

Sales and marketing

Shanghai Jahwa has established a country-wide sales network. At present, Shanghai Jahwa has established sales offices in many major cities in the PRC and sales counters in shopping malls. Shanghai Jahwa has set up four **Herborist** specialty stores in Shanghai and Beijing. Shanghai Jahwa has also established beauty parlors and beauty colleges as a means to promote its products. The map below shows the geographical locations of the Shanghai Jahwa's sales offices and sales counters in the PRC:



For each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999, Shanghai Jahwa's advertising expenditures amounted to approximately RMB121.9 million (HK\$113.93 million), RMB123.1 million (HK\$115.05 million) and RMB62.6 million (HK\$58.50 million) respectively. In addition, Shanghai Jahwa is engaged in promotional activities including a customer hot-line and "Jahwa Club" membership discounts.

The directors of Shanghai Jahwa believe that market intelligence is important to Shanghai Jahwa's success. Its marketing department conducts market research and regularly compiles research reports for its management to assist in making strategic and operating decisions.

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Research and development

Shanghai Jahwa's research and development department employs approximately 85 employees, many of whom hold advance degrees, including doctorate degrees. It also uses advanced research and analytical equipment to facilitate product research and development. The directors of Shanghai Jahwa are of the view that Shanghai Jahwa's product development is one of the best in the PRC cosmetics industry with its experience and technical expertise accumulated over the years. **Herborist** was developed by Shanghai Jahwa internally and more products under this category will be developed and marketed in the near future.

Shanghai Jahwa has established joint research programmes with professional research institutes in Shanghai and Hong Kong including Shanghai Medical University, Shanghai Pharmaceutical Engineering Research Institute, Faculty of Chemical Engineering of Shanghai Huadong University of Science and Technology and Hong Kong University of Science and Technology.

Statement of Active Business Pursuits

As set out in the paragraph headed "Introduction" above, Shanghai Jahwa was established in 1995. For the period from July 1997 to September 1999, management of Shanghai Jahwa focused on increasing the market penetration of Shanghai Jahwa's existing products as well as the introduction of the **Herborist** line of products. Shanghai Jahwa's statement of active business pursuits regarding the more important business activities of Shanghai Jahwa are set out below:

Sales

For the period from July 1997 to September 1999, turnover for Shanghai Jahwa's principal products are set out below:

	Liushen	Maxam	Yashuang	Chinf de Chinf	Herborist
Period	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
July 1997 – December 1997	59,706	143,107	41,214	35,827	0
January 1998 – June 1998	196,794	40,639	3,236	35,517	0
July 1998 – December 1998	131,905	135,542	54,311	43,032	155
January 1999 – June 1999	264,286	40,141	7,988	29,528	723
July 1999 – September 1999	92,639	70,102	35,491	28,950	354

The fluctuations in turnover during the periods described in the table above are principally due to the seasonality of the products. For the year ended 31st December, 1998 and the six months ended 30th June, 1999, the aggregate turnover of **Liushen**, **Maxam**, **Yashuang**, **Chinf de Chinf** and **Herborist**, accounted for about 86% and 88% respectively of the total turnover of Shanghai Jahwa.

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During the period from July 1997 to September 1999, **Liushen**, **Maxam**, **Yashuang** and **Chinf de Chinf** remained the principal products of Shanghai Jahwa. The objectives of management of Shanghai Jahwa are, among others, to increase the market share and customer awareness of these products. In addition, new product line based on natural herbal ingredients and targeting the young adult market was introduced.

Development of marketing channel and marketing strategy

During the period from July 1997 to September 1999, the marketing strategy of Shanghai Jahwa focused on increasing the market share of its products in the PRC.

Period	Development of marketing channel	Marketing Strategy
July 1997 – December 1997	Distribute the products through 16 sales offices in the PRC.	High-end cosmetic products were sold through special sales counters and sales representatives promoted the products directly to customers. Promotions of household cleaning products were conducted through television commercials and newspaper advertisements.
January 1998 – December 1998	Distribute the products through 16 sales offices in the PRC. Products were distributed through different channels in accordance with their respective positioning. High ends products were sold through special sales counters while daily health care products were sold through chain stores and department stores. Set up first Herborist specialty store in Shanghai.	Advertisements of Herborist based on all natural herbal ingredients were targeted at young adults. Promotion was conducted through exhibitions and advertisements.
January 1999 – September 1999	Set up two more Herborist specialty stores in Shanghai and one in Beijing.	Promotion of Herborist continued to focus on all natural herbal ingredients and targeted at young adults. The marketing strategy included sponsoring young adults activities, organising make up workshops and exhibitions.

Production facilities

During the period from July 1997 to September 1999, the majority of Shanghai Jahwa's manufacturing process was contracted out to the six production facilities not owned by Shanghai Jahwa. In 1997, as part of its strategy to diversify its manufacturing

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process and to establish its own production capacity, Shanghai Jahwa began the construction of the Qing Pu production facility. In mid 1998, the Qing Pu production facility was completed and commenced trial production. In early 1999, formal commencement of the operation of the Qing Pu production facility began. In terms of dollar value, the Qing Pu production facility accounted for approximately 20% of Shanghai Jahwa's total production capacity for the nine months ended 30th September, 1999. The Qing Pu production facility has a site area of about 78,000 sq.m.

Number of employees

Total number of employees of Shanghai Jahwa increased from about 970 in July 1997 to about 1,100 in September 1999. The principal reason for such increase is due to the expansion in the research and development department and the sales and marketing department of Shanghai Jahwa.

RESEARCH AND DEVELOPMENT ARRANGEMENT

Arrangement has been made with SUTCM to establish a research and development venture to develop new drugs/treatments based on Chinese medicines. On 22nd September, 1999, Shanghai Industrial entered into the Agreement with SUTCM for the establishment of the Research Centre. According to the Agreement, Shanghai Industrial shall procure SIMST Medical, a wholly-owned subsidiary of the Company, to enter into a joint venture contract with SUTCM in respect of the Research Centre. The registered capital of the Research Centre is proposed to be RMB3.0 million (about HK\$2.8 million). SIMST is to contribute 55% (or RMB1.65 million (about HK\$1.54 million)), and SUTCM is to contribute 45% (or RMB1.35 million (about HK\$1.26 million)), of the registered capital of the Research Centre. The number of directors to be nominated to the board will be based on the respective shareholding percentage of the Group and SUTCM. Shanghai Industrial is required to procure a shareholder's loan of up to RMB50 million (HK\$46.7 million) as funding for Chinese medicine research and development efforts of the Research Centre. SUTCM has agreed to provide the necessary technical staff and facilities for the Research Centre. The Research Centre will have the intellectual property rights over the research results produced by such staff. Furthermore, the Research Centre has the first right of refusal to acquire the results of research projects being carried out by SUTCM. SUTCM has also agreed that it will not enter into cooperative ventures with other parties for similar purposes.

