BACKGROUND OF DEVELOPMENT OF PHARMACEUTICAL INDUSTRY

Medical science and technology

The Directors believe that advancements in medical science and technology in the fields of clinical diagnostic techniques and therapeutic and preventive medicine have significantly improved the standard of health care in modern society. Growth in medical knowledge has facilitated early diagnosis of diseases and development of new medicine with increased medical efficiency and reduced side-effects. Advances in medical science have spurred new frontiers in modern medicine such as biotechnology and the modernisation and scientific applications of traditional remedies.

The science of biotechnology involves the development of biological organisms or their components for commercial or industrial purposes. Related to this development are studies of molecular biology and the developments in genetic engineering and recombinant DNA. The Directors believe that biotechnology has already made a significant contribution to the field of medicine. Human insulin, interferons, human growth hormone and antibiotics are examples of products created through genetic engineering.

Another field that has been gaining momentum is the modernisation and scientific applications of traditional remedies. The use of traditional remedies, such as TCM, has been practised for thousands of years in the PRC. During the previous decade, the use of traditional remedies such as herbal medicine, acupuncture and other modalities through the applications of modern technologies have been increasingly supported and accepted by the scientific community as well as the public. Researches conducted in developed countries have provided scientific support for the use of traditional remedies in modern medical science. Furthermore, the application of modern medical scientific technologies have also improved the medical efficiency of various traditional remedies.

The advancement of modern technology has brought about enormous changes in the chemical medicine sector. For example, combinatorial chemistry, a new technology used by most pharmaceutical companies and research laboratories, has shortened the time in locating integrated chemical mixtures and leading chemical mixtures. With the advancement in computers, industrial automation equipment and new environmental protection devices and the application of new equipment, traditional remedy will have to satisfy not only the requirement of medical efficacy, but also the demands for low wastage and environmental protection.

Global pharmaceutical industry

According to the forecast of IMS, the total value of the global pharmaceutical market is expected to reach approximately US$405.9 billion in 2002 and the average annual rate of growth between the period of 1998 to 2002 is expected to be approximately 8 per cent.

According to the report of IMS, the largest growth of the global pharmaceutical market, for the period up to 2002, is expected to be in North America, Middle East, Australia and South East Asia including the PRC. The following table illustrates the expected market size of the global pharmaceutical industry up to 2002 and the average growth rate between the period of 1998 to 2002:—

Region	**Expected market size in 2002** *(US billion)*	**Average growth rate** *(%)*
North America	169.5	9.8
Europe	100.8	5.8
Japan	45.8	4.9
Central and South America	30.5	8.4
South East Asia, the PRC	20.1	11.0
Eastern Europe	10.6	8.6
Middle East	7.4	10.6
Africa	7.3	3.3
Indian Sub-continent	5.3	8.6
Australia	5.4	9.8
Commonwealth of Independent States	3.2	6.7
Total	405.9	7.8

Source:—

IMS Health Report

Pharmaceutical industry in the PRC

In 1999, there were approximately 6,300 pharmaceutical producers in the PRC producing more than 1,400 chemical raw material medicines, 4,000 preparations and 8,000 TCM and modernised Chinese medicines. The total production value of the pharmaceutical industry increased from approximately RMB6.4 billion in 1978 to approximately RMB82 billion in 1993 with an annual average rate of growth of 19 per cent. The total production value of the PRC pharmaceutical industry in 1999 increased by 14 per cent. as compared with 1998 to approximately RMB194.6 billion.

In 1999, the aggregate industrial sales of medicine in the PRC was approximately RMB143.8 billion. According to the latest statistics of the MPH, the medicine consumption in the PRC in 1999 was approximately RMB100 billion and the average medicine consumption per capita was approximately RMB80. The medicine consumption per capita in the PRC of approximately US$10 is less than the per capita consumption between approximately US$40 and approximately US$160 in certain developed countries.

