

## INTRODUCTION

The Company was established on 2 February, 2000 as an investment holding company pursuant to the Reorganisation. The existing core businesses of the Group include the operation of CTF and CTT. CTF is principally engaged in the research, development, production and sales of a series of biopharmaceuticals specialised in the treatments of ophthalmia whereas CTT is principally engaged in the research, development, production and sales of a series of modernised Chinese medicine and chemical medicine specialised in the treatment of hepatitis. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, approximately 36 per cent., approximately 40 per cent. and approximately 43 per cent., respectively, of the Group's total sales (before sales discount) was derived from its biopharmaceutical business, whereas approximately 64 per cent., approximately 60 per cent. and approximately 57 per cent. of the Group's total sales (before sales discount), respectively, was derived from its modernised Chinese medicine and chemical medicine businesses in the PRC.

## HISTORY AND DEVELOPMENT

Mr. Tse Ping, the chairman of the Company, began his investments in the PRC pharmaceutical industry in 1991. During the last decade, Mr. Tse Ping has invested in and managed a number of pharmaceutical enterprises in the PRC, including 999 Pharmaceutical Joint-Stock Company Limited (三九醫藥股份有限公司), Hainan Pharmaceutical Industrial Joint-Stock Company Limited (海南海藥實業股份有限公司), CTQ, CTF and CTT. The "A" shares of 999 Pharmaceutical Joint-Stock Company Limited and Hainan Pharmaceutical Industry Joint-Stock Company Limited are now listed on the stock market in the PRC.

### Establishment of CTQ

CTQ was established in November 1992 as a sino-foreign equity joint venture with a term of 50 years and was owned as to 60 per cent. by CTH with the remaining 40 per cent. held by China Qingchunbao. On 27 October, 1998, Golden News agreed to acquire the entire 100 per cent. shareholding in CTH. In November 1998, Shanghai Industrial Holdings Limited (a company listed on the Main Board), through its subsidiaries (which include SIIC Medical), acquired a 91.67 per cent. attributable interest in Golden News with a consideration of approximately HK\$357.2 million, and the balance of 8.33 per cent. was and continues to be held by Champion First, of which Mr. Tse Ping was the then sole shareholder and which has now become a wholly-owned subsidiary of the Company following the Reorganisation. The Group accordingly holds a 5 per cent. attributable equity interest in CTQ. The joint venture contract and the articles of association of CTQ were amended on 2 June, 1999 so that CTH, China Qingchunbao and Hangzhou City Chia Tai Qingchunbao Staff Stock Fund (杭州正大青春寶職工持股協會) became interested in 60 per cent., 20 per cent. and 20 per cent. respectively of the registered capital of CTQ.

CTQ is principally engaged in the manufacture, distribution and sale of pharmaceutical products based primarily on natural herbal ingredients in the PRC. Currently, CTQ has obtained approvals to manufacture over 70 types of medicinal products, of which over 20 types were manufactured during 1998. The principal product of CTQ is Shen Mai Injection (參麥注射液) which is an intravenous drug made from natural Ginseng (*Radix Ginseng*) and Mai Dong (*Radix Ophiopogonis*). The medical applications of Shen Mai Injection include improving cardiomuscular systolysis and preserving and restoring cardiomuscular tissue. It is also used as an adjunct in anti-tumour therapy.

### Establishment of CTF

CTF was established as a sino-foreign equity joint venture company with a term of 50 years under its business licence on 31 March, 1992 by Shandong Business Science & Technology Research Institute Service Department (山東華商技術開發服務公司), a company established in the PRC, and FII, which then held 55 per cent. and 45 per cent. of the equity interests respectively. As a result of various subsequent transfers and changes in equity of CTF, in October 1994, Sino Technology, a company then wholly-owned by Mr. Tse Ping, became interested in 55 per cent. of the registered capital of CTF by way of an injection of new capital into CTF in the amount of RMB6.05 million. The balance of the registered capital was held by Shandong Biopharmaceutical (as to 40 per cent.) and FII (as to 5 per cent.). In August 1997, CTF increased its total investment amount from RMB14 million to RMB28 million and its registered capital from RMB11 million to RMB20 million in view of the additional capital required to expand its business. The increase in capital contribution was approved by the relevant authority on 11 August, 1997.

Sino Technology has since October 1994 been the majority shareholder of CTF with its 55 per cent. interest and Shandong Biopharmaceutical and FII hold 40 per cent. and 5 per cent. of the remaining interests in CTF respectively. According to the current joint venture contract and the articles of association of CTF, the board of directors of CTF comprises seven directors, of whom three are nominated by Shandong Biopharmaceutical and the remaining four by Sino Technology. Ordinary resolutions must be passed by a simple majority while special resolutions on substantial issues (such as winding up of the joint venture and amendment to the articles of association of the joint venture) are required to be passed by unanimous votes of the directors of CTF.

During the period between 9 February, 1998 to 18 March, 1999, the entire issued share capital of CTPM, the immediate holding company of Sino Technology, was held (through wholly-owned subsidiaries) by Chia Tai Medicines Group Limited (“CTMG”) in which a 15 per cent. interest was held by Mr. Tse Ping and the balance of 85 per cent. was held by three individuals including two close relatives of Mr. Tse Ping (collectively, the “Other Former Shareholders”). Both CTPM and CTMG are investment holding companies. According to a declaration of trust dated 5 January, 2000 made by each of the Other Former Shareholders in favour of Mr. Tse Ping, each of them since 28 February, 1998 held the shares in CTMG registered in his name as nominee for Mr. Tse Ping. On 19 March, 1999, CTPM transferred all its shareholdings in Sino Technology to Mr. Tse Ping and Madam Chia Fai, who is Mr. Tse Ping’s sister on a 50:50 basis. According to a declaration of trust dated 5 January, 2000 made by Madam Chia Fai in favour of Mr. Tse Ping, Madam Chia Fai since 19 March, 1999 held the one share in Sino Technology registered in her name as nominee for Mr. Tse Ping. The day-to-day management team of CTF has been led by Mr. Tse Ping since Sino Technology became a joint venture partner in CTF in 1994 and Mr. Tse Ping has been the vice chairman in the board of directors of CTF since 1997.

On 26 July, 1999, Sino Technology allotted 900 new shares at the par value of HK\$1.00 each to Well Base (Asia) Limited as a result of which Well Base (Asia) Limited became interested in 9 per cent. of the issued share capital of Sino Technology as enlarged by such allotment. Well Base (Asia) Limited is an investment holding company wholly owned by Mr. Wang Jinyu and his spouse. Mr. Wang Jinyu, who is a business partner of Mr. Tse Ping, is also a Director.

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## GENERAL OVERVIEW OF THE GROUP

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Sino Technology has become a wholly-owned subsidiary and CTF, which is 55 per cent. owned by Sino Technology, has become an indirect 55 per cent. owned subsidiary of the Company as a result of the Reorganisation.

### **Establishment of CTT**

CTT was established as a sino-foreign equity joint venture company with a term of 50 years under its business licence on 16 April, 1997 by Jiangsu Tianqing and CTH, a company wholly-owned by Golden News, which then held 40 per cent. and 60 per cent. of the equity interests in CTT respectively. The total investment of CTT is RMB130.35 million and its registered capital is RMB68 million. According to the joint venture contract and the articles of association of CTT dated 5 January, 1997, the board of directors of CTT comprises five directors, two of them to be nominated by Jiangsu Tianqing and the other three by CTH.

During the period between 9 February, 1998 to 19 July, 1998, the entire issued share capital of CTPM was held by CTMG in which a 15 per cent. interest was held by Mr. Tse Ping and the balance of 85 per cent. was held by three individuals including two close relatives of Mr. Tse Ping (collectively, the “Other Former Shareholders”). According to a declaration of trust dated 5 January, 2000 made by each of the Other Former Shareholders in favour of Mr. Tse Ping, each of them has since 28 February, 1998 held the shares in CTMG registered in his name as nominee for Mr. Tse Ping. On 20 July 1998, CTL acquired from CTH its 60 per cent. equity interests in CTT in consideration of an amount of RMB 40,800,000 (equivalent to approximately HK\$38,130,000). On 27 October, 1998, approval by the PRC authorities was obtained and the transfer became effective. The two issued shares in CTL since July 1998 were held respectively by Mr. Tse Ping and by Madam Chia Fai. According to a declaration of trust dated 5 January, 2000 made by Madam Chia Fai in favour of Mr. Tse Ping, Madam Chia Fai since 22 July, 1998 held the one share in CTL registered in her name as nominee for Mr. Tse Ping. The day-to-day management team of CTT has been led by Mr. Tse Ping, who has also been the chairman in the board of directors of CTT, since the commencement of business of CTT in April 1997. CTL has become a wholly-owned subsidiary of the Company and CTT, which is 60 per cent. owned by CTL, has become an indirect 60 per cent. owned subsidiary of the Company as a result of the Reorganisation.

