

Bio Life Remedies Inc.

Business Valuation Report

Sept 2006

Contents	Page
1. Background	5
2. Scope and Objective	5
2.1 Our Role	5
3. Disclaimers.....	5
4. Our Understanding of the Business Plan (provided by management).....	7
5. Executive Summary.....	8
6. Common Valuation Method.....	12
6.1 Cost Approach.....	12
6.2 Market Approach.....	12
6.3 Income Approach	13
7. Financial projections review	15
7.1 BLFR financial projections	16
7.1.1 Justification of Growth rate of the American diabetes population.....	16
7.1.2 Justification of Retail Selling Price of the Product	16
7.1.3 Penetration rate of the 2 products.....	17
7.2 BLBE (China) Financial Projections.....	20
INCOME.....	20
EXPENSES.....	20
7.2.1 Cost of processing	20
7.2.2 Production capacity of the “selected” OEM processor	21
7.2.3 Herb issues	21
7.3 Transfer price between BLBE and BLFR.....	22
8. Other matters of importance.....	23
8.1 Intellectual Property Rights & Competition	23
8.2 Research and Development.....	24
8.3 Quality Assurance	24
9. CONCLUSION	25
BLFR Group.....	25
Appendix I: Organization chart.....	26
Appendix II: Basic background of Bio Life (source from management).....	27
Appendix III: Products list of BLBE.....	29

Appendix IV: Bio Life Evaluation Results (USD ‘ 000)	30
<i>Income Approach</i>	30
Appendix V: Evaluation Ratio Information	31
Appendix VI: Summary of three companies similar to BLFR Group	32
Appendix VIII: Evaluation Schedule	37
<i>INCOME APPROACH-Discounted Net Cash Flow Method</i>	37
<i>Market Approach</i>	39
Appendix IX: Combined Income Statements of Bio Life	40
Appendix X: Combined Income statement of Bio Life	41
Appendix XI: Consolidated Balance Sheet of Bio Life	43
<i>Consolidated at 100%</i>	43
<i>Consolidated at 70%</i>	49
Appendix XII: Financial Projections of BLFR(USA)	54
<i>Balance Sheet</i>	54
<i>Income Statement Summary</i>	55
<i>Assumptions for Projections</i>	56
<i>Sales Volume Projection</i>	64
<i>Sales</i>	65
<i>Cost of Sales</i>	66
<i>Sales & Marketing Expenses</i>	67
<i>Research & Development Cost</i>	68
<i>Product & Research Overhead</i>	69
<i>Administration & Overhead</i>	70
<i>Equipment & Other Assets</i>	71
<i>Assumptions</i>	72
<i>Retail Selling Price in the USA</i>	73
Appendix XIII: Financial Projections for BLBE (China)	74
<i>Balance Sheet in USD</i>	74
<i>Balance Sheet in RMB</i>	75
<i>Income Statement in USD</i>	76
<i>Income Statement in RMB</i>	77
<i>Other Expenses</i>	78
<i>Accounting & HR & Purchases</i>	79

<i>Headcount & Salary & Welfare</i>	80
<i>Production Overhead</i>	82
<i>Cost of Production</i>	83
<i>Justification of Processing Costs for BLBE</i>	84
<i>Production Capacity Analysis of OEM</i>	85
<i>Fixed Assets investment</i>	86
<i>Major Assumptions</i>	87
Appendix XIV: Pricing strategy per client (source as per management)	88
<i>Price-Follower</i>	88
<i>Perceived Value</i>	89
<i>The Inability of Conventional Medicine in Diabetic Treatment</i>	90
<i>Comparison of Yu Xiao San</i>	92
<i>Comparison of Other Natural Supplements</i>	93
<i>Price Chart as per LehmanBrown</i>	100
Appendix XV: External Consultant’s Research Report on Diabetic Market	101
Appendix XVI: Comments on External Consultant’s report from the management of Bio Life	110

1. Background

Bio Life Remedies (BLFR) was incorporated in March 2005 in Colorado, USA. BLFR also has an office in Vancouver, Canada, where its commercial staff is located.

Bio Life Bio Engineering (China) Inc (BLBE) was incorporated in 2001 and is a natural pharmaceutical research and development company located in Guangzhou city, Guangdong province, China.

Bio Life Remedies (BLFR) and Bio Life Bioengineering (BLBE) refers to existing legal entities Bio Life Inc, USA and Bio Tech Ltd, China, the names of which may change in the future.

BLFR intends, in the very near future, to take a substantial stake into BLBE China in order to combine both expertise. For the purpose of this report, the combination of both entities will be called Bio Life or The Group (BLFR + BLBE).

The mission of BLBE is to combine the most advanced technology and modern scientific management with the processing of Traditional Chinese Medicinal herbal ingredients to produce pure natural herbal medicines for the treatment and prevention of serious diseases. BLFR intends to apply a new process called “cell wall breaking” technique. This technique was developed to isolate curative ingredients and extract the effective medicine component successfully from various herbs, and is widely acknowledged as an outstanding achievement in producing herbal medicine,

BLFR presently works very closely with BLBE, which is mainly a Research & Development center for pure natural medicinal remedies. BLBE has already developed 2 products for the treatment of Diabetes Mellitus, which improve insulin cycling and allow damaged cells to recover. BLBE has also completed work on 9 additional products. From 2006 Bio Life intends to launch 2 products per year.

Please refer to **Appendix I** for the organizational structure of the Group.

2. Scope and Objective

2.1 Our Role

We have been mandated to assist the management of BLFR to evaluate Bio Life and to evaluate the value of the know-how of BLBE. This valuation will be used to indicate the future value of Bio Life to potential investors. NO other purpose is intended or should be inferred.

3. Disclaimers

During the course of our evaluation, we interviewed Mr. Terry Xie, VP Manager of BLFR and Director of BLBE (the management) and Ms. Suqi Chen, CFO of BLBE, in order to understand the key areas of the business. Our findings are summarized in the executive summary in Section 5.

The contents of this report are qualified in their entirety by reference to the representations provided by the management and employees of Bio Life.

The procedures that we performed as part of the business evaluation and financial projections review do not constitute an audit in accordance with Generally Accepted Auditing Standards applicable to Bio Life in the PRC, USA, or International Auditing Standards. Accordingly, we express no opinion or any other form of assurance on the financial statements or any other information included in this report.

Our evaluation is based on the financial projections and the business plan prepared by Bio Life. We believe that the information obtained is substantially responsive to your request, and we are not in a position to assess its sufficiency for your purposes. Moreover, our limited procedures provide no basis for determining the completeness of the information.

Our report is prepared at the request and for the exclusive use of the management of Bio Life for the purpose of evaluating Bio Life and the know-how of BLBE. This report should not be referred to or used for any other purposes or distributed to anyone else without our prior written consent.

We have no current or prospective financial interest in the assets of company being subject to appraisal. Our fee for this appraisal was in no way influenced by the results of our valuation analysis.

This appraisal is made subject to the following general contingent and limiting conditions:

- I. We assume no responsibility for the legal description or matters including legal or title considerations. Title to the subject assets, properties, or business interests is assumed to be good and marketable unless otherwise stated.
- II. The subject assets, properties, or business interests are appraised free and clear of any or all liens or encumbrances unless otherwise stated.
- III. We assume responsible ownership and competent management with respect to the subject assets, properties, or business interests.
- IV. The information furnished by others is believed to be reliable. However, we issue no warranty or other form of assurance regarding its accuracy.
- V. We assume no hidden or unapparent conditions regarding the subject assets, properties, or business interests.
- VI. We assume that there is full compliance with all applicable regulations and laws unless the lack of compliance is stated, defined, and considered in the appraisal report.
- VII. Unless otherwise stated in this report, we did not observe, and we have no knowledge of, the existence of hazardous materials with regards to the subject assets, properties, or business interests. However, we are not qualified to detect such substances. We assume no responsibility for such conditions or for any expertise required to discover them.
- VIII. Possession of this report does not carry with it the right of publication. It may not be used for any purpose by any person other than the client to whom it is addressed without our written consent.

- IX. We, by reason of this opinion, are not required to furnish a complete valuation report, or to give testimony, or to be in attendance in court with reference to the assets, properties, or business interests in question unless arrangements have been previously made.
- X. Neither all nor any part of the contents of this report shall be disseminated to the public through advertising, public relations, news, sales, or other media without our prior written consent and approval.
- XI. The analyses, opinions, and conclusions presented in this report apply to this engagement only and may not be used out of the context presented herein. This report is valid only for the effective date specified herein and only for the purpose(s) specified.

4. Our Understanding of the Business Plan (provided by management)

As detailed by the business plan, because BLFR and BLBE are mainly owned by the same shareholder (Mr. J. Guo), BLFR intends to take a stake of approximately 70 % of BLBE in order to form “Bio Life”.

It is also the intention of the majority shareholder (Mr. J Guo) to ensure that the know-how (intangible assets) of BLBE will be exclusively owned by BLBE. Mr. Guo’s family has developed several formulations for BLBE over several decades. By understanding the value of BLBE, it is possible to know the value of the know-how of the Guo family. The family has developed many “master formulations”, each formulation can be used to develop several remedies. So far, more than 108 formulas have been developed.

We also understand that once the integration of BLBE into BLFR is complete, Bio Life intends to go public in the United States over- the Counter Bulletin Board (OTCBB).

5. Executive Summary

Based on the financial projections and business plans provided by Bio Life, we carried out the evaluation. Our findings on the evaluation are summarized below:

<u>Item</u>	<u>Reference</u>
5.1 General assumption of the evaluation	
<p>This evaluation is not only based on the assumptions (sales forecast, wholesaler selling price, cost of production of the OEM, etc...) provided by BLFR and BLBE, but also based on the assumption that all production will be through the OEM in China and the USA.</p> <p>Even though several other products have already been developed by BLBE and a third product is scheduled for launch on Oct 2006, we have taken into account only 2 products, Zutrol™ and Betatrol™, as the information received only applied to these. We have also assumed that the processing of the products will be done by BLBE and the commercialization will be done by BLFR.</p> <p>In order to provide an estimation of the value of the “company” and its know-how (intangible assets) it was necessary to make a proper analysis of the 2 companies separately and then combine them together.</p> <p>During our appraisal, we were provided with un-audited financial statement and operational data. The data was both historical and prospective in nature. We have assumed that all data accurately reflects the results of operations and the financial position of BLFR and BLBE.</p> <p>As Bio Life has not yet sold any products on the American market, our evaluation represents the value attributable to the proprietary knowledge and processes (formulation of the recipe) that have been developed by BLBE and having the potential to provide significant competitive advantages or product differentiation. These projections are based on factors such as relevant market research, patent protection, historical pricing of similar products and expected industries trends.</p>	
5.2 Date sources	
<p>Internal</p> <p>Bio Life has estimated the unit selling prices, unit volumes, and market share projections for 5 years. BLBE manufacturing and accounting management has also projected cost of goods sold data and capital expenditure data for the next 5 years. BLFR financial management has projected selling, general, and administrative expenses related to these products. After thorough reviews and comprehensive interviews, we have made several adjustments in order to conclude that all of the projections were reasonable.</p>	

<p>Based upon the data available to us, the projected results of operations of BLFR and BLBE are presented on Appendix IX p.40 to Appendix XIII p.74 respectively.</p> <p>Based upon the actual experience of BLBE and our research of the approval process, it would take a competitor much more than 5 years to obtain approval for such medication. BLFR management advised that they are not aware of any other competitor that has been experimenting in this area of research. However, they believe that once the competitors see the Bio Life products on the market they will quickly reverse-engineer a competing product. Even if it is reasonable to assume that Bio Life will enjoy a monopolistic competitive advantage for at least 5 years, we have assumed that the economic advantage associated with the subjects' intangible is perpetual. The most difficult component to estimate is the expected remaining useful life. Since it can be influenced by legal, contractual, judicial, physical, functional, technological, economical or analytical determinants.</p> <p>External:</p> <p>We have obtained directly from 2 Chinese manufacturers (OEM) quotation prices for converting the herbs into powder form. We have also visited the supplier that has been chosen by BLBE to produce the first two products.</p> <p>We have asked a professional (external consultant) in Chinese Traditional Medicine (CTM) to provide an evaluation on the quality of these 2 products and the potential market foreground for them in the USA market. No other markets were reviewed.</p> <p>We have searched to obtain financial data in the pharmaceutical industries in the USA and in China to establish key indicator ratios.</p>	
5.3 Herbal Base	
<p>As shown in the business plan of Bio Life, BLBE has reached an agreement with a Chinese Herbal Base in Chongqing to produce high quality herbs for BLBE and for outside sales purposes. However, we were not provided with enough information regarding this Herbal Base and therefore we did not incorporate this data into our evaluation of BLBE.</p>	
5.4 Shareholder Structure of BLFR and BLBE	
<p>As advised by the management, Bio Life wants to keep the value of the know-how in BLBE, and BLFR will control approximately 70 % of BLBE. However, we were not provided with any information regarding the shareholders structure of Mr. Guo and the minority shareholders of BLBE will be integrated after the take over by BLFR of BLBE.</p>	<p>Appendix I p.26</p>

5.5 Products development	
<p>This evaluation takes into account that Bio Life will only sell TWO products over the next 5 years. There are already 9 other products that have been developed and will eventually be in the process to be commercialized. Bio Life intends to launch 2 products per year. The research & development costs for the other 9 products have already been incurred. They have planned to launch a third product in 2006. This has been not taken into account in the projected revenue.</p>	Appendix III p.29
5.6 FDA approval	
<p>As advised by the management, these 2 products do not need to be subject to the FDA drug regulations since they are not classified as chemical drugs. From the time the application is submitted for the products to be marketed as Natural Health Supplement, it should usually not take more than 1 month to get import approval from USA. However, the ultimate goal of Bio Life is to obtain approval from the FDA in order to not be only considered as Natural Health Supplements but also as chemical in nature, which will provide access to a much bigger market.</p>	
5.7 Financing issue	
<p>The Group initially required temporary financing to not only support their working capital (mainly receivables & inventories), but also to support BLFR USA during initial market entry operations, where loses for the first year are USD 3.5 million. The consolidated loss for the first year is estimated at USD 2.235 million. In order to maintain a working capital ratio of 1.5 (without taking into account the tax payable) by the end of year 1, the required funds are estimated at around USD 5 million (USD 4.6 million) for the first year. After the first year, the global cash flow position is expected to be very good with more than USD 36 million in cash by the end of year 2.</p> <p>In our projection, we have not taken into account any dividend payments between BLBE and BLFR.</p>	Appendix XI p.43
5.8 Evaluation approach	
<p>There are several methods that can be used to determine the estimated Fair Value of an “In-process research and development” company (IPR&D).</p> <ol style="list-style-type: none"> 1 - Cost Approach 2 - Market Approach 3 - Income Approach 	Appendix IV p.30
5.9 Cost Approach	
<p>This approach simply estimates the “reproduction” cost at current prices to create an exact duplicate technology by using the same scientific research, design and development methods used to create the original technology. As detailed in Section 6.1, the cost approach is not an appropriate method to evaluate Bio Life.</p>	6.1

5.10 Market Approach	
<p>This approach is based on the widely held belief that the market is typically the best indicator of the value of a technology.</p> <p>Based upon P/E ratios from three similar companies we arrived at a set of values for Bio Life as set out in Section 6. However, as detailed in Section 6, we do not think that the market approach is an appropriate method to evaluate Bio Life.</p>	6.2
5.11 Income Approach	
<p>This method applies a probability weighting to the estimated future net cash flows that are derived from projected sales revenues and estimated cost. We have also estimated a terminal value of Bio Life by assuming that Bio Life will continue to generate the same profit as the last year of the defining period (in our case, after 5 years)</p> <p>We arrived at a set of values for Bio Life set out in Appendix IV. As detailed in section 6, we believe that the Income approach is the most appropriate method to evaluate Bio Life and BLBE.</p>	6.3 Appendix IV p.30

Our evaluation result is shown as below.

Transfer Price			BLFR own 100% of BLBE	BLFR own 70% of BLBE
' 000 USD			\$ 26.00	\$ 26.00
Income approach				
	R.O.E.	R.O.A.	ROE-ROA Capitalization	
Scenario 1	27%	15%	12%	\$ 623,709
Scenario 2	45%	15%	30%	\$ 192,058
Scenario 3	60%	15%	45%	\$ 83,475

Note:

R.O.E. = Return on Equity

R.O.A. = Return on Assets

We believe that using the income approach with a ROE of **60%** (and a capitalization rate of 45%), **USD 83.5 million** could be considered a **conservative value for Bio Life**.

6. Common Valuation Method

There are several methods that can be used to determine the estimated Fair Value of an “In-process research and development” company (IPR&D).

- 1 - Cost Approach
- 2 - Market Approach
- 3 - Income Approach

We have listed below the results of 2 approaches, which were suitable for the purposes of valuing Bio Life.

6.1 Cost Approach

This approach simply estimates the “reproduction” cost at current price to create an exact duplicate technology by using the same scientific research, design and development methods used to create the original technology. Sometimes we can also use the “replacement” cost which is the total cost to create a technology having equal utility. This method usually establishes the maximum amount that a prudent investor would pay for a replaceable technology. The problem with this method is that if the technology is so unique, this means that there is no replacement cost. In the case of BLBE, the technology or the formulation of the products is in fact the know-how developed by Guo’s family over several decades. For that reason, we cannot use this approach.

6.2 Market Approach

This approach is based on the widely held belief that the market is typically the best indicator of the value of a technology. Analysts research the market for both sales transactions and license (Royalties) transactions that may be useful in analyzing the technology.

Based upon our research and analysis, we have concluded that comparable technologies in the same industry as Bio Life have not yet been licensed.

If we use the P/E ratio for 3 “similar” companies (see Appendix IV & V) we come to the following evaluation:

Transfer Price USD ‘000	ROE	P/E	BLFR owns 70% of BLBE \$
Market approach			
Scenario 4	27%	55	\$2,800,032
Scenario 5	45%	30	\$787,227
Scenario 6	60%	10	\$160,405

However, we do not want to take into account such an evaluation because the P/E ratio is based upon market share price, which could be easily manipulated and influenced by many factors, such as general economic environment, rumors, right or wrong perceptions, etc. In addition, market price often has a timing difference relative to reflecting true performance. Poor performance and high market price would result in a high P/E. Therefore we do not suggest using P/E ratio as a way to evaluate Bio Life.

6.3 Income Approach

As previously advised, this method applies a probability weighting to the estimated future **net cash flows** that are derived from projected sales revenues and estimated costs.

We have proposed 3 different ROE. The rates are based on the potential profitability of Bio Life and also on the general growth rate in the pharmaceutical industry. Before calculating evaluation results, it is necessary to first clarify 2 components, product life cycle and what is a realistic discount factor relative to growth and risk assumed.

Justification of Product life cycle

Bio Life currently has no competitor in the “chemical drug” industry or market. The only companies that can possibly compete with Bio Life are the actual manufacturers of natural herbs. However, as advised by the management, there are several reasons why BLBE has a significant advantage over them: for several reasons:

- I. So far, only a few companies have combined Chinese Traditional Medicine with advanced technology.
- II. BLBE will select the best quality of herbs in order to obtain the best results by “breaking the cell” of the herbs.
- III. Regardless of where the herbs are to be converted into powder, the know-how developers are also the shareholders or founders of BLBE. These people will always be involved in the final process of the product. This will ensure that the recipe will remain secret and the exclusive property of BLBE.
- IV. Bio Life will not only use traditional sales networking i.e. direct selling and wholesales, but will also apply newly emerging sales techniques from the Internet.

For all these reasons, Bio Life believes that it has at least 7 to 10 years of exclusivity in the pharmaceutical market.

Justification of Realistic Ratios (ROE and ROA)

It is easy to find such information for the “chemical” pharmacy industries; however it is much more difficult to find such information for “traditional” medicine industries. There was in fact no comparable company in the US. Some were found in China, but their size (sales) was not comparable with Bio Life’s projected turn-over. Because they are not listed companies, we do not think that it would be appropriate to use such un-accurate financial data.

The financial ratios of the relevant companies are shown in Appendix V. We have selected 3 companies that are similar in size to Bio Life in terms of sales and assets. Based on the ratios of these three companies, we have defined three levels of evaluation: Conservative - Realistic – Intermediate

We believe that these 3 companies can be a good “starting point” for reference. See Appendix V p.31.

The “small one” (AOB) showed a turnover closest to Bio Life’s for the first year (USD 32 million vs. USD 10 million) with a P/E ratio of 19.3, ROE of 35 % and a ROA of 26%.

The “big one” (APPX) showed a turnover closest to that of Bio Life’s after year 3 (USD 405 million vs. USD 306 million) with a P/E ratio of: 42.3, ROE of 25 % and a ROA of 21%.

For the third comparable company, the P/E ratio and the ROA are different from the abovetwo, however the sales are still similar to Bio Life’s as of year 3.

For the purposes of this report, a conservative scenario means that the value of Bio Life is lower. To come to such an evaluation, this means that the risk to invest in such company is high, so the investor will ask for a higher return on equity (faster pay back).

We have therefore decided to present different scenarios showing varying levels of “risk” defined by using the ROE ratio. We have decided to keep the same ROA (Return on Assets) for each scenario, and have used 15 % as ROA, even if the real average is 17%. A lower ROA rate reduces the value of the company. The difference between 17% and 15% represents approximately a lower value of USD 1.5 million.

Based on the justification and financial projections, we carried out the evaluation in two investment structures:

Investment structure I: BLFR owns 100% of BLBE:

We have assumed that BLFR owns 100% of BLBE. Under such circumstances, the Inter-company Transfer Price will have no effect on the gross profit of Bio Life.

Income approach				BLFR owns
Transfer Price				100% of BLBE
		‘ 000 USD		\$ 26.00
	R.O.E.	R.O.A.	ROE-ROA	
			Capitalization	
Scenario 1	27%	15%	12%	\$ 623,709
Scenario 2	45%	15%	30%	\$ 192,058
Scenario 3	60%	15%	45%	\$ 105,732

Investment Structure II: BLFR at 70 % of BLBE

Income approach				BLFR owns
Transfer Price				70% of BLBE
		‘ 000 USD		\$ 26.00
	R.O.E.	R.O.A.	ROE-ROA	
			Capitalization	
Scenario 1	27%	15%	12%	\$ 494,769
Scenario 2	45%	15%	30%	\$ 152,108
Scenario 3	60%	15%	45%	\$ 83,475

7. Financial projections review

INCOME

Set out below is the consolidated financial projections for Bio Life, which assumes BLFR will own 100% of BLBE.

	' 000	Year1	Year2	Year3	Year4	Year5
Units (Treatments)		204	2,505	6,118	9,779	13,596
	' 000 USD					
SALES	\$	10,198	\$ 125,250	\$ 305,914	\$ 488,951	\$ 679,823
COGS						
BLBE			\$ 21,520	\$ 52,535	\$ 83,959	\$ 116,721
VAT adj.	\$	181	\$ 2,227	\$ 5,438	\$ 8,692	\$ 12,086
Other COGS	\$	2,548	\$ 9,519	\$ 41,604	\$ 66,497	\$ 92,456
	\$	2,730	\$ 33,266	\$ 99,577	\$ 159,149	\$ 221,262
Gross Profit	\$	7,469	\$ 91,984	\$ 206,337	\$ 329,802	\$ 458,561
Sales expenses	\$	6,056	\$ 12,150	\$ 18,068	\$ 22,135	\$ 31,394
Research & Development	\$	1,148	\$ 8,038	\$ 18,638	\$ 29,364	\$ 40,677
Production	\$	122	\$ 149	\$ 261	\$ 458	\$ 801
General & Administration	\$	2,713	\$ 7,141	\$ 14,617	\$ 23,163	\$ 33,693
	\$	10,038	\$ 27,478	\$ 51,584	\$ 75,120	\$ 106,565
Depreciation	\$	96	\$ 96	\$ 209	\$ 209	\$ 209
Total Expenses	\$	10,134	\$ 27,574	\$ 51,793	\$ 75,328	\$ 106,774
Financial Charges						
Financial Income						
Profit Before Taxes	\$	(2,666)	\$ 64,411	\$ 154,544	\$ 254,474	\$ 351,787
Income Tax	\$	(988)	\$ 21,848	\$ 52,388	\$ 86,344	\$ 119,340
Business Tax			\$ (2)	\$ (4)	\$ (7)	\$ (9)
Net Profit	\$	(1,677)	\$ 42,565	\$ 102,160	\$ 168,137	\$ 232,456

7.1 BLFR financial projections

The most critical assumption for the evaluation is the sale forecast that was prepared by the management of BLFR. It should be noted that BLFR buys the 2 products from BLBE. A summary of the sales forecasts is in Appendix XII p 57 to 62.

The 5-year forecast depends on 3 major elements:

- I. Growth of the American diabetes population over the next 5 years
- II. Selling Price
- III. Penetration rate

The main issue faced is that BLBE's products **are currently at the introduction stage of their life cycle, and there are NO products available on the market, that are close substitutes to these 2 products.**

In order to verify the reasonableness of the financial projections made by BLFR, we used an external consultant (Appendix XV p.101) who has a University degree in Traditional Chinese Medicine. Our main goal was to determine how different are BLBE's products compared to what we can find on the American market. The conclusion of the report demonstrates that there are no equivalent products to those defined by BLBE.

7.1.1 Justification of Growth rate of the American diabetes population

As the end of year 2005, the estimated American population of diabetes was approximately 20.8 million people and the population of pre-diabetes estimated at 41 million people. Over the last 2 years, the diabetes population has risen by 14 %. We will assume that trend will be the same for the next 5 years. **This means that we will use a 7% growth factor per year based on the diabetes population (20.8 million people) and nothing will be based on the pre-diabetes population.** We did not take into account the population of pre-diabetes even though the population is twice that of the actual diabetes population.

7.1.2 Justification of Retail Selling Price of the Product

As detailed in Appendix XIV (p.88), BLFR will use "market-skimming pricing" as a basis to establish the selling price of its products. **BLFR management proposed a retail price of USD 135.00** based on its pricing strategy.

Based on the pricing strategy of the company, we have used a different approach to validate the selling price of each product based on four factors:

- 1) Exclusivity factor
- 2) Efficacy factor
- 3) Image factor
- 4) Value perceived by consumer.

We used the lowest generic drug price as the basic price, which is USD 23.00. The basic price and percentage markups are based on our evaluation of the market.

Retail Price Estimation

	Percentage Markup	Price
Basic Price (Sulfanylureas Generic)		\$23. 00
Exclusivity Factor	64%	\$14. 72
Efficacy Factor	74%	\$17. 02
Differentiation and Value Perceived	30%	\$6. 90
Image Factor	59%	<u>\$13. 57</u>
Total Retail Price		<u>\$75. 21</u>

See Appendix XIV p.100

This means that our estimated retail selling price is 45% lower than the suggested retailed price of BLFR (\$ 75.21 vs. \$ 135.00). Our price is based upon these value added factors on top of the selling price of the **cheapest generic chemical products**. We understand that BLBE's quality (component) products seem much better than the "competition" but in our evaluation **we prefer to use USD 75.00 as RETAIL selling price** of the products. Such selling represents only 2.72% of average personal income in the USA.

BLFR whole selling price

If we assume that the retail price will be USD 75.00 and there is no NST (National Sale Tax) for these products in USA, it is reasonable to estimate **the selling price for BLFR at USD 50.00**. This means that BLFR gross margin will be around 48 % ($\$50.00 - \$26.00 = \$24.00$ profit). BLFR will sell its products through 2 different channels, but selling price will be the same.

1) Wholesaler

Each wholesaler will buy the product at \$ 50.00 USD and sell it at \$ 75.00 USD, representing a gross margin of 50%.

2) Internet Affiliates

They will sell the product at \$ 75.00 USD and receive a 13.3% (\$10 USD per unit sold) commission. BLFR will retain \$65.00 USD for each unit sold, from which \$15.00 USD will be reinvested for promotion and advertising.

7.1.3 Penetration rate of the 2 products

This assumption is directly related to:

- Quality of the product
- Amount of money spent on advertising
- Selling price.

Quality of the product

Our external study showed that these products are quite unique, and so far there are no equivalent products on the market. The natural supplements that we can currently find on the market are similar only in terms of composition and are competing with chemical drugs. These do not offer much value advantages over the conventional drugs.

BLFR products are totally different because instead of working on the blood sugar directly, they are improving and restoring the balance of the body system. By promoting and restoring the body functions and the body balance, the complications are treated and prevented.

