDA entitled the new drug certificate (新藥證書) and new biological product manufacturing permit(新生物製品生產申請批件), and is currently registered and marketed in the PRC as a "Class 2 biological new drug" (classified under the pre-1999 regulations). By virtue of this registration, it was protected from competition during the period from 2nd June, 1998 to 1st June, 2001 under the Regulations on the Protection of New Pharmaceutical Products and Technology Transfer. A Class 2 classification under the pre-1999 regulations in general afforded a protection period of 6 years inclusive of a trial production period of 2 years. However, in the case of Opin, as Opin had already enjoyed a trial production period of approximately 3 years prior to the registration in 1998, it was granted a protection period of 3 years. Chronic erosive cervicitis is a very severe form of cervicitis that, to date cannot be treated through the use of antibiotics. Opin has a shelf life of 18 months and has been approved by the SDA.

In May 2000, the Group, having discovered that Opin can be generally used for the treatment of genital viral infections, applied for a new indication for Opin as a "Class 5 new drug" (classified under the pre-1999 regulations) in relation to a project which involves the use of Opin for the treatment of herpes. The Company has received the permit to conduct clinical trial in May 2000. The Directors believe that the product could be sold with new indication by mid 2002. The Directors believe that the approval of the application should be granted by mid 2002 upon which Opin will enjoy 6 years of regulatory protection for the new indication commencing from the date on which the new drug certificate (新藥證書) is obtained.

As an interferon based gynaecological medication, Opin has been monopolising the PRC market of such product with almost one hundred per cent. market share. Taking into account other products which contain active ingredients other than interferon and which are for the treatment of erosive cervicitis, Opin has an approximately 5% market share.

Opin was originally developed by Tianao, a PRC joint venture acquired by the Group in October 1998. Since the acquisition of a 70% interest in Tianao, the Group has assisted Tianao in identifying problems in the entire production process of Opin and in relation to the stability of Opin. By applying the PSD technology of the Group to the production process of Opin, the quality of Opin was improved and the production cost was reduced significantly.

Anecdotal evidence shows that in the Wuhan City, the PRC, more than 50% of women who are of age from 21 to 65 are susceptible to chronic cervicitis. Given the population of women who were of childbearing age in the PRC was approximately 300 million as at 1999, the Directors believe that there is a substantial market for this product in the PRC.

(ii) Spray-On Bandage

The Spray-On Bandage was developed from the Group's unique SDDS technology. This product is in liquid spray form. When the spray is applied to a wound, it forms a temporary skin membrane that contains antiseptics. The membrane is clear and water-resistant, and can last for up to 24 hours, depending upon the location of the application. The Spray-On Bandage is available in a handy and portable 15g non-pressurized metal can.

In general, a pressurised can requires extra volume to hold the propulsion agent which is usually a liquefied gas under pressure. For the same effective product content, a pressurised can will be significantly bulkier than an un-pressurised can.

Being a pressurised can, there is always a risk of explosion. Furthermore, the manufacturing cost of pressurised can is higher than that of un-pressurised can due to its complicated manufacturing process.

The most significant feature of products made from the SDDS technology is that it can deliver drug through the polymer membrane. In the case of the Spray-On Bandage, the drug to be delivered is the antiseptic. This function was clearly demonstrated by a study conducted by a microbiologist consultant in Australia on 30th September, 1998 who is an independent third party. In the experiment, the product was sprayed on to a piece of paper and allowed to dry. This simulated the product sprayed onto a skin surface. The loaded paper was than laid onto a lawn of live bacteria and left alone to grow. At the end of the experiment, a clear inhibition zone was clearly demonstrated around the paper. This indicated the antiseptic had been successfully released through the polymer membrane into its surrounding thus prohibiting bacterial growth in that clear neighbourhood region. This thus demonstrated that the SDDS technology can deliver drug.

The Group is promoting this product to various overseas markets. The Spray-On Bandage was registered with the Australia TGA in April 1999, which marked the official acceptance by the health authority as a commercial product. One trial production batch was manufactured in Australia in February 2000 for market trial purposes. 5000 units of trial products were introduced to each of Thailand, Australia and Taiwan in January 2000, March 2000 and June 2000 through a different local agent in each market. After reviewing the marketing results, the Directors concluded that more marketing efforts were required for promoting this product in the above markets, and the Directors at present do not consider it worthwhile to spend too much effort on promoting this product in those markets. The Group plans to allocate more resources to promote this product in the PRC, and lodged an application in November 2001 for registration with the SDA.

Evidence from the SDA South Medicinal Economic Institution has valued the entire Chinese bandage market at RMB100 million annually.