The development of the PRC biochemical pharmaceutical industry began in early 1950s. In 1998, there were approximately 300 biopharmaceutical producers which produced pharmaceutical products, such as insulin, liquaemin, kallikrein, hyaluronan, and biopharmaceutical products approved

by the PRC government, such as hydrolyzate of brain protein injections, low molecular hepain and interferons, etc. The production value of the biopharmaceutical products increased from approximately RMB120 million in 1978 to approximately RMB5.9 billion in 1998.

The Directors believe that biotechnological pharmaceuticals is an important new area of research and development in the pharmaceuticals sector. The Directors also believe the biotech pharmaceutical industry will become an important new segment of the pharmaceutical industry in the future and occupy a more crucial position in the pharmaceutical field.

TCM has long been the traditional medicine in the PRC. But modernised Chinese medicine has undergone tremendous development in recent decades. As a result of the advancement in science technology, the Directors consider that research and development of modernised Chinese medicine and natural medicine will focus on the development of new compound medicines with high medical efficacy.

REGULATIONS GOVERNING THE PHARMACEUTICAL INDUSTRY IN THE PRC

SDA

The SDA was established in 19 August, 1998 under the State Council to assume the responsibilities of MPH, SATCM and the former State Pharmaceutical Administrations for the administrative and technical supervision of research, production, circulation, application and the technology of the PRC pharmaceutical industry.

Permits and business licenses required by pharmaceutical production and trading enterprises

Before any pharmaceutical production enterprises can proceed to manufacture and distribute products, they must obtain the following permits and business license from the relevant pharmaceutical regulatory authorities:—

(i) Pharmaceutical production permit: the Pharmaceutical Production Enterprise Permit (藥品生產企業許可證), which is issued to pharmaceutical production enterprises by the relevant Drug Administration of the province, autonomous region or municipality where the enterprise locates;

(ii) Pharmaceutical trading permit: the Pharmaceutical Trading Enterprise Permit (藥品經營企業許可證), which is issued to trading pharmaceutical enterprises by the relevant Drug Administration of the province, autonomous region or municipality where the enterprise locates; and

(iii) After the pharmaceutical production or trading enterprise has successfully obtained all the necessary permits mentioned in the above (i) or (ii), the relevant Industry and Commerce Bureau shall issue the business licence.

All permits issued to any pharmaceutical production and trading enterprise are for an initial term of five years. Any pharmaceutical production and trading enterprise shall apply for the renewal of the above permits not later than six months prior to the date of expiration. Such renewal is subject to the examination, assessment and approval of the issuing department pursuant to the relevant law and regulatory regulations for the time being.

Production of new medicine

In accordance with the "Measures on the Approval of New Medicines" (新藥審批辦法) promulgated by the SDA, which became effective on 1 May, 1999, the SDA has the authority to grant the approvals by issuing a Certificate of New Medicine for the clinical research, manufacture and sale of new medicines. Application and approval of any new medicine may be divided into two main phases: clinical research and commercial production and sales. Applications for new medicines must be submitted to the provincial pharmaceutical supervisory authority for preliminary review. All relevant information and samples in respect of any application for clinical research and commercial production and sales must be submitted together with a completed application form to the relevant pharmaceutical supervisory authority for preliminary approval and to the SDA for final approval. The enterprise or workshop can only commence production upon receiving the production approval document granted from SDA after obtaining the Pharmaceutical Production Enterprise Permit and satisfying the GMP standard as stipulated by the SDA.

According to the "Measures on the Approval of New Medicines", new medicines are divided into chemical medicine/biopharmaceuticals and Chinese medicine, which are further subdivided into five categories.