Sales & marketing Strategies

Obviously the penetration rate depends not only on the quality of the product and the selling price, but also on the sales & marketing strategy adopted.

For the first year only, all the sales effort will be focused on DTC (Direct to Client) through “affiliates” using the Internet sales network. During that first year, BLFR will directly invest USD 4 million on advertising and another USD 15.00 for each unit sold (see appendix XII p. 58). This amount (\$ 15.00) will be “retained” by BLFR from the retail-selling price. Based on the first year forecasted sales, this USD 15.00 for each unit sold could represent an additional USD 3 million which is almost 69 % of the total sales for the first year (see Appendix XII p.63). This approach will provide time to BLFR for branding of the 2 products in the pharmaceutical industry, and to independent medical institutes (news letters, papers, journals...). This first year will also allow BLFR to build up its customer base. By the end of year 1, BLFR expects to have 36,864 clients purchasing its products on a monthly basis, which represents approximately only 0.17 % of the total American diabetes population. BLFR intends to become the No.1 supplier of OTC (Over the Counter) products for diabetes sufferers.

During the following year, BLFR will use a different sales approach, focusing on the mass retail market operations and the sales growth will depend mainly on wholesaler clubs, large chain drug stores and super markets. By keeping its existing “customer business” and by allowing the wholesaler to take an estimated 50 % mark up on the products, BLFR estimates that the annual penetration rate will be as follows:

Sale Volume

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
	' 000					
Total Unit (Treatments) sold	204	2,505	6,118	9,779	13,596	32,203
Number of client at the end of the year	37	348	645	963	1,284	
Monthly average client	17	209	510	815	1,133	
Yearly average Penetration rate	0.08%	0.94%	2.00%	3.00%	3.90%	

Note: The treatment is used on a monthly basis. See Appendix XII p. 58 to 62

BLFR will spend approximately 16 % of sales revenue on advertising and promotions (if we include \$ 15.00 USD for each unit sold trough the Internet) during the second year and following this will maintain a trend of roughly 10 % over the next 3 years. In the drug industry, the selling expenses can be easily estimated at 25 % of sales revenue but in the case of BLFR, such spending is not necessary. The drug (chemical) industries have to spend a lot of money to “educate” the medical professionals on the complexity of the components of each “chemical” product. Also, BLFR does not need to address its products on the same scale as with the traditional chemical industry.

On Appendix XII p. 63 we can see the detailed marketing program of BLFR. We have also reviewed the assumptions and the basis of calculation for the penetration rate, and believe that such assumptions are reasonable. We have kept the same sales volume (submitted to us by the management) even though the selling price has been reduced by 45 %. Such pricing should be very attractive on the basis that most diabetes patients have low income.

EXPENSES

Cost of Production and Capital Expenditure

BLFR does not plan to process the “powder” into tablet form and manufacture the packaging by itself. This means that the initial investment (as submitted to us) of USD 1.6 million in year 1 and USD 2.3 million in Year 3 will not be required any more.

We have seen correspondence providing that BLFR has located an OEM processor in Washington which can do packaging for only USD 2.00 per product. One of our concerns is that we do not know if this supplier will be able to follow BLFR’s growth and if the processing cost will remain as low over the next 5 years period.

Bad debt

We have decided to take a 3% bad debt provision on sales, bringing the total provision over the next 5 years to USD 47.2 million.

Other expenses

We have made several other adjustments from the original BLFR financial projections provided to us. Some expenses were recorded as fixed when in fact they should have been variable and related to sales. Also, we did not use a 75% growth rate per year for all expenses.

We have additionally made major changes in the balance sheet from the original provided. For instance, no receivables were previously projected. Summary of our review on the “Comprehensive Financial Projections” submitted to us:

	Year1	Year2	Year3	Year4	Year5	Total
' 000 USD						
<i>Original Version</i>						
Sales	52	114	251	438	689	1,544
Net Profit	10	21	41	74	118	264
	20%	19%	16%	17%	17%	17%
<i>Revised Version by LehmanBrown</i>						
Sales	16	131	298	475	664	1,585
Net Profit	(3)	14	26	46	63	146
	-18%	10%	9%	10%	10%	9%
Profit Variance	(13)	(8)	(15)	(28)	(54)	(119)

After our revision, we have reduced the profit by approximately USD 119 million over the next 5 years from the original Financial Projections provided by BLFR.

7.2 BLBE (China) Financial Projections

INCOME

Because BLFR will buy all of its products from BLBE, the sales assumptions of BLBE are therefore the same as BLFR. If BLBE will sell its product at USD 26.00 to BLFR, this means that BLBE will generate a gross margin of approximately 64% over the 5 year period. (See appendix X- pg. 41 and 42.)

EXPENSES

Based upon the information submitted to us during our visits to BLBE and based on several conversations with the management, we have estimated the cost structure of BLBE in relation to the sales volume of BLFR. We did though have difficulty in estimating the cost of goods sold (COGS) to BLBE.

7.2.1 Cost of processing

It is difficult to estimate the cost of processing without knowing the components of the product formulation of the 2 remedies (i.e. the herb mix).

BLBE has already identified a reliable OEM processor. This company has been selling CTM throughout China and Europe since 1999. They sell more than 600 different products and their sales income is estimated at about RMB 100 million USD12.5 million. The size of the factory is approximately 6,500 m² with 188 employees and an estimated maximum production capacity of 4,000 kg of “medicine powder” per day. Currently, the factory is operating at 50% of its capacity. The factory is Good Manufacturing Practice (GMP) certified. We visited the facilities and discussed with a member of the top management.

BLBE is under negotiation with this company to buy the factory only and keep its staff. The asking purchase price for the factory is approximately USD 5 million. Preliminary analysis shows that an equivalent new factory would cost around RMB 100 millions (USD 12.5 millions). We therefore believe the proposal is reasonable. It also seems that this company has serious financial problems and that the shareholders seem not to know how to manage such operations, hence their interest is selling.

We understand that this OEM processor will not process all of the herbs. BLBE prefers to use its own staff to do part of the processing in order to keep secret the integrity of the formulation. It is unclear how much these people will be the involved in the processing of the product.

BLBE has some restrictions regarding the information that it could provide us for the purpose of evaluation of the processing cost. For this reason we have decided to assume that all the production will be completed by the OEM. We understand that such an assumption might overestimate the costs of production; however we believe it is better to use more conservative costs as we do not know the recipes of the products. **Our own estimate is 27% higher than the cost provided by BLBE.** (See appendix XIII pg. 84).

We have also found another producer who could produce similar herbal material. The processing cost of this second OEM processor is approximately 50 % higher when compared to the selected OEM. BLBE indicates that such a difference is due to the fact that no serious negotiations have taken place with this supplier.

7.2.2 Production capacity of the “selected” OEM processor

We are also concerned about the fact that BLBE’s production demand is projected to increase at a rapid pace, from 204,000 treatments for the year 1 up to 13.6 million in year 5.

During our visit to the selected supplier, we have discussed the estimated daily maximum production capacity (24 hours per day) of 4 tons (4,000 kg) of “medicinal powder” (converting the herb into powder). Currently, the supplier only has 50 % capacity available to process products for BLBE. By the end of year 2, BLBE will already use 78% of the available capacity of production of that supplier. (See Appendix XIII p.85)

This means that the OEM processor will eventually have to invest in its production facilities (maybe during year 3) in order to adequately supply the products to BLBE. Although there is a written commitment from the supplier advising that they intend to make additional investment to follow BLBE’s growth, it is strongly suggested that BLBE locate other suppliers as “insurance” for future production.

The fact that Bio Life only uses an OEM processor in China and the US means that the capital expenditure of Bio Life’s cost is minimum. As per our discussions, BLBE will need to buy some equipment (mixer, etc...) and the amount to be invested initially will be only USD 25,000, to reach a maximum of USD 77,000 over the next 5 years. (See appendix XIII p. 86)

This business decision of using OEM’s has been not questioned, however the fact that there is almost no investment required has a big impact on the evaluation of BLBE (and Bio Life as well). For that reason we have decided to include the value of the OEM factory (USD5 millions) as capital expenditure in year 3. We did not take into account the impact of buying the OEM factory on the processing costs. We did not take any depreciation as well for such capital expenditure. We have just forecasted the impact of such investment on the “free cash flow” during year 3.

7.2.3 Herb issues

There are three issues regarding herbs as set out below:

1-Availability of herbs

This first issue raised by our consultant is the availability of herbs. As stated in her report (see Appendix XV p.101), she advised that the demand for Chinese herbs has created severe shortages of some wild herbs – licorice, for example – and has led to government restrictions on the wild crafting of certain herbs or the outright prohibition of their collection in the wild. As noted, BLBE has selected herbal a base in Chongqing (China) to harvest its own herbs in order to ensure a reliable supply. The OEM processor also has its own Herbal Base in the same region.

2-Quality of herbs

The second issue raised by our consultant is the quality of herbs. Her report indicated that cultivated herbs are not in general, as potent as wild crafted ones. In addition, China has serious land and water use issues that may (and probably will) affect its ability to mass produce quality herbs in a sustainable way. The most serious of these problems is the availability of water and the issue of pollution (especially heavy metal contamination and herbicide and pesticide residue). As we have not visited the herbal location in Chongqing (where BLBE has already begun to produce some herbs), we are not able to make any comments on the quality of the herbs or the capacity of herb planting.

However, management's comments (appendix XVI pg.110) regarding the external report have provided us with satisfactory answers.

3-Valuation of herbal base

As stated previously, because we did not visit the herbal base and because BLBE was not able to provide to us enough information regarding herbal base, **we were therefore not able to make any evaluation for this additional "intangible asset"**.

7.3 Transfer price between BLBE and BLFR

BLFR is mainly a commercial office and purchases all its goods from BLBE, while BLBE is an R&D center that sub-contracts the manufacturing of its products and sells all its products to BLFR. Thus we must establish a fair transfer price between BLBE and BLFR.

In our evaluation we treat BLFR as a simple "commercial agent" to take a sufficient commission on each sale in order to have enough money to commercialize the product and make a reasonable profit on the sale. If we still assume that net profit of BLFR should be around 15% on the total sales over the 5 year period and we assume that the retail selling price (including all taxes) is USD 75.00, we can estimate the price structure of the group as follows:

	China BLBE	USA BLFR	Sales Network	
			Internet	Wholesale
Cost	\$ 8.45	\$ 26.00	\$ 50.00	\$ 50.00
Gross Profit	\$ 13.77 53%	\$ 24.00 48%	\$ 10.00	\$ 25.00
BLFR Adv.			\$ 15.00	
Gross Income	\$ 22.22	\$ 50.00	\$ 75.00	\$ 75.00
VAT Out 17%	\$ 3.78			
Total selling Price	\$ 26.00	\$ 50.00	\$ 75.00	\$ 75.00

No VAT and no
VAT in USA

	BLBE	
VAT Reconciliation	As per F/S	As per Regulation
Income		
Invoice		\$ 26.00
VAT Output		\$ (3.78)
	<u>\$ 26.00</u>	<u>\$ 22.22</u>
COGS		
Cost	\$ 8.45	\$ 8.45
VAT Adj. (Rebate)	\$ 0.89	\$ (2.89)
	<u>\$ 9.34</u>	<u>\$ 5.56</u>
Gross Profit	<u>\$ 16.66</u>	<u>\$ 16.66</u>
	64%	75%

8. Other matters of importance

We would like to note that there are a lot of other attributes which can influence the Value of Technology Intangibles Assets. Investing in an IPR&D (In Process Research and Development) is more risky than investing in a business enterprise that already operates. Estimating the “on going concern business” is much more difficult. This is why we have decided to use different discount factors and to recommend a very conservative factor. By using different discount factors and recommending a very conservative factor, we have taken the potential risk into our evaluation.

Many different factors can influence the business cost of operation of an IPR&D and we would like to list a few below.

8.1 Intellectual Property Rights & Competition

Because BLBE’s products are not chemical drugs, there are no product formulations and manufacturing processes that can be patented. They must be kept as trade secrets and the Trademarks must be protected. Most of the new products that will be introduced must compete with other products already on the market or products that are later developed by competitors. When a product loses its market exclusivity, it normally faces intense price competition. To stay ahead of the competition and maintain its exclusivity, BLBE will have to constantly introduce innovated products.

BLFR will need to conduct extensive post marketing surveillance on the safety of the products. For example, part of the year 1 strategy is to have medical professionals evaluate the products. Laws and regulations might affect the manufacture and sale of current products and the introduction of new products will require substantial scientific and technical effort, time, and expense and sometimes significant capital investment.

Bio Life must follow the requirement of Good Manufacturing Practice (GMP) compliance. If Bio Life failed GMP, it could be subject to interruptions in production and civil and criminal penalties. Because of government regulations, sometimes Bio Life must operate under price controls, patent litigation, product litigation, marketing practices and possible investigation. All could be very costly.

To maintain its market share, substantial sales commission and discount rebate must be given to the clients. In this industry, Rebate & Discount can represent more than 10 % of the total sales. In the evaluation of Bio Life, because we have used a conservative selling price, we have not taken into account such a provision for Rebate & Discount.

8.2 Research and Development

This is the most important investment of BLBE. It must continuously develop new products to maintain its advantage and exclusivity in the market. For chemical compound products, the process from discovery to regulatory approval typically takes 12 to 15 years, but can be longer. Drug candidates can fail at any stage of the process or fail to receive regulatory approval. In the pharmaceutical industry, R&D costs can represent more than 20 % of the total sales.

As advised by the management, BLBE has developed 11 products. It also does not need to go through the expensive and time consuming screening process for “product candidates”, as the 108 formulations developed by Guo’s family are ready candidates for future products. BLBE will continue to invest 10% of the sales income into Research and Development to develop new products for the five-year period.

8.3 Quality Assurance

To develop customer confidence in the quality of the products, BLBE must continually implement and keep good control of the production processes. It must perform tests at various stages of the production process.

9. CONCLUSION

BLFR Group

If BLFR USA intends to take a 70% stake of in BLBE China, and we assume that the purchasing price for the products from BLBE will be USD26.00, we estimate the value of BLFR Group **(BLFR + 70% BLBE) at USD 83.5 million.**

We estimate this **evaluation as conservative** because our assumptions are based on:

>Return on Equity (ROE) ratio of 60 %

>Retail selling price in USA of USD 75.00 although management's estimation of USD 135.00 seems reasonable relative to market and other products.

>Sales volume forecasted by management has not been adjusted upwards to reflect the reduction in selling price of 45% (supply / demand curve).

>Cost of processing has been increased by 27 % because we did not have sufficient information to validate BLBE's cost estimation

>Capital expenditure of USD 5 million has been recorded in year 3 even though BLBE intends only to use OEM to manufacture its products.

>11 products have already been developed and 3 are ready to be commercialized. BLFR will most probably launch 3 products in 2006 instead of 2, but we have taken into account the sales of only 2 products (**Zutrol™** and **Betatrol™**). The R&D cost for these 11 products have already been incurred.

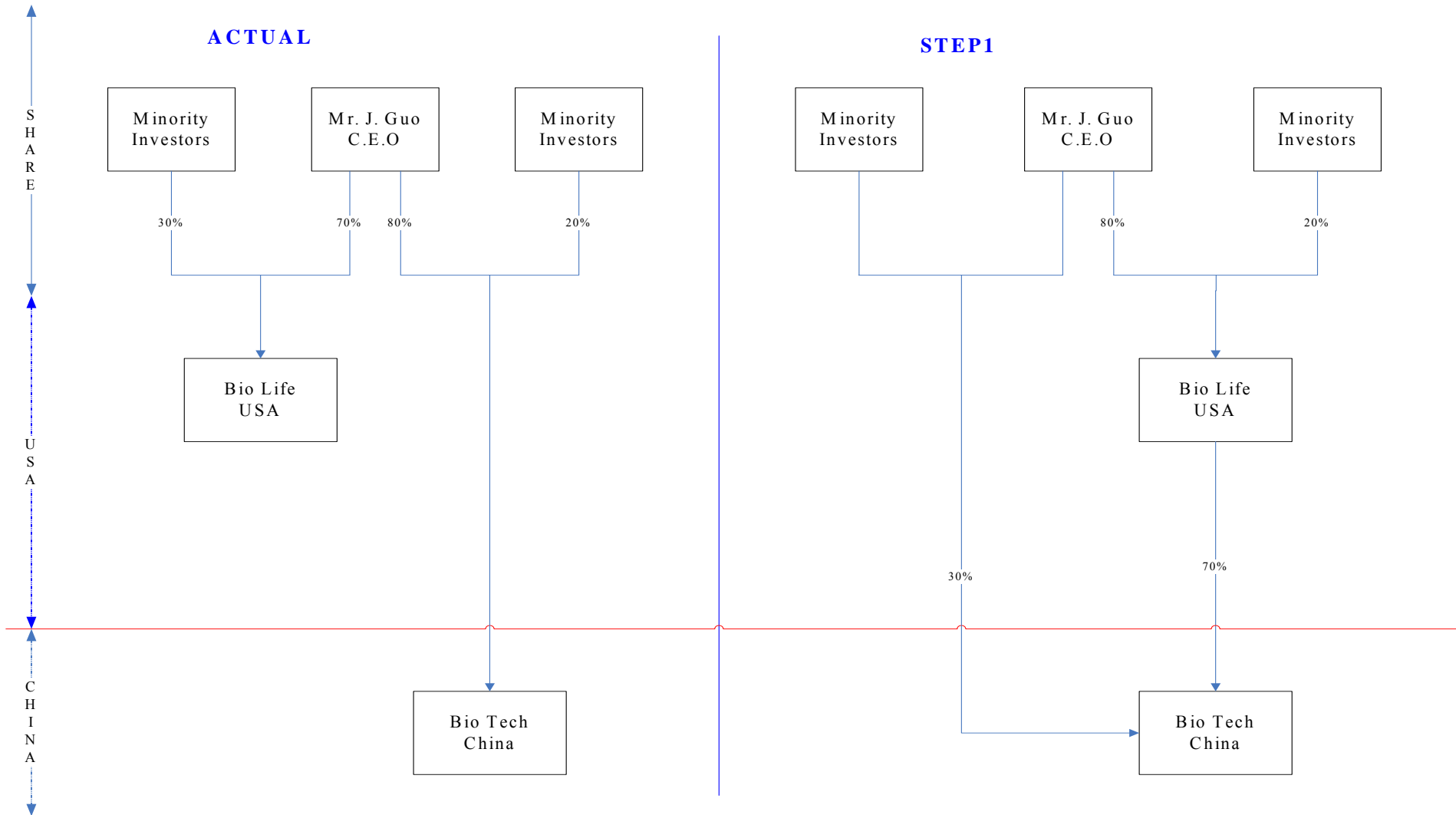
>The Herbal base in Chongqing cannot only supply high quality herbs at a better price for BLBE, but can also sell herbs to other clients. This potential saving and income (intangible assets) has not been taken into in this evaluation

> Original financial projections submitted to us by BLFR have been reduced by USD 119 millions over the next 5 years.

> BLBE income tax rate estimated at 33% even if it could benefit a 50% reduction during the first two years.

Appendix I: Organization chart

Bio Life Group



Appendix II: Basic background of Bio Life (source from management)

Bio Life Bioengineering (China) Inc. (BLBE) is a natural pharmaceutical research company located in Guangzhou China. It specializes in research, development, and commercialization of pure natural medicine for various chronic diseases that presently receive unsatisfactory results by using conventional chemical solutions.

For generations, countless TCM herbal formulas have been developed, tested and refined by TCM experts for combating almost all diseases known to humans. This accumulation of knowledge and experience has become the treasure house of TCM today. In the nineties, aiming to develop effective natural herbal solutions for various life threatening chronic diseases, a group of rhizotomists, herbologists, pharmacists, and TCM practitioners, under the leadership of Mr. Jack Guo started work on harnessing the enormous potential of the treasure house of 3000 years' TCM evolution.

In 2001, BLFR established an R&D and commercializing vehicle for the group. This was an important starting step for the implementation of our strategic plan that focuses its attention in four key areas. These include innovation, new products, quality, and value creation.

Through the persisting and innovative R&D efforts of our experts and R&D teams, Bio Life Remedies is committed to reinvent existing TCM herbal formulas and create new products. TCM not only serves as a theoretical guidance in our R&D activities, but it also provides a great number of collections for new product candidates for the company aiming for different diseases; The initial attention was focused on the most costly diseases -- Diabetes Mellitus and its complications. As the result of breakthrough research into the TCM formulas and the preparation technologies, two pure natural herbal solutions for diabetics, Betatrol and Zutrol were successfully developed and the clinical tests has shown an effective rate of 77.2% for Zutrol and an effective rate of 84% for Betatrol.

Our expertise on TCM and strong R&D capacity allow us to take the enormous advantage of this TCM inheritance has offered, and combined with advanced biotechnology and scientific methodology we are able to deliver entirely new types of products efficiently. Years of innovation and development of know-how have dramatically increased the therapeutic effectiveness and reduced the side-effects of many candidate formulas and herbal preparations for various diseases. Until now, Bio Life. has successfully developed another eleven natural herbal products in addition to Betatrol/Zutrol, for eleven different human health disorders including prostate disorder, osteoporosis, cerebrovascular disease, cardiac vascular disease, hypertension, menopausal syndrome, male sexual disorder, female sexual disorder, and child cognitive disorders. As a plan to further enhance its product base and strengthen its commercial foundation, starting from 2006, the company is dedicated to develop two new products every year from its reserve of new product candidates of TCM formulas and herbal preparations.

As a plan to expand itself in the value creating chain, ensure the supply of high quality raw material, and to satisfy its long term future grow, BLFR has secured a controlling field over 4,000 hectares of land for future development through BLFR Herbal Base.

Appendix II

Currently, 26.8 hectares of land in the Herbal Base are cultivated with 14 varieties of herbs planted in compliance of GAP criteria (Good Agricultural Practice, meaning standardized herbal material plantation with quality soil and without the use of chemical or pesticides). A large-scale 268 hectares herbal seedling nursery and an herbal plantation technological research center within the Herbal Base are to be constructed in the middle of 2006 and start the operation in early 2007, in order to satisfied the surging needs for herbal seedling and herbal growing technologies as the herbal growing industry is expected to expand in the next decade. Applying the methods of industrial seedling growth and tissue culture, the herbal seedling nursery will provide more than 24 million herbal seedlings and 1.2 Tons of optimized herbal seeds per year. This will not only satisfy our own planting needs but also supply to the herbal growing market the seedlings and seeds that are much demanded and create a new revenue source for the company. To develop and improve mass plantation methods and domestication of various herbs, to achieve breed optimization, and to prevent and cure of plant diseases and insect pests, the herbal plantation technological research center will consists of standardized plantation testing fields, laboratory for fertilizer and soil analysis and seed/seedling inspection, and a herbal bioengineering lab.

As part of the strategic plan for quality products and value creation, Bio Life. has formed a strategic alliance with a credible pharmaceutical manufacturer for its production needs. This strategic alliance enables the company to utilize the advanced production facilities and technology available in a Good Manufacturing Practice (GMP) compliance environment. It is also a product quality ensuring measurement that Bio Life has taken in preparing itself for the market.

In year 2005, in a move to supplement its chain of value creation with a commercializing and marketing platform, Bio Life has taken a significant step to merge with BLFR Remedies, Inc., a US company that now owns 70% of Bio Life and has the world marketing license to all products developed by Bio Life The merge is a critical element of our strategy to launch our international market presence. The North America market is the largest market in the world for pharmaceutical products, and it is also the most efficient and influential market for commercializing new bio-products and alternative medicinal products. The North American market access allows Bio Life Remedies' products to radiate to other markets in the world in a more efficient way.

With the well-structured chain of value creation that every critical supporting links are securely intact, the sound and innovative R&D methodology that provides the company with a countless collection of herbal formularies as candidates for new product development, and our commitment and dedication to improve people's quality of life through continuing R&D of effective natural herbal solutions that are much needed in the market, Bio Life strives to become a leading successful company in it's fields.

Appendix III: Products list of BLBE

Developed & ready to launch:

- 1) **Betatrol™**
For diabetes without complications
- 2) **Zutrol™**
For diabetes with complications
- 3) **Chi-Agra™**
For medication for male sexual functional disorder

Developed:

- 4) Kidz Diabetes
For Children with Diabetes
- 5) Tai-Agra
For female sexual functional disorder
- 6) Meno-Rem
For menopausal syndrome
- 7) Hyper T Rem
For hypertension and hyperlipemia
- 8) Cerebro Rem
For cerebrovascular disease
- 9) Osteo Rem
For cerebrovascular disease
- 10) Smart-Kid Rem
For promotion of learning ability of children
- 11) Pro-Heart Rem
For cardiovascular disease

Currently under development:

TCM product for Insomnia
TCM product for neurasthenia
TCM product for renal failure

Appendix IV

Appendix IV: Bio Life Evaluation Results (USD '000)

Income Approach

Investment structure				I BLFR owns 100% of Bio Tec	II BLFR owns70% of BLBE
Transfer Price of the product				\$ 26.00	\$ 26.00
	ROE	ROA	Capitalization		
Scenario 1	27%	15%	12%	\$ 623,709	\$ 494,769
Scenario 2	45%	15%	30%	\$ 192,058	\$ 152,108
Scenario 3	60%	15%	45%	\$ 105,732	\$ 83,475

Market Approach

Investment structure				BLFR owns70% of BLBE
Transfer Price				\$ 26.00
	ROE	P/E		
Scenario 4	27%	55		\$ 2,800,032
Scenario 5	45%	30		\$ 787,227
Scenario 6	60%	10		\$ 160,405

Please refer to Appendix VIII p. 37 to 39

Appendix V: Evaluation Ratio Information

Companies	Sales revenue	Total assets	P/E	ROE	ROA	Capitalization Rate
	' 000 USD	' 000 USD				
BLFR Group as of Year 3						
BLFR	146,839	65,575				
BLBE	159,075	115,269				
100 % Consolidated	305,914	180,844				
3 similar Companies						
APPX	405,010	373,333	42.3	25%	21%	4%
CELG	377,502	1,107,293	104.0	21%	5%	16%
AOB	31,967	42,837	19.3	35%	26%	9%
Simple Average			55.2	27%	17%	10%
Very Conservative			19.3	35%	5%	30%
Average Chemical Drug Industries			20.0	20%		
We Propose 3 scenarios :						
Scenerio1	Realistic (base on the average)		55.0	27%	15%	12%
Scenerio2	Intermediate		30.0	45%	15%	30%
Scenerio3	Conservative		10.0	60%	15%	45%

The above information was collected from Yahoo Finance, published on Nov. 12th 2005.

Reason for selecting these ROE ratios:

We have selected the three companies that have similar sales income to the forecasted sales for BLFR as of Year 3

Please refer to Appendix VI for the three companies information.

Scenerio1: Based on the average of the 3 companies selected

Scenario 2: ROE between Scenario 1 and 3

Scenario 3: Because BLFR is a startup company rather than a public listed company, we have taken a very high Return On Equity ratio: 60 % compare to the average of 27%.

We assume that cash flow will be generated at the end of each year.

Appendix VI: Summary of three companies similar to BLFR Group

1. APPX

<http://finance.yahoo.com/q/pr?s=appx>

American Pharmaceutical Partners, Inc.

(APP) engages in the development, manufacture, and marketing of injectable pharmaceutical products in North America. It focuses primarily on the injectable oncology, anti-infective, and critical care markets. APP's oncology products include Pamidronate disodium, used to treat hypercalcemia associated with a malignancy and Paget's disease; Mesna, used to treat the side effects associated with chemotherapy drugs; Cisplatin, used to treat metastatic testicular or ovarian cancer, Hodgkin's disease, nonHodgkin's lymphoma, brain tumors, and cancer of the nervous system; Carboplatin is indicated for the treatment of ovarian carcinoma and for the palliative treatment of recurrent ovarian carcinoma after prior chemotherapy; and Ifosfamide, used to treat germ cell testicular cancer. Its injectable anti-infective products include Cefoxitin used for gynecological infections; Vancomycin, used to treat Staph, Strep, or other infections; Doxycycline, which is used to treat anthrax, Rocky Mountain Spotted Fever, typhus, and mycoplasma pneumonia; Cefotaxime, which is used to treat intra-abdominal infections, such as peritonitis, central nervous system infections, bacteremia and septicemia, and infections of the skin, bone, and joints; and Gentamicin, which is used to treat endocarditic, septicemia and bacterial bone, respiratory tract, soft tissue, urinary tract, and other infections. Its critical care products include Injectable heparin, which is a blood thinner used to prevent and treat blood clotting; and Oxytocin, which is used to induce labor at term and control postpartum bleeding. The company holds the North American rights to sell ABRAXANE, a proprietary nanoparticle injectable oncology product that is a patented formulation of paclitaxel and other cancer therapies. APP was formed in 1996 and is headquartered in Los Angeles, California. American Pharmaceutical Partners, Inc. is a subsidiary of American BioScience, Inc.