(iii) Osteoform calcium amino acid chelate capsule

Osteoform is a health supplement of calcium, trace mineral, vitamin D_3 and vitamin C. It contains calcium, several trace minerals that are necessary for bone formation, in addition to vitamin D_3 and vitamin C. Its ingredients include calcium amino acid chelate, copper amino acid chelate, calcium ascorbate, manganese amino acid chelate, calcium hydrogen phosphate, vanadium amino acid chelate, magnesium amino acid chelate, silicon amino acid chelate, zine amino acid chelate, boron amino acid chelate and vitamin D_3.

Osteoform has been approved by and registered with the SDA as OTC drug. The Group holds an exclusive right to process and distribute this technologically more advanced calcium supplement product in the Asian market for a term of 20 years pursuant to a marketing and distribution agreement entered into with Pharmco in December 2000, and has captured an approximately 4% share of the market of rare elements, minerals, and other nutrients in dollar term in the PRC. The Group entered into co-operation agreement with Mas in June 1997 in relation to the distribution of Osteoform. Based on the co-operation agreement, all revenues generated from the sales of Osteoform during the term of the co-operation were recognised by Mas. Should the sales volume reach an agreed level for the three years ended 30th June, 2000, Mas was required to pay a fixed fee to Beshabar (BVI). The agreement was extended to August 2000 by oral agreement between the parties and the Group began to generate revenue from the sales of Osteoform from October 2000. Further details of the above arrangement are set out in the paragraph headed "History" of this section.

Osteoform has not been distributed outside the PRC.

The formulation of Osteoform was developed by Pharmco, which is the owner of the formulation and the trademark Osteoform, and the sole supplier of the Osteoform powder. The Directors believe that the classification of Osteoform varies in different jurisdictions. In the PRC, it has been registered by Pharmco with the SDA as a drug for the prevention and treatment of diseases caused by calcium deficiency.

At present, the packaging process of Osteoform is sub-contracted to Bright Future and the distribution of Osteoform to the PRC is made through two distribution agents located in Shenzhen and Shanghai. The Group is responsible for the purchases of Osteoform material from Pharmco, the promotion of Osteoform within the territories permitted in the marketing and distribution agreement and the provision of after-sale services.

From the point of view of the Group's strategic development, Osteoform serves as the foundation for establishing and developing the Group's OTC Product distribution network in the PRC. It also provides a stable income stream on which the research and development functions of the Group can further develop.

This capsule-based drug has the following advantages over traditional calcium supplements products:

- it has a higher rate of absorption by human bodies compared with traditional calcium supplements. As such, it can serve as a more effective treatment of calcium deficiency with fewer side effects;
- it has price advantages over its competitors; and
- SDA approved Osteoform as an OTC drug with indications for osteoporosis and calcium deficiency. The Group obtained the registration document from Pharmco who applied for and obtained the drug registration directly from SDA. New drug class or category does not apply to Osteoform because it is not a new drug.

Osteoform has a shelf life of three years.

An investigation into the health of the Chinese population in 1998 revealed that, on average, the Chinese population has an average calcium level which is 50% less than the recommended amount. This led to an influx of calcium supplements into the PRC market. Evidence suggests that sales revenue in 2000 of calcium supplements in the PRC was approximately RMB250 million.

B. Products under development

(i) Interferon nasal spray

The Group has developed a new interferon nasal spray with an indication for upper respiratory tract viral infections including treatment of flu and cold. Once the SDA approval has been obtained, the nasal spray products shall be introduced to the market.

A market survey commissioned by the Group in 1998 revealed that the potential market for the upper respiratory tract infection treatment market in the PRC is approximately RMB5.17 billion.

The Company has a 100% interest in the Interferon Nasal Spray Project. The active ingredient, interferon, is freely available on the open market.

(ii) Receptase

Receptase uses a new method for the treatment of diarrhea caused by E.coli without the use of antibiotics. The abusive use of antibiotics to treat animals' diseases has been well known to adversely affect public health through conditioning the bacteria to adapt resistance to antibiotics.

Receptase is an oral medication for farm animals designed to prevent diarrhea. The research and development team applies the PDS technology to develop this enzyme-based drug. It has the effect of preventing the spread of E.coli bacteria by stopping the bacteria from attaching themselves onto the internal lining of the intestine. Under certain conditions, certain strains of E.coli can be a disease-causing micro-organism that is responsible for diarrhea, and potentially, if left untreated, will eventually lead to death.

Through the experimental use of receptase on pigs, the Department of Agriculture and Rural Affairs in Victoria, Australia, has shown that pigs using receptase were nine times less likely to develop diarrhea than pigs not using receptase. Other tests performed using receptase have shown that the drug leads to significant weight gain, and generally healthier pigs, as they are not using antibiotics.

The world pig population has been estimated to be in excess of 700 million, with an annual turnover of 1.2 billion animals. The estimated ratio of early pig deaths due to E.coli annually is approximately 1%. The State of Victoria has estimated this ratio to be as high as 5%.