SUTCM was established in 1956 by the State as one of the four medical universities focusing on the use of Chinese medicine. Currently, SUTCM has three associated hospitals (with about 1,800 beds and about 2.5 million patient visits per annum), 11 research institutes and eight research centres. In terms of international exchange, the World Health Organisation has established a traditional medicine cooperative centre and an international acupuncture training centre in SUTCM.

SUTCM research team has over 400 researchers. Some of the recent successful researches accomplished by the research institutes of SUTCM include work on liver cirrhosis, alzheimer and lung cancer.

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Pursuant to the Agreement, the Research Centre may select to participate in SUTCM's existing research projects. During the selection of research projects, the Directors will focus principally on the viability of the research findings in commercial applications. Furthermore, the Directors expect to utilise the development fund to be established by the Group (as discussed in the paragraph headed "Statement of business objectives of the Group" below) to acquire any intellectual property rights over the results produced by such research and development projects of SUTCM.

The Group is currently in preliminary discussions with various experts in the field of Chinese medicine with an aim to establishing cooperative ventures for developing medical products based on the modernisation of Chinese medicines. Please refer to the paragraph headed "Statement of business objectives of the Group" below.

STATEMENT OF BUSINESS OBJECTIVES OF THE GROUP

Given the progress in medical science and the trend towards modernisation of herbal medicine through modern technology in recent years, the Directors believe that market potential in this area is significant. As stated in the paragraph headed "Business Strategy" above, the business strategy of the Group is to promote the modernisation and scientific application of TCM and to promote Chinese medicine in the mainstream medical community on a global scale. The Directors believe that the existing operations of the Group provide a platform for the Group to further develop and expand in the field of medical science and technology. The Group also plans to participate in other segments of high-tech medical industry such as bio-pharmaceutical and biotechnology industry when opportunities arise.

The Group's development strategies as envisaged by the Directors comprise of four principal areas, namely (i) the adoption of advanced technology through new research and development efforts to develop new products based on the modernisation of Chinese medicine, (ii) the improvement on its production technology and facilities so that the quality of the Group's products will meet the international standards for export sales; (iii) the augmentation of its existing marketing team and expansion of its distribution network; and (iv) the broadening of the scope of the Group's operation to include clinical services serving as a channel for the promotion and distribution of the Group's products.

The near term development strategies as envisaged by the Directors were based on the following general assumptions:

- There will be no material changes in the existing laws (whether in the PRC, Hong Kong or any part of the world), policies or industry or regulatory treatment relating to the Group, or in the political, economic or market conditions in which the Group operates.
- Inflation, interest rate and exchange rates will not differ materially from those prevailing as of the date of this prospectus.
- No material changes in the bases or rates of taxation applicable to the Group.

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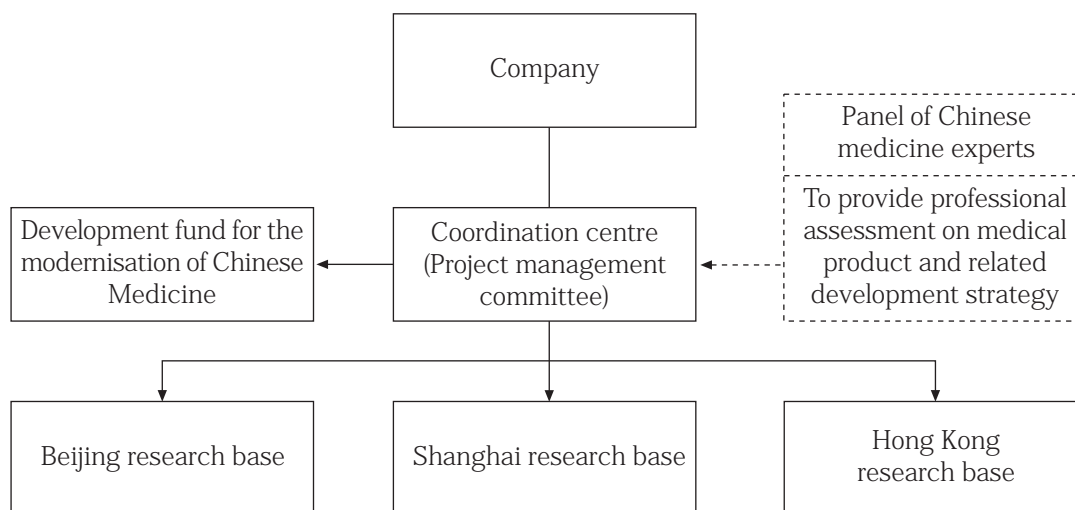
- Suitable personnel can be recruited and retained by the Group.
- There will be no change in the funding requirement for each of the near term development strategies described herein from the amount as estimated by the management of the Group currently.
- External financing will be readily available to the Group.
- There will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its property or facilities.

Details of the near term development strategies of the Group as envisaged by the Directors are as follows:

Research and development

The Directors believe that towards the next century, the approach for healthy living for an ageing global population will shift from synthetic drugs to natural remedies. Furthermore, the Directors believe the research and development period for new drugs derived from natural herbal substance is shorter compared with that of synthetic drugs as Chinese medicine has been practised and refined for over thousands of years. The objective of the Directors is to enhance the quality and medical effects of the Group's products so that they can be marketed overseas such as to the U.S. and Europe.