The following table illustrates the five categories of chemical medicine/biopharmaceuticals and Chinese medicine and their respective protection periods:—

	Chemical medicine/Biopharmaceuticals	Chinese medicine	Protection periods
Category 1	1. Raw material medicines produced through synthesis methods and its preparations through semi-synthesis methods. 2. Active single element extracted from natural materials and its preparations extracted from fermentation. 3. Chemical mixtures with overseas medical research reports but yet to obtain market approval from any country's pharmaceutical regulatory authority.	1. Synthetic materials from Chinese medicinal raw materials. 2. Newly discovered Chinese medicinal raw materials and their preparations. 3. The active ingredients and their preparations derived from Chinese medicinal raw materials. 4. The active ingredients derived from a complex prescription.	12 years

	Chemical medicine/Biopharmaceuticals	Chinese medicine	Protection periods
Category 2	1. Medicines with production and marketing approvals overseas but yet to be admitted into medical formulary or imported into China 2. Optical matters and preparations of a known medicine produced by separation or synthesis methods. 3. Orally or externally administrated medicines, not marketed overseas, which are converted into injections, or medicines altered from partial to overall administration (eg. oral, inhalation preparations).	1. Injections manufactured from Chinese medicinal raw materials. 2. New medicinal applications and their preparations from anatomical components of existing Chinese medicinal raw materials. 3. The active components and its preparations derived from existing Chinese medicinal raw materials and their derivatives. 4. Medicinal products extracted from animals, and its preparations, obtained from artificial means. 5. The active components cluster derived from complex prescription.	8 years
Category 3	1. Complex preparations from new combinations of chemical medicines. 2. Complex preparations from new combinations of chemical medicines and Chinese medicines with chemical medicines as the main applicator. 3. Raw material medicines and their preparations derived from a number of marketed medicine components made into lesser number of components. 4. Chemical medicines extracted from new components of animals or their tissues and organs.	1. New preparations from complex prescription. 2. Semi-finished components from Chinese medicine and synthetic drugs based on theory of Chinese Medicine prepared from a complex prescription. 3. Common imported medicinal raw materials and their preparations introduced from overseas.	8 years

	Chemical medicine/Biopharmaceuticals	Chinese medicine	Protection periods
Category 4	1. Raw material medicines and its preparations admitted into overseas medical formulary. 2. Raw material medicines and/or its preparations imported into China (preparations produced from imported raw material medicines, including raw material medicines and its preparations researched and produced domestically). 3. Optical matters and its preparations of an overseas known and marketed medicine produced by separation or synthesis methods. 4. Raw material medicines and its preparations produced from changes in the acid or alkaline base (or metallic element) of known salt-based medicines. Such change does not affect its pharmacology and affects only its physical properties (such as solvency, stability etc.) for storage, production or clinical needs. 5. Complex preparations and derivative components marketed overseas. 6. Preparations produced from imported raw material medicines. 7. Medicine from derivative components. 8. Medicines with changes in the form of administration (excluding new medicine under 3 of category 2).	1. Altered preparations and preparations with altered form of intake. 2. Transplanted from overseas or domesticated animal and herbal medicine.	6 years
Category 5	1. Those with extended administration cycles and/or increased dosages. 2. Those without any changes or reduction in administration cycles and/or increased dosages. 3. Those approved overseas for use by patients.	Newly-discovered medical applications of existing drugs.	6 years

Protected products

In accordance with the "Regulations on the Protection and Technology Transfer of New Medicines " promulgated on 22 April, 1999 by the SDA, any new medicine, after being granted a Certificate of New Medicine by SDA, is entitled to a protection period ranging from six to 12 years, depending on the product category as stipulated above. The protection periods (including the trial production period) of various new medicines range from 12 years for category 1 new medicines; eight years for category 2 and 3 new medicines; and six years for category 4 and 5 new medicines. In the event that the commercial protection of such a new pharmaceutical product was not commenced within two years after the Certificate of New Medicine being granted without any reasonable reasons, the protection of the new pharmaceutical product shall be withdrawn.