The Directors believe that receptase can potentially capitalise on the trend towards green farming by helping to produce meat which is free from antibiotics residue arising from traditional E. coli treatments.

The Company has a 100% interest in this receptase project. The active ingredient, Bromelain, is freely available on the open market.

(iii) Probiotics

The concept of probiotics is to allow an individual to ingest live beneficial bacteria so that a stable intestinal microbial ecological environment can be maintained. The Group uses the PDS technology to derive a production procedure that will have the potential to improve yield by many folds against the current traditional expensive freeze-drying process.

The Group is negotiating with both Shanghai Sine Pharmaceutical Corp. Ltd. ("Sine"), a PRC company and Chr. Hansen Pty. Ltd. ("Chr. Hansen"), a company of a Denmark group in finalising the product strategy with the objective of launching a series of products within the next two years.

The project is in the concept stage. The Company is testing the application of the PSD technology on bacteria samples supplied from Sine and Chr. Hansen. The final commercialisation format is still to be decided. Under the current plans, the Company owns the PSD technology and Sine and Chr. Hansen own their bacterial culture.

(iv) EPO

EPO is a naturally occurring biological protein naturally produced by the kidney acting as a biological signal for the body to produce red blood cells.

The proposed product is a room temperature stable sublingual EPO tablet aiming at combating the wide spread chronic marginal anaemia among the Asian population. The Group has carried out preliminary studies on the stability of EPO and its effects on animals throughout 2001. Similar studies on a larger scale will be carried out in 2002. Target launch date in the PRC for EPO tablet is expected to be in 2004.

The Company has a 100% interest in the EPO Project. The active ingredient, EPO alpha, is freely available on the open market.

(v) Iron orotate

The research and development work of this product aims at producing a chelated iron supplement with the indication for nutritional anaemia. This product is designed for oral application. Iron orotate is believed to be biologically more compatible to the body then most mineral based iron supplements. This will be a companion product to the other proposed sublingual EPO tablet product. The Group has carried out formulation work on iron orotate with product protocol proposed throughout 2001.

The Company has a 100% interest in this iron orotate Project. The active ingredient, Ferrous Orotate, is freely available on the open market.

(vi) Hemorrhoid project

The product involved in this project is a herb based oral capsule with the indication to relief hemorrhoid, This product is undergoing the final stage of clinical trial in the PRC. The approval for registration with the SDA is expected to be granted by mid 2002. The Group expects to launch the product under a proposed commercial name "Depile" by mid to late 2002.

This is a joint development project between Weiao and Chengdu Chinese Medical University Affiliated Hospital (成都中醫藥大學附屬醫院) whereby Weiao has the first right to commercialise the project on successful completion of clinical trial. Weiao bears the cost of the research and development and clinical trial. In return, Weiao enjoys a 100% financial interest on the commercialisation of the final product. Chengdu Chinese Medical University Affiliated Hospital will retain its interest in the intellectual property rights of the product but will not be entitled to any financial return as long as Weiao is marketing the product.

Turnover of the Group's marketed products

The table below sets out the respective sales of the Group's products as a percentage of the total sales of products of the Group for the two years ended 31st December, 2000 and the six months ended 30th June, 2001:

	Years end 31st December,				Six months ended 30th June,	
	1999		2000		2001	
	approximate HK$'000	*approximate %*	*approximate HK$'000*	*approximate %*	*approximate HK$'000*	*approximate %*
Opin (in tablet form)	21,700	95	29,335	46	19,154	36
Osteoform (in capsule form)	–	–	32,186	51	33,379	63
Spray-on Bandage	–	–	1,621	2	–	–
Other products *(Note)*	1,175	5	583	1	234	1
	22,875	100	63,725	100	52,767	100

Note: Other products comprise the residual OTC pharmaceutical products of Weiao and Vitapharm Research.

Product liability

As there is no legal requirement, and the Directors believe that it is not the industrial practice, to maintain product liability insurance policy in respect of the manufacture and distribution of pharmaceutical products in the PRC, the Group has not taken out and does not maintain any product liability insurance. Up to the Latest Practicable Date, the Group had not received any material claim from third parties in relation to the use of the biopharmaceutical products of the Group.