In order to improve the quality and medical efficacy of its Chinese medicine products and to promote the use of Chinese medicines in the international market, the Group intends to establish a coordination centre with three research and development bases in Shanghai, Beijing and Hong Kong. A simplified organisation chart is set out below:



The research results achieved by the three research and development bases are planned to be put into commercial production. It is intended that the Group's production base to be established in Hong Kong and/or CTQ will be given the first priority in terms of the manufacturing of such products. Apart from manufacturing at the Group's own production base, the management will also consider various ways to capitalise the value of the results from such research and development effects, including, but not limited to, selling such results to independent third parties, establishing co-operative venture with third parties for the production of products.

Coordination Centre

The coordination centre will be established for the purpose of centralising, directing and monitoring the medical research and development efforts of the Group. It is expected that the majority of the members of the project management committee will consist of management of the Group and outside consultants in the marketing and asset management businesses. The project management committee will also be advised by a panel of Chinese medicine experts on assessment on medical products and related development strategy. The establishment of the coordination centre is expected to be completed by 30th June, 2000.

Shanghai research and development base

Arrangement has been made with SUTCM to establish the Research Centre with an aim to focus on the modernisation and scientific application of Chinese medicine including the further development of traditional formulae (配方二次開發). The Group's business objectives with respect to the Shanghai research and development base for the three months ending 31st December, 1999 and for each of

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the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999	2000		2001	
	4Q	1H	2H	1H	2H
Stage of development	○	□	△	∞	∞
Description	<p>Arrangement made with SUTCM.</p> <p>Continue to negotiate on detailed terms of the joint venture.</p> <p>Commence evaluation of the existing research and development projects of SUTCM.</p>	<p>Enter into definitive agreement with SUTCM.</p> <p>Finalise the list of research and development projects to be transferred from SUTCM.</p> <p>Up to about 5 projects are anticipated to be transferred from SUTCM.</p>	<p>Continue research and development projects transferred from SUTCM.</p> <p>Anticipated commencement of up to about 5 additional new projects if available.</p>	<p>Continue research and development projects transferred from SUTCM and new projects.</p>	<p>Continue research and development projects transferred from SUTCM.</p> <p>Anticipated commencement of up to about 5 additional new projects, if available.</p> <p>Anticipated commencement of clinical trial on newly developed drugs and/or health supplement products.</p>
Amount to be financed from the net proceeds from the issuing of the New Shares and/or from other sources	HK\$2 million	HK\$5 million	HK\$6 million	HK\$8 million	HK\$5 million
<p>Major assumptions:</p> <ul style="list-style-type: none"> — SUTCM agrees to transfer the selected projects to the Research Centre on terms agreeable to the Company. — The projects to be transferred from SUTCM will be viable. — The research and development projects succeed. — The drugs and health supplements will be ready for clinical trial in the second half of 2001. — New commercially viable projects will continue to be available throughout the period. — The joint venture will be duly established by 30th June, 2000. — Cost of research and development will be within budget established by the Research Centre. — Obtain all necessary approval for clinical test. 					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage; ∞ On-going development.

Most of the funding mentioned in the table above is intended to finance the research and development of projects.

Beijing research and development base

With respect to the Beijing research base, the Group will primarily participate in the research and development of Category 2 new medicine (under the “Classification for Chinese medicine of the Regulations on the Approval of New Medicines” (新藥審批辦法)), herbal medicine and health supplements for the enhancement of health and treatment of ageing-related diseases. It is also planned that the Beijing research base will be responsible for coordinating the approval process of the Group’s products with the relevant PRC government

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authorities. The Group is currently in advanced discussions with respect to the establishment of cooperative venture in Beijing for research and development and expects to enter into cooperative venture agreement by 30th June, 2000. The Group's business objectives with respect to the Beijing research and development base for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999	2000		2001	
	4Q	1H	2H	1H	2H
Stage of development	○	□	△	∞	∞
Description	Preliminary discussions with TCM institutes and experts to establish a research and development joint venture in Beijing.	<p>Enter into agreement.</p> <p>Evaluation of projects currently undertaken by the institutes and the experts.</p> <p>Based on preliminary estimate, up to 5 pharmaceutical products and health supplement projects will be handled by the Beijing research base initially.</p> <p>Commence research and development of projects approved by the expert panel of the coordinating centre.</p>	<p>Continue existing research and development projects.</p> <p>Commence new projects if available.</p>	<p>Continue existing research and development projects.</p> <p>Commence new projects if available.</p> <p>Anticipated commencement of clinical trial on certain pharmaceutical products.</p>	<p>Continue existing research and development projects.</p> <p>Commence new projects if available.</p> <p>Coordinate the application for product approval of the Group's new products.</p>
Amount to be financed from the net proceeds from the issuing of the New Shares and/or from other sources	HK\$0.5 million	HK\$5.5 million	HK\$8.0 million	HK\$7.0 million	HK\$7.0 million
<p>Major assumptions:</p> <ul style="list-style-type: none"> — The institutes and experts agree to transfer the selected projects to the research base on terms agreeable to the Company. — The projects to be handled by the research centre will be commercially viable. — The research and development projects will succeed. — The passing of the various tests and obtaining all the necessary certifications for new drugs and health supplement products will be successful and will be completed within the anticipated time frame. — New commercially viable projects will continue to be available throughout the period. — The joint venture will be duly established by 30th June, 2000. — Cost of research and development will be within budget established by the research base. 					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage; ∞ On-going development.

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Most of the funding mentioned in the table above is intended to finance the research and development of projects.

Hong Kong research and development base

The Directors believe that research on the standardisation of Chinese medicine is the foundation of the modernisation of Chinese medicines. The Directors intend to enter into strategic cooperative arrangements with research institutes in Hong Kong relating to testing and analysis of TCM. It is expected that a testing and analysing facility will be set up by the Group. The objective of this facility is to establish an industry standard on the therapeutic effects of Chinese medicine. By establishing such standard, the Directors believe that it will enhance the marketability of the Group's products in the international market. The Group may work together with other research institutes in Hong Kong to establish such an industry standard. The Directors expect that the establishment of the testing and analysing centre in Hong Kong will complement the Hong Kong Government's plan to develop Hong Kong into an international centre for the development of