2. Celgene Corporation (CELG)

CELG engages in the discovery, development, and commercialization of therapies designed to treat cancer and immunological diseases through regulation of cellular, genomic, and proteomic targets. Its lead product, THALOMID, is used for the treatment of acute cutaneous manifestations of moderate to severe erythema nodosum leprosum, and as maintenance therapy to prevent and suppress cutaneous manifestation recurrences. The company, through a supply and distribution agreement, with GlaxoSmithKline, distributes ALKERAN, a therapy for the palliative treatment of multiple myeloma and for palliation of carcinoma of the ovary. Its RITALIN family of drugs includes Focalin (d-MPH), which is used for the treatment of attention deficit disorder and attention deficit hyperactivity disorder in school-age children. The company has various products in the preclinical and clinical-stage, including immunomodulatory drugs and selective cytokine inhibitory drugs. Celgene also produces compounds such as Benzopyrans and Selective Estrogen Receptor Modulators, Kinases Inhibitors, Tubulin Inhibitors, and Ligase Modulators. The company has collaborative agreements with Novartis Pharma AG; and strategic partnership agreements with Pharmion Corporation, Penn Pharmaceuticals Services Limited, and GlaxoSmithKline. The company markets and sells its products in the United States and Canada primarily through wholesale distributors. Celgene was organized in 1980 as a unit of Celanese Corporation and was spun-off in 1986. The company is headquartered in Warren, New Jersey.

Website: <http://finance.yahoo.com/q/pr?s=celg>

3. American Oriental Bioengineering, Inc. (AOB)

AOB engages in the development, production, and sale of bioengineered products and traditional Chinese medicinal products, primarily in China. The company's product lines include Health Food, Chinese Medical, and Soybean Protein Peptide products. Health Food product series include compound bio-functional beverage, a nutritional beverage; iodine bio-functional beverage, a compound bio-functional beverage with Iodine additives; and vitamate oral liquid, which is designed to strengthen the immune system. Chinese Medical products series include Cease-Enuresis Soft Gel that helps alleviate bed-wetting and urination disorder; root of red-rooted salvia tablet that improves blood circulation to remove blood stasis; and Double Ginseng Yishen Grain, which is used for neurosis. Soybean protein peptide products include soybean protein peptide powder and soybean protein peptide coffee nutritious health drinks; and soybean protein peptide tablets, which maintains or improves protein nutrient condition of the human body. It offers its products through distributors, sales outlets, and hospital and clinics. The company is headquartered in Harbin, China.

Website: <http://finance.yahoo.com/q/pr?s=aob>

Appendix VI

PROFIT & LOSS of the three companies

	APPX			CELG			AOB		
	31-Dec-04	31-Dec-03	31-Dec-02	31-Dec-04	31-Dec-03	31-Dec-02	31-Dec-04	31-Dec-03	31-Dec-02
' 000 USD									
Sales	405,010	351,315	277,474	377,502	271,475	135,746	31,967	20,863	10,200
Cost of sales	189,301	159,938	140,512	59,726	49,085	17,322	11,268	7,513	3,908
Gross profit	215,709	191,377	136,962	317,776	222,390	118,424	20,699	13,350	6,292
	53%	54%	49%	84%	82%	1	1	1	1
Administration Exp.									
Selling General and Administrative	103,070	53,934	46,632	114,196	102,339	69,717	9,897	7,078	4,155
Research & Development	25,838	22,507	14,474	160,852	122,700	84,924			
Non Recurring			(1,666)			87,912			
Others							758	574	403
	128,908	76,441	59,440	275,048	225,039	242,553	10,655	7,652	4,558
	32%	22%	21%	73%	83%	2	0	0	0
Operating Income Or Loss	86,801	114,936	77,522	42,728	(2,649)	(124,129)	10,045	5,698	1,734
Total Other Income/Expenses Net	(52)	2,295	2,135	29,994	21,795	23,058	44	106	(202)
Earnings Before Interest And Taxes	88,833	119,068	79,657	72,722	19,146	(101,071)	10,089	5,804	1,532
Interest Expense			1,358	9,551	5,667	27	101	63	86
Income Before Tax	88,833	119,068	78,299	63,171	13,479	(101,098)	9,988	5,741	1,446
Income Tax Expense	32,140	47,375	33,100	10,415	718	(98)	2,217	1,139	319
Minority Interest									
Net Income From Ops	56,693	71,693	45,199	52,756	12,761	(101,000)	7,771	4,602	1,127
Discontinued Operations					750				
Extraordinary Items						1,000			
Net Income	56,693	71,693	45,199	52,756	13,511	(100,000)	7,771	4,602	1,127

Appendix VI

Balance Sheet of the three companies

BALANCE SHEET	APPX			CELG			AOB		
	31-Dec-04	31-Dec-03	31-Dec-02	31-Dec-04	31-Dec-03	31-Dec-02	31-Dec-04	31-Dec-03	31-Dec-02
Acc. Receivable	28,282	39,350	26,976	50,156	35,495	17,659	5,594	3,390	1,926
/ on sales	7%	11%	10%	13%	13%	13%	17%	16%	19%
Inventory	151,035	110,384	77,736	24,404	9,696	4,806	5,673	2,547	496
/ on COGS	80%	69%	55%	41%	20%	28%	50%	34%	13%
	179,317	149,734	104,712	74,560	45,191	22,465	11,267	5,937	2,422
Cash And Cash Equivalents	1,154	58,625	39,771	135,227	267,453	85,475	11,404	5,367	2,817
Short Term Investments	66,475			613,310	399,514	175,707			
Other Current Assets	6,492	7,340	3,610	26,783	17,941	12,449	1,687	2,471	626
Current Assets	253,438	215,699	148,093	849,880	730,099	296,096	24,358	13,775	5,865
Long Term Investments	6,256	5,166	3,178	7,000	12,000				
Property Plant and Equipment	106,410	77,340	62,637	47,319	22,546	19,600	9,905	7,265	4,261
Goodwill				41,258	3,490	2,973			
Intangible Assets	6,816	3,027	1,460	116,044	7,950	3,010	8,414		723
Accumulated Amortization									
Other Assets				31,179	15,251	5,608		633	
Deferred Long Term Asset Charges	413	2,553	5,608	14,613			160		
Total Assets	373,333	303,785	220,976	1,107,293	791,336	327,287	42,837	21,673	10,849

Appendix VI

Balance Sheet of the three companies (Continued)

Liabilities	APPX			CELG			AOB		
	31-Dec-04	31-Dec-03	31-Dec-02	31-Dec-04	31-Dec-03	31-Dec-02	31-Dec-04	31-Dec-03	31-Dec-02
Current liabilities									
Acc. Payable	57,809	55,680	40,268	133,819	70,616	44,091	4,321	1,608	814
/ on exp & inv.	12%	16%	14%	36%	24%	17%	16%	9%	9%
Short/Current Long Term Debt				8	30	86	5,073	1,453	1,446
Other Current Liabilities				7,588	1,148	109	161	77	154
Total Current Liabilities	57,809	55,680	40,268	141,415	71,794	44,286	9,555	3,138	2,414
Long Term Debt				400,004	400,016	40	35	25	
Other Liabilities				14,438	8,350	4,873			
Deferred Long Term Liability Charges	2,833	2,044		73,992	1,122	1,390	107		
Minority Interest									
Total Liabilities	60,642	57,724	40,268	629,849	481,282	50,589	9,697	3,163	2,414
Equity									
Preferred Stock							1	1	
Common Stock	77	77	50	1,651	814	802	40	33	11
Retained Earnings	180,243	123,550	51,857	(234,410)	(308,856)	(322,367)	16,199	8,428	3,826
Treasury Stock	(56,274)	(56,274)	(36,275)	(306)					
Capital Surplus	212,399	201,009	189,630	641,907	607,484	591,277	16,900	10,049	4,597
Other Stockholder Equity	(23,754)	(22,301)	(24,554)	68,602	10,612	6,986			
Total Stockholder Equity	312,691	246,061	180,708	477,444	310,054	276,698	33,140	18,511	8,434
Total Equity And Liabilities	373,333	303,785	220,976	1,107,293	791,336	327,287	42,837	21,674	10,848
Market Price	37.41	33.60	17.80	26.52	44.88	21.47	1.55	3.65	N/A
Basic EPS	0.81	1.03	0.62	0.32	0.08	(0.65)	0.23	0.15	N/A
Diluted EPS	0.78	0.99	0.60	0.31	0.08	(0.65)	0.20	0.15	N/A
P/E(Basic EPS)	46.19	32.62	28.71	82.88	561.00	(33.03)	6.74	24.33	N/A
P/E(Diluted EPS)	47.96	33.94	29.67	85.55	561.00	(33.03)	7.75	24.33	N/A
ROA=Net Income/Total Assets	15%	24%	20%	5%	2%	-31%	18%	21%	10%
ROE=Net Income/Equity	18%	29%	25%	11%	4%	-36%	23%	25%	13%

Appendix VIII: Evaluation Schedule

INCOME APPROACH-Discounted Net Cash Flow Method

Investment Structure I: BLFR Owns 100% of BLBE

	Unit:'000USD				
FREE CASH FLOW	Y1	Y2	Y3	Y4	Y5
EBITDA	(3,126)	57,607	137,906	227,755	314,552
Tax Paid	(988)	21,845	52,384	86,337	119,331
Increase in working capital	1,511	1,059	6,052	8,248	11,799
Capital expenditure	445	-	5,509	19	15
Free cash flow	(4,093)	34,704	73,961	133,151	183,407

Assumption:

1. We assume that all the cash flows are generated at the end of each year.
2. We assume the company will generate the same amount of Free cash flow since Y5

Scenario 1

DISCOUNTED CASH FLOW	Y1	Y2	Y3	Y4	Y5
Free cash flow	(4,093)	34,704	73,961	133,151	183,407
Terminal value	-	-	-	-	1,528,394
Total cash flows	(4,093)	34,704	73,961	133,151	1,711,801
Discount rate	27%				
Discount factor	0.7874	0.6200	0.4882	0.3844	0.3027
Discounted cash flows	(3,223)	21,516	36,107	51,183	518,125
Net present value (USD)	<u>623,709</u>				

Scenario 2

DISCOUNTED CASH FLOW	Y1	Y2	Y3	Y4	Y5
Free cash flow	(4,093)	34,704	73,961	133,151	183,407
Terminal value	-	-	-	-	611,358
Total cash flows	(4,093)	34,704	73,961	133,151	794,765
Discount rate	45%				
Discount factor	0.6897	0.4756	0.3280	0.2262	0.1560
Discounted cash flows	(2,823)	16,506	24,260	30,121	123,993
Net present value (USD)	<u>192,058</u>				

Scenario 3

DISCOUNTED CASH FLOW	Y1	Y2	Y3	Y4	Y5
Free cash flow	(4,093)	34,704	73,961	133,151	183,407
Terminal value	-	-	-	-	407,572
Total cash flows	(4,093)	34,704	73,961	133,151	590,979
Discount rate	60%				
Discount factor	0.6250	0.3906	0.2441	0.1526	0.0954
Discounted cash flows	(2,558)	13,556	18,057	20,317	56,360
Net present value (USD)	<u>105,732</u>				

Appendix VIII: Evaluation Schedule INCOME APPROACH—Discounted Net Cash Flow Method

Investment Structure II: BLFR Owns 70% of BLBE

FREE CASH FLOW	<u>Unit: ' 000 USD</u>				
	Y1	Y2	Y3	Y4	Y5
EBITDA	(2,958)	59,676	142,961	235,835	325,787
Tax Paid	(988)	21,845	52,384	86,337	119,331
Increase in working capital	555	6,995	17,109	21,700	38,043
Minority interests	1,678	3,128	11,107	16,328	23,034
Capital expenditure	445	-	5,509	19	15
Free cash flow	(4,647)	27,709	56,852	111,451	145,364

Assumption:

1. We assume that all the cash flows are generated at the end of each year.
2. We assume the company will generate the same amount of free cash flow each year since Year5

Scenario 1

DISCOUNTED CASH FLOW	Y1	Y2	Y3	Y4	Y5
Free cash flow	(4,647)	27,709	56,852	111,451	145,364
Terminal value	-	-	-	-	1,211,365
Total cash flows	(4,647)	27,709	56,852	111,451	1,356,729
Discount rate	27%				
Capitalization rate	12%				
Discount factor	0.7874	0.6200	0.4882	0.3844	0.3027
Discounted cash flows	(3,659)	17,179	27,754	42,842	410,652
Net present value (USD)	494,769				

Scenario 2

DISCOUNTED CASH FLOW	Y1	Y2	Y3	Y4	Y5
Free cash flow	(4,647)	27,709	56,852	111,451	145,364
Terminal value	-	-	-	-	484,546
Total cash flows	(4,647)	27,709	56,852	111,451	629,910
Discount rate	45%				
Capitalization rate	30%				
Discount factor	0.6897	0.4756	0.3280	0.2262	0.1560
Discounted cash flows	(3,205)	13,179	18,648	25,212	98,274
Net present value (USD)	152,108				

Scenario 3

DISCOUNTED CASH FLOW	Y1	Y2	Y3	Y4	Y5
Free cash flow	(4,647)	27,709	56,852	111,451	145,364
Terminal value	-	-	-	-	323,031
Total cash flows	(4,647)	27,709	56,852	111,451	468,394
Discount rate	60%				
Capitalization rate	45%				
Discount factor	0.6250	0.3906	0.2441	0.1526	0.0954
Discounted cash flows	(2,905)	10,824	13,880	17,006	44,670
Net present value (USD)	83,475				

Appendix VIII: Evaluation Schedule

Market Approach

BLFR (100% Combined)

	<u>Unit: ' 000 USD</u>				
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
B-Plan Net Income	(2,235)	35,665	85,309	141,203	195,006
Based on Net Income in year 5	195,006				
	Scenario 4	Scenario 5	Scenario 6		
Price to Earnings Ratio	55	30	10		
Target rate of return	27%	45%	60%		
Value in year 5 based on PE Ratio	10,725,310	5,850,169	1,950,056		
Time 0 value of BLFR at 35%	<u>\$3,246,319</u>	<u>\$912,701</u>	<u>\$185,972</u>		

BLFR(70%)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
B-Plan Net Income	(2,623)	30,739	73,256	127,583	168,197
Based on Net Income in year 5	168,197				
	Scenario 4	Scenario 5	Scenario 6		
Price to Earnings Ratio	55	30	10		
Target rate of return	27%	45%	60%		
Value in year 5 based on PE Ratio	9,250,848	5,045,917	1,681,972		
Time 0 value of BLFR at 35%	<u>\$2,800,032</u>	<u>\$787,227</u>	<u>\$160,405</u>		

Appendix IX

Appendix IX: Combined Income Statements of Bio Life

BLFR Combined at 100%

	<u>Unit: '000</u>									
	<u>Year1</u>		<u>Year2</u>		<u>Year3</u>		<u>Year4</u>		<u>Year5</u>	
Units (Treatments)	204		2,505		6,118		9,779		13,596	
Growth			1128%		144%		60%		39%	
	<u>Unit: ' 000 USD</u>									
SALES	10,198	100%	125,250	100%	305,914	100%	488,951	100%	679,823	100%
COGS										
COGS/BLBE	-	-	21,520	17%	52,535	17%	83,959	17%	116,721	17%
VAT adj.	181	2%	2,227	2%	5,438	2%	8,692	2%	12,086	2%
COGS/Other	2,548	25%	9,519	8%	41,604	14%	66,497	14%	92,456	14%
	2,730	27%	33,266	27%	99,577	33%	159,149	33%	221,262	33%
Gross Profit	7,469	73%	91,984	73%	206,337	67%	329,802	67%	458,561	67%
Sales & Marketing	6,056	59%	12,150	10%	18,068	6%	22,135	5%	31,394	5%
Research & Dev..	1,148	11%	8,038	6%	18,638	6%	29,364	6%	40,677	6%
Prod & Research	122	1%	149	0%	261	0%	458	0%	801	0%
Adm. & Oper.	2,713	27%	7,141	6%	14,617	5%	23,163	5%	33,693	5%
	10,038		27,478		51,584		75,120		106,565	
Depreciation	96	1%	96	0%	209	0%	209	0%	209	0%
Total Expenses	10,134	99%	27,574	22%	51,793	17%	75,328	15%	106,774	16%
Financial Charges	-	-	-	-	-	-	-	-	-	-
Financial Income	-	-	-	-	-	-	-	-	-	-
Profit Before Taxes	(2,666)	-26%	64,411	51%	154,544	51%	254,474	52%	351,787	52%
Income Tax	(988)	-10%	21,848	17%	52,388	17%	86,344	18%	119,340	18%
Business Tax	-	-	(2)	0%	(4)	0%	(7)	0%	(9)	0%
Net Profit	(1,677)	-16%	42,565	34%	\$ 102,160	33%	168,137	34%	232,456	34%

Appendix X

Appendix X: Combined Income statement of Bio Life

	Year1			Year2			Year3		
	Tech	Life	Combined 100%	Tech	Life	Combined 100%	Tech	Life	Combined 100%
Units sold ' 000		204			2,505			6,118	
Unit transfer price	\$ 26.00			\$ 26.00			\$ 26.00		
	Unit: ' 000 USD								
SALES	5,303	10,198	10,198	65,130	125,250	125,250	159,075	305,914	305,914
COGS									
BLBE		5,303			65,130			159,075	
VAT rebate adj.	181		181	2,227		2,227	5,438		5,438
Other	1,773	775	2,548	21,520	9,519	31,039	52,535	41,604	94,139
	1,954	6,078	2,730	23,747	74,649	33,266	57,973	200,680	99,577
Gross Profit	3,349	4,120	7,469	41,383	50,601	91,984	101,102	105,234	206,337
	63%	40%	73%	64%	40%	73%	64%	34%	67%
Sales & Marketing	7	6,048	6,056	7	12,143	12,150	10	18,058	18,068
Research & Development	554	594	1,148	6,540	1,498	8,038	15,941	2,697	18,638
Production & Research		122	122		149	149		261	261
General & Administration	29	2,684	2,713	33	7,107	7,141	38	14,579	14,617
	590	9,448	10,038	6,581	20,897	27,478	15,989	35,596	51,584
Depreciation	-	96	96	-	96	96	-	209	209
Total Expenses	590	9,544	10,134	6,581	20,993	27,574	15,989	35,804	51,793
Financial Charges									
Financial Income									
Profit Before Taxes	2,759	(5,424)	(2,666)	34,803	29,608	64,411	85,114	69,430	154,544
Income tax	910	(1,898)	(988)	11,485	10,363	21,848	28,088	24,301	52,388
Business tax	(0)			(2)		(2)	(4)		(4)
Net Profit	1,848	(3,526)	(1,677)	23,319	19,245	42,565	57,030	45,130	102,160
	35%	-35%	-16%	36%	15%	34%	36%	15%	33%

Appendix X

Appendix X: Combined Income statement of Bio Life (continued)

	Year4			Year5			Total 5 years		
	Tech	Life	Combined 100%	Tech	Life	Combined 100%	Tech	Life	Combined 100%
Units sold ' 000	9,779			13,596			32,203		
Unit transfer price	\$ 26.00			\$ 26.00			\$ 26.00		
	Unit: ' 000 USD								
SALES	254,255	488,951	488,951	353,508	679,823	679,823	837,271	1,610,137	1,610,137
COGS									
BLBE		254,255			353,508			837,271	
VAT rebate adj.	8,692		8,692	12,086		12,086	28,625		28,625
Other	83,959	66,497	150,456	116,721	92,456	209,177	276,508	210,852	487,360
	92,652	320,752	159,149	128,807	445,964	221,262	305,132	1,048,123	515,984
Gross Profit	161,603	168,199	329,802	224,702	233,859	458,561	532,139	562,014	1,094,153
	64%	34%	67%	64%	34%	67%	64%	35%	68%
Sales & Marketing	12	22,124	22,135	12	31,382	31,394	48	89,755	89,803
Research & Development	25,460	3,904	29,364	35,387	5,290	40,677	83,882	13,983	97,865
Production & Research		458	458		801	801	-	1,792	1,792
General & Administration	42	23,121	23,163	46	33,648	33,693	187	81,139	81,326
	25,514	49,606	75,120	35,444	71,121	106,565	84,117	186,668	270,785
Depreciation		209	209		209	209		818	818
Total Expenses	25,514	49,814	75,328	35,444	71,329	106,774	84,117	187,486	271,603
Financial Charges									
Financial Income									
Profit Before Taxes	136,089	118,385	254,474	189,257	162,530	351,787	448,022	374,528	822,550
Income tax	44,909	41,435	86,344	62,455	56,885	119,340	147,847	131,085	278,932
Business tax	(7)		(7)	(9)		(9)	(22)	-	(22)
Net Profit	91,187	76,950	168,137	126,812	105,644	232,456	300,196	243,443	543,640
	36%	16%	34%	36%	16%	34%	36%	15%	34%

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 100%

Unit: ' 000 USD	Year 1	Year 2	Year 3	Year 4	Year 5
ASSETS					
Bank	(4,106)	36,191	98,859	209,777	351,409
Inter Co Receivable	-	-	-	-	-
Acc. Receivable	1,700	20,875	50,986	81,492	113,304
Other Receivable	53	53	53	53	53
Inventory	758	9,131	25,352	40,518	56,331
Prepaid & Advertising	-	-	-	-	-
Total Current Assets	(1,595)	66,251	175,250	331,840	521,096
Net Fixed Assets	391	294	5,594	5,404	5,211
Deferred Cost	-	-	-	-	-
Total Fixed Assets	391	294	5,594	5,404	5,211
Total Assets	(1,204)	66,545	180,844	337,245	526,307
LIABILITIES					
Bank Loan	-	-	-	-	-
Inter Co Payable	-	-	-	-	-
Trade Acc. Payable	2,009	7,407	18,569	28,459	39,922
VAT Payable	(20)	(251)	(614)	(982)	(1,365)
Tax Payable	(988)	21,845	52,384	86,337	119,331
Total Current Liabilities	1,000	29,000	70,338	113,815	157,889
Bank Loan	-	-	-	-	-
Dividend payable	-	-	-	-	-
Total	-	-	-	-	-
Equity					
Paid in capital	316	316	316	316	316
Current Profit	(2,235)	35,665	85,309	141,203	195,006
Retained Earning	(285)	1,563	24,880	81,910	173,097
Dividend	-	-	-	-	-
Total	(2,204)	37,544	110,506	223,429	368,419
Total Liabilities	(1,204)	66,545	180,844	337,245	526,307
Free Cash Flow (100%)					
EBIT	(3,224)	57,509	137,693	227,540	314,337
Dep. & Amort.	98	98	213	215	216
EBITDA	(3,126)	57,607	137,906	227,755	314,552
Tax Paid	(988)	21,845	52,384	86,337	119,331
Working Capital Fluctuation	1,511	1,059	6,052	8,248	11,799
Capital Expenditure	445	-	5,509	19	15
Free Cash Flow	(4,093)	34,704	73,961	133,151	183,407

Appendix XI

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 100%

<u>Unit: ' 000 USD</u>	Year1				
	BLBE	BLFR	Bio Combined	Elimination Entries	Bio Life Consolidated
			100%	100%	
ASSETS					
Bank	1,733	(5,838)	(4,106)	-	(4,106)
Inter Company Receivable	884	-	884	(884)	-
Accounts. Receivable	-	1,700	1,700	-	1,700
Other Receivable	-	53	53	-	53
Inventory	303	1,013	1,316	(558)	758
Prepaid & Advertising	-	-	-	-	-
Total Current Assets	2,919	(3,073)	(153)	(1,442)	(1,595)
Net Fixed Assets	26	365	391	-	391
Deferred Cost	-	-	-	-	-
Total Fixed Assets	26	365	391	-	391
Total Assets	2,945	(2,708)	238	(1,442)	(1,204)
LIABILITIES					
Bank Loan	-	-	-	-	-
Inter Company Payable	-	884	884	(884)	-
Trade Account. Payable	305	1,704	2,009	-	2,009
VAT Payable	(20)	-	(20)	-	(20)
Tax Payable	910	(1,898)	(988)	-	(988)
Total Current Liabilities	1,194	689	1,884	(884)	1,000
Bank Loan	-	-	-	-	-
Dividend payable	-	-	-	-	-
Total	-	-	-	-	-
Equity					
Paid in capital	62	254	316	-	316
Current Profit	1,848	(3,526)	(1,677)	(558)	(2,235)
Retained Earning	(160)	(125)	(285)	-	(285)
Dividend	-	-	-	-	-
Total	1,751	(3,397)	(1,646)	(558)	(2,204)
Total Liabilities	2,945	(2,708)	238	(1,442)	(1,204)
Free Cash Flow (100%)					
EBIT	2,759	(5,424)	(2,666)	(558)	(3,224)
Depreciation & Amortization	2	96	98		98
EBITDA	2,761	(5,328)	(2,568)	(558)	(3,126)
Tax Paid	910	(1,898)	(988)		(988)
Working Capital Fluctuation	(8)	2,076	2,069	(558)	1,511
Capital Expenditure	25	420	445		445
Free Cash Flow	1,833	(5,926)	(4,093)	(0)	(4,093)

Appendix XI

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 100%

Unit: ' 000 USD	Year2				
	BLBE	BLFR	Bio Combined	Elimination Entries	Bio Life Consolidated
	Tech	Life	Combined 100%	Entries 100%	Consolidated
ASSETS					
Bank	24,169	8,497	32,666	-	32,666
Inter Company Receivable	10,855	-	10,855	(10,855)	-
Accounts. Receivable	-	20,875	20,875	-	20,875
Other Receivable	-	53	53	-	53
Inventory	3,587	12,442	16,028	(6,897)	9,131
Prepaid & Advertising	-	-	-	-	-
Total Current Assets	38,611	41,867	84,477	(17,752)	62,725
Net Fixed Assets	25	269	294	-	294
Deferred Cost	-	-	-	-	-
Total Fixed Assets	25	269	294	-	294
Total Assets	38,635	42,136	80,771	(17,752)	63,019
LIABILITIES					
Bank Loan	-	-	-	-	-
Inter Company Payable	-	10,855	10,855	(10,855)	-
Trade Account. Payable	2,338	5,069	7,407	-	7,407
VAT Payable	(251)	-	(251)	-	(251)
Tax Payable	11,482	10,363	21,845	-	21,845
Total Current Liabilities	13,568	26,287	39,855	(10,855)	29,000
Bank Loan	-	-	-	-	-
Dividend payable	-	-	-	-	-
Total	-	-	-	-	-
Equity					
Paid in capital	62	254	316	-	316
Current Profit	23,317	19,245	42,562	(6,897)	35,665
Retained Earning	1,688	(3,651)	(1,962)	-	(1,962)
Dividend	-	-	-	-	-
Total	25,068	15,848	40,916	(6,897)	34,019
Total Liabilities	38,635	42,136	80,771	(17,752)	63,019
Free Cash Flow (100%)					
EBIT	34,799	29,608	64,406	(6,897)	57,509
Depreciation & Amortization	2	96	98	-	98
EBITDA	34,801	29,704	64,504	(6,897)	57,607
Tax Paid	11,482	10,363	21,845	-	21,845
Working Capital Fluctuation	882	5,006	7,956	(6,897)	1,059
Capital Expenditure	-	-	-	-	-
Free Cash Flow	22,437	14,335	34,704	-	34,704