The "Regulations on the Protection of Chinese Medicine" (中藥品種保護條例), which have been implemented from 1 January, 1993, seek to protect the interests of enterprises producing modernised Chinese medicine and assist the development of the Chinese medicine sector. Upon the expiry of the protection period of new medicine provided under the "Measures on the Approval of New Medicines", the enterprise may apply for renewal of the protection period under the regulations. Based on the types of raw materials and the therapeutic functions of the medicines, the medicines that are categorised into national criterion of Chinese medicine, are classified as Class 1 or Class 2 State-protected products. Class 1 State-protected products enjoy an initial protection period ranging from ten to thirty years. Class 2 State-protected products enjoy an initial protection period of 7 years. The enterprise may apply for renewal upon the expiry of the initial protection period in accordance with the measures. Application for the extension of the protection period of Class 1 and Class 2 State-protected products shall be granted for a period not exceeding its initial protection period.

If the patent application of a medicine in the PRC is approved, it will enjoy a protection for a term of ten to twenty years, depending on the type of patent, from the date of the application. For biopharmaceuticals and chemical medicine, application for commercial name with SDA is also required, and the commercial name can be registered as a trademark to provide trademark protection for the medicine.

Trademarks of pharmaceutical products

Apart from Chinese herbal medicines and Chinese beverage medicines, all pharmaceutical products for domestic sales in the PRC must have a trademark registered with a trademark registration authority in the PRC. The Group has a total of 53 trademarks for all its pharmaceutical products. Particulars on the Group's trademarks are set forth under "Intellectual property" in Appendix V to this prospectus.

Imitation of medicines

Order No. 5 of the SDA effective 1 May, 1999 has stipulated certain approval measures in respect of imitated medicines. Pursuant to Order No. 5, imitated medicines are imitations of those products which have obtained formal government approvals for production and listed on the state medicine standards (including the PRC biological product regulations and procedures). No imitation is allowed in respect of medicines on trial standard and under state administrative protection. Any enterprise applying for imitation must be enterprises or workshops which have obtained "Pharmaceutical Production Enterprise Permit" (藥品生產企業許可證) and "GMP Certificate for

Medicines" (藥品 GMP 證書). The quality standard of imitated medicines must not be inferior to the originals and the usage instruction must be consistent with the originals. The State encourages innovation and technological advances, controls the approvals of imitation of medicine and gives guidance through announcements. In respect of products which have met clinical demands, acceptance and approval of applications will be suspended temporarily. However, applications for imitation from enterprises, which have managed to reduce costs or enhance quality and quantity significantly, will still be accepted after examination by the SDA. The imitated medicines produced by the Group accounted for less than 0.1 per cent. of its total sales during the year ended 31 December, 1999 and the five months ended 31 May, 2000. Pursuant to the "Notice Regarding Strengthening the Administration on Chinese Medicine Registration" issued by SDA on 14 April, 2000, acceptance and approval of imitations applications of Chinese Medicine injections are suspended temporarily.

GOOD MANUFACTURING PRACTICE

The GMP originated from the U.S. and was adopted by the World Health Organisation. Currently, several developed countries such as the U.S., the United Kingdom and Japan have already adopted the GMP systems. GMP imposes strict compliance procedures on pharmaceutical production process, including, inter alia, the design of production facilities; qualification of personnel involved in the production process; plant and machinery, hygiene and raw materials handling; packaging and labelling, production management, documentation of production processes, quality control, sales record, customer comments and complaints records.

Since 1988, the State has began to implement the GMP. In 1992, the MPH formulated the guidelines for implementing the GMP standards. From 1 October, 1995, any pharmaceutical production enterprise (workshop), which satisfies relevant conditions, may apply for GMP certification in accordance with relevant regulations. Pursuant to the "Notice Regarding Relevant Stipulations on Implementing GMP" (關於藥品生產質量管理規範有關規定的通知) issued by SDA in November 1999, producers of certain kinds of pharmaceuticals shall comply with GMP standards by the stipulated time limit. If those producers have not obtained the GMP certification within the stipulated time limit, their Pharmaceutical Production Enterprise Permit will not be renewed. Pursuant to the above-mentioned Notice, powder injection (including frozen and dry), large volume injection and genetic engineering products should comply with GMP standards and pass GMP certification prior to the end of 2000. Small volume injection products should comply with GMP standards and pass GMP certification prior to the end of 2002. However, production of its existing products is allowed if the producer is considered by the relevant Drug Administration to be capable of complying with GMP standards.