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health food and pharmaceutical based on Chinese medicine. The Group's business objectives with respect to Hong Kong research and development base for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999	2000		2001	
	4Q	1H	2H	1H	2H
Stage of development	○		□	△	∞
Description	Preliminary discussions with research institutes in Hong Kong.	Continue discussions with research institutes in Hong Kong.	Enter into cooperative arrangement with research institutes in Hong Kong by end of 2000.	Commence projects on the testing and analysing of Chinese medicine and formulating quality standards targeting for overseas market. Gradual expansion of the testing and analysing facility as appropriate.	Continue testing and analysing of Chinese medicine and formulating quality standards targeting for overseas market. Gradual expansion of the testing and analysing facility as appropriate.
Amount to be financed from the net proceeds from the issuing of the New Shares and/or from other sources	Nil	HK\$6 million	HK\$8 million	HK\$7 million	HK\$7 million
Major assumptions: — Policies, as well as the timing of which, advocated by the Hong Kong Government will be favourable for the Group to establish the testing and analysing facility. — The successful conclusion of cooperative arrangement(s) with the research institutes will be within the anticipated timeframe. — The testing and analysing equipment will be received within the anticipated timeframe.					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage; ∞ On-going development

Most of the funding mentioned in the table above is intended to finance the organisation expenditures and the acquisition of equipment for the research and development centre.

Development Fund

The Directors believe that establishment of the research network described above will accelerate research breakthroughs on which the Group will be able to capitalise. In order to ensure adequate funding to finance the research and to transform such research breakthroughs into commercial production, the Group plans to establish a development fund (with an initial funding of HK\$50 million and with further funding to be provided as and when required) by 30th June, 2000 to be managed by the project management committee of the coordination centre. The initial source of the development fund will be from the net proceeds from the issuing of the New Shares. The Directors believe that through the adoption of advanced technologies, coupled with the potentials of TCM, the Group will be placed in a favourable position to develop high value-added medical and pharmaceutical products for the consumers.

Production of pharmaceutical products

Establishment of a production base in Hong Kong

The Directors anticipate that the production base of the Group to be established in Hong Kong will obtain the Hong Kong good manufacturing practice certification, if applicable, upon or soon after its establishment. The production base will focus on the later stage of the production process of the Group's products, including those being manufactured by CTO and those to be developed by the research bases. The Directors believe that the establishment of a production base in Hong Kong would promote consumer confidence in the Group's products and value will be added to the Group's products which in turn will facilitate the marketing of such products in the international market. The Group's business

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objectives with respect to the establishment of a production base in Hong Kong for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999 4Q	2000		2001	
		1H	2H	1H	2H
Stage of development		○		□	△
Description	Continue feasibility study.	Preliminary evaluation of the appropriate location and size of operation of the production facility.	Select the location and apply for relevant approvals. Anticipated manufacturing premises will have a total area of up to 40,000 sq.ft.	Hong Kong good manufacturing practice certification obtained. Commence trial production.	Continue to expand the operation as appropriate.
Major assumptions: — Funding will be readily available for the establishment of the production base. — No major events delaying the establishment of the production base. — Suitable personnel will be recruited at the production base. — Suitable location will be available to the Group. — Acceptable leasing terms will be offered to and accepted by the Group. — Production base will obtain all required approvals and certificates without delay. — The production base will obtain the good manufacturing practice certification as planned. — Suitable equipment will be available to the Group. — Shipment and installation of the equipment will be within the time frame anticipated by the Group.					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage.

The timing of the establishment of such production base will depend principally on the Hong Kong Government's decision to proceed with developing the Chinese medicine industry in Hong Kong. As such, the exact timing for establishing this production base may differ from that described in the table above.

Joint ventures with reputable Chinese medicine enterprises

In the field of TCM, the more viable enterprises are those that have reputable brandnames and possess prescriptions/formulae (配方) which have proven to be effective over the years. The Directors believe that by entering into joint venture arrangements with such enterprises is an important part of the Group's future strategy. The Group is currently in preliminary discussions with several enterprises in the PRC which have long established history and possess reputable brandnames. The Directors believe that by having a long established history, these enterprises should have accumulated invaluable experience in the areas of identifying quality herbs, diagnosing and clinical treatments, as well as having a collection of prescriptions/formulae that have proven to be effective over the years. Furthermore, the Group may increase its interest in its existing joint ventures should opportunities arise. The Group's business objectives with respect to

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entering into such joint ventures for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999	2000		2001	
	4Q	1H	2H	1H	2H
Stage of development	○	□		△	~~~~~
Description	Continue to locate and review potential suitable joint venture candidates.	Commence negotiations with joint venture candidates if appropriate.	Enter into joint venture agreement by the end of 2000 if appropriate.	Continue to locate suitable joint venture candidates and enter into joint venture agreements if appropriate.	Continue to locate suitable joint venture candidates and enter into joint venture agreement if appropriate.
Major assumptions: — Successful negotiations with potential suitable candidates. — The joint venture will be duly established by the end of 2000. — Suitable joint venture candidates will continue to be available throughout the period.					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage; ~~~ on-going development

Alliance with international pharmaceutical companies

In order to promote the Group's products in the international market, the Directors intend to enter into alliance with international pharmaceutical companies on various aspect of the Group's operation. The Directors are currently in preliminary negotiations with an international pharmaceutical company to explore the possibility of various forms of alliance in relation to developing, manufacturing and distributing products made from herbal ingredients. The Directors believe that this will promote the products of the Group in the international market. The Group's business objectives with respect to entering

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into alliance with the international pharmaceutical company for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999	2000		2001	
	4Q	1H	2H	1H	2H
Stage of development	○		□	△	∞
Description	Continue preliminary negotiations with international pharmaceutical company.	Continue negotiations and evaluation.	Continue negotiations and evaluation. Enter into agreement by end of 2000.	Introduce products in the European market.	Gradually expand the market coverage to other markets.
Major assumptions: — Successful negotiations with the international pharmaceutical company on terms acceptable in the Directors. — All relevant approvals and licenses will be obtained without delay. — Introduction of products in overseas market will be successful.					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage; ∞ On-going development

The Directors intend to use approximately HK\$58 million from the net proceeds from the issue of New Shares and/or from other sources to finance the establishment of the production base in Hong Kong and the joint ventures with reputable Chinese medicine enterprises (including the possibility of acquiring additional interest in the Group's existing joint venture) during the next two years. It is the present intention of the Directors to utilise over half of the HK\$58 million for the aforesaid purposes by 31st December, 2000.