Appendix XI

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 100%

<u>Unit: ' 000 USD</u>	Year3				
	BLBE	BLFR	Bio Combined 100%	Elimination Entries 100%	Bio Life Consolidated
ASSETS					
Bank	74,957	39,622	114,579	-	114,579
Inter Company Receivable	26,513	-	26,513	(26,513)	-
Accounts. Receivable	-	50,986	50,986	-	50,986
Other Receivable	-	53	53	-	53
Inventory	8,756	33,447	42,202	(16,850)	25,352
Prepaid & Advertising	-	-	-	-	-
Total Current Assets	110,225	124,107	234,332	(43,363)	190,969
Net Fixed Assets	5,044	551	5,594	-	5,594
Deferred Cost	-	-	-	-	-
Total Fixed Assets	5,044	551	5,594	-	5,594
Total Assets	115,269	124,658	239,927	(43,363)	196,564
LIABILITIES					
Bank Loan	-	-	-	-	-
Inter Company Payable	-	26,513	26,513	(26,513)	-
Trade Account. Payable	5,702	12,867	18,569	-	18,569
VAT Payable	(614)	-	(614)	-	(614)
Tax Payable	28,083	24,301	52,384	-	52,384
Total Current Liabilities	33,171	63,680	96,851	(26,513)	70,338
Bank Loan	-	-	-	-	-
Dividend payable	-	-	-	-	-
Total	-	-	-	-	-
Equity					
Paid in capital	62	254	316	-	316
Current Profit	57,030	45,130	102,160	(16,850)	85,309
Retained Earning	25,005	15,594	40,599	-	40,599
Dividend	-	-	-	-	-
Total	82,098	60,978	143,076	(16,850)	126,225
Total Liabilities	115,269	124,658	239,927	(43,363)	196,564
Free Cash Flow (100%)					
EBIT	85,114	69,430	154,544	(16,850)	137,693
Depreciation & Amortization	4	209	213	-	213
EBITDA	85,118	69,639	154,756	(16,850)	137,906
Tax Paid	28,083	24,301	52,384	-	52,384
Working Capital Fluctuation	2,097	20,806	22,903	(16,850)	6,052
Capital Expenditure	5,019	490	5,509	-	5,509
Free Cash Flow	49,918	24,043	73,961	-	73,961

Appendix XI

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 100%

	Year 4				
	BLBE	BLFR	Bio Combined 100%	Elimination Entries 100%	Bio Life Consolidated
Unit: ' 000 USD					
ASSETS					
Bank	164,883	105,744	270,626	-	270,626
Inter Company Receivable	42,376	-	42,376	(42,376)	-
Accounts. Receivable	-	81,492	81,492	-	81,492
Other Receivable	-	53	53	-	53
Inventory	13,993	53,459	67,452	(26,934)	40,518
Prepaid & Advertising	-	-	-	-	-
Total Current Assets	221,252	240,747	461,999	(69,310)	392,689
Net Fixed Assets	5,062	342	5,404	-	5,404
Deferred Cost	-	-	-	-	-
Total Fixed Assets	5,062	342	5,404	-	5,404
Total Assets	226,314	241,089	467,403	(69,310)	398,094
LIABILITIES					
Bank Loan	-	-	-	-	-
Inter Company Payable	-	42,376	42,376	(42,376)	-
Trade Account. Payable	9,109	19,351	28,459	-	28,459
VAT Payable	(982)	-	(982)	-	(982)
Tax Payable	44,903	41,435	86,337	-	86,337
Total Current Liabilities	53,030	103,161	156,191	(42,376)	113,815
Bank Loan	-	-	-	-	-
Dividend payable	-	-	-	-	-
Total	-	-	-	-	-
Equity					
Paid in capital	62	254	316	-	316
Current Profit	91,186	76,950	168,137	(26,934)	141,203
Retained Earning	82,035	60,724	142,759	-	142,759
Dividend	-	-	-	-	-
Total	173,284	137,928	311,212	(26,934)	284,278
Total Liabilities	226,314	241,089	467,403	(69,310)	398,094
Free Cash Flow (100%)					
EBIT	136,089	118,385	254,474	(26,934)	227,540
Depreciation & Amortization	6	209	215	-	215
EBITDA	136,095	118,593	254,688	(26,934)	227,755
Tax Paid	44,903	41,435	86,337	-	86,337
Working Capital Fluctuation	3,339	31,843	35,182	(26,934)	8,248
Capital Expenditure	19	-	19	-	19
Free Cash Flow	87,835	45,316	133,151	-	133,151

Appendix XI

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 100%

<u>Unit: ' 000 USD</u>	Year5				
	BLBE	BLFR	Bio Combined 100%	Elimination Entries 100%	Bio Life Consolidated
ASSETS					
Bank	290,387	198,821	489,208	-	489,208
Inter Company Receivable	58,918	-	58,918	(58,918)	-
Accounts. Receivable	-	113,304	113,304	-	113,304
Other Receivable	-	53	53	-	53
Inventory	19,453	74,327	93,781	(37,450)	56,331
Prepaid & Advertising	-	-	-	-	-
Total Current Assets	368,759	386,505	755,264	(96,368)	658,896
Net Fixed Assets	5,077	134	5,211	-	5,211
Deferred Cost	-	-	-	-	-
Total Fixed Assets	5,077	134	5,211	-	5,211
Total Assets	373,836	386,639	760,475	(96,368)	664,106
LIABILITIES					
Bank Loan	-	-	-	-	-
Inter Company Payable	-	58,918	58,918	(58,918)	-
Trade Account. Payable	12,659	27,263	39,922	-	39,922
VAT Payable	(1,365)	-	(1,365)	-	(1,365)
Tax Payable	62,446	56,885	119,331	-	119,331
Total Current Liabilities	73,740	143,066	216,807	(58,918)	157,889
Bank Loan	-	-	-	-	-
Dividend payable	-	-	-	-	-
Total	-	-	-	-	-
Equity					
Paid in capital	62	254	316	-	316
Current Profit	126,812	105,644	232,456	(37,450)	195,006
Retained Earning	173,222	137,674	310,896	-	310,896
Dividend	-	-	-	-	-
Total	300,096	243,572	543,668	(37,450)	506,218
Total Liabilities	373,836	386,639	760,475	(96,368)	664,106
Free Cash Flow (100%)					
EBIT	189,257	162,530	351,787	(37,450)	314,337
Depreciation & Amortization	7	209	216	-	216
EBITDA	189,264	162,738	352,002	(37,450)	314,552
Tax Paid	62,446	56,885	119,331	-	119,331
Working Capital Fluctuation	4,631	44,618	49,249	(37,450)	11,799
Capital Expenditure	15	-	15	-	15
Free Cash Flow	122,172	61,235	183,407	-	183,407

Appendix XI

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 70%

	Year 1				
	Bio Tech	Bio Life	Bio Combined 100%	Elimination Entries 70%	Bio Conso
Unit: ' 000 USD					
ASSETS					
Bank	1,733	(5,838)	(4,106)		(4,106)
Inter Co Receivable	884	-	884	(884)	-
Acc. Receivable	-	1,700	1,700		1,700
Other Receivable	-	53	53		53
Inventory	303	1,013	1,316	(558)	758
Prepaid & Advertising	-	-	-		-
Total Current Assets	2,919	(3,073)	(153)	(1,442)	(1,595)
Net Fixed Assets	26	365	391		391
Deferred Cost	-	-	-		-
Total Fixed Assets	26	365	391	-	391
Total Assets	2,945	(2,708)	238	(1,442)	(1,204)
LIABILITIES					
Bank Loan	-	-	-		-
Inter Co Payable	-	884	884	(884)	-
Trade Acc. Payable	305	1,704	2,009		2,009
VAT Payable	(20)	-	(20)		(20)
Tax Payable	910	(1,898)	(988)		(988)
Total Current Liabilities	1,194	689	1,884	(884)	1,000
Bank Loan	-	-	-		-
Dividend payable	-	-	-		-
Total	-	-	-	-	-
Minority interests	-	-	-	507	507
Equity					
Paid in capital	62	254	316		316
Current Profit	1,848	(3,526)	(1,677)	(1,113)	(2,790)
Retained Earning	(160)	(125)	(285)	48	(237)
Dividend	-	-	-		-
Total	1,751	(3,397)	(1,646)	(1,065)	(2,711)
Total Liabilities	2,945	(2,708)	238	(1,442)	(1,204)
Free CashFlow (70%)					
EBIT	2,759	(5,424)	(2,666)	(391)	(3,056)
Dep & Amort	2	96	98		98
EBITDA	2,761	(5,328)	(2,567)	(391)	(2,958)
Tax Paid	910	(1,898)	(988)	-	(988)
Minority interests				555	555
Working Capital Fluctuation	(8)	2,076	2,069	(391)	1,678
Capital Expenditure	25	420	445	-	445
Free Cash Flow	1,833	(5,926)	(4,093)	(555)	(4,647)

Appendix XI

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 70%

	Year 2				
	Bio Tech	Bio Life	Bio Combined 100%	Elimination Entries 70%	Bio Conso
Unit: ' 000 USD					
ASSETS					
Bank	24,169	8,497	32,666		32,666
Inter Co Receivable	10,855	-	10,855	(10,855)	-
Acc. Receivable	-	20,875	20,875		20,875
Other Receivable	-	53	53		53
Inventory	3,587	12,442	16,028	(6,897)	9,131
Prepaid & Advertising	-	-	-		-
Total Current Assets	38,611	41,867	80,477	(17,752)	62,725
Net Fixed Assets	25	269	294		294
Deferred Cost	-	-	-		-
Total Fixed Assets	25	269	294	-	294
Total Assets	38,635	42,136	80,771	(17,752)	63,019
LIABILITIES					
Bank Loan	-	-	-		-
Inter Co Payable	-	10,855	10,855	(10,855)	10,855
Trade Acc. Payable	2,338	5,069	7,407		14,814
VAT Payable	(251)	-	(251)		(503)
Tax Payable	11,482	10,363	21,845		43,689
Total Current Liabilities	13,568	26,287	39,855	(10,855)	68,855
Bank Loan	-	-	-		-
Dividend payable	-	-	-		-
Total	-	-	-	-	-
Minority interests				7,502	7,502
Equity					
Paid in capital	62	254	316		316
Current Profit	23,317	19,245	42,562	(13,892)	28,670
Retained Earning	1,688	(3,651)	(1,962)	(507)	(2,469)
Dividend	-	-	-		-
Total	25,068	15,848	40,916	(14,399)	26,517
Total Liabilities	38,635	42,136	80,771	(17,752)	63,019
Free CashFlow (70%)					
EBIT	34,799	29,608	64,406	(4,828)	59,578
Dep & Amort	2	96	98		98
EBITDA	34,801	29,704	64,504	(4,828)	59,676
Tax Paid	11,482	10,363	21,845	-	21,845
Minority interests				6,995	6,995
Working Capital Fluctuation	874	7,082	7,956	(4,828)	3,128
Capital Expenditure	-	-	-	-	-
Free Cash Flow	22,445	12,259	34,704	(6,995)	27,709

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 70%

	Year 3				
	Bio Tech	Bio Life	Bio Combined 100%	Elimination Entries 70%	Bio Conso
Unit: ' 000 USD					
ASSETS					
Bank	74,957	39,622	114,579		114,579
Inter Co Receivable	26,513	-	26,513	(26,513)	-
Acc. Receivable	-	50,986	50,986		50,986
Other Receivable	-	53	53		53
Inventory	8,756	33,447	42,202	(16,850)	25,352
Prepaid & Advertising	-	-	-		-
Total Current Assets	110,225	124,107	234,332	(43,363)	190,969
Net Fixed Assets	5,044	551	5,594		5,594
Deferred Cost	-	-	-		-
Total Fixed Assets	5,044	551	5,594	-	5,594
Total Assets	115,269	124,658	239,927	(43,363)	196,564
LIABILITIES					
Bank Loan	-	-	-		-
Inter Co Payable	-	26,513	26,513	(26,513)	-
Trade Acc. Payable	5,702	12,867	18,569		18,569
VAT Payable	(614)	-	(614)		(614)
Tax Payable	28,083	24,301	52,384		52,384
Total Current Liabilities	33,171	63,680	96,851	(26,513)	70,338
Bank Loan	-	-	-		-
Dividend payable	-	-	-		-
Total	-	-	-	-	-
Minority interests				24,611	24,611
Equity					
Paid in capital	62	254	316		316
Current Profit	57,030	45,130	102,160	(33,959)	68,200
Retained Earning	25,005	15,594	40,599	(7,502)	33,098
Dividend	-	-	-		-
Total	82,098	60,978	143,076	(41,461)	101,615
Total Liabilities	115,269	124,658	239,927	(43,363)	196,564
Free Cash Flow (70%)					
EBIT	85,114	69,430	154,544	(11,795)	142,748
Dep. & Amortization	4	209	213		213
EBITDA	85,118	69,639	154,756	(11,795)	142,961
Tax Paid	28,083	24,301	52,384	-	52,384
Minority interests				17,109	17,109
Working Capital Fluctuation	2,097	20,806	22,903	(11,795)	11,107
Capital Expenditure	5,019	490	5,509	-	5,509
Free Cash Flow	49,918	24,043	73,961	(17,109)	56,852

Appendix XI

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 70%

<u>Unit: '000 USD</u>	Year 4				
	Bio Tech	Bio Life	Bio Combined 100%	Elimination Entries 70%	Bio Conso.
ASSETS					
Bank	164,883	105,744	270,626		270,626
Inter Co Receivable	42,376	-	42,376	(42,376)	-
Acc. Receivable	-	81,492	81,492		81,492
Other Receivable	-	53	53		53
Inventory	13,993	53,459	67,452	(26,934)	40,518
Prepaid & Advertising	-	-	-		-
Total Current Assets	221,252	240,747	461,999	(69,310)	392,689
Net Fixed Assets	5,062	342	5,404		5,404
Deferred Cost	-	-	-		-
Total Fixed Assets	5,062	342	5,404	-	5,404
Total Assets	226,314	241,089	467,403	(69,310)	398,094
LIABILITIES					
Bank Loan	-	-	-		-
Inter Co Payable	-	42,376	42,376	(42,376)	-
Trade Acc. Payable	9,109	19,351	28,459		28,459
VAT Payable	(982)	-	(982)		(982)
Tax Payable	44,903	41,435	86,337		86,337
Total Current Liabilities	53,030	103,161	156,191	(42,376)	113,815
Bank Loan	-	-	-		-
Dividend payable	-	-	-		-
Total	-	-	-	-	-
Minority interests				46,310	46,310
Equity					
Paid in capital	62	254	316		316
Current Profit	91,186	76,950	168,137	(48,634)	119,503
Retained Earning	82,035	60,724	142,759	(24,611)	118,149
Dividend	-	-	-		-
Total	173,284	137,928	311,212	(73,244)	237,968
Total Liabilities	226,314	241,089	467,403	(69,310)	398,094
Free CashFlow (70%)					
EBIT	136,089	118,385	254,474	(18,854)	235,620
Dep & Amort	6	209	215		215
EBITDA	136,095	118,593	254,688	(18,854)	235,835
Tax Paid	44,903	41,435	86,337	-	86,337
Minority interests				21,700	21,700
Working Capital Fluctuation	3,339	31,843	35,182	(18,854)	16,328
Capital Expenditure	19	-	19	-	19
Free Cash Flow	87,835	45,316	133,151	(21,700)	111,451

Appendix XI: Consolidated Balance Sheet of Bio Life Consolidated at 70%

<u>Unit: ' 000 USD</u>	Year 5				
	Bio Tech	Bio Life	Bio Combined 100%	Elimination Entries 70%	Bio Conso.
ASSETS					
Bank	290,387	198,821	489,208		489,208
Inter Co Receivable	58,918	-	58,918	(58,918)	-
Acc. Receivable	-	113,304	113,304		113,304
Other Receivable	-	53	53		53
Inventory	19,453	74,327	93,781	(37,450)	56,331
Prepaid & Advertising	-	-	-		-
Total Current Assets	368,759	386,505	755,264	(96,368)	658,896
Net Fixed Assets	5,077	134	5,211		5,211
Deferred Cost	-	-	-		-
Total Fixed Assets	5,077	134	5,211	-	5,211
Total Assets	373,836	386,639	760,475	(96,368)	664,106
LIABILITIES					
Bank Loan	-	-	-		-
Inter Co Payable	-	58,918	58,918	(58,918)	-
Trade Acc. Payable	12,659	27,263	39,922		39,922
VAT. Payable	(1,365)	-	(1,365)		(1,365)
Tax Payable	62,446	56,885	119,331		119,331
Total Current Liabilities	73,740	143,066	216,807	(58,918)	157,889
Bank Loan	-	-	-		-
Dividend payable	-	-	-		-
Total	-	-	-	-	-
Minority interests				90,010	90,010
Equity					
Paid in capital	62	254	316		316
Current Profit	126,812	105,644	232,456	(75,494)	156,962
Retained Earning	173,222	137,674	310,896	(51,967)	258,929
Dividend	-	-	-	-	-
Total	300,096	243,572	543,668	(127,460)	416,208
Total Liabilities	373,836	386,639	760,475	(96,368)	664,106
Free Cash Flow (70%)					
EBIT	189,257	162,530	351,787	(26,215)	325,572
Dep. & Amortization	7	209	216		216
EBITDA	189,264	162,738	352,002	(26,215)	325,787
Tax Paid	62,446	56,885	119,331	-	119,331
Minority interests				38,043	38,043
Working Capital Fluctuation	4,631	44,618	49,249	(26,215)	23,034
Capital Expenditure	15	-	15	-	15
Free Cash Flow	122,172	61,235	183,407	(38,043)	145,364

Appendix XII

Appendix XII: Financial Projections of BLFR (USA) Balance Sheet

	Year0	Year1	Year2	Year3	Year4	Year5
Unit: '000 USD						
ASSETS						
Bank	35	(5,838)	12,023	23,903	44,895	61,022
Inter Company Receivable		-	-	-	-	-
Account Receivable		1,700	20,875	50,986	81,492	113,304
Other Receivable	53	53	53	53	53	53
Inventory		1,013	12,442	33,447	53,459	74,327
Prepaid & Advertising		-	-	-	-	-
Total Current Assets	88	(3,073)	45,392	108,388	179,898	248,706
Net Fixed Assets	41	365	269	551	342	134
Deferred Cost		-	-	-	-	-
Total Fixed Assets	41	365	269	551	342	134
Total Assets	129	(2,708)	45,661	108,938	180,240	248,840
LIABILITIES						
Bank Loan		-	-	-	-	-
Inter Company Payable		884	10,855	26,513	42,376	58,918
Trade Account Payable		1,704	5,069	12,867	19,351	27,263
Other Payable		-	-	-	-	-
Tax Payable		(1,898)	10,363	24,301	41,435	56,885
Total Current Liabilities		689	26,287	63,680	103,161	143,066
Bank Loan		-	-	-	-	-
Dividend payable		-	-	-	-	-
Total		689	26,287	63,680	103,161	143,066
Equity						
Paid in capital	254	254	254	254	254	254
Current Profit		(3,526)	19,245	45,130	76,950	105,644
Retained Earning	(125)	(125)	(125)	(125)	(125)	(125)
Dividend		-	-	-	-	-
Total	129	(3,397)	19,374	45,259	77,079	105,773
Total Liabilities	129	(2,708)	45,661	108,938	180,240	248,840
Working capital fluctuation		2,076	5,006	13,723	11,037	12,775
Capital Expenditure		420	-	490	-	-

Appendix XII

Appendix XII: Financial Projections of BLFR (USA) Income Statement Summary

<u>Unit: ' 000 USD</u>	Year1	Year2	Year3	Year4	Year5
Sales	10,198	125,250	305,914	488,951	679,823
Interest income	-	-	-	-	-
Cost of goods sold	6,078	74,649	200,680	320,752	45,964
Gross profit	4,120	50,601	105,234	168,199	233,859
Expenses					
Sales & marketing	6,048	12,143	18,058	22,124	31,382
Research & Development	594	1,498	2,697	3,904	5,290
Production & Research Overhead	122	149	261	458	801
Admin & Operating Overhead	2,684	7,107	14,579	23,121	33,648
	9,448	20,897	35,596	49,606	71,121
Depreciation & amortization					
Building	-	-	-	-	-
Production equipments	-	-	-	-	-
Equipment & fixtures	28	28	60	60	60
Computers	36	36	80	80	80
Leasehold improvements	32	32	69	69	69
Total depreciation & amortization	96	96	209	209	209
Total expenses	9,544	20,993	35,804	49,814	71,329
Income before taxes	(5,424)	29,608	69,430	118,385	162,530
Income taxes - 35%	(1,898)	10,363	24,301	41,435	56,855
Net income	(3,526)	19,245	45,130	76,950	105,644

Appendix XII: Financial Projections of BLFR (USA) Assumptions for Projections

1-In 2003, there were more than 20,800,000 patients (diabetes) in North America.

Patients - population increase 7 % per year.

2-W.H.O. Diabetes Estimates the World Market is 177 Million and will DOUBLE by 2030.

3- Accounting Principals

Inventories

Inventories are valued at cost

Cost of Materials are based on formula and estimates used in each product and calculations of auxiliary items required

Cost of Materials includes shipping and customs duties - Delivered F.O.B. BLFR facilities

Raw Materials originate from Herbal Base in the Chongqing District of the People's Republic of China

Inventory levels of finished goods are maintained at 2 months of sales

Fixed Assets

Fixed Assets are recorded at cost. Depreciations is calculated as follows:

Building	20%
Production equipments	20%
Equipment & fixtures	20%
Computers	30%
Leasehold improvements	20%

The Income Tax rate is approximately 35% for companies of similar business. The company intends to retain Tax experts to assist in the planning.

4- Currency

All dollar amounts are in U.S. Currency, unless otherwise stated.

5- Sales

Sales are based on Market Studies, Customer Interest and Market Penetration.

6- Expenses

All fixed expenses are based on Management's best estimates, contractual commitments, supplier quotations and past experience.

7- BLFR will contract out the manufacturing of the pills, packaging and logistics of shipping.

8- BLFR will handle shipping, inventory control, quality control and customer relations.

9- All purchases of fixed assets occurred in the Start-Up Phase.

10-No machinery and equipment will be utilized for Research and Development or Processing.
Office Equipment will be purchased in Year 0 and Year 3

11- Payment of dividends during the forecast will be the decision of the Board Of Directors.

12- Payable and Receivables are assumed to turnover every 60 days.

13-The company has no intention of carrying any bank loans.

BLFR USA

The penetration projection

Assumption		Source
Total diabetes population		
Number of diabetes at start	20,800,000	American Diabetes Association
Number of Pre-diabetes	41,000,000	American Diabetes Association
Number of diabetes at the end of first year	22,256,000	American Diabetes Association
Diabetes Growth Rate	7%	American Diabetes Association
Pre-diabetes percentage of total population	13.80%	American Diabetes Association
Percentage of people willing to try supplement	50%	Centers for Disease Control and Prevention
Success rate	77.20%	Clinical report
Trying rate	50%	Centers for Disease Control and Prevention
Internet conversion rate	1.0%	Online Marketing Benchmarks, published by E-Consultancy in June 2003
Number of affiliates at start	10	
Average Monthly Affiliate increasing rate (first year)	10%	The number of affiliate on the Internet is virtually unlimited, we assume a 20% monthly joining rate is very conservative given the 13.3% commission rate
Average Monthly Affiliate increasing rate (second year)	2%	Over time, it will be harder to find quality affiliates
Average Monthly Affiliate increasing rate (Third year onwards)	0.50%	
Monthly average flow per affiliate	1,500,000	We pick affiliates to keep the traffic flow above average
Click directed rate	1.50%	"What's a Good Click Rate for a Banner Ad", Zsolt Kerekes, editor of StorageSearch
Impact of DTC Advertising (25%*Trying Rate)	12.50%	DTC Advertising: Is It Helping or Hurting, 2003. National Institute for Healthcare Management Research and Educational Foundation. We discount the impact rate of 25% by 50%, which is the Trying rate for natural supplement
Conversion rate for DTC Ad	1.000%	We use the Internet conversion rate as the indifference conversion rate
Wholesale Unit Price	\$50.00	
Retail Unit Price & Internet Selling Price	\$75.00	
Commission to Internet affiliate	\$10.00	
Proceeds from E-selling for Promotional Action	\$15.00	

Appendix XII

Projection Year 1

Internet Selling	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Number of Affiliate	10	11	12	13	15	16	18	19	21	24	26	29	
Click flow directed	225,000	246,987	271,179	297,795	327,078	359,294	394,737	433,729	476,624	523,815	575,728	632,838	
Repeat purchase		1,737	3,626	5,688	7,938	10,397	13,084	16,025	19,243	22,766	26,626	30,857	
New Purchase	2,250	2,447	2,670	2,915	3,185	3,482	3,809	4,168	4,564	5,000	5,480	6,007	
Unit sold	2,250	4,184	6,296	8,603	11,123	13,878	16,893	20,193	23,807	27,766	32,106	36,864	
Total number of clients	2,250	4,184	6,296	8,603	11,123	13,878	16,893	20,193	23,807	27,766	32,106	36,864	203,964
Total number of people tried	2,250	4,697	7,367	10,282	13,467	16,949	20,757	24,926	29,490	34,490	39,970	45,977	
Market penetration	0.01%	0.02%	0.03%	0.04%	0.05%	0.06%	0.08%	0.09%	0.11%	0.12%	0.14%	0.17%	
Sales Revenue	\$112,500	\$209,219	\$314,816	\$430,128	\$556,135	\$693,914	\$844,652	\$1,009,652	\$1,190,348	\$1,388,319	\$1,605,299	\$1,843,198	\$10,198,180
Commission paid	\$22,500	\$41,844	\$62,963	\$86,026	\$111,227	\$138,783	\$168,930	\$201,930	\$238,070	\$277,664	\$321,060	\$368,640	\$2,039,636
Proceed for Promotion	\$33,750	\$62,766	\$94,445	\$129,038	\$166,840	\$208,174	\$253,396	\$302,896	\$357,105	\$416,496	\$481,590	\$552,959	\$3,059,454
Monthly Growing Rate		86%	50%	37%	29%	25%	22%	20%	18%	17%	16%	15%	
Total Sales Year 1	\$112,500	\$209,219	\$314,816	\$430,128	\$556,135	\$693,914	\$844,652	\$1,009,652	\$1,190,348	\$1,388,319	\$1,605,299	\$1,843,198	\$10,198,180
Total treatments sold	2,250	4,184	6,296	8,603	11,123	13,878	16,893	20,193	23,807	27,766	32,106	36,864	203,964
Total average number of clients													16,997
Market penetration													0.08%

Appendix XII

Projection Year 2

Mass Marketing	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Total diabetes population	22,385,827	22,515,653	22,645,480	22,775,307	22,905,133	23,034,960	23,164,787	23,294,613	23,424,440	23,554,267	23,684,093	23,813,920	
Number of audience reached	2,717,690	2,726,258	2,734,838	2,743,414	2,751,986	2,760,553	2,769,114	2,777,668	2,786,215	2,794,753	2,803,282	2,811,800	
Number of patient tried	27,177	26,991	26,869	26,747	26,627	26,507	26,388	26,271	26,153	26,037	25,922	25,807	
Repeat purchase	-	20,981	41,817	62,560	83,209	103,765	124,228	144,600	164,881	185,072	205,172	225,184	
New Purchase	27,177	26,991	26,869	26,747	26,627	26,507	26,388	26,271	26,153	26,037	25,922	25,807	
Unit sold	27,177	47,971	68,686	89,307	109,836	130,272	150,617	170,871	191,035	211,109	231,094	250,991	
Total number of client	27,177	47,971	68,686	89,307	109,836	130,272	150,617	170,871	191,035	211,109	231,094	250,991	1,678,965
Total number of patient tried	27,177	54,168	81,036	107,784	134,410	160,918	187,306	213,577	239,730	265,767	291,689	317,496	
Market penetration	0.1214%	0.2131%	0.3033%	0.3921%	0.4795%	0.5655%	0.6502%	0.7335%	0.8155%	0.8963%	0.9757%	1.0540%	
Sales	\$1,358,845	\$2,398,569	\$3,434,307	\$4,465,368	\$5,491,789	\$6,513,602	\$7,530,841	\$8,543,539	\$9,551,727	\$10,555,437	\$11,554,700	\$12,549,545	\$83,948,269