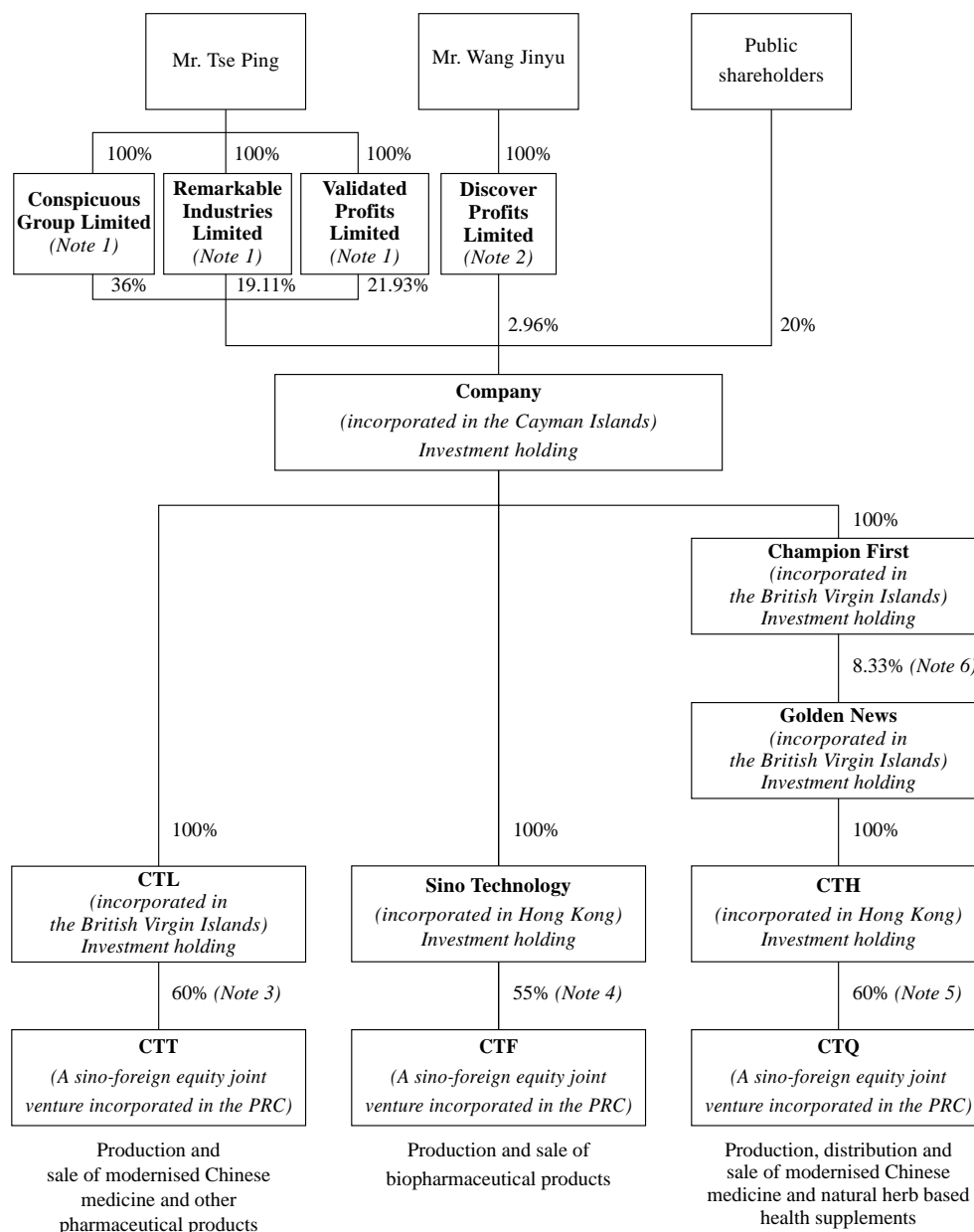
### **Reorganisation**

In anticipation of the listing of the Shares on GEM, the Group underwent the Reorganisation, pursuant to which the Company has become the ultimate holding company of the Group.

# GENERAL OVERVIEW OF THE GROUP

## CORPORATE STRUCTURE

The organisation structure of the Company, its shareholders and each of its subsidiaries immediately following the completion of the Placing is set out below (assuming that the Over-allotment Option is not exercised):—



Notes:—

1. Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited are investment holding companies wholly owned by Mr. Tse Ping who is the chairman of the Company and an executive Director. All of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited and Mr. Tse Ping are Initial Management Shareholders for the purpose of the GEM Listing Rules.
2. Discover Profits Limited is an investment holding company wholly owned by Mr. Wang Jinyu who is an executive Director. Both Discover Profits Limited and Mr. Wang Jinyu are Initial Management Shareholders for the purpose of the GEM Listing Rules.

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## GENERAL OVERVIEW OF THE GROUP

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3. The remaining 40 per cent. equity interest in CTT is held by Jiangsu Tianqing.
4. The remaining equity interest in CTF is held as to 40 per cent. and 5 per cent. by Shandong Biopharmaceutical and FII, respectively.
5. The remaining 40 per cent. equity interest in CTQ is held as to 20 per cent. by China Qingchunbao and 20 per cent. by Hangzhou City Chia Tai Qingchunbao Staff Stock Fund (杭州市正大青春寶職工持股協會).
6. The remaining 91.67 per cent. equity interest in Golden News is held indirectly by SIIC Medical.

### BUSINESS OF THE GROUP

The business of the Group can be divided into the following two main categories: biopharmaceutical business; and modernised Chinese medicine and chemical medicine businesses.

#### (I) BIOPHARMACEUTICAL BUSINESS

##### Introduction

The biopharmaceutical business of the Group has been operated by CTF since March 1992 and production began in March 1993. With its production facilities in Jinan, Shandong Province, the PRC, CTF currently produces 10 different biopharmaceutical products, all of which use hyaluronan (透明質酸) as substrates. Consisting of big polysaccharide molecule, hyaluronan is a natural moisturising agent with a high degree of adhesion. Eye drops and injections using hyaluronan as substrates have a higher degree of adhesion and slower dilution than traditional eye drops and injections.

CTF was the first enterprise to be given approval to research and produce ophthalmic medicines using hyaluronan in the PRC. The Directors believe that CTF has expertise in researching and developing the medical applications of hyaluronan in the PRC.

One of the principal products of CTF is Moisten eyedrops (潤舒滴眼液), which is used primarily for treating eye diseases such as xerophthalmia (乾眼症), trachomatous conjunctivitis (結膜炎), trachoma (沙眼) and keratitis (角膜炎). The production approval (魯衛藥准字 (93) 1236-127) of Moisten eyedrops was first granted by the Public Health Department of Shandong Province in 1993. The sales of Moisten eyedrops accounted for approximately 71 per cent., approximately 68 per cent. and approximately 65 per cent. of the total sales of CTF, and approximately 25 per cent., approximately 28 per cent. and approximately 28 per cent. of the total sales of the Group, for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, respectively.

Since its introduction into the PRC market, the sales of Moisten eyedrops have grown at an average annual rate of approximately 121 per cent. between 1995 and 1999. For the year ended 31 December, 1999, the sales of Moisten eyedrops reached approximately HK\$84.3 million. Moisten eyedrops were also ranked within top ten medical products in terms of sales in the retail medicines system in the “PRC Non-prescription drugs Medical Survey — 1999”. In August 1999, according to the PRC Pharmaceutical Retail Analysis System Report (中國藥品零售分析系統報告), Moisten eyedrops were ranked the first in terms of sales among the sales of retail medicines system for eye, ear, nose and throat diseases (零售藥五官科) in the PRC. The brandname of “Moisten eyedrops” is included in the State Basic Pharmaceuticals Catalogue and the National OTC Medicines Catalogue, which allows Moisten eyedrops to be promoted through mass communication media in the PRC and to be sold widely in drug stores and supermarkets in the PRC.

### Technology

CTF's medical products are based on its proprietary technology and its patented HA-containing eyedrops production technology.