Expansion on existing operations

CTQ The existing businesses of the Group will continue to serve as a platform for the Group to expand its operations. The directors of CTQ intend to increase sales through the expansion of its marketing team and marketing channels. In addition, one of CTQ's workshops has obtained GMP certificate and the Directors intend to continue to modify its operational procedures so that four of the remaining production facilities will be GMP compliant by the end of 2000 while the last facility will be GMP compliant by the end of 2001. CTQ will continue to invest in CTQ's research and development efforts so that new drugs may be introduced to the market as and when appropriate.

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Sales — CTO

The directors of CTO expect that for the period from October 1999 to December 2001, Shen Mai Injection, Stomach Recuperation Granules, Granules Niaoganning, Granules Qingreling and Qingchunbao Anti-ageing Tablet will continue to be the principal products of CTO. The Group's business objectives with respect to the sales volume of CTO's principal products for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

<i>('000 units)</i>	Shen Mai Injection	Stomach Recuperation Granules	Granules Niaoganning	Granules Qingreling	Qingchunbao Anti-ageing Tablet
Period	<i>(vial)</i>	<i>(box)</i>	<i>(box)</i>	<i>(box)</i>	<i>(bottle)</i>
October 1999 – December 1999	3,771	1,566	439	278	852
January 2000 – June 2000	6,294	2,615	733	464	1,422
July 2000 – December 2000	7,693	3,196	896	567	1,738
January 2001 – June 2001	6,420	2,667	748	473	1,451
July 2001 – December 2001	7,847	3,260	914	578	1,773
Major assumptions:					
— The customers will not cancel on their orders.					
— Production of CTO will be able to fulfil customers' orders on a timely basis.					
— There is no change in the industry or the market that would cause the demand of CTO's products to deviate from the estimates made by the directors of CTO.					

Marketing — CTO

During the period from October 1999 to December 2001, CTO's marketing strategy will principally consist of sending its sales representatives to visit hospitals, clinics and other clients. In addition, sales conferences and seminars will be held for promoting CTO's products. With the introduction of the retail outlets and internet as the new marketing channel for CTO's products, marketing expenses are expected to increase gradually. The Group's business objective with

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respect to the development of marketing channel of CTQ for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	Development of marketing channel
October 1999 – December 1999	<p>Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products. In addition, CTQ plans to continue negotiations with a view to entering into arrangements with other supermarket chains in the PRC to develop additional marketing channels.</p> <p>CTQ will maintain the existing 55 sales offices. The marketing team will have a total staff number of about 590.</p>
January 2000 – June 2000	<p>Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products. In addition, CTQ will enter into arrangements with supermarket chains in the PRC to develop additional marketing channel. CTQ intends to set up arrangements with about two to three supermarket chains in the mainland PRC, Hong Kong or overseas to sell CTQ's products on a consignment basis.</p> <p>CTQ will commence preliminary discussions on joint venturing with internet companies and drug distributors to distribute CTQ's products on the internet.</p> <p>As CTQ's distribution channel begins to diversify, the marketing team will have a total staff number of about 610 while maintaining the number of sales offices at 55.</p>
July 2000 – December 2000	<p>Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products. However, CTQ will further develop its retail network. Distribution outlets, including those with supermarket chains and other OTC outlets, will increase to about 5 to 10.</p> <p>The marketing team will have a total staff number of about 635 while maintaining the number of sales offices at 55.</p>
January 2001 – June 2001	<p>Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products.</p> <p>Retail distribution outlets, including those with supermarket chains and other OTC outlets, will increase to about 12.</p> <p>The marketing team will have a total staff number of about 650.</p>
July 2001 – December 2001	<p>Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products.</p> <p>Retail distribution outlets, including those with supermarket chains and other OTC outlets, will increase to about 13 to 15.</p> <p>The marketing team will have a total staff number of about 665.</p>
<p>Major assumptions:</p> <ul style="list-style-type: none"> — Negotiations with supermarket chains will be successful. — Suitable internet and/or drug distributor joint venture candidates will be available. — Suitable marketing personnel will be available for employment by CTQ. 	

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Production and facilities — CTQ

For the period from 1st October, 1999 to 31st December, 2001, the directors of CTQ do not expect there will be any substantial change in the production capacity. The production facilities of CTQ are currently running on two shifts. The directors of CTQ believe that in the event there is an unexpected increase in demand for CTQ's products, additional shifts can be scheduled to handle the additional orders.

With respect to the production facilities, the principal objective of CTQ's management is to meet the GMP standards for the five remaining production facilities. The Group's business objective with respect to the production facilities of CTQ for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	Premises	Status of GMP compliance
October 1999 – December 1999	Located in Hangzhou, Zhejiang Province with a gross floor area of about 92,000 sq.m.	Injection workshop in full compliance with GMP standards.
January 2000 – June 2000	Located in Hangzhou, Zhejiang Province. As a result of an increase in total area for more inventory and raw material storage space, total gross floor area will increase to about 93,000 sq.m.	Commence implementation of GMP compliance procedures with natural herb based tablet and capsule workshop, preparation of crude herbs workshop and oral tonic workshop.
July 2000 – December 2000	Located in Hangzhou, Zhejiang Province with a gross floor area of about 93,000 sq.m.	Natural herb based tablet and capsule workshop, preparation of crude herbs workshop and oral tonic workshop in full compliance with GMP standards.
January 2001 – June 2001	Located in Hangzhou, Zhejiang Province with a gross floor area of about 93,000 sq.m.	Commence implementation of GMP compliance procedures with granule workshop.
July 2001 – December 2001	Located in Hangzhou, Zhejiang Province with a gross floor area of about 93,000 sq.m.	Granule workshop in full compliance with GMP standards.
Major assumptions:		
<ul style="list-style-type: none"> — The implementation and approval of the GMP certification will be as scheduled. — Land will be available for the expansion of the production facilities. — All relevant certification will be obtained in relation to the additional production facilities. — No further changes on GMP standards by the relevant authorities. 		