Internet Selling	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Number of Affiliate	29	30	30	31	32	32	33	33	34	35	35	36	
Click flow directed	644,308	656,018	667,975	680,183	692,646	705,370	718,359	731,620	745,156	758,975	773,080	787,479	
Repeat purchase	35,494	40,184	44,927	49,726	54,583	59,497	64,472	69,509	74,609	79,774	85,006	90,306	
New Purchase	6,074	6,144	6,216	6,290	6,366	6,444	6,524	6,606	6,690	6,777	6,865	6,956	
Unit sold	41,569	46,328	51,144	56,017	60,949	65,942	70,996	76,115	81,299	86,551	91,871	97,262	
Total number of clients	41,569	46,328	51,144	56,017	60,949	65,942	70,996	76,115	81,299	86,551	91,871	97,262	
Total number of people tried	52,051	58,196	64,412	70,703	77,069	83,513	90,038	96,644	103,334	110,111	116,976	123,932	
Market penetration	0.1868%	0.2082%	0.2298%	0.2517%	0.2739%	0.2963%	0.3190%	0.3420%	0.3653%	0.3889%	0.4128%	0.4370%	
Sales Revenue	\$2,078,436	\$2,316,412	\$2,557,188	\$2,800,840	\$3,047,444	\$3,297,079	\$3,549,824	\$3,805,760	\$4,064,969	\$4,327,536	\$4,593,546	\$4,863,086	\$41,302,119
Commission paid	\$415,687	\$463,282	\$511,438	\$560,168	\$609,489	\$659,416	\$709,965	\$761,152	\$812,994	\$865,507	\$918,709	\$972,617	
Proceed for Promotion	\$623,531	\$694,924	\$767,157	\$840,252	\$914,233	\$989,124	\$1,064,947	\$1,141,728	\$1,219,491	\$1,298,261	\$1,378,064	\$1,458,926	\$12,390,636
Monthly Growing Rate		11%	10%	10%	9%	8%	8%	7%	7%	6%	6%	6%	
Total Sales Year 2	\$3,437,281	\$4,714,981	\$5,991,495	\$7,266,208	\$8,539,233	\$9,810,681	\$11,080,665	\$12,349,299	\$13,616,696	\$14,882,973	\$16,148,246	\$17,412,631	\$125,250,388
Total treatments sold	68,746	94,300	119,830	145,324	170,785	196,214	221,613	246,986	272,334	297,659	322,965	348,253	2,505,008
Total average number of clients													208,751
Market penetration													0.94%

Appendix XII

Projection Year 3

Mass Marketing	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Total diabetes population	23,952,835	24,091,749	24,230,664	24,369,578	24,508,493	24,647,407	24,786,322	24,925,236	25,064,151	25,203,065	25,341,980	25,480,894	
Number of audience reached	2,822,970	2,834,156	2,845,359	2,856,577	2,867,812	2,879,063	2,890,329	2,901,610	2,912,907	2,924,219	2,935,546	2,946,888	
Number of patient tried	25,720	25,633	25,548	25,463	25,379	25,296	25,213	25,131	25,051	24,971	24,891	24,813	
Repeat purchase	245,107	264,963	284,751	304,474	324,132	343,724	363,252	382,717	402,118	421,457	440,734	459,950	
New Purchase	25,720	25,633	25,548	25,463	25,379	25,296	25,213	25,131	25,051	24,971	24,891	24,813	
Unit sold	270,827	290,596	310,299	329,937	349,510	369,019	388,465	407,848	427,169	446,428	465,626	484,763	
Total number of client	270,827	290,596	310,299	329,937	349,510	369,019	388,465	407,848	427,169	446,428	465,626	484,763	
Total number of patient tried	343,216	368,849	394,397	419,859	445,238	470,534	495,747	520,878	545,929	570,899	595,791	620,603	
Market penetration	1.1307%	1.2062%	1.2806%	1.3539%	1.4261%	1.4972%	1.5673%	1.6363%	1.7043%	1.7713%	1.8374%	1.9025%	
Sales	\$13,541,334	\$14,529,793	\$15,514,955	\$16,496,851	\$17,475,513	\$18,450,971	\$19,423,257	\$20,392,401	\$21,358,432	\$22,321,380	\$23,281,276	\$24,238,147	\$227,024,310

Internet Selling	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Number of Affiliate	36	37	37	37	37	37	37	38	38	38	38	38	
Click flow directed	789,964	792,475	795,014	797,580	800,172	802,791	805,437	808,111	810,811	813,537	816,291	819,072	
repeat purchase	95,676	101,023	106,349	111,654	116,937	122,199	127,442	132,664	137,866	143,049	148,214	153,360	
New Purchase	6,927	6,899	6,871	6,844	6,817	6,790	6,764	6,739	6,714	6,690	6,666	6,642	
Unit sold	102,603	107,922	113,220	118,497	123,754	128,990	134,206	139,403	144,580	149,739	154,879	160,002	
Total number of clients	102,603	107,922	113,220	118,497	123,754	128,990	134,206	139,403	144,580	149,739	154,879	160,002	
Total number of people tried	130,859	137,758	144,629	151,473	158,289	165,080	171,844	178,583	185,297	191,987	198,652	205,294	
Market penetration	0.4610%	0.4849%	0.5087%	0.5324%	0.5560%	0.5796%	0.6030%	0.6264%	0.6496%	0.6728%	0.6959%	0.7189%	
Sales Revenue	\$5,130,137	\$5,396,106	\$5,661,006	\$5,924,857	\$6,187,678	\$6,449,486	\$6,710,299	\$6,970,136	\$7,229,015	\$7,486,953	\$7,743,968	\$8,000,077	\$78,889,719
Commission paid	\$1,026,027	\$1,079,221	\$1,132,201	\$1,184,971	\$1,237,536	\$1,289,897	\$1,342,060	\$1,394,027	\$1,445,803	\$1,497,391	\$1,548,794	\$1,600,015	
Proceed for Promotion	\$1,539,041	\$1,618,832	\$1,698,302	\$1,777,457	\$1,856,303	\$1,934,846	\$2,013,090	\$2,091,041	\$2,168,705	\$2,246,086	\$2,323,190	\$2,400,023	\$23,666,916
Monthly Growing Rate		5%	5%	5%	4%	4%	4%	4%	4%	4%	3%	3%	
Total Sales Year 3	\$18,671,471	\$19,925,899	\$21,175,961	\$22,421,708	\$23,663,191	\$24,900,457	\$26,133,556	\$27,362,537	\$28,587,447	\$29,808,333	\$31,025,244	\$32,238,224	\$305,914,029
Total treatments sold	373,429	398,518	423,519	448,434	473,264	498,009	522,671	547,251	571,749	596,167	620,505	644,764	6,118,281
Total average number of clients													509,857
Market penetration													2.00%

Appendix XII

Projection Year 4

Mass Marketing	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Total diabetes population	25,629,533	25,778,172	25,926,810	26,075,449	26,224,087	26,372,726	26,521,364	26,670,003	26,818,641	26,967,280	27,115,918	27,264,557	
Number of audience reached	2,959,459	2,972,042	2,984,637	2,996,451	3,008,245	3,020,021	3,031,778	3,043,517	3,055,236	3,066,937	3,078,619	3,090,282	
Number of patient tried	24,747	24,682	28,094	28,161	28,229	28,296	28,364	28,431	28,499	28,566	28,634	28,701	
Repeat purchase	479,106	498,210	517,265	538,953	560,694	582,486	604,331	626,228	648,177	670,179	692,232	714,337	
New Purchase	24,747	24,682	28,094	28,161	28,229	28,296	28,364	28,431	28,499	28,566	28,634	28,701	
Unit sold	503,853	522,892	545,358	567,114	588,923	610,783	632,695	654,660	676,676	698,745	720,866	743,038	
Total number of client	503,853	522,892	545,358	567,114	588,923	610,783	632,695	654,660	676,676	698,745	720,866	743,038	
Total number of patient tried	645,350	670,032	698,126	726,287	754,516	782,813	811,177	839,608	868,107	896,673	925,307	954,008	
Market penetration	1.9659%	2.0284%	2.1035%	2.1749%	2.2457%	2.3160%	2.3856%	2.4547%	2.5232%	2.5911%	2.6585%	2.7253%	
Sales	\$25,192,631	\$26,144,611	\$27,267,924	\$28,355,723	\$29,446,130	\$30,539,144	\$31,634,764	\$32,732,989	\$33,833,817	\$34,937,246	\$36,043,276	\$37,151,903	\$373,280,157
Internet Selling	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Number of Affiliate	39	39	39	39	39	40	40	40	40	40	41	41	
Click flow directed	821,879	824,713	827,575	830,463	833,378	836,320	839,289	842,285	845,307	848,357	851,434	854,538	
Repeat purchase	158,487	163,597	168,689	173,764	178,822	183,864	188,889	193,899	198,893	203,872	208,836	213,786	
New Purchase	6,619	6,596	6,574	6,552	6,531	6,510	6,489	6,469	6,449	6,430	6,411	6,393	
Unit sold	165,106	170,193	175,263	180,316	185,353	190,373	195,378	200,368	205,342	210,302	215,247	220,178	
Total number of clients	165,106	170,193	175,263	180,316	185,353	190,373	195,378	200,368	205,342	210,302	215,247	220,178	
Total number of people tried	211,913	218,509	225,083	231,635	238,166	244,675	251,164	257,633	264,083	270,513	276,924	283,317	
Market penetration	0.7418%	0.7647%	0.7875%	0.8102%	0.8328%	0.8554%	0.8779%	0.9003%	0.9226%	0.9449%	0.9671%	0.9893%	
Sales Revenue	\$8,255,298	\$8,509,648	\$8,763,143	\$9,015,802	\$9,267,640	\$9,518,675	\$9,768,922	\$10,018,399	\$10,267,121	\$10,515,105	\$10,762,368	\$11,008,924	\$115,671,045
Commission paid	\$1,651,060	\$1,701,930	\$1,752,629	\$1,803,160	\$1,853,528	\$1,903,735	\$1,953,784	\$2,003,680	\$2,053,424	\$2,103,021	\$2,152,474	\$2,201,785	\$23,134,209
Proceed for Promotion	\$2,476,589	\$2,552,894	\$2,628,943	\$2,704,741	\$2,780,292	\$2,855,602	\$2,930,677	\$3,005,520	\$3,080,136	\$3,154,532	\$3,228,710	\$3,302,677	\$34,701,313
Monthly Growing Rate		3%	3%	3%	3%	3%	3%	3%	2%	2%	2%	2%	
Total Sales Year 4	\$33,447,930	\$34,654,259	\$36,031,068	\$37,371,525	\$38,713,770	\$40,057,818	\$41,403,686	\$42,751,387	\$44,100,938	\$45,452,352	\$46,805,643	\$48,160,827	\$488,951,202
Total treatments sold	668,959	693,085	720,621	747,430	774,275	801,156	828,074	855,028	882,019	909,047	936,113	963,217	9,779,024
Total average number of clients													814,919
Market penetration													3.0%

Appendix XII

Projection Year 5

Mass Market	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Total diabetes population	27,423,600	27,582,644	27,741,687	27,900,730	28,059,773	28,218,817	28,377,860	28,536,903	28,695,946	28,854,990	29,014,033	29,173,076	
Number of audience reached	3,103,228	3,117,332	3,131,440	3,144,315	3,157,168	3,169,999	3,182,809	3,195,598	3,208,365	3,221,110	3,233,834	3,246,536	
Number of patient tried	23,602	23,572	28,965	29,045	29,125	29,205	29,285	29,364	29,444	29,523	29,603	29,682	
Repeat purchase	736,494	754,715	772,913	795,274	817,697	840,182	862,728	885,336	908,006	930,736	953,528	976,381	
New Purchase	23,602	23,572	28,965	29,045	29,125	29,205	29,285	29,364	29,444	29,523	29,603	29,682	
Unit sold	760,096	778,287	801,878	824,320	846,823	869,387	892,013	914,701	937,449	960,260	983,131	1,006,063	
Total number of client	760,096	778,287	801,878	824,320	846,823	869,387	892,013	914,701	937,449	960,260	983,131	1,006,063	
Total number of patient tried	977,610	1,001,182	1,030,148	1,059,193	1,088,319	1,117,524	1,146,809	1,176,173	1,205,617	1,235,140	1,264,743	1,294,424	
Market penetration	2.7717%	2.8217%	2.8905%	2.9545%	3.0179%	3.0809%	3.1433%	3.2053%	3.2668%	3.3279%	3.3885%	3.4486%	
Sales	\$38,004,806	\$38,914,362	\$40,093,912	\$41,215,979	\$42,341,128	\$43,469,356	\$44,600,658	\$45,735,032	\$46,872,472	\$48,012,976	\$49,156,538	\$50,303,155	\$528,720,375

Internet Selling	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Number of Affiliate	41	41	41	42	42	42	42	42	43	43	43	43	
Click flow directed	857,669	860,826	864,011	867,223	870,462	873,729	877,022	880,343	883,691	887,066	890,468	893,898	
repeat purchase	218,721	223,642	228,550	233,445	238,326	243,195	248,052	252,896	257,729	262,551	267,361	272,160	
New Purchase	6,375	6,357	6,340	6,323	6,307	6,291	6,275	6,260	6,245	6,231	6,217	6,203	
Unit sold	225,096	230,000	234,890	239,768	244,633	249,486	254,327	259,157	263,975	268,782	273,578	278,364	
Total number of clients	225,096	230,000	234,890	239,768	244,633	249,486	254,327	259,157	263,975	268,782	273,578	278,364	
Total number of people tried	289,692	296,049	302,390	308,713	315,020	321,311	327,586	333,846	340,092	346,323	352,539	358,743	
Market penetration	1.0114%	1.0334%	1.0554%	1.0773%	1.0992%	1.1210%	1.1427%	1.1644%	1.1861%	1.2077%	1.2292%	1.2507%	
Sales Revenue	\$11,254,790	\$11,499,981	\$11,744,514	\$11,988,403	\$12,231,664	\$12,474,313	\$12,716,364	\$12,957,832	\$13,198,734	\$13,439,082	\$13,678,893	\$13,918,181	\$151,102,750
Commission paid	\$2,250,958	\$2,299,996	\$2,348,903	\$2,397,681	\$2,446,333	\$2,494,863	\$2,543,273	\$2,591,566	\$2,639,747	\$2,687,816	\$2,735,779	\$2,783,636	\$30,220,550
Proceed for Promotion	\$3,376,437	\$3,449,994	\$3,523,354	\$3,596,521	\$3,669,499	\$3,742,294	\$3,814,909	\$3,887,350	\$3,959,620	\$4,031,725	\$4,103,668	\$4,175,454	\$45,330,825
Monthly Growing Rate		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	
Total Sales Year 5	\$49,259,596	\$50,414,344	\$51,838,426	\$53,204,382	\$54,572,792	\$55,943,668	\$57,317,022	\$58,692,864	\$60,071,206	\$61,452,058	\$62,835,431	\$64,221,336	\$679,823,125
Total treatments sold	985,192	1,008,287	1,036,769	1,064,088	1,091,456	1,118,873	1,146,340	1,173,857	1,201,424	1,229,041	1,256,709	1,284,427	13,596,462
Total average number of clients													1,133,039
Market penetration													3.9%

**BLFR USA
Advertising & Promotion Budget**

	Year 1	Year 2	Year 3	Year 4	Year 5	Total	
Unit: ' 000 USD							
SALES							
Internet Selling	10,198	41,302	78,890	115,671	151,103	397,164	25%
Mass Market	-	83,948	227,024	373,280	528,720	1,212,973	75%
	<u>10,198.18</u>	<u>125,250.39</u>	<u>305,914.03</u>	<u>488,951</u>	<u>679,823</u>	<u>1,610,137</u>	<u>100%</u>
Average client	16,997	208,751	509,857	814,919	1,133,039		
Market Penetration Rate	0.1%	0.9%	2.0%	3.0%	3.9%		
Advertising and Promotion							
As per Financial Statement	4,000	8,000	10,400	11,440	17,160	51,000	30%
% on sale	39%	6%	3%	2%	3%	3%	
Plus							
Fund available from Internet selling	3,059	12,391	23,667	34,701	45,331	119,149	70%
% on sale	30%	10%	8%	7%	7%	7%	
Total	<u>7,060</u>	<u>20,391</u>	<u>34,067</u>	<u>46,141</u>	<u>62,491</u>	<u>170,149</u>	<u>100%</u>
% on sale	69%	16%	11%	9%	9%	11%	
Detail of the Marketing Program							
Educational on Diabetes Management	400	400	1,000	2,000	2,400		
Event Sponsor	300	1,000	2,000	2,000	3,000		
Free Trial and Monitoring Program	1,000	1,400	2,000	3,000	4,000		
Medical Endorsement Program	1,600	2,000	3,000	4,000	6,000		
Educational Program	700	2,000	3,000	5,000	7,000		
Media Infiltration	2,000	4,000	6,000	8,000	10,000		
DTC and Media Advertising Campaign	1,000	4,500	10,000	15,000	21,000		
Trade and Consumer Publicity Program	-	2,000	4,000	4,000	6,000		
Distribution Down Payment	-	3,000	3,000	3,000	3,000		
Total	<u>7,000</u>	<u>20,300</u>	<u>34,000</u>	<u>46,000</u>	<u>62,400</u>		

Appendix XII: Financial Projections of BLFR Sales Volume Projection

SALES VOLUME PROJECTIONS			Year 1	Year 2	Year 3	Annul increase rate: 7%	
			Year 4	Year 5			
Diabetes Mellitus - population	People		22,256,000	23,099,873	24,716,864	26,447,045	28,298,338
Pre-Diabetes Mellitus - population							
	Percentage of Market penetration	0.0024% Av	0.0764%	0.9037%	2.0628%	3.0813%	4.0039%
Diabetes	Monthly number of clients		16,997	208,751	509,857	814,919	1,133,039
	Annul Number of Clients	12	203,964	2,505,008	6,118,281	9,779,024	13,596,462
Pre-Diabetes Mellitus	Monthly number of clients						
	Annul Number of Clients	20%					
	Zutrol®	40%	81,585	1,002,003	2,447,312	3,911,610	5,438,585
	To-Date						
	Number of Units Per Client	12 Units/Year	-				
	Number of Tablets Per Unit	480 Per Unit	39,161,010	480,961,491	1,174,709,870	1,877,572,617	2,610,520,799
	525 mg/Tablet	# of Grams	20,559,530	252,504,783	616,722,682	985,725,624	1,370,523,420
	Betatrol®	60%	122,378	1,503,005	3,670,968	5,867,414	8,157,877
	To-Date						
	Number of Units Per Client	12 Units/Year					
	Number of Tablets Per Unit	270 Per Unit	33,042,102	405,811,258	991,161,453	1,584,201,895	2,202,626,924
	525 mg/Tablet	# of Grams	17,347,104	213,050,910	520,359,763	831,705,995	1,156,379,135
	SUMMARY TOTAL	100%	0				
	To-Date		203,964	2,505,008	6,118,281	9,779,024	13,596,462
	Number of Units Per Client	1 Unit/Mth	-				
	Number of Tablets Per Unit	270 Per Unit	72,203,112	886,772,749	2,165,871,323	3,461,774,512	4,813,147,724
	500 mg/Tablet	# of Grams	37,906,634	465,555,693	1,137,082,444	1,817,431,619	2,526,902,555

Appendix XII: Financial Projections of BLFR Sales

	Price	Year 1	Year 2	Year 3	Year 4	Year 5
Unit: USD						
SELLING PRICE						
Zutrol®	Retail 75.00	-	-	-	-	-
	Wholesale 50.00	4,079,272	50,100,155	122,365,611	195,580,481	271,929,250
Betatrol®	Retail 75.00	-	-	-	-	-
	Wholesale 50.00	6,118,908	75,150,233	183,548,417	293,370,721	407,893,875
SUMMARY TOTAL	Wholesale 50.00	10,198,180	125,250,388	305,914,029	488,951,202	679,823,125
INVENTORY						
Zutrol®		8,159	100,200	244,731	391,161	543,858
Betatrol®		12,238	150,300	367,097	586,741	815,788
		20,396	250,501	611,828	977,902	1,359,646
Cost	30.00	611,891	7,515,023	18,354,842	29,337,072	40,789,387

**Appendix XII: Financial Projections of BLFR
Cost of Sales**

Unit: USD

COST OF SALES		Unit costs	Year 1	Year 2	Year 3	Year 4	Year 5
Zutrol®	Raw Material	26.00	2,121,221	26,052,081	63,630,118	101,701,850	141,403,210
	Packaging Etc	0	0	0	0	0	0
	Processing OEM	4.00	326,342	4,008,012	9,789,249	15,646,438	21,754,340
	Labor	0	0	0	0	0	0
	Other	1.00	81,585	1,002,003	2,447,312	3,911,610	5,438,585
	Total	31.00	2,529,149	31,062,096	75,866,679	121,259,898	168,596,135
Betatrol®	Raw Material	26.00	3,181,832	39,078,121	95,445,177	152,552,775	212,104,815
	Packaging Etc	0	0	0	0	0	0
	Processing OEM	2.00	244,756	3,006,009	7,341,937	11,734,829	16,315,755
	Labor	0	0	0	0	0	0
	Other	1.00	122,378	1,503,005	3,670,968	5,867,414	8,157,877
	Total	29.00	3,548,967	43,587,135	106,458,082	170,155,018	236,578,447
SUMMARY TOTAL AVERAGE	Raw Material	26.00	5,303,053	65,130,202	159,075,295	254,254,625	353,508,025
	Packaging Etc	0	0	0	0	0	0
	Processing	3.00	571,098	7,014,022	17,131,186	27,381,267	38,070,095
	Labor	0	0	0	0	0	0
	Other	1.00	203,964	2,505,008	6,118,281	9,779,024	13,596,462
	Total	30.00	6,078,115	74,649,231	182,324,761	291,414,917	405,174,582

Appendix XII: Financial Projections of BLFR Sales & Marketing Expenses

Unit: USD

		Year 1	Year 2	Year 3	Year 4	Year 5
Unit: USD						
SALES & MARKETING	\$/Year					
Sales Manager	60,000	1	2	4	8	12
Sales staffs & representatives	40,000	10	20	40	50	60
Sales office support	30,000	6	10	20	25	25
Internet Marketing	48,000	2	6	10	12	15
		19	38	74	95	112
Salary, commission & benefits						
Sales manager		60,000	126,000	264,000	552,000	864,000
Sales staffs & representatives		266,667	800,000	1,760,000	2,300,000	2,880,000
Sales office support		120,000	300,000	660,000	862,500	900,000
Internet Marketing		72,000	288,000	528,000	662,400	864,000
Employee Benefits	25%	129,667	378,500	803,000	1,094,225	1,377,000
Travel Per staff	15,789	300,000	600,000	1,168,421	1,500,000	1,768,421
Entertainment	400,000	400,000	600,000	900,000	1,350,000	2,025,000
Advertising & promotion	4,000,000	4,000,000	8,000,000	10,400,000	11,440,000	17,160,000
Trade Shows	400,000	400,000	600,000	900,000	1,350,000	2,025,000
Brochures & supplies	300,000	300,000	450,000	675,000	1,012,500	1,518,750
TOTAL		6,048,333	12,142,500	18,058,421	22,123,625	31,382,171

**Appendix XII: Financial Projections of BLFR
Research & Development Cost**

Unit: USD

RESEARCH & DEVELOPMENT	\$/Year	Year 1	Year 2	Year 3	Year 4	Year 5
Research Manager	90,000	1	2	4	6	6
Research Technicians	48,000	1	4	8	8	10
Research Support	36,000	1	4	6	8	9
Consulting	60,000	2	4	6	8	9
		5	14	24	30	34
Salary, commission & benefits						
Manager Research		90,000	189,000	396,000	621,000	648,000
Research Technicians		48,000	201,600	422,400	441,600	576,000
Internet Marketing		36,000	151,200	237,600	331,200	388,800
Consulting		105,000	252,000	396,000	552,000	648,000
Employee Benefits	25%	43,500	198,450	363,000	486,450	565,200
Travel Per staff	6,000	30,000	84,000	144,000	180,000	204,000
Dues and Memberships	18,000	18,000	31,500	55,125	96,469	168,820
R&D Materials	48,000	48,000	84,000	147,000	257,250	450,188
R&D Equipment	175,000	175,000	306,250	535,938	937,891	1,641,309
TOTAL		593,500	1,498,000	2,697,063	3,903,859	5,290,316

Appendix XII

Appendix XII: Financial Projections of BLFR Product & Research Overhead

Unit: USD

PRODUCT & RESEARCH OVERHEAD	\$/Year	Year 1	Year 2	Year 3	Year 4	Year 5
Manager Production	60,000	1	1	1	1	1
Assistant Manager	40,000	1	2	2	2	3
Technician/Quality Control	42,000	1	2	6	8	10
Maintenance	36,000	2	2	3	5	6
Shipping/Customs	42,000	1	4	6	8	10
Production	30,000	1	2	6	10	12
		7	13	24	34	42
Salary, commission & benefits						
Manager Production		60,000	63,000	66,000	69,000	72,000
Assistant Manager		40,000	84,000	88,000	92,000	144,000
Technician/Quality Control		42,000	88,200	277,200	386,400	504,000
Maintenance		57,000	75,600	118,800	207,000	259,200
Shipping/Customs		42,000	176,400	277,200	386,400	504,000
Production		30,000	63,000	198,000	345,000	432,000
Employee Benefits	25%	35,500	58,800	107,800	136,850	180,000
Travel	4,286	30,000	55,714	102,857	145,714	180,000
Dues and Memberships	1,200	1,200	2,100	3,675	6,431	11,255
Maintenance & Parts	48,000	52,000	91,000	159,250	278,688	487,703
Safety	2,400	2,400	4,200	7,350	12,863	22,509
Misc.	75,000	81,250	142,188	248,828	435,449	762,036
SUB TOTAL		473,350	904,202	1,654,960	2,501,795	3,558,703
Natural Gas	720	720	1,260	2,205	3,859	6,753
Electricity	15,000	15,000	26,250	45,938	80,391	140,684
Maintenance	9,000	9,000	15,750	27,563	48,234	84,410
Waste Disposal	4,200	4,200	7,350	12,863	22,509	39,391
Transportation	22,000	22,000	38,500	67,375	117,906	206,336
Cafeteria Supplies	5,600	5,600	9,800	17,150	30,013	52,522
Employee Training	5,000	5,000	8,750	15,313	26,797	46,895
Safety Supplies	500	500	875	1,531	2,680	4,689
Vehicle Expense	9,600	9,600	16,800	29,400	51,450	90,038
Travel	1,200	1,200	2,100	3,675	6,431	11,255
Uniform Service	4,800	4,800	8,400	14,700	25,725	45,019
Misc.	0	7,762	13,584	23,771	41,599	72,799
SUB TOTAL		85,382	149,419	261,484	457,594	800,791
TOTAL		558,732	1,053,620	1,916,443	2,959,389	4,359,493

Appendix XII: Financial Projections of BLFR Administration & Overhead

Unit: USD

ADMINISTRATION & OVERHEAD	\$/Year	Year 1	Year 2	Year 3	Year 4	Year 5
Building – Office	50,300	50,300	55,330	60,863	66,949	73,644
Building - Production	55,300	55,300	60,830	66,913	73,604	80,965
Building - CAM	44,000	44,000	48,400	53,240	58,564	64,420
Repair & maintenance	20,500	20,500	35,875	62,781	109,867	192,268
Insurance	100,000	100,000	175,000	306,250	535,938	937,891
Utilities	49,500	49,500	86,625	151,594	265,289	464,256
Communications & IT	24,000	24,000	42,000	73,500	128,625	225,094
Web Server	2,400	2,400	4,200	7,350	12,863	22,509
License, membership & permits	27,500	27,500	48,125	84,219	147,383	257,920
Bank service charges	11,000	11,000	19,250	33,688	58,953	103,168
Corporate meetings	60,000	60,000	105,000	183,750	321,563	562,734
Advertising & promotion	27,500	27,500	48,125	84,219	147,383	257,920
Transfer & security filing fees	18,000	18,000	31,500	55,125	96,469	168,820
Vehicle Expense	84,000	84,000	147,000	257,250	450,188	787,828
Office Expense & Supplies	4,800	4,800	8,400	14,700	25,725	45,019
Travel	23,333	280,000	466,667	700,000	933,333	1,166,667
Legal - Corporate & Licensing	29,000	29,000	50,750	88,813	155,422	271,988
Legal - Patent & Trade marking	32,000	32,000	56,000	98,000	171,500	300,125
Legal – SEC	28,000	28,000	49,000	85,750	150,063	262,609
Accounting – Audit	50,000	50,000	87,500	153,125	267,969	468,945
General Manager	120,000	120,000	132,000	145,200	159,720	175,692
Management Assistant	48,000	48,000	52,800	58,080	63,888	70,277
Marketing & Sales Manager	84,000	84,000	92,400	101,640	111,804	122,984
Research Manager	84,000	84,000	92,400	101,640	111,804	122,984
Production Manager	72,000	72,000	79,200	87,120	95,832	105,415
Business Development Manager	96,000	96,000	105,600	116,160	127,776	140,554
IT Manager	60,000	60,000	66,000	72,600	79,860	87,846
Controller	96,000	96,000	105,600	116,160	127,776	140,554
Accounting assistant	36,000	36,000	39,600	43,560	47,916	52,708
Accountant	48,000	48,000	52,800	58,080	63,888	70,277
Office Manager	36,000	36,000	39,600	43,560	47,916	52,708
Sec/Receptor 1	30,000	30,000	33,000	36,300	39,930	43,923
Sec/Receptor 2	24,000	24,000	26,400	29,040	31,944	35,138
Employee Benefits	0	208,500	229,350	252,285	277,514	305,265
Bonuses	0	0	(70,515)	384,903	902,591	1,539,002
Management Fees	120,000	120,000	180,000	315,000	551,250	964,688
Consulting Fees	120,000	120,000	250,000	437,500	765,625	1,339,844
Bad Debts	% of sales	3 %	305,945	3,757,512	9,177,421	14,668,536
Taxes (non Income Taxes)	3,000	3,000	18,000	31,500	55,125	96,469
Misc.	5,000	5,000	200,000	350,000	612,500	1,071,875
TOTAL		2,594,245	7,107,323	14,578,877	23,120,842	33,647,686

Appendix XII: Financial Projections of BLFR Equipment & Other Assets

Unit: USD

	Year0	Year 1	Year 2	Year 3	Year 4	Year 5
PRODUCTION & RESEARCH						
SET UP						
Office						
Office equipment & fixtures	140,000	-	-	160,000	-	-
Computers	120,000	-	-	145,000	-	-
Leasehold improvements	160,000	-	-	185,000	-	-
Sub-total	420,000	-	-	490,000	-	-
Production & Research						
Broken cell machine - 6 units	225,000	-	-	337,500	-	-
Telephone system	90,000	-	-	135,000	-	-
Packaging machines	27,000	-	-	40,500	-	-
Pill press machines-4 units	42,000	-	-	63,000	-	-
Air filter systems	100,000	-	-	150,000	-	-
Dryer machine	45,000	-	-	67,500	-	-
Electrical pallet machines	20,000	-	-	30,000	-	-
Standard steel bin	70,000	-	-	105,000	-	-
Mixer machines	42,000	-	-	63,000	-	-
Heavy tablet pre-machines	560,000	-	-	840,000	-	-
Air condition systems	100,000	-	-	150,000	-	-
Installation & setup cost	200,000	-	-	300,000	-	-
Tools	25,000	-	-	25,000	-	-
Misc.	50,000	-	-	100,000	-	-
Sub-total	1,596,000	-	-	2,406,500	-	-
Building	-	-	-	200,000	-	-
TOTAL	2,016,000	-	-	2,281,500	-	-

Appendix XII: Financial Projections of BLFR Assumptions

Only 2 products will be commercialized over the next 5 years
Betatrol (142gram per bottle): 60% of the total sales
Zutrol (252gram per bottle): 40% of the total sales
The retail selling price will be USD 50.00 for both products. (No VAT or NST included)

Sales volumes and market penetration rate as per BLFR management people.
Market population in USA for Year 1: 20.8 millions diabetes patients
Growth rate of population: 7 % per year
Average Penetration rate: from 0.08 % in year1 to 3.9 % in year 5

Estimated net profit on sales for BLFR over the next 5 years: 15 %

Internal transfer price from BLBE China: USD 26.00 (including 17% of VAT)

Wholesaler selling price: USD 50.00

Estimated retailer price in USA (including China VAT but no USA sales tax): USD 75.00. (Suggested Retail price as per BLFR: USD 135.00)

Cost of “packaging the powder” by an outsourcing OEM is estimated at USD 2.00 per unit. No capital expenditure required over the next 5 years and the price will remain the same.