Hyaluronan, an important component of CTF's products, is derived from the intercellular matrix. The intercellular matrix is a complex biological substance which connects, supports and protects the cells of living organisms. It comprises a network of entangled fibers and membranes held together by certain elastoviscous materials which consist of hyaluronan (a polysaccharide), molecular complexes of proteins and other polysaccharides (proteoglycans). This intercellular matrix forms a highly specific environment for cells and is largely responsible for the regulation of regenerative and healing processes in the body.

Using its patented production technology, CTF has developed a broad spectrum of proprietary products.

From a therapeutic standpoint, CTF's medical products address three medical treatment modalities: viscosurgery (黏液治療), viscosupplementation (黏液補充療法) and matrix engineering (基質工程). *Viscosurgery* is the use of viscoelastic protection solutions to prevent tissue adhesions after surgery. *Viscosupplementation* is the use of elastoviscous solutions and viscoelastic gels to replenish the body's natural elastoviscous substances, such as the lubricating fluid for the joints or the tears of the eye. *Matrix engineering* is the therapeutic use of biomaterials to direct or modify the healing or regenerative processes of tissue, e.g. by filling tissue space in the skin or muscle with a gel or film like materials in order to speed up the healing and regenerative processes of tissue and reduce scar formation after surgery.

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### Products

CTF's products include a total of 10 types of pharmaceuticals, which can be divided into three categories: ophthalmic medicine (眼科用藥), osteoarthritis medicine (骨科用藥) and dermatitis medicine (皮膚用藥). Sales of the remaining two products are very limited. A brief description of the major products of CTF is as follows:—

Name	Medicine category	Form	Functions
<b><i>Ophthalmic medicine</i></b> (眼科用藥)			
Moisten eyedrops (潤舒滴眼液)	Biochem medicine	Eyedrop	Treatment for xerophthalmia (乾眼症), keratoconjunctivitis sicca (乾燥性角膜結膜炎), trachomatous conjunctivitis (沙眼), keratitis (角膜炎), blepharitis (瞼線炎), ambustio by chemicals (化學品造成的眼睛灼傷)
C.P. Bright eyedrops (正大維他滴眼液)	Biochem medicine	Eyedrop	Treatment for acute conjunctiva (慢性結膜炎), conjunctival congestion (結膜充血), injury of cornea and conjunctiva (角膜及結膜受損), fatigue and infection (眼睛疲勞及感染)
C.P. Jasper eyedrops (正大捷普滴眼液)	Biochem medicine	Eyedrop	Anti-virus medicine for eye disease
Fredex eyedrops (F的確當滴眼液)	Biochem medicine	Eyedrop	Anti-infection and anti-inflammation
Frecoseryl eyedrops (F角膜寧滴眼液)	Biochem medicine	Eyedrop	Treatment for keratitis, cornea ulcer, injury of cornea
Pilocarpine Nitrate eyedrops (真瑞滴眼液)	Biochem medicine	Eyedrop	Treatment for glaucoma (青光眼)
IVIZ Sodium Hyaluronate injection (愛維注射液)	Biochem medicine	Injection	An adjuvant used in intraocular surgery such as cataract extraction (白內障摘除)

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Name	Medicine category	Form	Functions
Carbamylcholine injection (卡米可林注射液)	Chemical medicine	Injection	An iridoconstrictor (縮瞳劑) used in intraocular surgery such as cataract extraction and corneal transplant
<i>Osteoarthritis medicine</i> (骨科用藥)			
SOFAST Sodium Hyaluronate injection (施沛特)	Biochem medicine	Injection	For adhesive capsulitis and osteoarthritis (骨關節炎和肩周炎)
<i>Dermatitis medicine</i> (皮膚用藥)			
HEPUDIOD cream (海普林)	Biochem medicine	Ointment	Treatment for damaged tissues caused by various types of localised wounds such as burns, varicose veins, edema and eczema.

### *Ophthalmic medicine*

Hyaluronan eye drops is used as an elastoviscous lubricating supplement to moisten the eye and to protect the surface of the eye when production of tears is impaired, as in dry eye and other conditions. Other treatments tend to require frequent applications to relieve pain, itching and burning sensations. The Directors believe that the elastoviscous properties of hyaluronan would reduce the frequency required for a patient to lubricate the surface of the eye with eyedrops. The principle hyaluronan eye drop products of CTF are Moisten eyedrops, C.P. Bright eyedrops and C.P. Jasper eyedrops.

IVIZ Sodium Hyaluronan injection is applied directly to the front ventricle of the eye during ophthalmic surgery which acts as a protector and lubricant for delicate tissues and helps to maintain the shape of the eye during certain procedures, such as cataract removals and intraocular lens implantations. Its major application is mostly in surgical procedures such as intraocular surgery. The principle hyaluronan injection product of CTF is IVIZ Sodium Hyaluronate injection.

### *Osteoarthritis medicine*

The major symptom of osteoarthritis, a chronic degenerative disease of the joints, is the deterioration of articular cartilage. Concurrently, the synovial fluid of the joints progressively loses its natural lubricating and shock absorbing properties necessary for normal joint functions. Affecting primarily the body's weight bearing joints, such as the knees, osteoarthritis may result in severe pain and, ultimately, impairment of the functions of the joints. Osteoarthritis products were developed by CTF to address the pain and impairment of functions of the joints caused by osteoarthritis. The principal product of CTF for osteoarthritis is SOFAST Sodium Hyaluronate injection which involves injections into the affected arthritic joint in order to supplement the natural lubricating and protective properties of the synovial fluid. Similar to the naturally-occurring hyaluronan, this product has a longer residence time in the affected joints and can help relieve the symptoms and pain.



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### *Dermatitis medicine*

Healed wounds often develop capsules, adhesions to other tissues or excessive scarring. Such abnormal wound healing may result in severe pain, dysfunction and deformation. CTF's HEPUDIOD Cream is intended to help prevent inflammation of skin wound, speed up the healing process and inhibit tissue proliferation to reduce scar formation.

### **Production**

#### *Production facilities and GMP certification*

The production facilities of CTF are located in Jinan, Shandong Province with a gross floor area of approximately 7,770.5 sq.m. The entire facilities are leased to CTF by Shandong Research Institute. Detailed information is set out in the section headed "Relationship with Shandong Biopharmaceutical and Jiangsu Tianqing".

CTF has three production workshops for eyedrop production, canned injection production and ointment production, respectively. The production of eyedrop and injection have obtained GMP certification. The Directors expect that additional expenses of approximately HK\$12.1 million will have to be incurred for the ointment production workshop to be upgraded to meet the GMP requirements. Such expenses are expected to be financed by CTF's internal resources. The Directors expect to file an application for GMP certification for the ointment production workshop and obtain the relevant GMP certificate by the end of 2001.

The production facilities of CTF are summarised as follows:—

<b>Workshop name</b>	<b>Products produced</b>	<b>Annual production capacity</b>	<b>GMP certification</b>
Eyedrop production workshop	Moisten eyedrops, C. P. Bright eyedrops, C. P. Jasper eyedrops, Fredex eyedrops, Frecoseryl eyedrops, Pilocarpine Nitrate eyedrops	25 million bottles of eyedrops	GMP certificate obtained
Canned injection production workshop	IVIZ Sodium Hyaluronate injection  Carbamylcholine injection  SOFAST Sodium Hyaluronate injection	1 million bottles of injection	GMP certificate obtained
Ointment production workshop	HEPUDIOD cream	3 million bottles of ointment	Implementing GMP procedures

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With respect to CTF's production of ointment, there is currently no prescribed time before which the Group will have to comply with the GMP standard. The Directors understand that those non-compliance workshops producing Ointment can continue to produce their existing products but cannot apply for production of new medicines. Nevertheless, there is no assurance that this arrangement will continue in the future. The Directors are not aware of any breach of any relevant regulations regarding GMP compliance of the production facilities of the Group.