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Research and development — CTQ

With respect to research and development, the principal object of CTQ's management is to continue to complete the existing projects so that new products can be introduced in the market. The Group's business objective with respect to the research and development efforts of CTQ for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	艾葉油軟膠囊 (Chinese Mugwort Leaf Oil Soft Capsule)	益胃膠囊 (Stomach Recuperation Capsule)	利膽排石片 (Anti- cholelithiasis Tablet)	決明降脂片 (Cassia Seed Lipid Lowering Tablet)	腎康寧薄膜片 (Shen Kang Ning Coated Tablet)	低糖雙寶素口服液 (Shuangbaosu Oral Tonic (Low Sugar Formula))
October 1999 – December 1999	Complete pre-clinical trial study.	Completed pre-clinical trial study.	SPSAC approval obtained	SPSAC approval obtained		
January 2000 – June 2000	Complete pre-clinical trial technical information review by the provincial level SPSAC.	Complete pre-clinical trial technical information review by the provincial level SPSAC.			Preliminary review completed by provincial health bureau pharmaceutical administration. Completed review by provincial drug testing centre.	Functional test completed by provincial level health and disease prevention bureau. Application made to State health department functional foods evaluation office.
July 2000 – December 2000	Approval obtained from State level SPSAC to commence clinical trial.	Approval obtained from State level SPSAC to commence clinical trial.	Commence commercial production.	Commence commercial production.	Completed quality standard review by the State Pharmacopeia Committee.	Approval obtained from State health department functional foods evaluation office.
January 2001 – June 2001	Review completed by provincial level SPSAC.				Commence production based on new quality and manufacturing standards.	
July 2001 – December 2001	Production permit obtained from SPSAC.	Review completed by provincial level SPSAC.				Commence commercial production.
Major assumptions:						
— All projects will progress as planned.						
— Testing on drugs under research and development will be completed as planned.						
— All drugs under research and development will obtain all relevant approvals as intended.						
— Commencement of pilot production will be as planned.						
— Market conditions for new drugs remain favourable as anticipated.						
— All implementation and obtainment of the GMP certification will be as scheduled.						

Financing — CTQ

For the period from 1st October, 1999 to 31st December, 2001, the directors of CTQ do not expect there will be any substantial change in CTQ's financing structure.

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Number of employees — CTQ

For the period from 1st October, 1999 to 31st December, 2001, the directors of CTQ do not expect there will be significant increase in the total number of employees. However, in the absence of unforeseen circumstances, additional personnel may be hired principally in the marketing department.

Shanghai Jahwa

Subsequent to the completion of the reorganisation of Shanghai Jahwa or the listing of Shanghai Jahwa on the "A" share market, the Company will own less than 50% interest in the share capital of Shanghai Jahwa. As such, the Company will not be in a position to exercise control over the board of directors of Shanghai Jahwa or at general meetings of Shanghai Jahwa and whether the business objectives of Shanghai Jahwa as stated in this prospectus can be achieved is beyond the management control of the Directors. Such business objectives only reflect the current business plan proposed by the management of Shanghai Jahwa and may change from time to time by such management without regard to the views of the Group. Investors and potential shareholders should therefore not place undue reliance on such business objectives. In addition, it is not presently expected that any of the proceeds from the issue of the New Shares will be utilised in the personal care and cosmetic operations of Shanghai Jahwa.

Sales and marketing — Shanghai Jahwa

The Directors had been informed by the directors of Shanghai Jahwa that during the period from October 1999 to December 2001, **Liushan, Maxam, Yashuang** and **Chinf de Chinf** will remain the principal products of Shanghai Jahwa. The marketing strategy will focus on the expansion of the market share for such products. To accomplish such business objective, the directors of Shanghai Jahwa intend to gradually increase the number of sales and marketing staff.

In addition to its existing principal products, the directors of Shanghai Jahwa will continue to develop and expand the operation of the **Herborist** product line. Such expansion will include franchising the **Herborist** operation in Shanghai, Beijing and other areas. The directors of Shanghai Jahwa expect the number of specialty stores to increase by about 20 stores per year in each of 2000 and 2001. It is also anticipated that each of the specialty stores will occupy an area of around 20 to 100 sq.m. In addition, if opportunities arise, the directors of Shanghai Jahwa will also franchise out the **Herborist** operation to overseas companies. Additional products under the **Herborist** line of products will also be developed such as essence oils and wrinkle cream. The directors of Shanghai Jahwa anticipated that the total number of products under the **Herborist** line will increase to around 80 by 2000 and to around 100 by 2001. Promotional activities using the all natural theme of the **Herborist** products will be held to attract new customers. The directors of Shanghai Jahwa anticipated that turnover from the **Herborist** product line will increase by about 180% in 2000 and by about 50% in 2001, and will represent about 0.5% to 1.0% of the turnover of Shanghai Jahwa from the personal care and cosmetic operation for each of the respective year.

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As discussed in the paragraph headed “Personal care and cosmetic operations” above, SJC may inject its interest in certain Chinese medicine operations into Shanghai Jahwa which will diversify the operations of Shanghai Jahwa. If the operations of Shanghai Jahwa is to diversify into Chinese medicine operations, the directors of Shanghai Jahwa may utilise its existing distribution network to market the medicinal products.

Assumptions:

- Market demand will be as anticipated by the directors of Shanghai Jahwa.
- The availability of store space on terms acceptable to Shanghai Jahwa.
- Production of Shanghai Jahwa will be able to fulfill customers’ orders on a timely basis.
- The demand for the natural herbal personal care and cosmetic products of **Herborist** product line will be as anticipated by the directors of Shanghai Jahwa.
- The establishment of additional speciality stores of **Herborist** products will be successful and within the timeframe as anticipated by the directors of Shanghai Jahwa.

Production facilities — Shanghai Jahwa

The directors of Shanghai Jahwa anticipate that there will not be any substantial change in the modes of production of Shanghai Jahwa. In the absence of unforeseen circumstances, Shanghai Jahwa anticipated that the existing relationship with the six manufacturing contractors will continue during the next two years. In addition, Shanghai Jahwa will gradually expand the utilisation of its Qing Pu facility. However, the directors of Shanghai Jahwa do not expect that there will be any substantial change in the site area of the Qing Pu facility.

Assumptions:

- The six existing manufacturing contractors will be retained and the quality of their products will continue to meet the requirements of Shanghai Jahwa.
- No disruption of production due to force majeure events.