Marketing & Selling expenses will increase from USD 7 million in year1 to USD 62 million in year5, representing 69% of total sales in year1 and 9 % of totals sales in year 5 respectively. This includes the \$ 15.00 USD for each unit sold on Internet.

Income tax is approximately 35% of taxable profit over the 5 years, and is paid the following year.

Trade Accounts receivable: 2 months of sales

Finished good inventories: 2 months of sales, at cost

Trade Accounts payable: 2 months of expenses

Inter Co Payable: 2 months of purchasing

Tax payable: annual income tax payable at the beginning of next year

Dividends payable: none recorded

Fixed asset: Purchased at the beginning of the year

Depreciation calculation: using direct-line method. Depreciation rate for Equipments & furniture: 20%

No payment of dividend has been recorded

No interest income recorded for the cash on hand at the end of each year

No bank loan will be raised to finance the operation at the beginning of each year.

No income tax benefits between the 2 counties have been considered.

Exchange rate: USD 1.00 = RMB 8.01

All amounts are in USD currency unless otherwise stated.

Appendix XII: Financial Projections of BLFR Retail Selling Price in the USA

	China		USA		Sales Network		
	BLBE		BLFR		Internet	Wholesale	
Cost	\$	8.45	\$	26.00	\$	50.00	
Gross Profit	\$	13.77	53%	\$	24.00	48%	
BLFR Adv.					\$	15.00	
Gross Income	\$	22.22		\$	50.00	\$	75.00
VAT Out	17%	\$	3.78				
Total selling Price No VAT and NST in USA		\$ 26.00		\$ 50.00		\$ 75.00	

BLBE China			
VAT Reconciliation	As per		As per
	F/S		Regulation
Income			
Invoice			\$ 26.00
VAT Output		17%	\$ (3.78)
	\$	26.00	\$
			22.22
COGS			
Cost	\$	8.45	\$ 8.45
VAT Adj. (Rebate)	3.4%	\$ 0.89	13%
	\$	9.34	\$ 5.56
Gross Profit	\$ 16.66		\$ 16.66
	64%		75%

Appendix XIII: Financial Projections for BLBE (China) Balance Sheet in USD

	Year1	Year2	Year3	Year4	Year5
Unit: ' 000 USD					
ASSETS					
Bank	1,733	24,169	74,957	164,883	290,387
Inter Co Receivable	884	10,855	26,513	42,376	58,918
Acc. Receivable	-	-	-	-	-
Other Receivable	-	-	-	-	-
Inventory	303	3,587	8,756	13,993	19,453
Prepaid & Advertising	-	-	-	-	-
Total Current Assets	2,919	38,611	110,225	221,252	368,759
Net Fixed Assets	26	25	5,044	5,062	5,077
Deferred Cost	-	-	-	-	-
Total Fixed Assets	26	25	5,044	5,062	5,077
Total Assets	2,945	38,635	115,269	226,314	373,836
LIABILITIES					
Bank Loan	-	-	-	-	-
Inter Co Payable	-	-	-	-	-
Trade Acc. Payable	305	2,338	5,702	9,109	12,659
VAT Payable	(20)	(251)	(614)	(982)	(1,365)
Tax Payable	910	11,482	28,083	44,903	62,446
Total Current Liabilities	1,194	13,568	33,171	53,030	73,740
Bank Loan	-	-	-	-	-
Dividend payable	-	-	-	-	-
Total	-	-	-	-	-
Equity					
Paid in capital	62	62	62	62	62
Current Profit	1,848	23,317	57,030	91,186	126,812
Retained Earning	(160)	1,688	25,005	82,035	173,222
Dividend	-	-	-	-	-
Total	1,751	25,068	82,098	173,284	300,096
Total Liabilities	2,945	38,635	115,269	226,314	373,836
Increase Working Capital	(8)	881	6,242	1,261	1,307
Capital Expenditure	25	-	5,019	19	15

Appendix XIII

Appendix XIII: Financial Projections for BLBE (Continued) Balance Sheet in RMB

<u>Unit: ' 000 RMB</u>	Year0 Sep-05	Year1	Year2	Year3	Year4	Year5
ASSETS						
Bank	33	13,878	193,592	600,405	1,320,711	2,326,002
Inter Co Receivable	-	7,080	86,949	212,366	339,430	471,933
Acc. Receivable Trade	-	-	-	-	-	-
Other Receivable	-	-	-	-	-	-
Inventory	58	2,425	28,730	70,134	112,085	155,822
Prepaid & Advertising	-	-	-	-	-	-
Total Current Assets	91	23,383	309,270	882,904	1,772,226	2,953,757
Net Fixed Assets	8	208	200	40,400	40,550	40,670
Deferred Cost	-	-	-	-	-	-
Total Fixed Assets	8	208	200	40,400	40,550	40,670
Total Assets	99	23,591	309,470	923,304	1,812,776	2,994,427
LIABILITIES						
Bank Loan	-	-	-	-	-	-
Inter Co Payable	-	-	-	-	-	-
Trade Acc. Payable	881	2,440	18,724	45,672	72,961	101,402
VAT Payable	-	(164)	(2,014)	(4,919)	(7,862)	(10,931)
Tax Payable	-	7,291	91,969	224,947	359,671	500,189
Total Current Liabilities	881	9,567	108,679	265,700	424,770	590,660
Bank Loan	-	-	-	-	-	-
Dividend payable	-	-	-	-	-	-
Total	-	-	-	-	-	-
Equity						
Paid in capital	500	500	500	500	500	500
Current Profit	-	14,806	186,767	456,813	730,403	1,015,761
Retained Earning	(1,282)	(1,282)	13,524	200,291	657,103	1,387,507
Dividend	-	-	-	-	-	-
Total	(782)	14,024	200,791	657,603	1,388,007	2,403,767
Total Liabilities	99	23,591	309,470	923,304	1,812,776	2,994,427

Appendix XIII

Appendix XIII: Financial Projections for BLBE (Continued) Income Statement in USD

	Year1	Year2	Year3	Year4	Year5
Unit selling Price	\$ 26.00	\$ 26.00	\$ 26.00	\$ 26.00	\$ 26.00
Total Units	204	2,505	6,118	9,779	13,596
Average/Month	17	209	510	815	1,133
<u>Unit: ' 000 USD</u>					
Sales	5,303	65,130	159,075	254,255	353,508
COGS	1,773	21,520	52,535	83,959	116,721
COGS-VAT	181	2,227	5,438	8,692	12,086
Gross Margin	3,349	41,383	101,102	161,603	224,702
	63%	64%	64%	64%	64%
Other Cost					
R&D	554	6,540	15,941	25,460	35,387
Marketing	7	7	10	12	12
Accounting & IT	11	16	16	18	20
Administration	17	22	22	24	25
Total	590	6,585	15,989	25,514	35,444
Other Non Operating expenses	-	-	-	-	-
Financial Charges	-	-	-	-	-
Profit Before Tax	2,759	34,799	85,114	136,089	189,257
Income Tax (33%)	910	11,484	28,087	44,909	62,455
Business Tax (5%)	(0)	(2)	(4)	(7)	(9)
Net Profit	1,848	23,317	57,030	91,186	126,812

Appendix XIII

Appendix XIII: Financial Projections for BLBE (Continued) Income Statement in RMB

	Year1	Year2	Year3	Year4	Year5
Unit selling Price	208.26	208.26	208.26	208.26	208.26
Total Units	204	2,505	6,118	9,779	13,596
Average/Month	17	209	510	815	1,133

Unit: RMB ' 000

Sales	42,477	521,693	1,274,193	2,036,580	2,831,599
COGS	14,203	172,377	420,802	672,512	934,933
COGS-VAT	1,452	17,836	43,562	69,627	96,807
Gross Margin	26,822	331,480	809,829	1,294,441	1,799,859
	63%	64%	64%	64%	64%
Other Cost					
R&D	4,438	52,385	127,684	203,936	283,451
Marketing & Selling	58	58	79	93	93
Accounting & HR	89	127	132	147	162
Administration	140	173	173	190	202
Total	4,725	52,743	128,068	204,366	283,908
Other Non Operating expenses	-	-	-	-	-
Financial Charges	1	1	1	1	1
Profit Before Tax	22,097	278,736	681,760	1,090,074	1,515,950
Income Tax (33%)	7,292	91,983	224,981	359,724	500,264
Business Tax (5%)	(1)	(14)	(33)	(53)	(74)
Net Profit	14,806	186,767	456,813	730,403	1,015,761

Appendix XIII

Appendix XIII: Financial Projections for BLBE (Continued)

Other Expenses

Unit: RMB

	2005 9 months Actual	Year1 Forecast	Year2 Forecast	Year3 Forecast	Year4 Forecast	Year5 Forecast
Marketing						
Head Count	1	3	3	4	5	5
Salaries	17,500	31,000	31,000	39,000	47,000	47,000
Welfare	2,713	14,415	14,415	18,135	21,855	21,855
Social Insurance	3,709					
Entertainment	560	2,000	2,000	4,000	4,000	4,000
Travels	2,000	5,000	5,000	10,000	10,000	10,000
Office Expenses	1,500	6,000	6,000	8,000	10,000	10,000
Others	473					
Total	28,455	58,418	58,418	79,139	92,860	92,860
Laboratory						
Head Count	2	11	13	14	15	16
Salaries	25,000	95,000	111,000	119,000	127,000	135,000
Welfare	3,875	44,175	51,615	55,335	59,055	62,775
Travels	-	-	-	-	-	-
Rent	-	36,000	36,000	72,000	72,000	72,000
Depreciation	756	-	-	-	-	-
Office Expenses	2,000	14,667	17,333	18,667	20,000	21,333
Amortization and Depreciation	7,731	-	-	-	-	-
Others	677	-	-	-	-	-
Total	40,039	189,842	215,948	265,002	278,055	291,108
R&D						
Research expense	20%	849,549	10,433,858	25,483,862	40,731,591	56,631,986
Consultants	30%	1,274,324	15,650,788	38,225,793	61,097,386	84,947,978
Clinic test	50%	2,123,873	26,084,646	63,709,656	101,828,977	141,579,964
	100%	4,247,746	52,169,292	127,419,311	203,657,955	283,159,928
% Cost on sale	10%	4,247,746	52,169,292	127,419,311	203,657,955	283,159,928

Appendix XIII

Appendix XIII: Financial Projections for BLBE (Continued) Other Expense (Continued)

Unit: RMB

	2005	Year1	Year2	Year3	Year4	Year5
Administration	9 months					
Head Count	2	3	6	6	7	8
Salaries	46,915	62,000	62,000	62,000	70,000	70,000
Welfare	7,272	14,415	32,085	32,085	35,805	42,780
Social Insurance	2,782					
Rent (200m2x20Rmb)	35,802	48,000	48,000	48,000	48,000	48,000
Travels	-	-	-	-	-	-
Entertainment	600					
Communication	-	-	-	-	-	-
Consulting Fee	-	-	-	-	-	-
Office Expenses	4,974	9,948	19,897	19,897	23,213	26,529
Maintenance	470	940	1,880	1,880	2,193	2,507
Dep. Office Equipment	1,583	3,166	6,332	6,332	7,387	8,443
Others	740	1,481	2,962	2,962	3,455	3,949
Total	101,139	139,950	173,155	173,155	190,054	202,207
Accounting & HR & Purchases						
Head Count	1	6	6	6	7	7
Salaries	18,000	31,000	69,000	69,000	77,000	92,000
Welfare	2,790	28,830	28,830	28,830	32,550	32,550
Commission						
Travels	1,000	5,000	5,000	10,000	10,000	10,000
Entertainment	-	-	-	-	-	-
Communication	-	-	-	-	-	-
Consulting Fee	-	-	-	-	-	-
Legal & Audit	-	-	-	-	-	-
Office Expenses	2,500	20,000	20,000	20,000	23,333	23,333
Rent	-					
Others	473	3,787	3,787	3,787	4,418	4,418
Total	24,763	88,617	126,617	131,617	147,302	162,302
Finance						
Bank Charges	502	670	670	670	670	670
Interest	-	-	-	-	-	-
Total	502	670	670	670	670	670
Total	194,899	477,497	574,809	649,583	708,940	749,147

Appendix XIII: Financial Projections for BLBE (Continued) Headcount & Salary & Welfare

Forecasted average salary

	Manager	Employees
	Local	Local
Direct Labor	-	4,000
Production Overhead	7,500	4,000
R&D	15,000	8,000
Selling	-	-
Marketing	12,000	5,000
Acc & HR& Purchase	12,000	5,000
Administration	12,000	5,000

Forecasted Welfare policy

	Local
General	17.5%
Retirement	12.5%
Housing	8.5%
Medicare	6.5%
Unemployment	1.0%
Maternity	0.5%
	46.5%

	Year 1	Year 2	Year 3	Year 4	Year 5
Head Count					
Direct & Indirect Labor					
Employees	6	6	12	18	18
Production Overhead					
Manager Local	1	1	1	2	2
Employees	1	1	1	1	1
	2	2	2	3	3
R&D					
Manager Local	1	1	1	1	1
Employees	10	12	13	14	15
	11	13	14	15	16
Selling					
Manager Local	-	-	-	-	-
Employees	-	-	-	-	-
	-	-	-	-	-
Marketing					
Manager Local	1	1	1	1	1
Employees	2	2	3	4	4
	3	3	4	5	5
Accounting & HR & Purchasing					
Manager Local	2	2	2	2	2
Employees	4	4	4	5	5
	6	6	6	7	7
Administration					
Manager Local	1	3	3	3	4
Employees	2	3	3	4	4
	3	6	6	7	8
Grand Total Head Count					
Manager Local	6	8	8	9	10
Employees	25	28	36	46	47
	31	36	44	55	57

Appendix XIII

Appendix XIII: Financial Projections for BLBE (Continued) Headcount & Salary & Welfare (Continued)

Unit :RMB

	Year 1	Year 2	Year 3	Year 4	Year 5
SALARY in RMB					
Direct Labor					
Employees	24,000	24,000	48,000	72,000	72,000
Production Overhead					
Manager Local	15,000	15,000	15,000	30,000	30,000
Employees	8,000	8,000	8,000	8,000	8,000
	23,000	23,000	23,000	38,000	38,000
R&D					
Manager Local	15,000	15,000	15,000	15,000	15,000
Employees	80,000	96,000	104,000	112,000	120,000
	95,000	111,000	119,000	127,000	135,000
Selling					
Manager Local	-	-	-	-	-
Employees	-	-	-	-	-
	-	-	-	-	-
Marketing					
Manager Local	15,000	15,000	15,000	15,000	15,000
Employees	16,000	16,000	24,000	32,000	32,000
	31,000	31,000	39,000	47,000	47,000
Accounting & IT					
Manager Local	30,000	30,000	30,000	30,000	30,000
Employees	32,000	32,000	32,000	40,000	40,000
	62,000	62,000	62,000	70,000	70,000
Administration					
Manager Local	15,000	45,000	45,000	45,000	60,000
Employees	16,000	24,000	24,000	32,000	32,000
	31,000	69,000	69,000	77,000	92,000
Grand Total Salary & Welfare in RMB					
Manager Local	90,000	120,000	120,000	135,000	150,000
Employees	176,000	200,000	240,000	296,000	304,000
	266,000	320,000	360,000	431,000	454,000
Social Charges					
Manager Local	41,850	55,800	55,800	62,775	69,750
Employees	81,840	93,000	111,600	137,640	141,360
	123,690	148,800	167,400	200,415	211,110
Grand total	389,690	468,800	527,400	631,415	665,110
Growth		20%	13%	20%	5%

Appendix XIII

Appendix XIII: Financial Projections for BLBE (Continued) Headcount & Salary & Welfare (Continued)

<u>Unit :RMB</u>	Year 1	Year 2	Year 3	Year 4	Year 5
Welfare in RMB					
Direct Labor					
Employees	11,160	11,160	22,320	33,480	33,480
Production Overhead					
Manager Local	6,975	6,975	6,975	13,950	13,950
Employees	3,720	3,720	3,720	3,720	3,720
	10,695	10,695	10,695	17,670	17,670
R&D					
Manager Local	6,975	6,975	6,975	6,975	6,975
Employees	37,200	44,640	48,360	52,080	55,800
	44,175	51,615	55,335	59,055	62,775
Selling					
Manager Local	-	-	-	-	-
Employees	-	-	-	-	-
	-	-	-	-	-
Marketing					
Manager Local	6,975	6,975	6,975	6,975	6,975
Employees	7,440	7,440	11,160	14,880	14,880
	14,415	14,415	18,135	21,855	21,855
Accounting & IT					
Manager Local	13,950	13,950	13,950	13,950	13,950
Employees	14,880	14,880	14,880	18,600	18,600
	28,830	28,830	28,830	32,550	32,550
Administration					
Manager Local	6,975	20,925	20,925	20,925	27,900
Employees	7,440	11,160	11,160	14,880	14,880
	14,415	32,085	32,085	35,805	42,780

Appendix XIII

Appendix XIII: Financial Projections for BLBE (Continued) Cost of Production

Unit : RMB

	Year 1	Year 2	Year 3	Year 4	Year 5
Production in Unit (treatment)					
Betatrol	122,378	1,503,005	3,670,968	5,867,414	8,157,877
Zutrol	81,585	1,002,003	2,447,312	3,911,610	5,438,585
	203,964	2,505,008	6,118,281	9,779,024	13,596,462
Production in Kg					
Betatrol	17,347	213,051	1,137,082	1,817,432	2,526,903
Zutrol	20,560	252,505	616,723	985,726	1,370,523
	37,907	465,556	1,753,805	2,803,157	3,897,426
Variable Cost					
Betatrol	6,384,909	78,417,160	191,527,625	306,124,119	425,625,818
Zutrol	7,635,542	93,776,986	229,042,769	366,085,653	508,994,541
	14,020,450	172,194,147	420,570,394	672,209,773	934,620,359
Fixed Cost					
Salary & Welfare	68,855	68,855	104,015	161,150	161,150
Dep. Equip	18,000	18,000	31,500	45,000	55,800
Rent (400m2 x 20Rmb)	96,000	96,000	96,000	96,000	96,000
Repair & Maintenance	-	-	-	-	-
Warehousing & handling	-	-	-	-	-
Other	-	-	-	-	-
Total	182,855	182,855	231,515	302,150	312,950
Grand Total	14,203,305	172,377,002	420,801,909	672,511,923	934,933,309
Treatment Average Cost	69.64	68.81	68.78	68.77	68.76
KG Average Cost	374.69	370.26	239.94	239.91	239.88

Betatrol					
Variable Cost	52.17	52.17	52.17	52.17	52.17
Fixed Cost	0.90	0.07	0.04	0.03	0.02
Total Cost	53.07	52.25	52.21	52.20	52.20
	USD \$ 6.63	\$ 6.52	\$ 6.52	\$ 6.52	\$ 6.52
Zutrol					
Variable Cost	93.59	93.59	93.59	93.59	93.59
Fixed Cost	0.90	0.07	0.04	0.03	0.02
Total Cost	94.49	93.66	93.63	93.62	93.61
	USD \$ 11.80	\$ 11.69	\$ 11.69	\$ 11.69	\$ 11.69

Appendix XIII: Financial Projections for BLBE (Continued) Justification of Processing Costs for BLBE

Unit: RMB

	Prevent-Dia-B	Dia-B
Kg	0.142	0.252
 Original cost per BLBE		
BLBE		
Herb	2.48	8.71
Processing	6.25	18.04
OEM		
Processing	29.44	26.16
 Total	38.17	52.91

All the process will be done by the OEM processor

Estimated cost per kg as per OEM quotation (without VAT)

300.55 RMB

Assumption: all products will be processed into powder by the OEM

Estimation per LB

Bio		
Herb	-	-
Processing		
OEM	-	-
Processing	42.68	75.74
 Total	42.68	75.74

Mixed ratio	60%	40%	100%
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Average cost per BLBE	44.07
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Average cost per LB	55.90
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Difference	11.84
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Cost higher as per LB vs BLBE	27%
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Notes:

1. Original cost BLBE is based on the cost sheet prepared by BLBE;
2. Estimated costs per kg as per OEM quotation is the average cost of powders produced by the OEM after deducting 17% VAT input.
3. Estimated cost per LB is calculated by multiplying the average cost of powder (RMB300.55) with the weight of each product.
4. Average cost per BLBE and per LB is arrived by respectively multiplying the estimated costs of both BLBE and LB with the mixed ratio.

Appendix XIII: Financial Projections for BLBE (Continued) Production Capacity Analysis of OEM

	Health-Star	Life-Star					
Tablet / Treatment	270	480					
Bottle	1	2					
ml / tablets	525	525					
g/tablets	142	252					
Kg / Barrel of "powder"	20	20					
Days Prod / Year		300					
Sales volume			Year1	Year2	Year3	Year4	Year5
Treatment							
Zutrol			81,585	1,002,003	2,447,312	3,911,610	5,438,585
Betatrol			122,378	1,503,005	3,670,968	5,867,414	8,157,877
Total			203,964	2,505,008	6,118,281	9,779,024	13,596,462
Sales in kg							
Zutrol			20,560	252,505	616,723	985,726	1,370,523
Betatrol			17,347	213,051	520,360	831,706	1,156,379
Total in KG			37,907	465,556	1,137,082	1,817,432	2,526,903
kg / Day of production			126	1,552	3,790	6,058	8,423
OEM maximum capacity kg/day			4,000	4,000	4,000	4,000	4,000
OEM available capacity kg/day	50%		2,000	2,000	2,000	2,000	2,000
Available capacity used			6%	78%	190%	303%	421%

Appendix XIII: Financial Projections for BLBE (Continued)

Fixed Assets investment

Unit: RMB

	Year1	Year2	Year3	Year4	Year5
Big Mixer	150,000	150,000	150,000	150,000	150,000
Big Mixer	-		150,000	150,000	150,000
Other equipment	50,000	50,000	50,000	50,000	50,000
Medium Mixer				120,000	120,000
Medium Mixer					120,000
Other equipment				30,000	30,000
	<u>200,000</u>	<u>200,000</u>	<u>350,000</u>	<u>500,000</u>	<u>620,000</u>
	\$ 24,969	\$ 24,969	\$ 43,695	\$ 62,422	\$ 77,403

Out put / Mixer in Kg

Mixer 1	2,500	2,500	2,500	2,500	2,500
Mixer 2	-		2,500	2,500	2,500
Mixer 3	-			2,000	2,000
Mixer 4	-				2,000
Total	<u>2,500</u>	<u>2,500</u>	<u>5,000</u>	<u>7,000</u>	<u>9,000</u>
	5%	62%	76%	87%	94%

BLBE Workers at OEM facility

Shift 1	6	6	6	6	6
Shift 2			6	6	6
Shift 3				6	6
	<u>6</u>	<u>6</u>	<u>12</u>	<u>18</u>	<u>18</u>
Out put in Kg	2,888	2,888	5,775	8,663	8,663

Appendix XIII: Financial Projections for BLBE (Continued)

Major Assumptions

>Only 2 products will be produced over the next 5 years

Betatrol (142g): 60% of the total sales

Zutrol (252g): 40% of the total sales

>All herbs will be process into powder by a Chinese company (OEM).

>OEM processor will buy the herb and there is no limitation regarding the processor production capacity or procurement of the appropriate herb over the next 5 years.

>OEM processing cost will remain the same over the next 5 years.

>During Year3, BLBE China will buy the OEM processor for an estimated amount of USD 5 millions. No depreciation has been recorded and cost of production has not been adjusted accordingly.

>Research and Development cost represents 10 % of the total sales.

>Internal transfer price (Including VAT) with BLFR USA: USD 26.00 for both products even if the COGS are different.

>Valuation of the Chongqing Herbal Base is not included in this report.

>Purchase of raw material and sales of finished goods are subject to a 17% VAT. But because the company will export all its production, BLBE will enjoy a 14% refund of VAT. VAT has been assumed payable at the end of each year.

>Even if a manufacturing WOFE “could” be exempted of corporate income tax for the first 2 years and to be submitted to a lower rate of 18% from year3 to year5, we have assumed a full rate of 33% for the 5 years. Total amount becomes payable in the following year.

>No payment of dividend has been recorded

>No interest income recorded for the cash on hand at the end of each year

>No bank loan will be raised to finance the operation at the beginning of each year.

No income tax benefits between the 2 counties have been considered.

>In theory, Business Tax “negative” cannot be refund. Amount should be nil. No adjust made because amount not material and no impact on evaluation of the business.