### *Production planning*

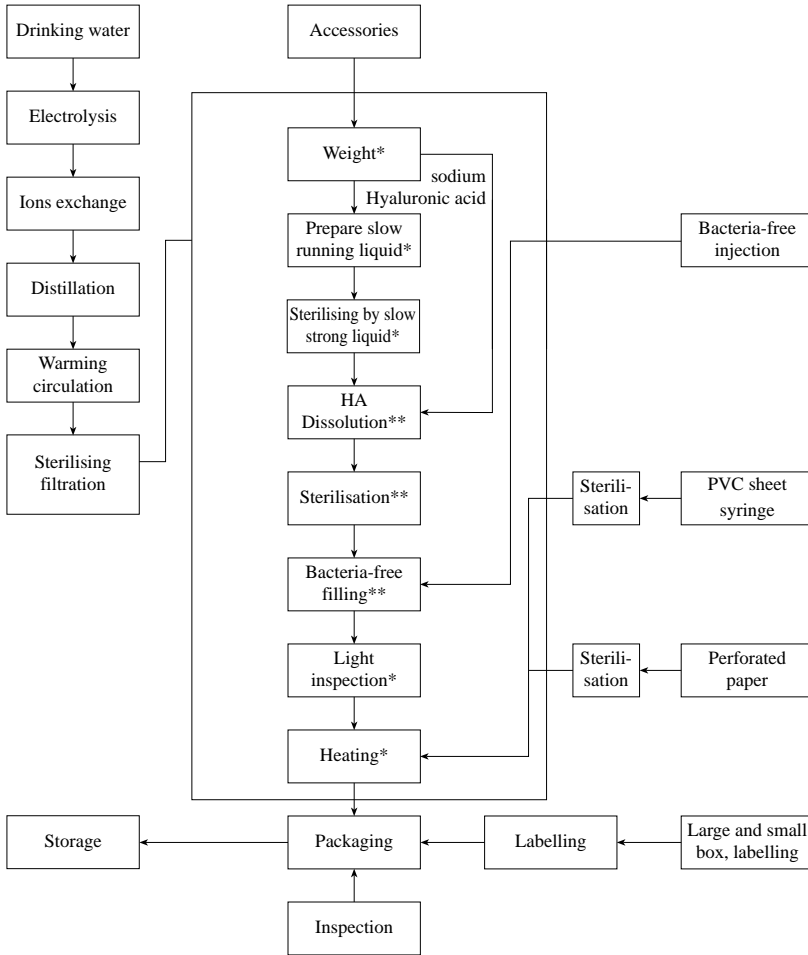
The planning of production output of CTF is principally based on market demand. On a monthly basis, CTF will develop a production plan for the next three months and arrange the production schedule for the next month based on orders on hand and inventory level. In addition, the actual monthly production plan will be adjusted taking into account actual sales and inventory level. The inventory turnover of CTF generally did not exceed three months' demand during the Track Record Period.

# GENERAL OVERVIEW OF THE GROUP

## Production processes

The production processes for the three forms of CTF's products, namely, (i) injection, (ii) eyedrops and (iii) ointment, are briefly described as follows:—

### 1. Production process for injection



One of the production characteristics of hyaluronan is that it cannot be sterilised by high temperature; otherwise its efficacy will be reduced. It therefore has to be produced in bacteria-free at 10,000 environment and, for some stages, bacteria-free at 100 environment.

\* Bacteria-free at 10,000 (Note)

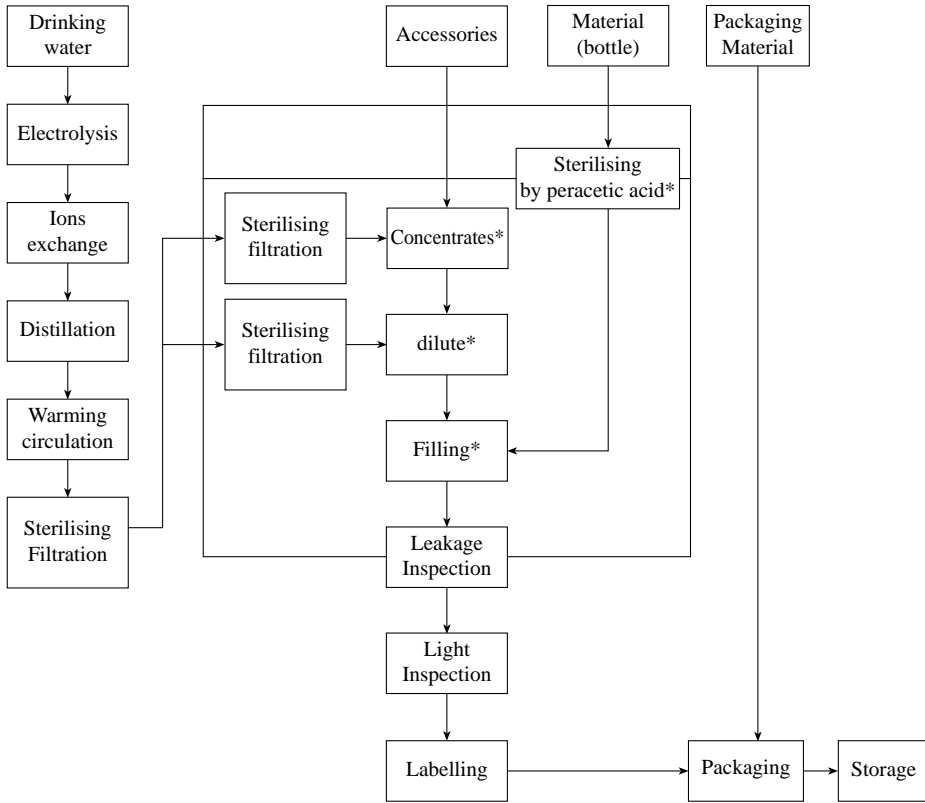
\*\* Bacteria-free at 100 (Note)

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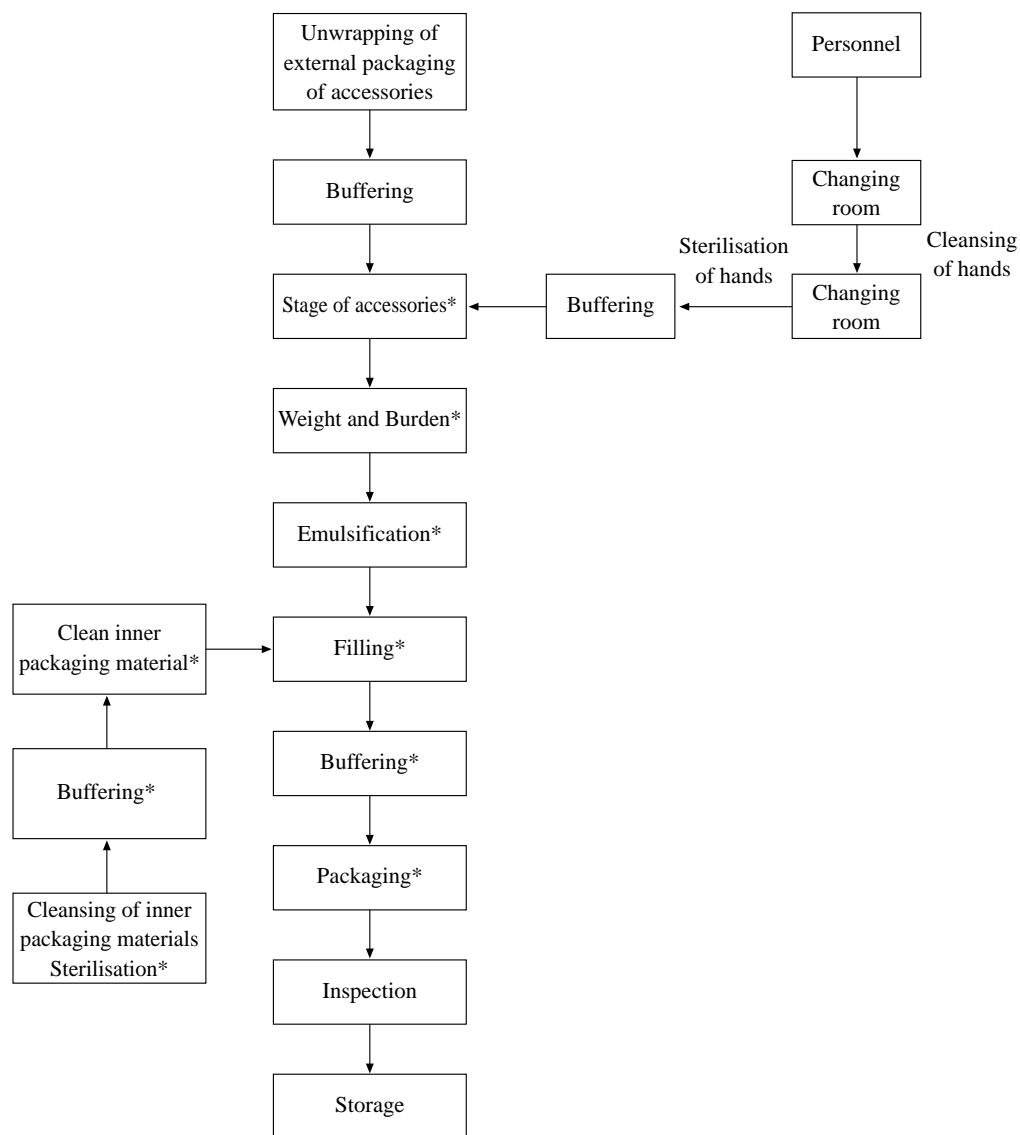
## 2. Production process for eyedrops