RECOGNITION AND AWARDS

Over the years, both the Group and its products have received awards, certifications and recognition for its quality and reputation from government authorities. The awards, certifications and recognition granted to the Group include:

Awards/Certifications/ Recognition	Product/ company receiving award	Date of grant	Award granting/ issuing organisation
Technology certificate (科學技術進步獎勵證書)	Opin	December 1999	the People's Government of Hubei Province (湖北省人民政府)
Finalist of the 2000 HSBC Business Award	Vitapharm Research	2000	Hong Kong Australia Business Association
Top ten business enterprises (十強企業)	Tianao	February 2000	Information Center of the Statistical Bureau of Hubei Province (湖北省統計局信息中心)
Star privately owned technology enterprises (明星民營科技企業)	Tianao	January 2001	the Science and Technology Committee of Wuchang District (武昌區科學技術委員會)
Certificate of New High Technology Enterprise (高新技術企業證書)	Tianao	February 2000 June 2001	the People's Government of Wuhan City (武漢市人民政府)

The Directors believe that the above awards and certifications have enhanced the public recognition and competitiveness of the Group and Opin. As such, the sales of Opin increased from approximately HK$21.7 million for the year ended 31st December, 1999 to approximately HK$29.3 million for the year ended 31st December, 2000, representing an increase of 35%. For the six months ended 30th June, 2001, the sales of Opin was approximately HK$19.2 million, representing approximately 66% of the sales of Opin for the whole year of 2000.

SALES AND MARKETING

Before 2000, the Group distributed Osteoform in PRC through one distribution agent in Shenzhen. Since 2000, the Group has been distributing Osteoform in the PRC through two distribution agents which are located in Shenzhen and Shanghai. All of these agents are independent of and not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

Before November 2000, the Group distributed Opin in many regions of the PRC through one sole distribution agent, Wuhan Gao Zhuo Pharmaceutical Sales Limited (武漢高卓醫藥銷售有限公司) (formerly known as Wuhan Tianao Pharmaceutical Sales Limited (武漢天奧醫藥銷售有限公司)), which is not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial

shareholders of the Company or any of their respective associates. Since November 2000, the Group has been distributing Opin in the PRC to hospitals, clinics and drug stores through its own sales and marketing team and independent distributors not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates. Whilst the Group has established its own sales channels, the use of distribution agents is still an important means, and Wuhan Gao Zhuo Pharmaceutical Sales Limited (武漢高卓醫藥銷售有限公司) remains one of the distribution agents of the Group.

To enhance the sales and marketing efforts, the Group since November 2000 has also established new marketing and liaison offices to promote the Group's products and to provide after-sales services. The Directors consider that the establishment of more offices in PRC cities will attract more distributors which will, in turn, expand the distribution network for the Group's products. As at the Latest Practicable Date, the number of marketing and liaison offices was 22. The Group is in the process of setting up 17 more such marketing and liaison offices. The following map shows the cities where marketing and liaison offices of the Group have been established.

The Group also employs sales staff for specific functions, such as conducting seminars, point of sale promotion and customer survey. As at the Latest Practicable Date, the Group employed 212 staff in its sales and marketing team.

During the two years ended 31st December, 2000, the Group's largest customer, Wuhan Gao Zhuo Pharmaceutical Sales Limited (武漢高卓醫藥銷售有限公司), accounted for approximately 95% and 45% respectively of the Group's turnover. For the six months ended 30th June, 2001, the largest customer, Shenzhen Rui En Te Pharmaceutical Limited (深圳瑞恩特藥業有限公司) accounted for approximately 23% of the Group's turnover. The Group's five largest customers accounted for approximately 99%, 86% and 70% respectively of the aggregate turnover. The Group's major customers are principally distributors, hospitals,

clinics and drug stores. None of the Directors and shareholders owning more than five per cent. of the issued share capital of the Company (immediately after completion of the Placing and the Capitalisation Issue) or their respective associates has any interest in any of the five largest customers of the Group.

The Directors consider that the establishment of an extensive and efficient distribution network is crucial to the successful commercialisation of a pharmaceutical product and for maintaining the revenue generating capability of a pharmaceutical company. As one of the products of the Group is a prescription drug, the Group's initial marketing focus is on hospitals and medical practitioners in the PRC. The Group's strategy is to identify and appoint suitable distributors and marketing agents to undertake the marketing functions and distribution activities within the PRC. The Group will continue to co-ordinate closely with its network of distributors and marketing agents in organising seminars and collating reports on the therapeutical effects and healing process of its products.

In respect of the after-sales services, the marketing and sales team of the Group pays regular visits to its customers such as distributors, hospitals, clinics and drug stores to obtain feedbacks and follow up sales orders from them.

Payment terms

Payments for the Group's products are primarily settled in cash with open account ranging from 30 to 180 days, depending on the credit-worthiness of the customers. In order to assess the credit-worthiness of the Group's customers, the Group will take into account the length of relationship, past transaction records as well as reputation of each customer. For the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group is not aware of any bad debts. The Group has on average a relationship of one to three years with its customers. The credit period offered to customers ranges from 30 to 180 days.

The Directors confirmed that the Group does not have a general provisioning policy on trade debtors based on ageing analysis. However, the management reviews the long outstanding debtors and their recoverability on a regular basis. Provision is made on specific debtors with potential recoverability problem, if necessary.

SOURCING

The principal raw materials used by the Group include calcium amino acid chelate compounded powder and interferon. These two raw materials are mainly imported from the US and sourced from traders and manufacturers located in the PRC.