>Exchange rate: USD 1.00 = RMB 8.01

>All amounts are in USD currency unless otherwise stated

Appendix XIV: Pricing strategy per client (source as per management)

There are several subjects that must be addressed before discussing in detail the pricing of our products. The major problem with pricing is that there are few price posts. There are strategic implications for pricing in the market content as to whether we choose to price high, low, or merely a price-follower. The selected strategies can be pursued provided there is a market to be found and it is of size and ability to respond.

Market-Skimming Pricing

Following the product life cycle theory, when a company first introduces a new product and it contains a new product concept, or where there is no clear competition in supply, there is the motivation to charge what the market will bear. There is for a time, certain exclusivity and this helps build a product image and maintain a high product price. This pricing strategy is often called market-skimming price. For this market-skimming pricing to succeed, there are few conditions:

1. The number of customers is large enough to create high demand.
2. The unit cost of small-scale production is not too high so the producer can benefit from the trade.
3. The high price is helpful to establish the image of good product in terms of quality, features, and concept.
4. The time frame is relatively long before a potential competitor can offer a similar product.

Market-Penetration Pricing

The opposite pricing strategy is market-penetration pricing; this is a valid strategy for a product that is either mature or reaching saturation and is difficult to differentiate, and so lowering the price may draw in further sales – elasticity of demand. It will be beneficial for a company to adopt market-penetration price if:

1. The market is very sensitive to price, low price can stimulate the market share to increase dramatically.
2. Low price can depress the current and potential competition.
3. The product is very difficult to differentiate.
4. The product features only basic functions and can be replaced by other product easily.

Price-Follower

Another pricing strategy is the price-follower method. This is the method when a company chooses to follow the market leader, fearful of lowering price and meeting retaliation, or raise prices and losing sales. This 'me-too' price is often valid when:

1. The market leader has very strong position in the market in terms of sales volume and price bargaining power.
2. The price-follower is offering a very similar if not identical product in the market so the consumer is indifferent to choose between the products.
3. The price-follower is not capable to innovate and be creative in order to offer differentiate product or lowering it's production and operation cost in great extent comparing to that of the market leader.

Perceived Value

A consumer purchases a good for satisfying his/her own need. The price a consumer is willing to pay largely depends up on the value derived from the product by the consumer. Thus the key to pricing is not the seller's cost; rather it is the buyer's perceived value. It is the non-price parameters of the marketing mix, such as quality, effectiveness, innovation, services, brand, image, etc, that establish the perceived value in the mind of the customer. The price shall therefore be based on the perceived value. Attention to value will drive critical product specifications and lay the groundwork for a successful campaign to improve the pricing landscape. The non-price parameters include the following:

- Quality
- Effectiveness
- Innovation
- Services
- Brand
- Image
- Delivery
- Unique properties, etc

The Growth and Prevalence of Complementary and Alternative Medicine (CAM)

Complementary and Alternative Medicine (CAM), in our case Traditional Chinese Medicine (TCM), has been receiving a great deal of attentions in the world for the last few decades. There are lots of different names for AM, such as Holistic Medicine, Natural Medicine, Eastern Medicine, and Herbal Medicine, etc. No matter what name it uses, the main characteristic of this health-care subject is opposed to Conventional Medicine, which is the chemical synthesized medicine our mainstream health-care system is based upon.

Pat De Leon of American Psychological Association noted in his writing that in 1990, one-third of the U.S. population used some form of alternative approach to health care, and by the year 2010 at least two-thirds will. And In a report developed by the **Institute for Alternative Futures**, it is noted that today, **“complementary and alternative approaches to health and medicine are among the fastest growing aspects of health care.”** This is confirmed by a report published by US Department of Health and Human Services in May 2004, 36% of adult in US use some forms of CAM therapy in 2003. 18.9% of adult in US use natural products and “adult age 18 years or over who use CAM were more likely to do so because they believed that CAM combined with conventional medical treatment would help (54.9%) and/or they thought it would be interesting to try (50.1%). Most adults who have ever used CAM have used it within the past 12 months, although there is variation by CAM therapy.” It is estimated that the US public spent between \$36 billion and \$47 billion on CAM therapies in 1997. The report indicated that the growth of CAM use relates to “marketing forces, availability of information on the Internet, the desire of patients to be actively involved in medical decision making, and dissatisfaction of conventional (western) medicine. This dissatisfaction may be related to the inability of conventional medicine to adequately treat many chronic diseases and their symptoms such as debilitating pain.”

The Inability of Conventional Medicine in Diabetic Treatment

One typical case of the inability of conventional medicine is in the medical field of diabetes and its complication treatment. The major concept of conventional drugs (chemical synthetic drugs) in treating diabetes is controlling elevated blood sugar level. These drugs are designed to control blood sugar in any of the four ways:

1. Raise the amount of insulin secretion by the pancreas.
2. Inhibit the action of hepatic gluconeogenesis.
3. Raise the sensitivity of the peripheral tissue to insulin.
4. Retard the degradation of absorbed carbohydrate from the intestine.

Does this conventional drug approach work well? The answer is **NO!** In fact, the abnormal blood sugar level is merely the symptom of the disease rather than the cause of the disease, by focus its attention on the blood sugar level. A conventional drug is not able to solve this problem.

It sounds perfect that by controlling the elevated blood sugar without causing hypoglycemia (excessive low level of blood sugar), the disease can be managed (not treated). But the opposite has happened again and again in reality. Diabetes Mellitus is a metabolic disorder caused by multiple factors. ***By focusing its attention on blood sugar level alone, conventional drugs cannot eliminate the problems that cause the disease.*** The problem is still there with persistent intake of conventional drug. Over time, the patients have to either increase the dosage amount of drugs or switch to other drugs to keep the blood sugar level stable, or rely on external insulin if the oral medication is insufficient. In addition, complications of the disease have to be treated separately and individually as ***conventional drugs have no effect on diabetic complications and cannot prevent the complications from happening.*** Finally, ***these chemical drugs have some major side effects.*** (See Comparing BLFR Remedies and Drugs)

The inability of conventional medicine in treating diabetes is described by Matthew C. Riddle, M.D., a professor of medicine and head of the diabetes section in the endocrinology, diabetes and clinical nutrition division at Oregon Health Sciences University School of Medicine, Portland, in his article “Oral Pharmacologic Management of Type 2 Diabetes”; He stated that **“type 2 diabetes is progressive, and all treatments show secondary failure over time.”** **Almost every type 2 diabetic patient will fail to response adequately to oral hypoglycemic drugs and will require insulin therapy (1).**

Another point to note is that in managing long lasting diabetes, drug therapy (several drugs combined together) is often required, as a result, the side effects are more severe and cost is higher.

A report published in 18th May 2005 by American Association of Clinical Endocrinologists (AACE) indicated that from 2003 to 2004, 2 out of 3 Americans with Type 2 diabetes were failing to meet the AACE target A1C goal. The report concluded that **“most people with Type 2 diabetes were not controlling their long-term blood sugar level and, as such, were at greater risk of developing diabetic related complications.”**

In conclusion, conventional medicine (chemical drug) is not doing a good job for diabetic patients and ***the diabetic community is crying out loud for better products that will perform in diabetic medication.*** As Robert A. Rizza, MD, President of the American Diabetes Association, puts it in the most recent new release that “Diabetes touches all of us in some way, which is why we must continue to work together to find a cure for diabetes and to improve the lives of the nearly 21 million Americans affected by diabetes.”

The Diabetic Epidemic and the Ever Growing Diabetic Market Size

Appendix XIV

Diabetes rose an astonishing 70% among people in their 30's from 1990 through 1998. The number of diabetics increased by 40% in the 40's age group and 31% increase in 50's age group. Formerly known as adult-onset diabetes, Type 2 diabetes occurred only in people over 40 but is now occurring in children as young as eleven or twelve. The figures released by the US government had confirmed the current diabetic epidemic growing trend.

In 2004, US government announced that 41 million Americans have pre-diabetes — blood sugar high enough to dramatically increase their risk of getting the full-blown disease; and the most recently released diabetic statistics by the Centers for Disease Control and Prevention (CDC) indicates that **diabetes has risen by over 14 percent in the last two years**. In 2005 alone, **1.5 million new cases of diabetes** were diagnosed in people aged 20 years or older. The CDC estimates that **20.8 million Americans (7 percent of the U.S. population) have diabetes**, up from 18.2 million in 2003.

All these figures are pointing out one fact that is the market size for diabetic products is increasing dramatically.

The Cost and Expenses of Diabetes and its Complications

Direct costs and expenses to individuals with diabetes include medical care, drugs, insulin and other supplies. Patients may also have to bear other personal costs, such as increased payments for health, life and automobile insurance. Total diabetes costs in the United States in 2002 were estimated to be \$132 billion (\$10154 per patient). Direct medical costs were \$92 billion (\$7077 per patient), which comprise of \$23.2 billion (\$1784 per patient) for diabetic care, \$24.6 billion (\$1892 per patient) for chronic diabetes-related complications, and \$44.1 billion (\$3392 per patient) for excess prevalence of general medical conditions. The per capita annual costs of health care for people with diabetes rose from \$10,071 in 1997 to \$13,243 in 2002, an increase of more than 30%. In contrast, health care costs for people without diabetes amounted to \$2,560 in 2002. This indicates that diabetes is a very expensive disease compare to other disorders.

(See <http://www.diabetes.org/diabetes-statistics/cost-of-diabetes-in-us.jsp>)

Basically, there are two categories of chemical diabetic medication available in the market. The first category refers to drugs that increase insulin supply; these drugs are **sulfonylureas, other secretagogues, and insulin**. The second category of diabetic drugs is targeting at lowering insulin resistance or improves its effectiveness. These chemical drugs are **biguanides, thiazolidinediones, and Alpha-glucosidase inhibitors**.

There are many brands for all these drugs and the costs are varying depend on the individual brand and whether they are generic products, which are normally cheaper than the brand one.

The drug for drug therapy of Type 2 diabetes is generally an HbA1c of less than 7%. Used alone, oral hypoglycemic drugs generally lower HbA1c by less than 2%. A sulfonylurea or metformin is a reasonable first choice, but most people will need a second medication. In general, oral agents achieve 70-80% of their maximum recommended dose. Adding a second drug, therefore, is preferable to increasing dosage in people with persistent hyperglycemia.

Even with drug treatment, Type 2 diabetes is a progressive disease with increasing hyperglycemia. After 3 years, 50% of people need a second medication; after 9 years this rate is 75%. When adding a second drug, one with a different mechanism of action is usually chosen. The most common combination is a sulfonylurea with metformin. Recently a combination of glyburide and metformin that is known as Glucovance has come on the market. As the disease progresses a third medication may need to be added or insulin will be prescribed. Most experts

Appendix XIV

suggest that the addition of insulin not be postponed when poor glycemic control is evident in spite of multiple oral medications.

Generally the cost of the disease increases as the disease progresses along time. The longer the patient has diabetes, the more expensive it is. The medical costs of the patient increase dramatically when secondary failure incurs and the complications developed.

It will be a financial disaster if multiple complications developed with a patient who will have to visit doctor much more frequently, take multiple drugs for all the disorders, hospitalized when necessary, and the patient may lose the ability to work.

Steven B. Leichter is a clinical professor of medicine at Mercer University School of Medicine in Macon, Ga., and managing director of the Columbus Health Foundation in Columbus. In his article titled “On the Cost of Being a Diabetic Patient”, he reported “we surveyed medication use and cost of 128 patients (75 women, 53 men) seen in our program. The average patient took between 4 and 5 medications per day. Of these, 3–4 of the medications were for the treatment of diabetes, hypertension, or hyperlipidemia. The monthly cost of these drugs ranged from \$80 to \$115. These estimates did not include the cost of syringes or home glucose monitoring supplies. These two items increased monthly drug costs by at least \$55. Thus, **the total estimated monthly drug cost for these patients ranged between \$115 and \$170.**”

In addition to the above-mentioned chemical drugs, there are so called “natural supplements” available in the market. Our research has indicated that all these “natural supplements” for diabetes that we can find in the market are trying to duplicate the conventional diabetic treatment approach which is already prove to be ineffective for so long. What these “natural supplements” do is to adding in combination the herbal extractions and minerals that are targeted at lowering blood sugar level only. As discussed above, that elevated blood sugar level is only the symptom of the disease, it is not the cause of the disease; the problem can not be solved by focusing its attention on blood sugar level alone, because the disease is still there. We refer to these natural products as “**conventional natural supplement**”.

Price Comparison of “conventional natural supplements”

Brand	Price (per month)
Glucobetic	\$29.95
Diabeticine	\$37.50
Diatroxal	\$34.26
Yu Xiao San 8805	\$99.99
Yu Xiao San 8804	\$23.00

The price pattern of these “conventional natural supplements” indicates the majority of the products are adopting the market-penetration strategy. The reasons for the low price feature are quite simple that these suppliers are offering products that are similar or identical to each other. There are limited or no differentiation among them and it is very easy to replace one using the other.

Comparison of Yu Xiao San

One of the main ingredients of YU XIAO SAN -- American Ginseng had been abandoned by us long time ago, because our researches and tests found this herb is only effective to one group of diabetic patients and it can bring negative effects to other patients.

So we should be very conservative on a natural diabetic product contains an herb that may bring counter-therapeutic effect. However, because the exact formula of this product is unknown to us so we cannot make an effective comparison on how this product is exactly different from ours in its contents.

Based on the claims they make on this product, we are convinced that this product is developed with the conventional diabetic treatment thinking, which focuses its attention on blood sugar alone rather than doing what TCM is best at, that is to solve the real problem of the disease – imbalance of the body system and at the same time to apply multiple targeting on complications of the disease. In other words, the product is just trying to duplicate what conventional diabetic drugs are doing, which is proved to be unsatisfactory approach in real practice; and it is not going to solve the problem of diabetes and the disease will keep coming back.

On diabetic complications, their product makes no claim on that respect, while our products have a clinical proven remarkable ONE PREPARATION with TWIN LINK EFFECTS – that is ***simultaneous treatment and prevention of diabetes and its complications***. It is proved that the ability of our products in integrally adjusting and balancing the incretory functions is very strong, and the treatment range of our products is comprehensive that it is not only effective for diabetes treatment, but it is also effective for the prevention and treatment of various diabetic complications.

The following is a comparison chart

<u>YU XIAO SAN 8805</u>	<u>BLFR Remedies' Products</u>
<p>Composition: Contains herb that may bring negative effect to some patients.</p>	<p>Composition: The composition of our products is refined by decades of ongoing improvement that any herb that may bring counter-therapeutic effect is eliminated.</p>
<p>Objective: Control Blood Sugar</p>	<p>Objective: Simultaneous Treatment of Diabetes and Complications</p>
<p>Method: Adopt conventional diabetic treatment thinking, which focuses all attention on controlling blood sugar.</p> <ol style="list-style-type: none"> 1. Raise the pancreatic secretion of insulin 2. Inhibit the action of hepatic gluconeogenesis 3. Raise the sensitivity of the peripheral tissue to insulin 4. Retard the degradation of absorbed carbohydrate from the intestine <p>Trying to duplicate what conventional diabetic drugs (Chemical drugs) are doing, which have been proved to be unsuccessful for the medication of diabetes in real practice, the product is not going to solve the problem of diabetes and the best benefits that TCM products can offer are undermined.</p>	<p>Method: Based on TCM Principles,</p> <ol style="list-style-type: none"> 1. Improves and restores the balance of the body's system 2. Recovers the internal function of the body 3. Promotes the body system to perform the work of maintaining self-balance 4. Multiple herbs target different pathological areas, compounding together to produce an all-round effective treatment
<p>Result: By focusing all attention on blood sugar level alone, the problems that cause diabetes cannot be eliminated, the disease will keep coming back; No treatment effect on complications</p>	<p>Result: As stable and normal blood sugar levels naturally occur, the pathological changes can be reversed. Over time, the patient may gradually reduce medication, based on their decreasing need to rely on medication for blood sugar management. Diabetic complications are treated and prevented</p>

Comparison of Other Natural Supplements

Appendix XIV

The three typical “natural supplements” available in the market are Glucobetic, Diabeticine, and Diatroxal.

We can see from the ingredients of the products (attached in the following) that these products are very similar in terms of composition and formulation.

The ingredients are either supplements that the body is short of or herbs and minerals that have the function to bring down blood sugar. The medical thinking behind these products is exactly the same to conventional diabetic treatment, which is to using substances to work on the mechanism of disorder and adding what the body is short of in order to bring down the blood sugar level.

In conventional diabetic treatment the substances used are chemical ingredients and in these natural supplements herbal extracts and minerals replace the substances. These supplements are developed on the wrong tract that they are trying to duplicate the approach that was proven unsuccessful. Under this approach the most serious case of diabetes, exhaustion of insulin secretion of β cell, can still happen. As a result these natural supplements are competing with chemical drugs at the same level and do not offer much value advantages over conventional drugs.

Our products working differently, instead of working on blood sugar directly, we step further by focusing on improving and restoring the balance of the body system, and recovering the internal function of the body according to TCM principles. Our products allow the body system itself to perform the work of maintaining balance, helping the patient’s body absorbs nutrient elements from food and secretes necessary hormones in appropriate amount naturally, so a stable and normal blood sugar level is naturally occurred. In this way, the pathological change is reversed, and the patient can gradually take less and less medicine until one day the patient will not rely on medicine for blood sugar management.

Another big difference between our products and this product is that this blood sugar control product has no treatment effect on diabetic complications, while our products have a remarkable ONE PREPARATION with TWIN LINK EFFECTS – that is *simultaneous treatment and prevention of diabetes and its complications*. Our products are formulated and based upon the TCM principle of COMPOUND PRESCRIPTION that applying compound natural medical herbs aiming for multiple therapeutic targets, which leads to an all-round treatment result. By combining together various herbal substances that work on different areas of the body system including metabolism, and blood circulation and vessels etc, our products are able to promote and restore the body functions and the body balance, so the complications are treated and prevented.

Glucobetic, Diabeticine, and Diatroxal	BLFR Remedies' Products
<p>Composition: Herbs and minerals that are aiming at controlling blood sugar level</p>	<p>Composition: The composition of our products is refined by centuries of ongoing improvement that any herb that may bring counter-therapeutic effect is eliminated.</p>
<p>Objective: Control Blood Sugar</p>	<p>Objective: Simultaneous Treatment of Diabetes and Complications</p>

Appendix XIV

<p>Method: Adopt conventional diabetic treatment thinking, which focuses all attention on controlling blood sugar.</p> <ol style="list-style-type: none"> 1. Raise the pancreatic secretion of insulin 2. Inhibit the action of hepatic gluconeogenesis 3. Raise the sensitivity of the peripheral tissue to insulin 4. Retard the degradation of absorbed carbohydrate from the intestine <p>Trying to duplicate what conventional diabetic drugs (Chemical drugs) are doing, which have been proved to be unsuccessful for the medication of diabetes in real practice, the product is not going to solve the problem of diabetes and the best benefits that TCM products can offer are undermined.</p>	<p>Method: Based on TCM Principles,</p> <ol style="list-style-type: none"> 1. Improves and restores the balance of the body's system 2. Recovers the internal function of the body 3. Promotes the body system to perform the work of maintaining self-balance 4. Multiple herbs target different pathological areas, compounding together to produce an all-round effective treatment
<p>Result: By focusing all attention on blood sugar level alone, the problems that cause diabetes cannot be eliminated, the disease will keep coming back; No treatment effect on complications</p>	<p>Result: As stable and normal blood sugar levels naturally occur, the pathological changes can be reversed. Over time, the patient may gradually reduce medication, based on their decreasing need to rely on medication for blood sugar management. Diabetic complications are treated and prevented</p>

Glucobetic - 90 Capsules

Zinc (Gluconate)	15 mg
Chromium GTF (Polynicotinate)	240 mcg
Vanadyl Sulfate	10 mg
Gymnema Sylvestre Extract	200 mg
Bitter Melon Extract (Momordica Charantia)	200 mg
Fenugreek Extract (Trigonella Foenum-graecum)	100 mg
Bilberry Extract (Vaccinium Myrtillus)	40 mg
Cinnamon Extract (Cinnamomum Verum)	30 mg
Jambolan (Syzygium Cumini)	75 mg
Pterocarpus Marsupium	200 mg
Gulvel (Tinospora Cordifolia)	50 mg

The partial List of Ingredients of Diabeticine

Banaba
 Bitter Melon
 Cinnamon
 Gymnema sylvestre
 Cayenne
 Juniper Berries
 Huckleberry
 Chromium
 Vanadyl Sulfate
 Zinc

Supplement Facts -Diatroxal		
Serving Size: 1 caplet		
Servings Per Container 180		
Vitamin C	10 mg	17%
Biotin USP	100 mcg	33%
Chromium (chelate)	100 mcg	83%
Proprietary G95™ Complex Garcinia cambogia extract (50% HCA)(fruit) , Gymnema sylvestre extract (25%)(leaf), Cinnamon extract 4:1 (cinnamomum zeylanicum)(bark), Bitter Melon Extract (momordica charantia)(fruit), Banaba (1% extract)(lagerstroemia speciosa)(leaf), Fenugreek (trigonella foenum-gracum)(seed), Vanadium (ammino acid chelate)	1585 mg	*
Other Ingredients: dicalcium phosphate, cellulose, croscarmellose sodium, stearic acid, silicon dioxide, magnesium stearate, pharmaceutical glaze.		

Our products are highly differentiated compare to chemical drugs and the other conventional natural supplements, thus we must price our products to reflect the distinctive advantages of our products.

The Dynamic Power of Our Products – Zutrol and Betatrol

Concluding from the above discussion, the current market situation can be summarized as the following:

- 1. Natural product is trendy and Americans are more than willing to try.**
- 2. The conventional chemical drugs for diabetes treatment are very unsatisfactory in terms of performance.**
- 3. The public is crying out loud for better products that will perform in diabetic medication.**
- 4. The currently available natural supplements for diabetes offer only limited advantage over conventional drug, thus is not able to enjoy high price.**
- 5. There is a severe diabetic epidemic in the US and the market size is growing at an accelerating pace.**
- 6. The financial burden of diabetes to individual patients and to the nation as a whole is becoming unbearable.**

There are seven characteristics of our products that make it the perfect fit in the diabetic market.

1. Our products are 100% natural products developed based on the traditional Chinese medical theory that were developed over the period of three thousand years.
2. Our products contain natural herbs only and were developed from herbal formulary that were tested, refined and proven by countless number of actual human consumption over the period of 180 years.
3. Our products have no side effects and are absolutely safe to use for long term.
4. Our products offer distinctive advantages over conventional drugs and the other “natural supplements” that the products are not only treating the disease with good results, it also treat and prevent complications at the same time. The results are clinically proven.
5. Our products can satisfy the public calling of products that perform for diabetic medication.
6. Our products enter the market at the time when there is a growing epidemic in the market.
7. Our products can actually lift the financial burden of individual patient and the society as a whole.

● Financial saving by using our products

In this section we do not take into consideration that how much the society as a whole can save if our products are used. We only consider how much an individual patient can save by using our products.

There are three major financial savings, savings on hospitalization, savings on complication management, and savings on insulin. The chart below is the diabetes hospitalization statistics of Pennsylvania, US.

Hospital Admissions for Diabetes in Pennsylvania US, 2003

Item	Figure
Total Number of Admissions for Diabetes	23,614
Number of Admissions for Uncontrolled Diabetes	2,450
Number of Admissions for Short-Term Complications of Diabetes	6,112
Number of Admissions for Long-Term Complications of Diabetes	14,063
Average Hospital Charge	\$27,156
Total Hospital Charge	\$641,261,784

We can see from the figures in the chart that the major causes of hospitalization are complication related. Our products have the functions of preventing and treating complications with an effective rate of 77.2%. This means that 77.2% of complication related hospital and medication charges could be saved.

Appendix XIV

Average Financial Savings for Diabetes Patient on complications and hospital cost

Effective Rate for Diabetes Complicatio	77.20%		
Diagnosed diabetes, 2002	13,000,000		
Complications Hospitalization, Penn	20,175		
	Total	Average	Annual Savings
Cost for Diabetes-Related Complication	\$24,600,000,000	\$1,892	\$1,461
Hospital charge for complication, Penn	\$547,872,300	\$27,156	\$20,964
		Total	\$22,425

The market for insulin in the United States was growing at more than 10% per year. Between May 2000 and May 2001, it grew at 11% to \$1.4 billion. There were 11.3 million diabetes patients in year 2000; about 28% of them used insulin. According to our testing result, the average percentage of insulin reduced by patients after use our products is 50%. Thus the savings on insulin cost is \$540.4 million, \$171 on average. There are also other savings on insulin pumps as well. As the condition improves, the savings on general diabetes care and preventive on working day loss are also tangible.

- The current cost of being a diabetes and the portion of the price in the personal income

Please refer to the section of The Cost and Expenses of Diabetes and its Complications and the Percentage Chart of Personal Income, Diabetic Cost, and Assumed Price for the discussion of the current cost of being a diabetic.

According to US Bureau of Economic Analysis, the average income received by persons in US in 2004 was \$33041. The following is a Percentage Chart of Personal Income, Diabetic Cost, and Assumed Price.

Percentage Chart of Personal Income, Diabetic Cost, and Assumed Price

Items (2002 figure unless marked)	Annual USD	Monthly USD	% of API
Average Personal Income, 2004	\$33,041.00	\$2,753.42	100.00%
Total Diabetes Costs Per Patient	\$10,154.00	\$846.17	30.73%
Direct Medical Cost Per Patient	\$7,707.00	\$642.25	23.33%
Diabetic Care Per Patient	\$1,784.00	\$148.67	5.40%
Related Complications Per patient	\$1,892.00	\$157.67	5.73%
Excess Prevalence of GMC	\$3,392.00	\$282.67	10.27%
The Average Drug Cost per patient	\$1,710.00	\$142.50	5.18%
Assumed Per Patient Price for our products			
Price 1	\$600.00	\$50.00	1.82%
Price 2	\$900.00	\$75.00	2.72%
Price 3	\$1,200.00	\$100.00	3.63%
Price 4	\$1,620.00	\$135.00	4.90%
Price 5	\$1,800.00	\$150.00	5.45%
Price 6	\$2,400.00	\$200.00	7.26%

It is apparent that diabetes is a very expensive disease to have and patients currently have no choice but to incur those costs associated with the disease even knowing that their health is getting worse with the spending.

Appendix XIV

This is the reason we decide to base our price on the cost of being a diabetes patient and the hospitalization cost saving and complication cost saving a patient can make by using our products.

Conclusion:

Given the above analysis, it is reasonable that we are adopting Market-Skimming Pricing strategy; so we will need to come up with a price that the market will bear. There are 6 assumed prices for our products in the Percentage Chart of Personal Income, Diabetic Cost, and Assumed Price. The assumed price is ranging from low of \$50 and high of \$200. Given the performance conditions of our products and the conventional drugs, and the monthly spending (\$115-\$170) on oral medications for a typical diabetic patient, the prices from 3 to 6 (\$100, \$135, \$150, and \$200) are good candidates for our products.

We use the average spending of \$142.50 on conventional drug as our price indicator, since this is the price a patient expected to pay for their current medications. Although our products offer large savings and advantages to the patient, but it is in a non-immediate way, which means it will take longer time to persuade a patient to consider the products if the price is higher than the average price indicator. Therefore, we are not considering the \$150 and \$200 price tags.

The \$100 price tag is at the lower end of the market-skimming equation, which means that we give up large premium of our products' value that we should be able to enjoy since there is no other similar product in the market.

The price for our products at \$135 falls in the candidate range, which is lower than the average price indicator and it accounts for little less than 5% of US average personal income. It will be a very good price to pay for an effective medication for the most debilitate and expensive disease.

Therefore we set our price at \$135.

(1) "Starting Insulin Treatment in Type 2 Diabetes", Year 2004, Associate Physician, and Dennis Yue, Professor of Medicine, The Diabetes Center, Royal Prince Alfred Hospital and Faculty of Medicine, University of Sydney.

Appendix XV: External Consultant's Research Report on Diabetic Market Report on BLFR's Diabetes Products

1. Introduction

Diabetes is a major international health problem. On this planet 194 million people have diabetes, double the number of 25 years ago and, if current trends do not reverse, in another 25 years the number is expected to double again¹. Although the greater proportion of the increase is likely to occur in developing countries, developed countries are also experiencing a rise in the population percentage of diabetics. The latest report from the US CDC (October, 2005)² indicates that the rate of diabetes in the United States continues to soar. Statistics show that there are currently nearly 21 million Americans with diabetes (7 %) , more than 6 million of which are unaware of their condition. For the age group 20 and older, 1.5 million new cases were diagnosed in 2005 alone and of these people in the 40 – 59 age group led the pack. In addition to actual diabetics, it is estimated that an additional 41 million Americans have “pre-diabetes,” a condition in which insulin is unable to properly control blood sugar but where blood level sugar is not actually elevated. Individuals with this problem have a greater risk of developing diabetes than does the general population.