\* *Bacteria-free at 100,000. (Note)*

# GENERAL OVERVIEW OF THE GROUP

## 3. Production process for ointment



\* Bacteria-free at 100,000 (Note)

Note:—

The table below sets out information regarding bacteria-free levels:—

Bacteria-free level	Amount of dust/m <sup>3</sup>		Amount of live microorganism/m <sup>3</sup>	
	≥ 0.5 μm	≥ 5 μm	Subsiding bacteria	Floating bacteria
at 100	≤ 3,500	0	≤ 1	≤ 5
at 10,000	≤ 350,000	≤ 2,000	≤ 3	≤ 1000
at 100,000	≤ 3,500,000	≤ 20,000	≤ 10	≤ 500

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### Raw materials

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the costs of raw medicinal materials represented approximately 22 per cent., approximately 28 per cent. and approximately 25 per cent. of the total production costs of CTF, respectively. The major raw materials used by CTF for the production of ophthalmic medicine is high quality hyaluronan. CTF purchases hyaluronan in bulk and processes it into high quality hyaluronan suitable for ophthalmic medicines. During the same periods, the costs of hyaluronan accounted for approximately 20 per cent., approximately 15 per cent. and approximately 15 per cent., respectively, of the total production costs of CTF, whereas the cost of packaging materials accounted for approximately 46 per cent., approximately 38 per cent. and approximately 38 per cent., respectively, of the total production costs of CTF.

Purchases by CTF of raw materials are settled in RMB and in general the credit period granted by major suppliers to CTF is 30 days.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, purchases from CTF's five largest suppliers accounted for approximately 42 per cent., approximately 47 per cent. and approximately 57 per cent. respectively of its total purchases and approximately 6 per cent., approximately 13 per cent. and approximately 15 per cent., respectively, of the Group's total purchases. Among them, the largest supplier accounted for approximately 16 per cent., approximately 15 per cent. and approximately 20 per cent., respectively of CTF's total purchases and approximately 2 per cent., approximately 4 per cent. and approximately 5 per cent., respectively, of the Group's total purchases. None of CTF, the Company and the Directors nor their respective associates has any interests in any of these five largest suppliers of raw materials. The Group did not experience any significant difficulty in sourcing raw materials during the Track Record Period and the Directors do not foresee any significant difficulty in the sourcing of raw materials in the foreseeable future.

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### Sales and marketing

The following table sets forth the sales of the principal products of CTF during the Track Record Period:—

	Year ended 31 December, 1998		Year ended 31 December, 1999		Five months ended 31 May, 2000	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<i>Ophthalmic medicine</i>						
MOISTEN eyedrops	59,171	70.7	84,271	68.4	44,264	65.0
IVIZ Sodium Hyaluronate injection	6,797	8.1	6,745	5.5	3,065	4.5
<i>Carbamylcholine injection</i>						
FREDEX eyedrops	—	—	1,835	1.5	903	1.3
FRECOSERYL eyedrops	—	—	5,228	4.3	3,429	5.0
PILOCARPINE NITRATE eyedrops	—	—	3,225	2.6	2,298	3.4
	—	—	316	0.3	228	0.3
C.P. JASPER eyedrops	2,297	2.7	2,638	2.1	1,435	2.1
C.P. BRIGHT eyedrops	2,709	3.2	4,021	3.3	2,366	3.5
<i>Orthopaedic medicine</i>						
SOFAST Sodium Hyaluronate injection	3,840	4.6	7,541	6.1	4,727	6.9
<i>Dermatitis medicine</i>						
HEPUDIOD cream	3,379	4.0	6,604	5.4	3,586	5.3
<i>Non-core products</i>	<u>3,809</u>	<u>4.8</u>	<u>692</u>	<u>0.5</u>	<u>1,753</u>	<u>2.7</u>
<b>Total</b>	<b><u>83,606</u></b>	<b><u>100.0</u></b>	<b><u>123,116</u></b>	<b><u>100.0</u></b>	<b><u>68,054</u></b>	<b><u>100.0</u></b>

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CTF divides its sales area into five regions, namely northwest China, south China, east China, northeast China and central China, and has established five corresponding sales centers in Xian, Chengdu, Hangzhou, Shanghai and Beijing which are in charge of a total of 30 representative offices in various locations in the PRC.

The map below illustrates the geographical locations of CTF's sales centres and representative offices in the PRC:—

**Sales network of CTF**



- ▲ — Sales centre
- — Representative office



## GENERAL OVERVIEW OF THE GROUP

The following table sets forth a geographical analysis of the sales of the products manufactured by CTF during the Track Record Period:—

	Year ended 31 December,		Five months ended
	1998	1999	31 May, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Northwest China ( <i>Note 1</i> )	10,766	13,047	7,622
South China ( <i>Note 2</i> )	18,210	27,113	11,705
East China ( <i>Note 3</i> )	15,853	23,708	13,611
Northeast China ( <i>Note 4</i> )	21,249	23,338	12,590
Central China ( <i>Note 5</i> )	<u>17,528</u>	<u>35,910</u>	<u>22,526</u>
<b>Total</b>	<u><u>83,606</u></u>	<u><u>123,116</u></u>	<u><u>68,054</u></u>

*Notes:—*

1. Northwest China — Shanxi, Gansu, Henan and Yunnan provinces and Xinjiang Autonomous Region
2. South China — Hunan, Hubei, Sichuan and Guangdong provinces
3. East China — Zhejiang, Jiangxi, Fujian, Anhui provinces and Tianjing
4. Northeast China — Heilongjiang, Liaoning, Jilin and Hebei provinces and Beijing
5. Central China — Shandong, Jiangsu, Henan provinces and Shanghai

As at 30 June, 2000, CTF had a sales and marketing team consisting of 289 staff who were responsible for sales and promotion, customer relations, payment collection and market research.

The sales staff of CTF are divided into three groups: out-patient medicine representatives who are responsible for the sales of pharmaceuticals of CTF to pharmaceutical retailers, business representatives who are responsible for the sales of pharmaceuticals of CTF to pharmaceutical wholesalers and medical representatives who are responsible for the promotion of pharmaceuticals to hospitals.

CTF currently has approximately 900 customers in the PRC. Most customers of CTF are pharmaceutical distributors while some are hospitals. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, sales to the five largest customers of CTF accounted for approximately 12 per cent. of the total sales of CTF. CTF has established business relationship with its five largest customers for at least five years. None of CTF, the Company and Shandong Biopharmaceutical, the Directors or their respective associates has any interests in the five largest customers of CTF.

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## GENERAL OVERVIEW OF THE GROUP

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CTF exercises stringent control and supervision over the credit terms granted to its customers. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, approximately 96 per cent., approximately 95 per cent. and approximately 95 per cent. of the sales of CTF had credit periods ranging from 30 days to 120 days, respectively. The remaining sales of CTF were settled by cash, bank cheques or bank transfers. The management of CTF review the bad and doubtful debts position periodically. Individual provisions will be made once bad debts are determined. As at 31 December, 1998, 31 December, 1999 and 31 May, 2000, the provisions for bad debts of CTF were HK\$816,138, HK\$680,406 and HK\$682,725, respectively.

CTF's marketing focus is advertising through newspapers, television, medical and specialist magazines and other media. CTF also holds promotion seminars in various hospitals through its regional representative offices.

CTF organises training programs to sharpen the marketing skills and product knowledge of its sales and marketing staff on a regular basis.

### **Pricing policy**

Pharmaceutical products (including CTF's pharmaceutical products) are subject to price control administered at the State or provincial levels in the PRC. The main objective of price control is to set ceilings for the ex-factory prices, the wholesale prices and the retail prices of pharmaceutical products. However, pharmaceutical enterprises in the PRC can apply to the provincial price bureau to adjust such prices for their products. The Directors are not aware of any CTF's applications for price adjustments having been denied by the relevant price control administrative authorities during the Track Record Period.