On 18 March, 1999, the "Pharmaceutical Products — GMP (1998 revised edition)" (藥品生產質量管理規範(1998修訂版)) was passed by the SDA and became effective on 1 August, 1999. It requires, inter alia, that every producer of medicine must meet the relevant production standards in respect of production facilities, equipment, raw materials, production management and quality control, etc. prior to the award of a GMP certification. As at 10 April, 2000, approximately 210 pharmaceutical production enterprises in the PRC had met the requirements set in the GMP and obtained the GMP certification.

IMPORT AND EXPORT

The PRC government encourages export of pharmaceutical products. The exports of Chinese medicine by PRC enterprises are not subject to any restriction, however, any export of Chinese medicine by a Chinese enterprise shall be subject to all applicable laws and regulations in respect of Chinese medicine imposed by the destination countries or regions.

The SDA is responsible for the registrations of imported medicine. In the PRC, there is a registration system for imported medicine. Overseas producers or sales agents shall apply to and be granted the Certificate of Registration of Imported Medicine by the SDA prior to the import of the medicine into the PRC.

It is expected that the PRC import duties on pharmaceutical products will decrease from 24 per cent. to approximately 6 per cent. within ten years subsequent to the PRC's entry into the WTO.

PRICE CONTROL

The price of pharmaceutical products is subject to the control of the price administrative bureau at state and provincial levels. Domestic manufactured pharmaceutical products are subject to a price control list containing the names and fixed prices of medicines announced by the State from time to time. Furthermore, provincial price administrative bureaus shall also announce a price list applicable to medicines sold in its area. Any pharmaceutical product whose price is allowed to float freely by the relevant State authority shall not be subject to the price control regulations. In accordance with the existing price control policy, domestic producers shall enjoy the maximum sales profit rate of 8 per cent. to 40 per cent. in setting the ex-factory price of their products, depending upon factors such as the type of the products, the costs of production and the extent to which the producers comply with the GMP etc.

The fixed price on the price control list will be adjusted correspondingly in line with the revision made by the price administrative bureau from time to time. In order to enable the relevant authorities to adjust prices in accordance with market conditions, domestic pharmaceutical producers shall submit information regarding production costs, such as costs of raw materials to the relevant authorities on a regular basis. Any pharmaceutical producer who has found material changes in the cost structure or the demand for specific products shall submit a request to the price administrative bureau for adjustment of the fixed price. The price administrative bureau may approve such adjustment.

STATE BASIC PHARMACEUTICALS CATALOGUE

In 1996, MPH released the State Basic Pharmaceuticals Catalogue after spending four years screening basic pharmaceuticals. The pharmaceuticals included in the State Basic Pharmaceuticals Catalogue are the ones which are representatives of their respective particular categories of pharmaceuticals, and they also have stable quality, reasonable price and are user-friendly. The PRC government uses the State Basic Pharmaceuticals Catalogue as a reference in determining the cost of medicine in the Public Medicare Insurance Catalogue (公費醫療保險目錄).

NATIONAL OUT-PATIENT MEDICINES CATALOGUE

As part of the medicare insurance reform, the SDA issued in 1999 the "Provisional Measures Regarding the Separation of the Administration on Out-Patient Medicines and Prescription Drugs" (處方藥與非處方藥分類管理暫行辦法) and the National Out-Patient Medicines Catalogue. Medicines included in the National Out-Patient Medicines Catalogue can be safely consumed by users in accordance with the medicine's label and instructions and can be purchased in drug stores and supermarkets without doctor's prescription. Out-Patient medicines can be given wide publicity through mass communication media while prescription drugs can only be promoted through professional and academic medical journals.