“A” Share listing — Shanghai Jahwa

Shanghai Jahwa is currently being reorganised for the purpose of listing on the “A” share market in the PRC. The directors of Shanghai Jahwa currently aim to list its share on the “A” share market sometime in 2000, depending on market conditions. In addition, it is anticipated that at least 20% of the enlarged issued share capital of Shanghai Jahwa will be sold to eligible placees and/or the general public.

Assumptions:

- Shanghai Jahwa will obtain all the necessary approvals.
- The listing on the “A” share market will be successful.
- The stock market condition will be favourable at the time of the sale of “A” shares by Shanghai Jahwa.

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Employees — Shanghai Jahwa

The directors of Shanghai Jahwa anticipated that the number of employees engaging in the existing personal care and cosmetic operations of Shanghai Jahwa will decrease from about 1,100 in September 1999 to about 1,000 by 2000 due to streamlining of the operations and will increase back to about 1,100 by 2001 due to the anticipated increase in the business volume of Shanghai Jahwa.

Assumptions:

- Suitable and capable employees can be recruited and retained by Shanghai Jahwa.
- The streamlining of the operations will be successful and will not disrupt the existing operations of Shanghai Jahwa.
- No labour dispute will arise as a result of lay off of employees.
- The anticipated increase in business volume will materialise and at a level anticipated by the directors of Shanghai Jahwa in 2001.

Marketing and sales

Expand and strengthen its distribution network in the PRC

The Group's marketing and sales strategy is to expand and strengthen its distribution network through internal growth and acquisitions. To facilitate the marketing of medical products, the Group is currently in preliminary negotiations to acquire a minority interest in a PRC company with an existing distribution network for medical and health supplement products in the PRC. The Group's business objectives with respect to the intended acquisition of a minority interest in the PRC company for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999	2000		2001	
	4Q	1H	2H	1H	2H
Stage of development	○	□		△	
Description	Preliminary negotiation with target.	Continue negotiation with target.	Finalise the terms of the acquisition and commence due diligence. Expected completion of the acquisition by mid 2000.	Continue the operation of the acquired PRC company.	Continue the operation of the acquired PRC company.
Major assumptions: — Successful negotiations with potential suitable candidates. — All relevant approvals will be obtained without delay.					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage; ∞ on-going development

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The Directors intend to utilise a total of HK\$20 million from the net proceeds generated from the issue of the New Shares and/or from other sources to finance the expansion of its distribution network and the acquisition of a minority interest in the aforesaid PRC company. The Directors anticipate that about half of the HK\$20 million will be utilised in each of the two years ending 31st December, 2001. Most of the funding will be used to finance the investment costs and the operating expenses of the distribution network.

E-commerce

The internet has become an increasingly viable and emerging channel for the marketing of products. The Directors believe that the use of the internet may increase the awareness, as well as sales, of the Group's products. The Group plans to establish a web-site initially focusing on servicing the greater Shanghai area and later extending to other major coastal cities and Beijing in the PRC when appropriate. The Directors estimate that the establishment of a comprehensive e-commerce operation will take

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approximately one year to two years. The Group's business objectives with respect to e-commerce for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999	2000		2001	
	4Q	1H	2H	1H	2H
Stage of development	○	□			△
Description	Preliminary evaluation.	Preliminary discussion with potential partners. Continue feasibility study on e-commerce Commence preparation for establishing a website.	Construct a website that serves the greater Shanghai area Expected daily hit rate on the website will be about 1,000 times.	Continue to improve the content and e-commerce opportunities of this website. Expand to other major coastal cities, Hong Kong and Macau. Trial run on e-commerce function. Expected daily hit rate on the website will be about 5,000 times.	Form alliance with other pharmaceutical websites through mergers and acquisitions; and links. Full implementation of e-commerce function. Expected daily hit rate on the website is about 8,000 times.
Amount to be financed from the net proceeds from the issuing of the New Shares and/or from other sources	Nil	HK\$1.5 million	HK\$3.5 million	HK\$2.0 million	HK\$1.0 million
Major assumptions: — Successful negotiations with potential partners. — The establishment of the web-site will be on schedule. — Daily hit rate will be achieved as expected. — Infrastructure for the establishment of e-commerce will be available and at cost as budgeted by the Group. — System(s) for the web-site will operate as intended.					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage.

Most of the funding mentioned in the table above is intended to finance the development costs, salary, marketing expenses for the web-site, administrative expenses and equipment.

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Over-the-counter sales (“OTC sales”)

In addition to the plans to expand and strengthen its distribution network in the PRC and through the development of e-commerce via the internet, the Group plans to utilise its relationship (including that of the SIIC Group) to cooperate with sizeable chain stores and supermarkets in mainland PRC to market the products of the Group. In the event that the Group enters into arrangements with any members of the SIIC Group, it will follow the applicable provisions of the GEM Listing Rules and will make the necessary disclosure as appropriate. The Group also plans to discuss the possibility of selling the Group’s products through established chain stores in Hong Kong and/or overseas with an aim to further developing the wholesale and retail business of the Group’s products and also paving the way for the distribution of the Group’s future products. The Group’s business objectives with respect to OTC sales for the three months ending 31st December, 1999 and for each of the four consecutive six-month periods from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999	2000		2001	
	4Q	1H	2H	1H	2H
Stage of development	○	□			△
Description	Continue negotiation with Lian Hua Supermarket to expand the Group’s OTC distribution power.	Preliminary discussion with large chain stores in Hong Kong.	Enter into agreement with chain stores in Hong Kong to expand the OTC distribution network of the Group.	Commence preliminary negotiation with overseas chain stores to further expand the Group’s OTC distribution capacity.	Enter into agreement with overseas chain stores to expand the OTC distribution network of the Group.
Amount to be financed from the net proceeds from the issuing of the New Shares and/or from other sources	Nil	HK\$2.5 million	HK\$2.5 million	HK\$2.5 million	HK\$2.5 million
Major assumptions: — Successful negotiations with Lian Hua Supermarket (Shanghai Industrial United Holdings presently has a 30% equity interest in Lian Hua Supermarket), chain stores in Hong Kong and overseas within the anticipated timeframe. — All relevant approvals and licenses/certificates will be obtained without delay.					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage.