### **Intellectual property rights**

In an effort to protect its core technology and products, CTF has obtained a licence regarding the patent (already granted or in the process of application) for the use of certain materials in its various principal products and their production method. These products include Moisten eyedrops (in relation to which the relevant patent has been granted and will expire on 16 June, 2013) and C. P. Bright eyedrops, C. P. Jasper eyedrops, Fredex eyedrops, Frecoseryl eyedrops, Pilocarpine Nitrate eyedrops and Hepudiod cream (in relation to which patent are in the process of application or to be announced).

CTF has also registered 17 trademarks for all its existing products. Particulars of these trademarks are set forth under "Intellectual property" in Appendix V to the prospectus.

### **Competition**

CTF researched and developed its own ophtalmic medicine with hyaluronic acid as substrates by its in-house research team. The high quality hyaluronic acid needed for its products is derived from the fermentation of microorganisms. The technology and formula for using hyaluronic acid and other medicines to produce products such as Moisten eyedrops enjoy patent protection in the PRC. Apart from developing pharmaceutical products which are currently under demand, CTF has also purchased machinery and equipment for the production of new drugs. In line with the changes in the policies in the PRC as regards product protection, CTF has already applied for patent and product protection for

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## GENERAL OVERVIEW OF THE GROUP

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numerous products under development in order to maintain its competitive position. The Directors believe that CTF has established a commanding position in respect of several types of technology over similar pharmaceutical products in the PRC.

The sale price of Moisten eyedrops is approximately RMB10 (equivalent to approximately HK\$9.4) per bottle, which is lower than the price of similar imported eye drops sold in the PRC. According to the “PRC Non-prescription drugs Medical Survey — 1999”, Moisten eyedrops was ranked one of the top ten medical products in terms of sales in the retail medicines system. According to the “PRC Pharmaceutical Retail Analysis System Report” (“中國藥品零售分析系統報告”) issued in August, 1999, Moisten eyedrops was ranked first in terms of sales of retail medicines for eye, ear, nose and throat diseases in the PRC. CTF was granted the patent over preparation of Moisten eyedrops with a protection period of 20 years from 1995. The Directors believe that such patent protection enables CTF to enjoy a significant competitive advantage over other ophthalmic medicine available in the market.

HEPUDIOD cream, the ointment manufactured by using low molecular hepain as substrates for the treatment of dermatitis, was also developed by CTF itself.

According to the PRC Biopharmaceutical Economy Statistics Report of 1999, CTF was one of the top five biochemical pharmaceutical production enterprises in the PRC in terms of sales value. It was ranked second in terms of net profit out of all of the PRC’s biopharmaceuticals producers.

### **Research and development**

Most of CTF’s products were developed by CTF internally, including Moisten Eyedrop. As at 30 June, 2000, CTF had 17 staff in its research and development department and it also engaged more than 40 ophthalmologists and professors as consultants to advise on the research and development of products and clinical efficacy.

Mr. Ling Peixue, an executive Director and the general manager of CTF, has engaged in the research and development of hyaluronan for approximately 17 years. Mr. Ling is a member of Industrial Biochemical Professional Committee of the Biochemical Association of the PRC, a member of the Industrial Biochemical Professional Committee of the Association of Biochemistry and Molecular Biology of the PRC and an executive director of Industrial Association of Biopharmaceuticals of the PRC. He has published approximately 30 theses on biopharmaceutical products, including, in particular, hyaluronan, and received nine awards for scientific research and outstanding achievements in various aspects. Products of CTF were researched and developed by CTF’s research and development team under the guidance of Mr. Ling.

In 1994, CTF’s sodium hyaluronate injection was awarded the First Prize in the National Domestic Trade Department Scientific Advancement Award (國家國內貿易部科學技術進步獎). In 1997, the Intra-articular sodium hyaluronate injection (“關節腔內注射用玻璃酸鈉注射液”) of CTF was awarded the Third Prize of New Medicine Research and Development Award (新藥研製三等獎) by SDA. In 1998, the biochem pharmaceutical research of CTF was awarded the Third Prize in the Scientific Advancement Award (科學進步三等獎) by the Ministry of Domestic Trade of the PRC.

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## GENERAL OVERVIEW OF THE GROUP

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CTF also entered into an agreement on 10 December, 1999 with the Shandong Research Institute in respect of joint research and development of new products for a period of ten years. Pursuant to the agreement, CTF has the first right to acquire research products of the Shandong Research Institute. CTF can request Shandong Research Institute to conduct research on projects designated by CTF in line with the production technologies and product development of CTF. Research products resulting from projects designated by CTF belong to both CTF and Shandong Research Institute.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the research and development costs incurred by CTF were approximately HK\$1.2 million, HK\$1.9 million and HK\$0.6 million, respectively.

The principal direction of product research and development of CTF is biological ophthalmic medicine. CTF currently has three new products under research and development. All of them are aimed at frequently-occurring clinical diseases and common ailments, especially for treating the syndrome of eye fatigue, which has become very common with the wide use of computers and electronic appliances in daily life. The three new products under research and development by CTF are summarised as follows:—

<b>Product name</b>	<b>Clinical applications</b>	<b>Development stage</b>
Jingfu eyedrops (晶福滴眼液)	Treatment for contract	Pre-clinical trial study completed
Composite Tobramycin Gel (複方妥布霉素凝膠)	Anti-virus, anti-inflammation and anti-allergy medicine for eye disease	Pre-clinical trial study
Butenafine Hydrochloride Gel (布替耐芬凝膠)	Anti-virus, anti-infection	Pre-clinical trial study

### **Quality control**

The Directors regard product quality as the prime factor to which the continuing success of CTF can be attributed. Accordingly, CTF continuously tries to maintain and enhance its product quality. CTF has begun to improve and manage its production in accordance with GMP standards since 1996, and the eyedrops and canned injection have obtained GMP certification in 1999. Its ointment production workshop has been implementing GMP procedures and is expected by the Directors to fully comply with GMP procedures before June 2001. None of CTF's products have failed to meet the applicable quality standards prescribed by the relevant PRC authorities.

On 30 June, 2000, CTF employed 21 staff responsible for quality control. In order to enhance the performance of its staff, CTF organises training programs for its staff to improve their knowledge in quality control. Furthermore, CTF has also compiled a quality control manual for implementation by staff and various departments.

During the Track Record Period, CTF did not experience any material interruption to its business due to failure in the quality control system. The Directors confirm that CTF has never experienced any claims, lawsuits or litigation concerning the quality of its products.

## GENERAL OVERVIEW OF THE GROUP

### (II) ACTIVE BUSINESS PURSUITS IN THE GROUP'S BIOPHARMACEUTICAL BUSINESS

#### *Sales*

The sales volume of the principal products of CTF during the Track Record Period was set out as follows:—

Product name	Year ended 31 December,		Five months ended
	1998	1999	31 May, 2000
	<i>('000 bottles)</i>		
Moisten eyedrops	11,488	15,651	8,299
IVIZ Sodium Hyaluronate injection	89	90	41
Carbamylcholine injection	84	94	47
C.P. Bright eyedrops	533	792	473
C.P. Jasper eyedrops	221	239	133
SOFAST Sodium Hyaluronate injection	36	72	45
Hepudiod cream	396	755	415

#### *Marketing*

The expansion in the marketing operation of CTF during the Track Record Period was as follows:—

Period	Number of sales centres	Number of representative offices	Number of sales staff	Marketing expenses <i>HK\$'000</i>
Six months ended 30 June, 1998	4	16	180	15,143
Six months ended 31 December, 1998	5	16	201	17,149
Six months ended 30 June, 1999	5	25	243	18,505
Six month ended 31 December, 1999	5	30	265	23,553
From 1 January, 2000 to 31 May, 2000	5	30	289	25,452

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## GENERAL OVERVIEW OF THE GROUP

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### *Production facilities and GMP compliance*

CTF has been improving and upgrading its production facilities in the last few years as follows:—

<b>Period</b>	<b>Plant</b>	<b>Status of Compliance with GMP</b>
Six months ended 30 June, 1998	Located in Jinan of Shandong Province with a total gross floor area of approximately 2,624 sq.m.	Canned injection workshop, eyedrop and ointment workshops implemented GMP procedures by rearranging of the different sections of the production facilities in accordance with the GMP standard.
Six months ended 31 December, 1998	Total gross floor area of approximately 5,429 sq.m.	Canned injection workshop, eyedrop workshop and ointment workshop continued implementation of GMP procedures.
Six months ended 30 June, 1999	Established a new workshop. Total gross floor area increased to 7,770.5 sq.m.	Canned injection and eyedrop applied for GMP certification. Ointment workshop continued implementation of GMP procedures.
Six months ended 31 December, 1999		Canned injection and eyedrop obtained GMP certificates. Ointment workshop continued GMP procedures.
From 1 January, 2000 to the Latest Practicable Date		Ointment workshop continued GMP procedures.