MEDICARE INSURANCE SYSTEM

In the past, under of the government medicare insurance system, all employees of state, provincial and local governments, retired civil servants and disabled veterans did not have to pay medicare expenses. As required by the employee medicare insurance system, state-owned enterprises must pay for the payments in full of the medicare expenses of its employees. This resulted in hospitals increasing dosages to raise their profitability.

Since 1993, the PRC government has selectively conducted trial reforms of the medicare system in selected cities. In November 1997, a seminar was held to discuss the trial reforms of the national medicare system. In 1999, a new social medicare insurance system was instituted after the seminar for implementation in all cities. This system featured the social medicare fund and the individual medicare account. According to the social medicare insurance system, state-owned and non state-owned enterprises have to contribute 6 per cent. of its payroll to the medicare fund, of which 70 per cent. will go to the social medicare fund and the remaining 30 per cent. of the enterprises' contributions will go to the accounts of their employees. In addition, employees have to contribute a minimum of 2 per cent. of their annual salary into their respective accounts. All medicare expenses will be paid out of individual medicare accounts and social medicare fund. All relevant medicare expenses, including most of the out-patient expenses, will be paid out first from individual medicare accounts. If the total medicare expenses exceed certain levels in any financial year, the excess will be paid out of the social medicare fund. Thus, social medicare fund can protect serious illnesses of employees.

Medicine expenses paid out of the social medicare fund are limited to the purchases of medicines that are listed in the "State Basic Medicine Catalogue" issued by the MPH. The Group's principal products, such as Moisten eyedrops and Diammonii Glycyrrhizinatis, are all listed in this catalogue.

ENVIRONMENTAL PROTECTION

Pharmaceutical producers must comply with environmental laws and regulations stipulated by the State and the local environmental protection bureau. Those laws and regulations comprise provisions in respect of the prevention and treatment of sewage and exhaust fumes, and the prevention of industrial pollution. The local authority is also authorised to impose fines on any persons and enterprises for violation of the relevant provisions.

E-COMMERCE

The Internet is a global network of interconnected computer networks that is emerging as a communication and commerce medium, which enables peoples and businesses to share information and conduct business electronically. Using the website, individuals as well as enterprises can display information that can reach people having Internet-access devices. In addition, websites can be linked with other websites that might be of interest to viewers.

The increased popularity and the use of the Internet has allowed enterprises to conduct business with other enterprises or consumers through the Internet. The conducting of commerce over the Internet between business enterprises is generally referred to as B2B e-commerce while B2C refers to e-commerce between business enterprises and consumers. Only B2B e-commerce of pharmaceuticals is allowed in the PRC at current stage. But the Directors believe B2C e-commerce of pharmaceuticals will be approved soon by the PRC government.

PROSPECTS OF THE PRC PHARMACEUTICAL INDUSTRY IN THE PRC

The pharmaceutical industry is one of the focal industries of the PRC. In accordance with the "Ninth Five-Year Plan of the PRC Pharmaceutical Industry" and the "Tentative Planning for 2010 of the PRC Pharmaceutical Industry", the pharmaceutical industry is regarded as one of the sectors with major economic growth. The annual targeted growth rate is expected to be approximately 15 per cent. until 2010. The Directors believe that the demand for medicine will increase in line with the future economic growth of the PRC.

The natural growth in the population and its aging population in the PRC are the main factors contributing to the growth of pharmaceutical industry which may continue to drive the demand for medicine and health care products. Recent developments of the pharmaceutical industry, such as the reform of the national medicare insurance system and the opening of the out-patient medicine market to allow certain medicines to be purchased in supermarkets or drug stores without doctors' prescriptions, are expected to further stimulate the growth of the industry.

Opening of the out-patient medicine market

On 22 July, 1999, as a part of the medicare insurance reform, the SDA released the first list of out-patient medicine and the separation of the management of out-patient medicine and prescription drugs commencing 2000. Through the opening of the out-patient medicine market, the State intends to encourage patients to purchase medicine for less serious diseases instead of consultation at hospitals with the objectives of reducing government expenditure on medicare.