Between 90% and 95% of diabetics have Type II diabetes, i.e. their diabetes is lifestyle related and not genetic. Diabetes is a serious health risk—it is the third leading cause of death (some reports say sixth)³ in the United States—and while many diabetics learn to adjust their life-style and eating patterns, many are unable to adjust or are unable to adjust sufficiently to control their blood sugar levels and so must rely on medication. Left untreated high blood level sugar can cause serious damage to the body and the most common complication associated with diabetes is neural damage of one form or another. In its initial stages, diabetes is a silent disorder with few subjective symptoms; as it progresses, however, symptoms become more subjectively apparent. In western allopathic medicine (what we recognize as western scientific medicine) the ultimate diagnostic for the disease remains the testing of blood sugar levels.

2. Chinese Herbal Medicine

Chinese medicine has a history that can be traced back more than 5000 years. While its earliest roots lie in shamanism and naturalism, over the millennium, the degree of sophistication with which it is applied in treating disease has continued to increase. Its basic premise in treating disease and disease is to restore the inherent harmony of the various functioning aspects of a given individual and addresses this in a very sophisticated way.

One of the defining characteristics of Chinese herbal medicine is its use of multiple herbs to create formulas that treat specific patterns of disharmony. The synergistic effect of these herbs working together has the beneficial result of enhancing the actions of some of the herbs, while minimizing the toxic effects of others. The theory behind the sophisticated matching of the herbs is complex and is one element of the complete of theory-diagnosis-treatment sequence.

Diabetes is a disease defined by western medicine. The indicators used are blood chemistry indicators that, classically, are of no importance to a doctor of Chinese medicine.

This is because until the advent of western testing methods they would have had no ability to perform the required testing or to use it as part of their diagnosis. Blood chemistry diagnosis

¹ <http://www.discover.com/issues/dec-05/features/diabetes-insulin-resistance/>

² <http://www.cdc.gov/diabetes/pubs/estimates05.htm#prev>

³ diabetes.niddk.nih.gov/dm/pubs/statistics/

Appendix XV

was absorbed by Chinese medicine when western medicine entered China, but, strictly speaking, TCM does not recognize the disease “diabetes” nor does it treat it. This does not mean, however, that Chinese medicine is unable to recognize or address “diabetes” or its associated symptoms, but it merely does so within the context of its own theoretical system.

The closest TCM disease category to diabetes is “wasting thirst”. There are written references to this disease category from as far back as the Tang dynasty when Sun Simiao described how to test for sugar in the urine by pouring it near an ant hill. If ants were attracted to the site, it was an indicator the patient had the disease. Sun was also astute enough to note that it was a disease closely associated with affluence. “Wasting thirst” as a disease has a number of sub-categories each of which would require a different prescription addressing the specific underlying imbalance. The actual details of these categories are less important than the fact that not everyone responds (or the response is sub-optimal) to one formula because the fundamental nature of the imbalance that manifests as “wasting thirst” can be very different in different individuals. When treating patients on a one-to-one basis this individualistic nature of TCM treatment is not a problem, but it can be a problem when trying to develop an herbal formula for a general audience. BLFR itself alludes to this problem in its statistics on the efficacy of the formula. The patient response is “75% successful” and there is “significant improvement” in some of their lab results, though there are few hard statistics to indicate what this actually means. There are, of course, patent Chinese medicines available on the market, many of which are based on formulas hundreds or even thousands of years old. (BLFR itself indicates that the base formula for its two diabetes products is a family formula with 180 years of history.) These formulas are commonly used but may not necessarily be made for a specific western medically recognized disease. These formulas commonly address specific, very common, imbalances that in some patients manifest as one western medically recognized disease while in another manifests as something completely different. Take, for example, the problem of Kidney Yin Deficiency. From a TCM standpoint, this is a very common condition and can be the basic imbalance underlying such diverse western medically recognized diseases as high blood pressure, alopecia (hair loss), insomnia, etc. The problem also exists in reverse. That is to say, one western medically recognized disease may have multiple TCM diagnoses. In the book *The Web that has no Weaver*, Ted Kaptchuk gives the example of 6 patients all diagnosed by a western allopathic doctor as having a stomach ulcer. These 6 are then diagnosed by a TCM doctor as having 6 different disorders all of which require vastly different prescriptions. This makes sense if one understands the ulcer as merely the ultimate expression of more complex underlying disease patterns.

The current trend for TCM herbal formulations to say that they treat a specific western medically recognized disease or that the formula in question can alter bio-medically recognized indicators is one more way TCM is adopting in its efforts to validate itself in the modern world. The fact that it is actually able to do as it claims merely shows that the west has much to learn about traditional ways of doing things.

There are a number of issues that must be considered before an answer to the question of whether a TCM herbal formulation can be mass marketed can be given, including:

1. The application of theory in a clinical setting

Appendix XV

It is important to note that classically TCM did not treat disease per se, but rather the pattern of disharmony that led to the manifesting signs and symptoms. Its approach is of necessity very individualistic and TCM prescriptions work much better when a treatment is tailored to an individual. Patent herbal formulas are commonly used though and the question becomes how common is the underlying disorder pattern?

The closer the formulation addresses the underlying disease pattern, the more effective it will be and the more effective a formula is the greater the chances that a person will continue to purchase it and/or recommend it to others. BLFR's statistic of "75% success" would seem to indicate that their formula targets a very common underlying disorder pattern for diabetes but, as it does not show the actual numbers obtained, it is impossible to tell how close the fit is. Broad statistics such as this gloss over the fact that some people may respond only marginally to the formulation, but because they do respond, they are still considered "successfully" treated. Until the formula is offered for sale in the market, it is impossible to tell if sufficient quantities of patients will respond in a sufficiently obvious way (either subjectively or objectively) that they will continue to take the formulation.

2. Supply and quality of herbs

Traditionally, most herbs in China were wild-crafted (gathered in the wild). The demand for Chinese herbs, however, has created severe shortages of some wild herbs – licorice, for example – and has led to government restrictions on the wild-crafting of certain herbs or the outright prohibition of their collection in the wild. To solve this problem, many people have begun to cultivate these herbs. This has led to other problems, however.

One problem is that cultivated herbs are not, in general, as potent as wild-crafted ones. A more serious problem lies in the fact that China has serious land and water use issues that may (and probably will) affect its ability to mass-produce quality herbs in a sustainable way. The most serious of these problems is the availability of water and the issue of pollution (especially heavy metal contamination and herbicide and pesticide residue.) BLFR Remedies indicates that they have clean land capable of mass-producing the required herbs to the required standard, but while sufficient at the moment, will it continue to be sufficient as demand rises? Their projected market target of 2% of the market would, in the US alone, mean millions of potential consumers. It would take a great deal of biomass to fulfill the requirements of that many consumers and so, if they have to outsource, how will they maintain quality?

3. Western acceptance

Two factors must be considered here: the patient and the allopathic doctor.

According to a 1998 study published in the *Journal of the American Medical Association*, more than 42 percent of Americans used an alternative therapy in 1997. Americans spent more than \$27 billion on these therapies that year, exceeding out-of-pocket spending for all U.S. hospitalizations. Of the \$27 billion, \$5 billion was spent on herbal products.

People often gravitate toward alternative medicine because they feel that it is more "natural" and has fewer side effects or because it helps to address problems that western allopathic medicine is unable to.

This interest is accelerating as more people, including doctors, become more aware of the limitations of western medicine and become more willing to admit to the efficacy of traditional treatments. There is definite interest in herbal supplements or even alternatives to conventional drug therapy but currently in the west, most people self-medicate with single herbs. Multi-herb or multi-herb and vitamin combinations are available on the market but in the US the top 12 single herb preparations still account for 95% of all sales.

Also, the top ten disorders for which alternative medicine is used do not include diabetes. This means that there is great potential for development in this market, but also that educating the consumer in multi-herb formulations for use in treating diabetes will require significant effort and expense.

Interestingly enough, despite the dramatic increase in the public's use of alternative therapies, less than 40 percent of those therapies used were disclosed to physicians (JAMA 280: 1569-1575, 1998). The attitudes reflected by this figure has begun to change as allopathic doctors grow more accepting of alternative treatments, some to the point that they themselves have begun to recommend alternative therapies, including herbs and herbal formulations. There are still some holdouts to a more conservative time, however, so getting physicians on board will present a certain challenge. It is important to do so because diabetics on western medication will need to work closely with their doctors to maintain normal levels of blood sugar. Patients taking other medication will also need to be monitored for possible drug interactions.

3. BLFR's formulations Zutroltm and Betatroltm

The specific formula listed in the BLFR business plan is a unique formulation in ways. First of all, there is no other formulation exactly like it on the market. All of the herbs listed are commonly used in TCM herbal therapies and there is nothing particularly striking about the herbs listed as the main ingredients for the underlying formula⁴ as they comply with TCM's understanding of how to correct some of the common imbalances seen in diabetes. However, because there are thousands of herbs to choose from and combinations of herbs have a synergistic effect, the chance of anyone else having the same formula is almost non-existent. It should be noted that within the field of TCM, the actual components of a patent formulation and their proportions are treated more as trade secrets (often being passed down within a family like an inheritance as was the case here) and it is unlikely that the formula could be copyright or patent protected.

BLFR's diabetes formulations conform to TCM theory and act to balance the inner bio-energies of the individual (the so-called Qi). Traditional theories were not concerned with biomedical test numbers and focused on restoring balance and from their health. This means that they addressed all aspects of the disorder and symptoms that manifested. In modern times, for various cultural and political reasons, many Chinese patent medicines are being formulated to mimic the effects of western pharmaceutical drugs or to be used as a supplement to western medicines rather than formulated to be a cure.

⁴ The 10 herbs listed cannot be the only herbs in the formulation nor can the two formulations be exactly the same even though the total percentages of the herbs listed in the report add up to 100%. It is much more likely that the formulation listed is a base formula with other herbs added (different herbs for each of the above formulations).

BLFR's claim to offer a solution to the problem of diabetes and that its formulas also proactively address the complications of diabetes is true to the spirit of classical Chinese medicine and, certainly, within the context of products currently available in the western market, quite unique.

Any time one uses a natural product there is always a danger of an allergic reaction or, if one is taking western medications at the same time, a drug interaction. Of the drugs listed in the formula, most cause no known allergic reactions or drug interactions (probably because few westerners have come in contact with these herbs), with the exception of Radix Ginseng (ginseng) – the most commonly taken herb – and Fructus Hordei Germinatus (wheat sprouts). Ginseng is known to have drug interactions with warfarin (a commonly prescribed anti-coagulant) as well as a number of other drugs, and many people have wheat allergies or have a condition that is aggravated by products that contain gluten (like wheat). It is possible that these negative effects will be ameliorated because of the complexity of the formula, but any western doctor or patient in the know would look on these as a reason to not take the formula.

Another issue that must be addressed is the issue of cell cracking. It is known in China to use this technology with herbs or materia medica that are taken whole and where the cell wall may prevent optimal absorption of the active ingredient(s). Many plant cell walls are indigestible or only minimally digestible by humans and so this technology is often used for such products as the spores of Ganoderma Lucidium (known in the west for its cancer treating properties) making the active ingredients more biologically available. All of the herbs used in the formula are common and would seem to be readily bio-available, though it is likely this cell-breaking technology somehow potentiates (WC?) the bio-availability. If this is the case, this technology would be better for herbal formulations that the practice of extracting the so-called active ingredient(s) of herbs and then mixing them together as though they were the original herbs. Nobody knows all of the possible chemical reactions that occur in a formula or when that formula is ingested by the body. The concept of active ingredient is science's contribution to understanding the gross effects of a single herb on the body. Because TCM herbal formulations are so complex, it is impossible to say that some of the so-called non-active ingredients do not also play a role or interact in significant ways with the chemical components of some of the other herbs. By potentiating (WC?) the bio-availability of the herbs it would be possible to reduce the amount of herb material required while at the same time maintaining or even increasing the effectiveness of the formula. It is not immediately apparent, however, that this is in fact the modern technique they are using for these formulas. Mention of this technique in the business plan leaves the impression that this is what they are doing, but I did not see any sentence specifically stating that this was specifically what they were doing.

4. Market Situation

As mentioned in the introduction, the latest statistics indicate that 21 million people in the US alone have been diagnosed with diabetes and that 41 million more have pre-diabetes. The average yearly medical expenditure for a diabetic in the US is \$13,243, paying just over 5 times more in health costs than a non-diabetic. There are no specific statistics on how many diabetics are currently using or have tried herbal supplements. Those that have tried have most likely tried single herb formulations, especially ginseng, and, based on the limited numbers of multi-herb formulations available on the market, this is a market waiting to be developed.

In this study, I looked at multi-herb formulas divided into two types: Western formulations and Chinese medicine formulations.

Appendix XV

Of the formulas examined, the western formulations seem to have been formulated to act similarly to pharmaceutical drugs, i.e. to help the patient control blood sugar levels and the basic herbal formulations for the three listed in this report are almost identical. The Chinese patent formulations surveyed for this report are, for the most part, sold over the Internet and are products also sold on the Chinese market. Though these Chinese products are OTC, if a doctor in China prescribes them, it is usually as part of an overall treatment plan that includes western pharmaceutical medicine and not as a stand-alone treatment. The ratio of use of western pharmaceutical medicine/Chinese patent medicine/health supplements in China is 3:1:2⁵.

I was able to find less than 20 multi-herb formulations on the market, though this was not an exhaustive study. From the Google results, it would seem that presently in North America Diatroxal and Diabeticine hold the leading positions in the market, or at the very least have made the most marketing impact. Herbal formulations from the Chinese tradition can also be bought online for prices greatly inflated from the domestic price (for most formulations, anywhere from 5 to 10 times the price). I was unable to find statistics on the sales figures for any of these products.

With regard to the Chinese products there is another problem that has begun to catch the eyes of both the consumers and the authorities – the problem of adding western medicine to TCM formulations. While only a few formulas have this problem, it is illegal in the west and the practice has the potential to sour consumers on all Chinese formulations, tarring them all with the same brush.

The market is vast and, as the number of diabetics continues to soar, expanding. If one were to capture even 1% of this market, in the US alone it would translate into 2.1 million potential customers; if pre-diabetics were added to the equation, the number would swell to 6.2 million.

5. Pricing

The cost of one month of North American created formula is less than \$50, for the Chinese formulas the average cost is \$115, more than double (see appendix 1 for details). There are already 2 domestic products on the market that have established consumers. Diabetics tend to be loyal consumers of the products they are taking and it is unlikely a new product would be able to draw them away from the product they are already using unless it offered much more than the product they were already taking. The target market for this product therefore would be individuals who have never tried herbal products or who are dissatisfied with their present course of treatment (whether western medicine or herbal).

In the e-magazine *Clinical Diabetes*, the average cost per month of being a diabetic in the US is just over \$US140 (this figure includes prescribed diabetes medicine, syringes and testing supplies and does not include doctor's visits, or medicine or surgery for complications)⁶. Because this product offers the hope of permanently solving the problem of insulin resistance, a higher price than that asked for formulations that merely offer control of blood sugar levels is reasonable.

⁵ <http://www.tnb123.com/doc/news/46/2005-07/20050725021409.html> (note that this is a Chinese language website)

⁶ Diabetics have a total estimated monthly drug cost ranging between \$115 and \$170. See <http://journal.diabetes.org/clinicaldiabetes/v18n12000/Pg42.htm>

Appendix XV

Another factor to consider is that even in China, herbal formulations for diabetes are more expensive than western drugs⁷, though there is no indication of exactly how much more expensive.

According to The Agency for Healthcare Research and Quality, in 2001, the average expenditure per person reporting purchasing a prescribed medicine to treat diabetes was more than \$800⁸ or \$US67/month. Based on these figures and assuming a retail price of \$100/month (approximately equal to \$US67/month x 150%) and a market capture of 1%, this would equal 6.2 million customers x \$100/month or \$620 million dollars/month. A 1% market capture is unrealistic in the initial stages, but even a 0.1% market capture would bring in earnings of \$62.0 million/month.

This is only one of many potential ways of calculating the final pricing of the products, but two things must not be forgotten. If the product works as claimed, and solves the problem of elevated and unstable blood sugar levels more or less permanently, it will be unique on the western market. A second consideration is that a large percentage of diabetics are lower class and may not be able to afford pricey medication not covered under health care. If the price is too high, a large section of the market will be cut off from consideration.

Conclusion

There is potential for enormous profit in selling herbal products for diabetics and pre-diabetics. The key to the market will be the right timing with the right product and an appropriate marketing strategy. Market, however, is not the issue at hand here -- most important is whether the BLFR's products are good products to bring to market and will they sell. According to the information provided by BLFR Remedies, this is a reasonable product with good potential. Trying to create an herbal formulation that helps all diabetics and pre-diabetics is impossible and a figure of "75% success" for a TCM preparation is honest and one that may justify mass marketing. The modern technology used in the preparation of the formula may act to potentiate the bio-availability of the formula increasing its efficacy over comparable herbal formulations. As long as the formula is kept clean of pollutants (heavy metals, herbicides and pesticides) and is free of western medicine, it shouldn't be too hard to sell a western audience on the benefits of this formula, especially considering the accelerating trend to use alternative medicine. How successful it actually is depends on just how well the formula nails the underlying imbalances of the majority of patients and how well it works to normalize their blood chemistries. This will only be known when the product is actually used by the target market.

⁷ <http://www.eastrust.com/chinese/media/articles/zhongguotangniaobingyong.htm> (note this is a Chinese language website)

⁸ "Outpatient Prescription Medicines: A Comparison of Expenditures by Household-Reported Condition, 1987 and 2001" by Marie Stagnitti, MPA and Mamatha Pancholi, MS <http://www.meps.ahrq.gov/papers/st43/stat43.htm>

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Appendix 1: Pricing for Herbal Diabetes Remedies

Diatroxal each bottle contains enough caplets for one month

One Bottle of 180 Caplets		RETAIL	PRICE
		\$59.95	
Three Bottles of 180 Caplets		PACKAGE	PRICE
\$179.85 (You save \$60.00)	\$39.97/bottle/month	\$119.90	
Five Bottles of 180 Caplets		PACKAGE	PRICE
\$299.75 (You save \$120.00)	\$35.97/bottle/month	\$179.85	
Seven Bottles of 180 Caplets		PACKAGE	PRICE
\$419.65 (You save \$180.00)	\$34.26/bottle/month	\$239.80	

<http://www.diabetes-help.com/adwgg/092704.asp>

Diabeticine each bottle contains enough caplets for one month

Single bottle \$74.95

Three bottles \$149.95 (\$49.98/bottle)

Five bottles \$224.95 (\$44.99/bottle)

10 bottles \$374.95(\$37.50/bottle)

http://www.techmedica.com/diabeticine.html?utm_source=Google&utm_medium=PPC&utm_campaign=Diabeticine&utm_term=diabetes%20herbal

Ginseng Astragalus Sugar-Lowering Capsule (One package is enough for 2.6 days. One month would require 22.5 packages and cost approximately \$216)

Sugar Urine Pleasure Capsule (One package is enough for 1.6 days if taken at the higher dose. One month would require 18 packages and would cost \$200)

Diabetes Disappearing Efficacious Capsule (Each package has enough for 4 days. One month would require 7.5 packages and cost \$88.92)

Appendix XV

Sugar-Reducing Efficacious Capsule (One package has enough for 4 days at the higher dosage. One month would require 7.5 packages and cost under \$81.32)

Sugar-Reducing Capsule (One package has enough for 1.5 days at the higher dosage. One month requires 22.5 packages and would cost \$183.60)

Fat-Reducing Effective Tablet (One package has enough for just over 5 days. One month would require 5.6 packages and cost about \$60.31)

Fat-Lowering Toxin-Expelling Capsule (One package has enough for 15 days at the lower dose and 10 for the higher. One month would require 2 packages at the lower dose and 3 at the higher. It would cost \$43.20 or 64.80)

Sugar Vessel Comfort Granule (One package has enough for just over 3 days. One month would require 9 boxes and cost \$81.44)

<http://www.tcm-treatment.com/images/herb-supply/product-price/product-06-f01.htm>

Diabetes herbal extract "CaoSu" (\$63/bottle/month)

Average cost of the Chinese formulations is \$115/month.

Appendix XVI: Comments on External Consultant's report from the management of Bio Life

In the external report, several issues regarding the rationale of commercialization of our products were raised; we have provided our clarification regarding the issues in the following.

First of all, it is extremely important to clarify that in order to successfully commercialize our TCM herbal formularies in the modern world; we must test the TCM herbal formularies in accordance of conventional medicine (Western Medicine) standards. This is the most efficient way the mainstream consumers or the general public can really appreciate the products since the health of Western society is based on conventional medicine. This is also the main reason that BLFR's experts used the blood chemistry indicators to test the effectiveness of the products. The herbal medicinal formula BLFR adopted for diabetes is developed based on TCM theoretical framework and the results of 180 years of **actual human application**; the blood chemistry indicators are merely tools BLFR used in the researching and testing activities to understand how effective our products are in the context of conventional medicine framework. It is absolutely impractical and will definitely fail if we totally disregard the conventional medicine standards and we do not adapt our commercialization efforts to the environment.

Secondly it is meaningless to argue whether TCM can treat a disease defined by Western medicine, since it is depend on three things: the first, capability of the TCM developer to identify the underlying pattern/s, which is/are common throughout the course of the disease; the second, capability of the developer to define the formulation of herbs to target the pattern; and the third, which is the most important one, how well the responding result is when the developed formulation or the product was tested in accordance of Western medicine standards. The successful rate of 77.2% for Betatrol and 84% for Zutrol are indications that our products have targeted the very common underlying patterns of the disease and it treats the disease with satisfactory result in terms of Western medicine standards.

Will the products appeal to a broad audience?

To determine whether the patients will respond satisfactorily that they will continue to purchase the products, it is necessary to note the fact that the formularies our products were based on was developed and refined over the period of 180 years based on actual human applications, and this is statistically significant. In addition, BLFR has conducted research, analysis and tests on the formulary within contemporary TCM and scientific context over the past decade. Numerous lab results and clinical tests of the past decade have corresponded to the common underlying pattern identified and to the TCM theoretical understanding. These results indicated the majority of patients who received this formulation did respond well on a continuous basis without any side-effect. Moreover, the current chemical medications for the disease do not perform well, and ultimately all chemical drugs show secondary failure that the patient have to using external insulin and/or drug therapy (several drugs in combination). All chemical drugs and insulin are severely side-effect related. As such it is reasonable to conclude that when our products are mass-marketed, it will appeal to a broad audience.

The supply and quality of herbs

Two questions were raised regarding the issue of herb supply and quality. The first question is whether the biomass is large enough to satisfy the herb demand. And the second question is how the quality of herbs can be maintained.

Obviously, it is economically unsound and makes no sense to rely on wild-crafting of herbs for commercialization. The argument of whether cultivated herbs are as potent as wild-crafted one is not relevant in our case. The reason is that we are not selling raw herbs but we are processing herbs in certain ways to have the extracted components in formulation according to our standards; and we adopt TCM fingerprint technology to determine the quality level of herbs and it will be satisfactory for our product as long as the herbs and the extracted components are up to our standards.

The external report mentioned the land and water use issues that China faced. These issues are mostly concerning the East coastal and some major cities in the central China where over population causes severe problems. One of the strategies that Chinese government adopted to address the issues is to promote the grand development of the west regions, so to attract investment and people to the west regions, where traditionally it is less populated and undeveloped area, and massive untouched land and water are available to develop green industry (economical plantation including herbs). The BLFR's herbal base locates closely to Chongqing, which is in the west region of China where traditionally is a herb wild-crafting region; The unique geographic characteristic of the region is of great advantage for herb cultivation and with a land mass about 4000 hectares, the herbal base is more than enough even if our production output is ten times more than what we projected.

If we look at the overall biomass situation for herb cultivation in China, we will have a better understanding that how our increasing herbal needs can be satisfied. China's herb cultivation industry is growing in a rapid pace over the last decade. Many local governments, especially for less developing areas, had taken herbal industry as either the backbone for the local economy or the new economic developing spot; this has contributed greatly to the development for herb cultivation in China. By the end of 2004, there were 448 GAP (Good Agricultural Practice, meaning standardized herbal material plantation with quality soil and without the use of chemical or pesticide of any kind) certified herbal bases established in 24 provinces; the standardized herbal plantation areas in 18 provinces were 949,590 hectares, and 492 different kinds of herbs were cultivated. This plantation area does not include non-GAP plantation. In the recent years, the herb price trend was decreasing as the supply of raw herbs increased. With this overall biomass size, our increasing raw material demand can easily be satisfied.

One of BLFR's primary operations is to maintain the quality of herbs. It is critical that BLFR has quality-assuring measurements within the system to ensure that our raw materials and the final products are up to the quality standards. The best way to ensure the quality of herbs is to work at the very beginning of the process – plantation. This requires BLFR to have its own GAP herbal base or to purchase from GAP herbal farms. One of the primary purposes for the establishment of Chongqing herbal base is to ensure the stable supply of quality herbs for BLFR. However, if we have to purchase some herbs from other suppliers, even if the quantity is minimal, we will make sure that we only purchase from GAP certified herbal producers. Although the herb source is standardized in GAP compliance environment and the quality of herbs is stabilized, we will not take any chances. We adopt various methods in different processing stages from the importation of raw herbs to the final process of product to maintain the quality. These methods include organoleptic, microscopic, physical, chemical, and biological.

Appendix XVI

The most important method we adopt is the biological technology of fingerprint analysis (HPLC, HPCE, and TLC) of Chinese herbs; and we have established fingerprint control standard for the raw material and the products. By using these methods, we are able to maintain the best quality throughout the production process and offer the best products to the consumers.

The Western acceptance and the market issue

Currently in the Western developed countries, especially in the US, there is an increasing trend for alternative medicine, and the limitation of western medicine has become a daily talking subject among people. It is the perfect timing to put our products into the market:

. Diabetic epidemic

The annual growth rate of diabetic population is 7%, and 1.5 million new cases of diabetes were diagnosed in people aged 20 years or older in 2005.

. Inability of conventional drugs

All anti-diabetes drugs show secondary failure and have side effects.

. Financial burdens of health-care system

The direct medical cost of diabetes amount to \$92 billion in 2002

. Outcry for better product

Patient, diabetes community, and health-care providers are longing for products that work.

However, there are certain barriers that BLFR must overcome in order to secure a market position. The barriers include:

1. The awareness of TCM anti-diabetes approach is low and often confusing.
2. There are skepticism among medical professionals and media regarding the efficacy of TCM products.

To overcome these barriers, it is extremely critical for BLFR to conduct the marketing program in a meaningful way to the consumers and the key opinion leaders – medical professionals. We have to be aware that TCM is a theoretical system completely different from the western medicine, thus it is unpractical and unwise to educate the patients, the medical professionals and the general public about the TCM theory and to pose TCM as a replacement to conventional medicine. The best way to conduct the education about TCM products is by the result – the efficacy of the products. If the efficacy of a TCM product can clearly be illustrated in the context of western medicine standards, then the message is clear and meaningful to the broad audience. Therefore our marketing strategies should include tactics focus on the consumers, the medical professionals, the product's efficacy, and the company image as a leader in the relevant field.

The following is the key tactics of marketing strategy

. Brand Building

Leading TCM innovator

Strategic alliance with creditable TCM Researchers

Partnership with leading research organization and scientists

Sponsor of major diabetic events conducted by reputable organizations

Education on TCM diabetes management

. Efficacy Demonstration

Free trial and monitoring program

Secure opinion leader endorsement – Medical professionals and writers

Real life patient testimonies

Educational program – forums, trade shows, advisory panels, lectures

. Direct-to-Customer Message Campaign

Media infiltration – News papers, scientific magazines, Radio and TV, and journals

DTC advertising campaign

On-line information center

It is important in the marketing efforts to distinguish BLFR from all other suppliers in the market that BLFR is the leading TCM innovator offers natural solutions that are not allopathic but a natural tool to help the body system to regain its balance and achieve health. It is also sensible to promote the fact that the products are 100% natural and free of any western medicine and chemical agent.