## GENERAL OVERVIEW OF THE GROUP

### *Research and development*

In the past few years, CTF has been continuously developing new products. The major progress made during the period is illustrated as follows:—

Period	Pilocarpine Nitrate eyedrops	Mioclear eyedrops	Jingfu eyedrops	Composite Tobramycin Gel
Six months ended 31 December, 1997	Application submitted for new medicine	Obtained approval for clinical trial		
Six months ended 30 June, 1998	Received new medicine certificate and applied for production approval	Commenced clinical trial	Conducted feasibility study	Conducted feasibility study
Six months ended 31 December, 1998	Received production approval	Completed clinical trial	Established pre-clinical trial study project	Established pre-clinical trial study project
Six months ended 30 June, 1999	Commenced production	Applied for production approval	Commenced pre-clinical trial study	Commenced pre-clinical trial study
Six months ended 31 December, 1999		Obtained production approval	Continued with pre-clinical trial study	Continued with pre-clinical trial study
From 1 January, 2000 to the Latest Practicable Date		Commenced production	Completed pre-clinical trial study	Completed pre-clinical trial study

### *Number of full-time staff*

The table below sets out a breakdown of full-time staff of CTF according to their major operational functions.

Functions	As at 31 December,		As at the Latest Practicable Date
	1998	1999	Date
Production	46	52	68
Quality management and control	16	21	23
Sales and marketing	201	265	289
Research and development	16	17	17
Purchasing	5	5	5
Administration	78	95	104
Total	<u>362</u>	<u>455</u>	<u>506</u>

### (III) MODERNISED CHINESE MEDICINE AND CHEMICAL MEDICINE BUSINESSES

The modernised Chinese medicine and chemical medicine businesses of the Group are operated by CTT. According to the “Pharmaceutical Statistics Yearbook 1999” of SETC, CTT was one of the top 50 chemical pharmaceutical industrial enterprises in the PRC in terms of taxable profit in 1999. With its production facilities in Lianyungang, Jiangsu Province, the PRC, CTT currently produces approximately 80 different types of modernised Chinese medicine and chemical medicine. The principal products of CTT are Diammonii Glycyrrhizinatis (甘利欣) and Polyporus Polysaccharide injection (豬苓多糖注射劑), which are used in the medical treatment of hepatitis.

The functions of Diammonii Glycyrrhizinatis include anti-inflammation, protection of membranes of liver cells and enhancement of liver functions. The chemical substances for the production of Diammonii Glycyrrhizinatis are extracted and separated from licorices (甘草) using botany-chemical method and alpha licorice acid, which has a high degree of efficacy in treating hepatitis. Alpha licorice acid has the characteristics of high activation, high lipotropism and easy assimilation by the human body. Through its research and development, CTT has produced Diammonii Glycyrrhizinatis in the form of injections and capsules, which are included in the State Basic Pharmaceuticals Catalogue. The medicine approval certificates ((94) 衛藥准字 x-74號 and (94) 衛藥准字 x-75號) of Diammonii Glycyrrhizinatis were granted by MPH in 1994. CTT has been certified by the Research Institute of the Scientific Development of Public Health and Pharmaceutical of the MPH as the first pharmaceutical enterprise in the PRC applying licorice in the research and production of modernised Chinese medicine for the medical treatment of hepatitis, while its product, Diammonii Glycyrrhizinatis, was certified as the premier licorice medicine for the medical treatment of hepatitis. The Directors believe that CTT is one of the leading producers of licorice pharmaceuticals for the medical treatment of hepatitis in the PRC.

Polyporus Polysaccharide injection, a modernised Chinese medicine, is another principal product of CTT. It is produced through the extraction of polysaccharide (多糖類成份) from umbellate pore fungus (豬苓), a traditional Chinese herbal medicine. Polyporus Polysaccharide injection received production approval (蘇衛藥准字 (91) 1857-1) from the Public Health Department of Jiangsu Province, the PRC in 1991, and is classified as a Class 2 state protected Chinese medicine.

The Directors consider that, with the certification issued by the relevant authorities and/or organisations in the PRC, CTT is one of the leading pharmaceutical enterprises engaged in the research and development of modernised Chinese medicine using licorice in the medical treatment of hepatitis.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the aggregate sales of Diammonii Glycyrrhizinatis injections and capsules and Polyporus Polysaccharide injection accounted for approximately 56 per cent., approximately 68 per cent. and approximately 71 per cent. of the sales of CTT and approximately 36 per cent., approximately 41 per cent. and approximately 41 per cent. of the total sales of the Group, respectively.



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## GENERAL OVERVIEW OF THE GROUP

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### Products

CTT has obtained approvals to produce approximately 80 modernised Chinese medicine and chemical medicine. A brief description of the principal products of CTT is as follows:—

Product	Medicine category	Form	Functions
<i>For hepatitis</i>			
Diammonii Glycyrrhizinatis injection (甘利欣注射液)	Modernised Chinese medicine	Injection	Treatment of hepatitis
Diammonii Glycyrrhizinatis capsules (甘利欣膠囊)	Modernised Chinese medicine	Capsule	Treatment of hepatitis
Polyporuse Polysaccharide injection (豬苓多糖注射液)	Modernised Chinese medicine	Injection	Treatment of chronic hepatitis, prevention of tumor (tumor tissue growth), improve immune system and reduce the side effects of chemotherapy (化療)
<i>For urinary tract</i>			
Zegui Longshuang capsule (澤桂癭爽膠囊)	Modernised Chinese medicine	Capsule	Used in prostatic proliferation of bladder (膀胱瘀阻型 前列腺增生症)
<i>For anti-virus</i>			
Foscarnet Disodium injection (可耐注射液)	Chemical medicine	Injection	Anti-virus, used in organ transplant, AIDS patients and for CMV meningoencephalitis (CMV性網膜炎)
<i>For anti-ageing</i>			
Proanthocianidin capsule (必綠膠囊)	Plant extracts	Capsule	Anti-ageing
<i>For Orthopaedics</i>			
Etidronate Disodium tablet (依麟片)	Chemical medicine	Tablet	Treatment for osteoporosis (骨質疏鬆症)

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## GENERAL OVERVIEW OF THE GROUP

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The principal ingredient of Diammonii Glycyrrhizinatis injections and Diammonii Glycyrrhizinatis capsules is licorice (甘草). The use of licorice has over 2000 years of medical history. CTT's medical researchers discovered the protective function which licorice conferred on the liver in historical documents. Based on this research, CTT managed to separate various chemical substances from licorice, from which alpha licorice acid, an active ingredient for treating hepatitis, was selected. Despite its low content in licorice, alpha licorice acid has lipotropism and can combine easily with receptor protein and steroid hormone to target cell receptors of human bodies. CTT researched and eventually successfully developed Diammonii Glycyrrhizinatis for treating hepatitis which has better medical treatment efficacy against chronic hepatitis, lower recrudescence rate and a cheaper price compared to most other similar products. It is the third generation (which is also the latest) product of modernised Chinese medicine made from licorice. By possessing the proprietary technology in the production of Diammonii Glycyrrhizinatis, CTT has received certification for being in a leading position in the research and manufacture of high efficacy, low cost modernised Chinese medicine for the medical treatment of hepatitis using licorice-derived medicines.

Diammonii Glycyrrhizinatis injections and capsules and Polyporuse Polysacchoride injections are listed in the State Basic Medicines Catalogue and the urban medicare insurance catalogue in the PRC. Polyporuse Polysaccharide injection, a modernised Chinese medicine, is under patent protection in the PRC and has been used for medical treatment against hepatitis for nearly 10 years.