The Group's raw materials are supplied by over 15 suppliers and none of these raw materials are commodities in scarcity or are subject to price control. Interferon is the most important raw materials for the manufacturing of Opin. As at the Latest Practicable Date, the Group had entered into a non-exclusive purchase agreement with each of three local companies manufacturing interferon. In the PRC, there are at least over 20 suppliers of interferon while there are many more known international producers capable of supplying interferon to the Group.

As at the Latest Practicable Date, the Group had over 15 suppliers. During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the largest supplier, accounted for approximately 81%, 43% and 48% respectively of the Group's total purchase. The Group's five largest suppliers accounted for approximately 92%, 86% and 87% respectively of the Group's aggregate purchase for the two years ended 31st

December, 2000 and the six months ended 30th June, 2001. As the Group only produced and distributed Opin in 1999 and obtained its supply of interferon, which is the most important and most expensive material for the production of Opin, from one supplier for the year ended 31st December, 1999, purchase from that particular supplier, being the largest supplier for the year ended 31st December, 1999 accounted for approximately HK$10 million. For the year ended 31st December, 2000 and the six months ended 30 June 2001, the Group purchased Osteoform powder from Pharmco the amounts of which were HK$13 million, and HK$11 million, respectively, and hence, Pharmco became the largest supplier to the Group for the respective period. Pursuant to the marketing and distribution agreement entered into between Beshabar (HK) and Pharmco on 26th December, 2000, the Group agreed to purchase exclusively Osteoform powder from Pharmco. The Group has not entered into any other exclusive purchase agreement with any of its suppliers. None of the Directors and shareholders owning more than 5% of the issued share capital of the Company (immediately after completion of the Placing and the Capitalisation Issue) or the respective associates has any interest in any of the five largest suppliers of the Group. The Directors consider that the Group's relationship with its suppliers is good and the Group has not experienced any major difficulty in obtaining adequate supply of raw materials to meet its production requirements.

In the past, the Group has not encountered any production disruption due to the shortage of supply of raw materials. The Directors believe that all the principal raw materials used by the Group can be purchased from a number of other suppliers at prices comparable to those paid to the Group's current suppliers. The Group has not entered into any long term contracts with its suppliers.

The Group's purchases are mainly made in Australian dollars, Hong Kong dollars, Renminbi and US dollars. During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group did not engage in any foreign currency forward exchange contracts for investments or speculative purposes. As such, no profit/loss arising from those contracts was recorded in the two years ended 31st December, 2000 and the six months ended 30th June, 2001.

Payments to suppliers are primarily settled either in cash with open account basis with credit terms ranging from 15 days to 75 days or by letters of credit payable at sight or up to 30 days after sight.

Sub-contracting and agency

The percentages of the Group's five largest suppliers set out in the preceding paragraph do not include the sub-contracting fee paid to Bright Future in connection with the packaging process of Osteoform. During the year ended 31st December, 2000 and the six months ended 30th June, 2001, the Group sub-contracted the packaging process of Osteoform to an independent third party and paid sub-contracting charge of HK$4.4 million and HK$4.3 million respectively, which accounted for approximately 11.7% and 14.8% of the total cost of sales for the respective period.

Furthermore, in November 2000, Beshabar (HK) entered into a non-exclusive distribution agreement with each of Shenzhen Foreign Trade Import and Export Transportation Company (深圳外貿進出口聯運公司) and Shanghai Pharmaceutical Company Limited (上海市醫藥股份有限公司) for the distribution of Osteoform in the PRC, pursuant to which the two distributors can charge a distribution fee of 3% and 1%, respectively, on the customers, which are additional to the sales prices paid by the customers. The two distributors are responsible for collecting payments from customers. Pursuant to the distribution agreements, the two distributors are required to settle the trade debts by letters of credit within seven days after the delivery of goods. As regards delivery, all goods are delivered to ultimate customers by Bright Future upon

receiving confirmations from the distributors, and hence, no stocks were held by the distributors as at 30th June, 2001.

RESEARCH AND DEVELOPMENT FACILITIES

Set out below are detailed description of each of the research and development facilities:

(a) Research and development centre in Melbourne, the State of Victoria, Australia

The research and development work is mainly undertaken by the research and development centre situated in Melbourne, the State of Victoria, Australia. There are full time research and development staff, intermediate and senior technicians. There were one researcher with a doctorate degree and three researchers with bachelor's degrees working in the centre as at the Latest Practicable Date.

This research and development centre is located at Unit 30, 65-67 Canterbury Road, Montrose VIC 3765, Australia which is approximately 50 km east of the city of Melbourne, the State of Victoria, Australia. The property had a gross floor area of approximately 290 sq.m. and a team of research and development staff of four as at the Latest Practicable Date. The facility has all the necessary equipment for carrying out the research and development of the Group. It commenced research and development work in April 1998.