Most of the funding mentioned in the table above is intended to finance the fees to be paid to the supermarkets and chain stores for carrying the Group’s products, and the expenditures and investments in connection with forming cooperative ventures.

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Chinese medicine clinical centre

The Group intends to expand its operations into the clinical centre sector in order to promote the Group's products. The Group plans to work together with certain well-established TCM hospitals in the PRC and establish a Chinese medicine clinical centre in Hong Kong. The Directors intend that these TCM hospitals will second certain of their Chinese medicine experts to Hong Kong to work in the clinical centre. The Directors anticipate that this clinical centre will eventually, through the resources and technical supports in the PRC and Hong Kong, extend its services overseas. The Group's business objectives with respect to clinical centre for the three months ending 31st December, 1999 and for each of the four consecutive six-month period from 1st January, 2000 to 31st December, 2001 are illustrated as follows:

Period	1999 4Q	2000		2001	
		1H	2H	1H	2H
Stage of development		○	□	△	∞
Description		Preliminary negotiations with well-known TCM institutes and experts.	Anticipated completion of the establishment of the clinic in Hong Kong by end of 2000.	Continue to expand the number of clinics if appropriate.	Continue to expand the number of clinics if appropriate.
Amount to be financed from the net proceeds from the issuing of the New Shares and/or from other sources	Nil	HK\$0.5 million	HK\$1.5 million	HK\$1.5 million	HK\$1.5 million
Major assumptions: — Suitable Chinese medicine practitioners for secondment to the clinical centre are available. — Suitable premises on terms acceptable to the Group are available. — Funding for expansion is available. — No delay in the approval process for such practitioners' relocation to Hong Kong. — All relevant approvals and licences will be obtained without delay.					

Legend: ○ Preparation stage; □ Implementation stage; △ Initial completion stage; ∞ On-going development.

Most of the funding mentioned in the table above is intended to finance the acquisition of equipment and fixtures, employment of personnel (including Chinese medicine practitioners), rental payments and other organisation expenditures.

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The aforesaid plans are based on the existing plans and intentions of the Group which are either in a conceptual stage or a preliminary stage. Furthermore such intentions and plans are based on assumptions of future events which by their nature are subject to uncertainty. The Group's actual course of action may therefore vary from the intentions and plans set out above. Although the Directors will endeavour to execute such plans in accordance with the aforesaid terms and timeframe, there can be no assurance that the plans of the Group will materialise, result in the conclusion of any agreement or be executed in accordance with the aforesaid timeframe or that, the objectives of the Group will be fully accomplished or accomplished at all.

Expansion and acquisition strategies will play a significant role in the Group's future growth plan. Through mergers, acquisitions, cooperative arrangements, strategic alliance and joint ventures, the Group will continue to seek out suitable investment candidates and business partnerships. The Directors are currently evaluating a number of business opportunities. However, the evaluation and related negotiations with the relevant parties are only in preliminary stages and there is no assurance that any of these negotiations will be consummated.

Any future acquisition or disposal of assets by the Group are subject to the provisions of the GEM Listing Rules. Pursuant to the GEM Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to its shareholders when any acquisition or disposal of assets by the Group is proposed, irrespective of the size of such acquisition or disposal and in particular when such acquisition or disposal represents a departure from the principal activities of the Group. The Stock Exchange also has the authority, pursuant to the GEM Listing Rules, to aggregate a series of acquisitions or disposals by the Group and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the GEM Listing Rules.

In addition, the Group, through its holding company, SIIC, will utilise its relationship with the Shanghai Government to explore various means to form joint ventures on research and development projects; manufacturing projects; trading business; e-commerce; and to develop, share and exchange intellectual property rights and assets in the field of herbal medicine and body care/health maintenance products.

The Directors believe that the proceeds from the issue of New Shares will not be sufficient to finance all of the planned and/or intended projects of the Group. The Directors expect that, after the listing of the Shares on the GEM, the Group will be able to finance such projects through, among other ways, raising funds in the international capital and debt markets, bank financings and internal resources or through a combination of them.

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REASONS FOR ISSUING NEW SHARES AND USE OF PROCEEDS

As stated in the paragraph headed “Statement of business objectives of the Group” above, the Directors believe that there is significant potential for products based on modernisation of TCM in the PRC and Hong Kong, as well as the international market. Accordingly, it is the intention of the Directors to continue to expand the existing operations of the Group. The capital from the net proceeds of the issue of New Shares by the Company will provide funding for the plans of the Group set out in the paragraph headed “Statement of business objectives of the Group” above.

The net proceeds from the issue of New Shares by the Company, after deducting related expenses, are estimated to be about HK\$162 million before exercise of the Over-allotment Option. The Directors presently intend to use such net proceeds as follows:

Principal Areas	Total (HK\$ million in approximation)	Business Plan	Total (HK\$ million in approximation)
Research and Development	84	To establish a coordination centre	2
		To establish a research and development base in Shanghai	26
		To establish a research and development base in Beijing	28
		To establish a research and development base in Hong Kong	28
Production of pharmaceutical products	38	To establish a production base in Hong Kong and to joint venture with reputable Chinese medicine enterprises (including the possibility of acquiring additional interest in the Group’s existing joint ventures)	38
Marketing and sales	33	To partially finance the expansion and strengthening of its distribution network	20
		To develop e-commerce	8
		To strengthen its over-the-counter sales	5
Clinical service	5	To establish a clinical centre in Hong Kong	5
Others	2	To use as general working capital ⁽²⁾	2

Notes:

- (1) The HK\$50 million development fund as described in the paragraph headed “Statement of business objective of the Group” are intended to be allocated to the research and development bases in Shanghai, Beijing and Hong Kong.
- (2) The general working capital will be used principally for the daily operations of the Company including, but not limited to, general and administrative expenditures.

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Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$50 million which together with the net proceeds from the issue of New Shares by the Company, after deducting related expenses, will amount to about HK\$212 million. The Directors intend to use the HK\$50 million in the Group's research and development efforts, for the establishment of the Group's production facility and to set up joint ventures, to finance the expansion and strengthening of its marketing and sales network and/or as general working capital.

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

To the extent that the net proceeds of the issue of New Shares are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short-term deposits with financial institutions in Hong Kong.