Products of the Group categorised as out-patient medicine include Moisten eyedrops, C.P. Bright eyedrops (正大維他滴眼液) and C.P. Jasper eyedrops (正大捷普滴眼液).

According to the first issue of "The PRC Pharmaceutical Business Information"(中國醫藥商訊) of 2000, the sales for the out-patient medicine market in China in 1990 was approximately RMB2.08 billion. By the end of 1999, it has reached approximately RMB5 billion and is expected to reach approximately RMB15.9 billion by the end of 2000. By 2010, total medicine consumption in rural areas will reach approximately RMB33.2 billion, most of which would be out-patient medicine.

Reform of the national medicare insurance system

The PRC government is in the process of implementing a medicare insurance system to replace the existing reimbursement system. Under the new system, both employers and employees of each company shall make contributions to the relevant medicare insurance fund. If an individual's medicare expenses exceed the sum assured by his medicare insurance, the employee shall have to pay for part of the expenses. Accordingly, the Directors expect that the demand for domestic pharmaceutical products shall exceed those of imported pharmaceutical products as imported medicines are generally more expensive than domestic products.

Prospects of ophthalmic medicine in the PRC

The most common incidences of ophthalmia amongst residents of the PRC is short-sightedness, kerotoconjunctivities sicca, conjunctiva, trachomatous conjunctivitis and cataract. Demand from residents for ophthalmic medicine (especially for eye care medicine) is expected to continue to grow considerably. During the period from 1998 to 1999, there were over 2 million ophthalmia patients requiring medical consultation every two weeks. According to the "China Urban Residents Consuming Patterns Reports 1999" (1999年中國城市居民消費形態報告), the frequency of using ophthalmic medicine by urban dwellers amounted to approximately 28 per cent. with an eye fatigue population reaching approximately 150 to approximately 200 million. Accordingly, the demand of the ophthalmic market in the PRC is continually growing.

Prospects of hepatitis medicine in the PRC

According to "The PRC Health Yearbook 1999", the PRC has approximately 120 million hepatitis virus carriers, and hepatitis B and C virus patients reached approximately 75 million. The total amount of medical expenses incurred by hepatitis patients in the PRC in each year was between approximately RMB30 and 50 billion.

Currently, the number of hepatitis patients, in particular, patients suffering hepatitis B, in China is rising every year. Thus, the Directors believe that there will be a demand for hepatitis medicine. However, with the widespread use of hepatitis B vaccines and the increase in immunity of the residents, the market for hepatitis B medicines will slow down. With the simultaneous increase in living standards, the incidence of fatty liver will increase.

Prospects of the senility medicine market in the PRC

As stated in "China Pharmaceutical Daily" (中國醫藥報) dated 2 December, 1999, at the end of 1998, the aged population (over 60) had reached 120 million in the PRC, accounting for approximately 10 per cent. of the total population of the PRC. By the end of 2000, the senile population is expected to increase to approximately 130 million accounting for approximately 10 per cent. of the total population. The senile population is expected to grow annually at approximately 3 per cent. It is estimated that, by 2005, the senile population of the PRC would reach approximately 160 million, accounting for approximately 12 per cent. of the total population; by 2025, it would reach approximately 280 million, or approximately 12 per cent. of the total population, and 2050, it would reach approximately 400 million, or approximately 27 per cent. of the total population.

Currently, the consumption of senile medicine accounted for approximately 50 per cent. of the total consumption of medicine. At the current average consumption level of medicine of the aged at approximately RMB385, the aggregation consumption of senile medicine is expected to reach approximately RMB50.05 billion by 2002; and approximately RMB61.6 billion by 2005. The net increase in senile medicine between 2000 and 2005 is approximately RMB9.15 billion. Thus, the Directors consider that the senile medicine market in the PRC have bright prospects.