(b) Proposed research and development centre in Chengdu City, Sichuan Province, the PRC

Currently, another research and development centre to be owned by Vital (Sichuan) is proposed to be constructed at Chengdu City, Sichuan Province, the PRC. While the Australian research and development centre is designed for development of new platform technologies and product concept, the new research and development centre in Sichuan is designed to be a GLP/GMP compliant research and development centre for the later stage of product development and management of clinical trials of the Group's new products.

The proposed Sichuan research and development centre is located at Wen Jiang County which is approximately 25 km west of Chengdu City. Phase I of the construction is expected to be finished in 2003. Operation is expected to begin in 2004.

PRODUCTION FACILITIES

The two pharmaceutical products of the Group, Opin and Osteoform, are produced by Tianao and through the production facilities operated by Bright Future, respectively. The relative percentages of the above two ways of production are 100% to nil, 47% to 53%, and 37% to 63%, for the two years ended 31st December, 2000 and the six months ended 30th June, 2001, respectively. Tianao, a 95% owned subsidiary of the Company, leases and operates a production plant in Wuhan, the PRC. This production plant is principally engaged in the production of Opin. Weiao, a 76.7% owned subsidiary of the Company, owns and operates a production plant which obtained GMP approval in December 2001. Weiao will be engaged in the production of the Group's existing products and products under development. The Group also sub-contracts the production of calcium capsule to Bright Future which owns a production plant in Yuen Long, New Territories, Hong Kong. The production plant obtained its GMP certification in 2001.

Set out below are detailed description of each of the production facilities of the Group:

(a) Production facilities situated in Wuhan, the PRC

The Wuhan production plant is leased by the Group and is situated in the city of Wuhan, PRC. It occupies a total gross area of approximately 2000 sq.m. which comprises production facilities and ancillary offices. The lease for the premises is for a term of 6 years commencing from 1st January, 2001 and expiring on 31st December, 2006 at a monthly rental of approximately RMB20,000 (equivalent to approximately HK$18,868) exclusive of management fee and utility charges. The production plant currently has one production line with an annual production capacity of 20 million Opin tablets. The Wuhan production plant is not fully in compliance with the GMP standards which are required to be met by 30th June, 2004. The Group plans to gradually shift the current production of Opin in the Wuhan plant to the production facilities in Chengdu City, details of which are set out in the following paragraph.

(b) Production facilities situated in Chengdu City, Sichuan Province, the PRC

The Chengdu production centre is located at Wen Jiang County which is approximately 25 km west of Chengdu City, Sichuan Province, the PRC. The property has a gross area of approximately 8103.93 sq.m. and is designed for a workforce of more than 200. Four production lines are expected to be installed in this production plant and an annual production capacity of RMB280 million is expected. This production plant obtained GMP certification in December 2001 and is expected to commence production in the first quarter of 2002.

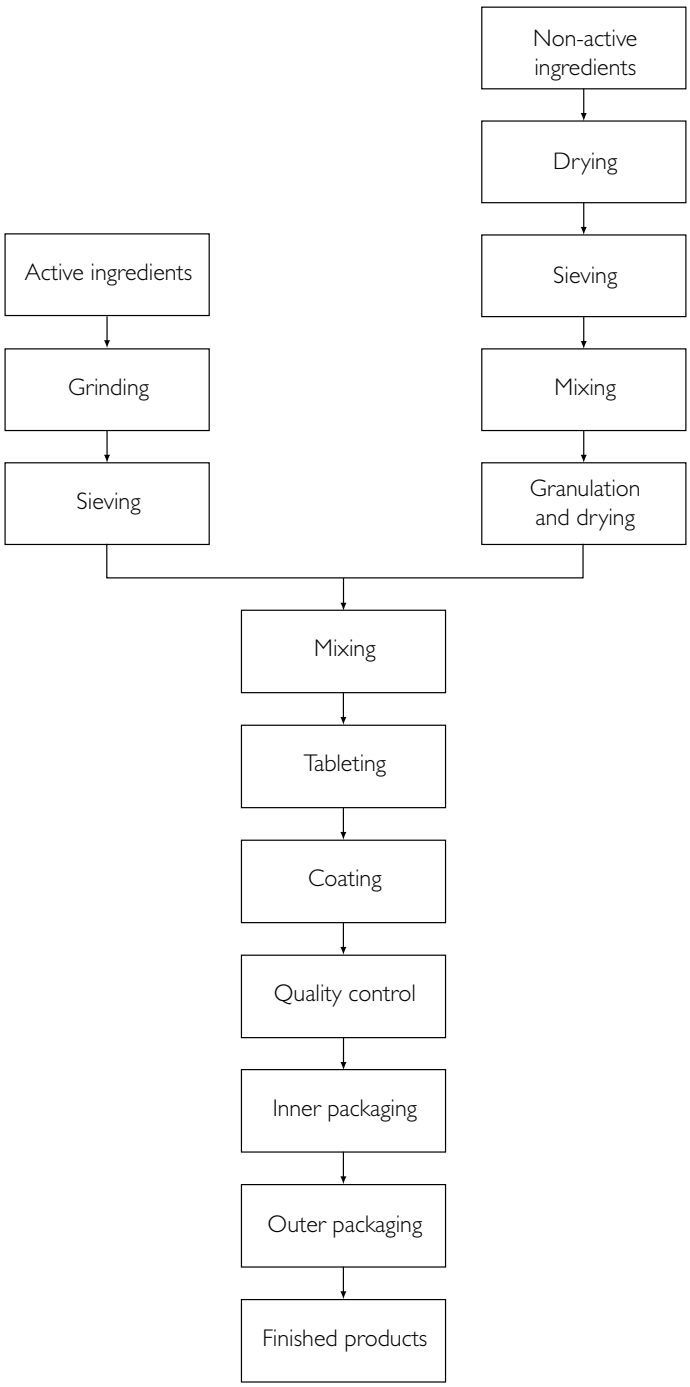
The Group has developed a manufacturing plan to ensure that it maintains a systematic control over its level of inventory. The Group's production planning team is responsible for implementing such plan and preparing and reviewing the Group's production schedules. In discharging its functions, the production planning team is required to collect information on sales orders from the Group's sales department, co-ordinate with the corresponding production departments and review stock levels on a regular basis and monitor the progress of productions.

The Group conducts monthly stock taking, with the objective of ensuring the accuracy of its inventory level. Investigation will be taken immediately should the Group discover any material discrepancy in its inventory level. During the two years ended 31st December, 2000 and the six months ended 30th June, 2001, the Group did not record any material discrepancy in its inventory level. Furthermore, should the Group discover any defectiveness in the quality of stock, the Group will take immediate action to write off those defective stocks.

PRODUCTION PROCESS

The Group imposes stringent quality control at each stage of production in order to ensure product safety and minimum wastage and failure rates. The Group's production facilities in Chengdu City, Sichuan Province, the PRC are constructed in accordance with GMP standards and obtained GMP certification in December 2001. The production facilities in Wuhan, the PRC are largely in compliance with GMP standards in terms of production process, quality of products and management. The Directors are committed to maintaining high standard of quality control for its products as they have a direct impact on the health of the users of the products.

The production process of the Group's biopharmaceutical products are illustrated below:



EMPLOYEES

As at 31st December, 2001, the Group had 436 employees, comprising 35 in research and development, 128 in production, 212 in sales and distribution, and 61 in general administration and finance. 421 of these employees were located in the PRC, 8 in Australia and 7 in Hong Kong.

None of the Group's employees is represented by a labour union or is subject to a collective bargaining agreement, nor has the Group experienced any work disruption during the two years ended 31st December, 2000 and the six months ended 30th June, 2001. The Directors believe its relationship with the employees are good.

COMPETITIVE ADVANTAGES

As living standard continues to improve, average life expectancy in the PRC is expected to improve. This has led to an increase in health consciousness and the demand for health care services and products is expected to grow significantly. With general availability of the genetic information from the Human Genome Program, the Directors believe that the demand for advanced technology and new methodologies for the production and development of effective and affordable biopharmaceutical products will increase.

The Directors believe that the Group is well positioned to expand its business by utilising its competitive advantages set out below:

- **Proven research and development capabilities**

  The Group has a team of professional scientists with diverse backgrounds and specialisations ranging from formulation, product development, production process control, vaccine development, polymer chemistry, micro bio-encapsulation to enzyme immobilization. The Group's research and development capabilities are further strengthened and enhanced by the Group's strategic alliances, co-operation arrangements and business ventures with pharmaceutical companies and research institutes in the biotechnology and pharmaceutical industry, thereby enabling the Group to launch new products to the market in an expeditious manner.

- **Growing business**

  Improvement in living standard and greater life expectancy have resulted in an increase in health consciousness among the general public, and an increasing demand for biopharmaceutical products in the PRC. The Group's research and development capabilities have attracted the co-operation of various manufacturers of pharmaceutical products and enable it to tap the potential growth of the biotechnology and pharmaceutical market in the PRC.

- **Established and extensive distribution network**

  The Group is able to distribute its products through established channels, including its own marketing and liaison offices and distributors.

- **Production facilities constructed in accordance with GMP standards**

  The Group has a production plant in Chengdu City, Sichuan Province, the PRC which obtained PRC GMP certification in December, 2001. The production plant is expected to commence commercial production in early 2002.

- **Effective business plans enabling the Group to benefit from the State policy of GMP certification**

The Group has obtained GMP certification of its production facilities, the Directors expect that this will create more business opportunities for the Group in the PRC.

- **Cost effectiveness**

By using the PSD technology for the production process of Opin, the Group is able to increase its production volume with its existing production facilities and reduce the material costs per unit, thus achieving economies of scale.

- **A strong management team**

Its dedicated management team, which has extensive experience in the biotechnology and pharmaceutical business, is committed to developing, producing and distributing effective and affordable biotechnology and pharmaceutical products.

- **Strategical location**

The Group's research and development facilities are located in Melbourne, the State of Victoria, Australia. The State Government of Victoria has planned to invest at least AUD320 million (approximately HK$1,280 million) over the four years to 2004-2005 to deliver key aspects of its biotechnology strategic plan, which aims to develop Melbourne, the State of Victoria, Australia, as one of the top five locations in the world for biotechnology research and development, commercialisation, production and marketing.

Sichuan's population accounted for approximately one-third of that of the western PRC region in 2000 and is expected to be one of the most populated provinces in the western part of the PRC. As a result of the national policy to encourage the development of the western part of the PRC, Sichuan is expected to play a leading role in the economy of that region. The Group has recently established a new production plant and is also planning to construct a research and development centre in Chengdu City, Sichuan Province, the PRC. This will enable the Group to capture the potential opportunities provided by this national policy.

- **Monopoly position on certain products in the PRC**

In May 2000, the Group applied for a new indication for Opin as a Class 5 new drug in relation to a project which involves the use of Opin for the treatment of herpes. The project is at the stage of clinical trial currently. The new registration has not been approved as at the Latest Practicable Date. The Directors believe that upon the application being approved, Opin will enjoy 6 years of regulatory protection for the new indication. During the protection period, no pharmaceutical manufacturing enterprises other than the original manufacturer of the new pharmaceutical products approved by the SDA (i.e. Tianao), may engage in the manufacture of Opin unless it enters into a technology transfer agreement with the original manufacturer. The transferee must hold a the Pharmaceutical Manufacturing Enterprise Permit (藥品企業生產許可證) and a Pharmaceutical GMP Certificate (藥品GMP證書) before such a technology transfer can become effective.

- **Platform technologies under patent applications**

The PSD and SDDS are platform technologies either invented solely by Mr. Ko, a founder of the Group, or in conjunction with Mr. Au Yeung. Application for the registration of various patents for the two

platform technologies have been filed in the US and Australia, as has an international application in accordance with the Patent Co-operation Treaty, with further applications to follow as mentioned hereinafter. Although the patents have not been obtained by the Group, the Directors believe it is likely that patent registration may be completed in some countries by the end of 2003. Upon the granting of patents in the countries in which applications have been filed, the Group will be afforded with the exclusive right to exclude others from practising the invention in those countries in which the patent is granted. Once granted, the term of a particular patent is generally twenty years from the date of application for registration.

INTELLECTUAL PROPERTY RIGHTS

Details of the intellectual property rights of the Group are set out in the paragraph headed "Intellectual property rights of the Group" in Appendix IV to this prospectus.

CONNECTED TRANSACTION

Following the listing of Shares on the Stock Exchange, the transaction set out below entered into by the Group will constitute an exempted continuing connected transaction for the Group under Rule 20.25(3) of the GEM Listing Rules.

Tenancy agreement between the Group and a connected person

Pursuant to a tenancy agreement dated 8th September, 2001 entered into between Mr. Tao as lessor and a member of the Group as lessee, the Group agreed to lease office premises in Shenzhen located at Rooms 1111-1117, Level 11, Jiang Su Building, Fu Zhong Yi Road, Futian District, Shenzhen, Guangdong Province, the PRC from Mr. Tao for a term of one year commencing from 8th September, 2001 at a monthly rental of RMB30,683.80 (exclusive of management fee and all outgoings), amounting to approximately RMB368,206 per year. The property is occupied by the Group as office.

Mr. Tao is an executive Director and, therefore, a connected person of the Company.

The tenancy agreement was negotiated on an arm's length basis between the Group and Mr. Tao. Further, the Directors (including the independent non-executive Directors) have confirmed that the connected transaction described above was entered into on normal commercial terms and in the ordinary and usual course of business of the Group and is fair and reasonable so far as the shareholders of the Company, as a whole are concerned.

In addition, Vigers, a firm of independent property valuers, has confirmed that the connected transaction out in the paragraphs above are on normal commercial terms and on terms that are fair and reasonable.

Since the annual rental amount payable by the Group is less than higher of the de-minimis threshold stipulated under Rule 20.25(3) of the Listing Rules, the transaction is therefore exempted from the reporting, announcement and shareholders' approval requirements set out in Rules 20.34 to 20.36 of the GEM Listing Rules. The Company will comply with the relevant requirements under Rules 20.34 to 20.36 of the GEM Listing Rules should the annual rental payable by the Group exceed the de-minimis threshold.