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## GENERAL OVERVIEW OF THE GROUP

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### Production

#### *Production facilities and GMP certification*

The production facilities of CTT are located in Lianyungang, Jiangsu Province. It has six workshops, two auxiliary workshops, a research and development centre and a medicine laboratory, with a total gross floor area of approximately 34,370.9 sq.m. The production facilities are as follows:—

<b>Workshop name</b>	<b>Major products produced</b>	<b>Production capacity</b>	<b>GMP certification</b>
Small volume injection workshop	Polyporuse Polysaccharide injection, Diammonii Glycyrrhizinatis injection	180 million bottles of injections	Implementing GMP procedures
Large volume injection workshop	Mannital injection	20 million bottles of injections	Implementing GMP procedures
Solid preparation workshop	Etidronate Disodium tablet, Diammonii Glycyrrhizinatis capsule and Proanthocianidin capsule	100 million tablets and 50 million granules	GMP certificate obtained
Powder injection workshop	Sepctinomycin hydrochloride powder injection	250 million bottles of injections	GMP certificate obtained
Plant extraction workshop	Proanthociandin, Hyoericin	Annual processing of 1,000 tonnes of medicine herbs	Implementing GMP procedures
Synthetis drugs raw material workshop	Etidronote Disodium	20,000 kilograms	Implementing GMP procedures

The Directors plan to upgrade the production facilities of CTT to enable it to apply for and obtain GMP certification for the remaining workshops by 2002.

#### *Production plan*

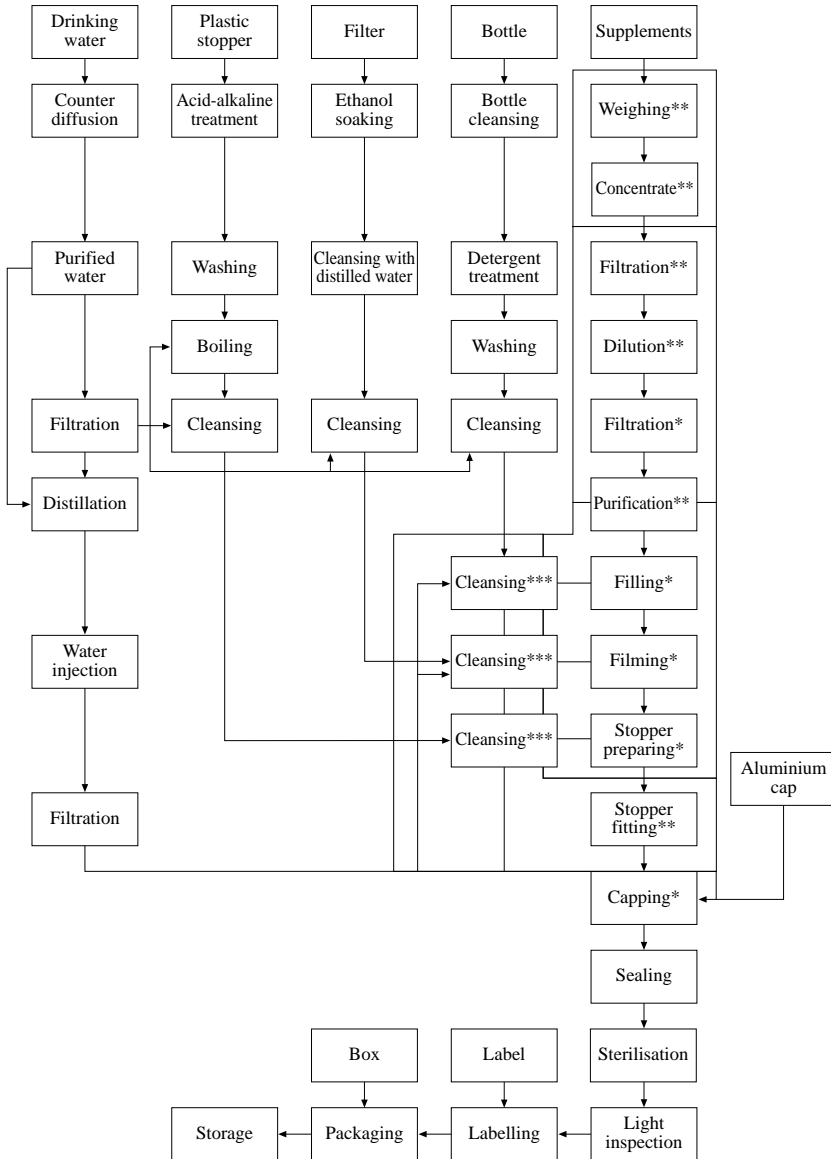
The planning of the production output of CTT is principally based on market demand. On a monthly basis, CTT will develop a production plan for the next three months and arrange the production schedule for the next month based on orders on hand and inventory level. In addition, the actual monthly production plan will be adjusted according to the actual sales and inventory level. The inventory turnover of CTT was between three to five months during the Track Record Period.

# GENERAL OVERVIEW OF THE GROUP

## Production process

The following flow charts show the production processes of the main categories of products of CTT:—

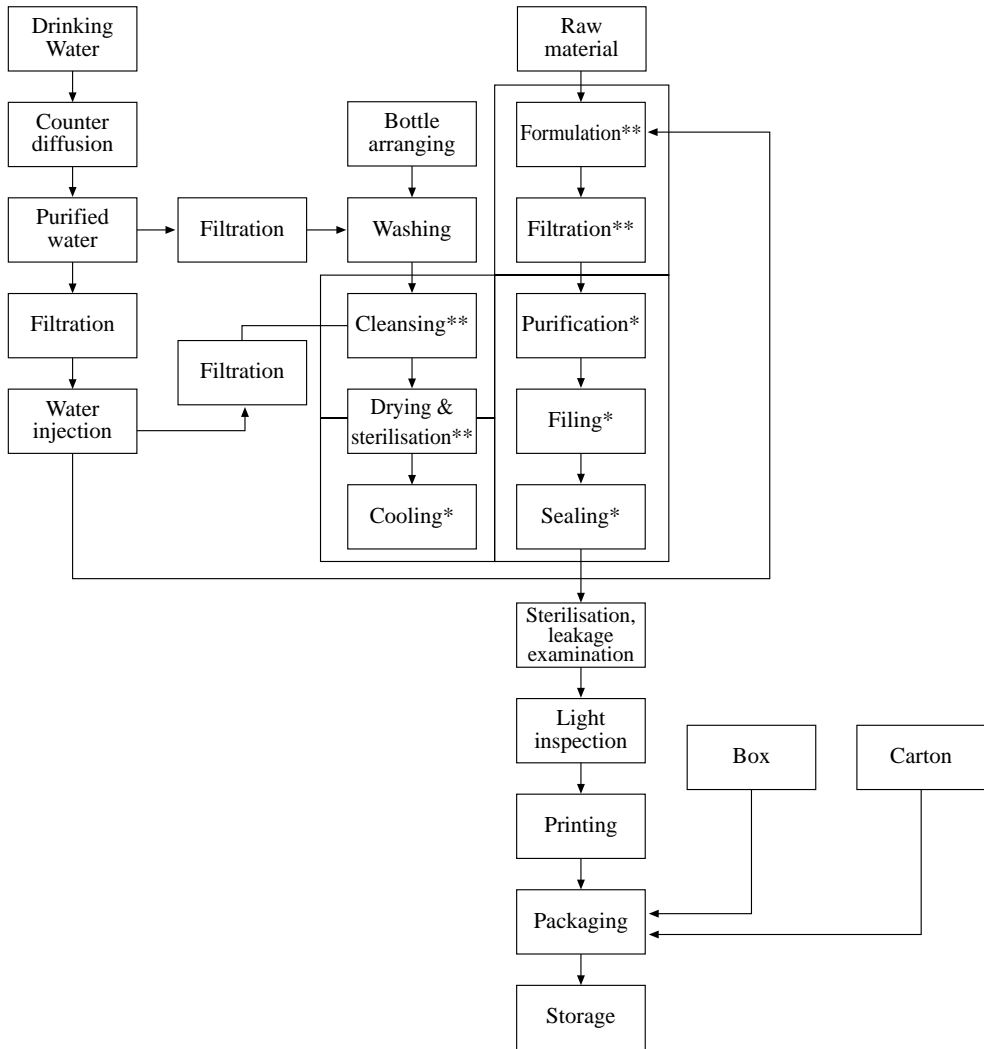
### 1. Production process for large volume injections



\* Bacteria-free at 100  
 \*\* Bacteria-free at 10,000  
 \*\*\* Bacteria-free at 100,000

# GENERAL OVERVIEW OF THE GROUP

## 2. Production process for small volume injections

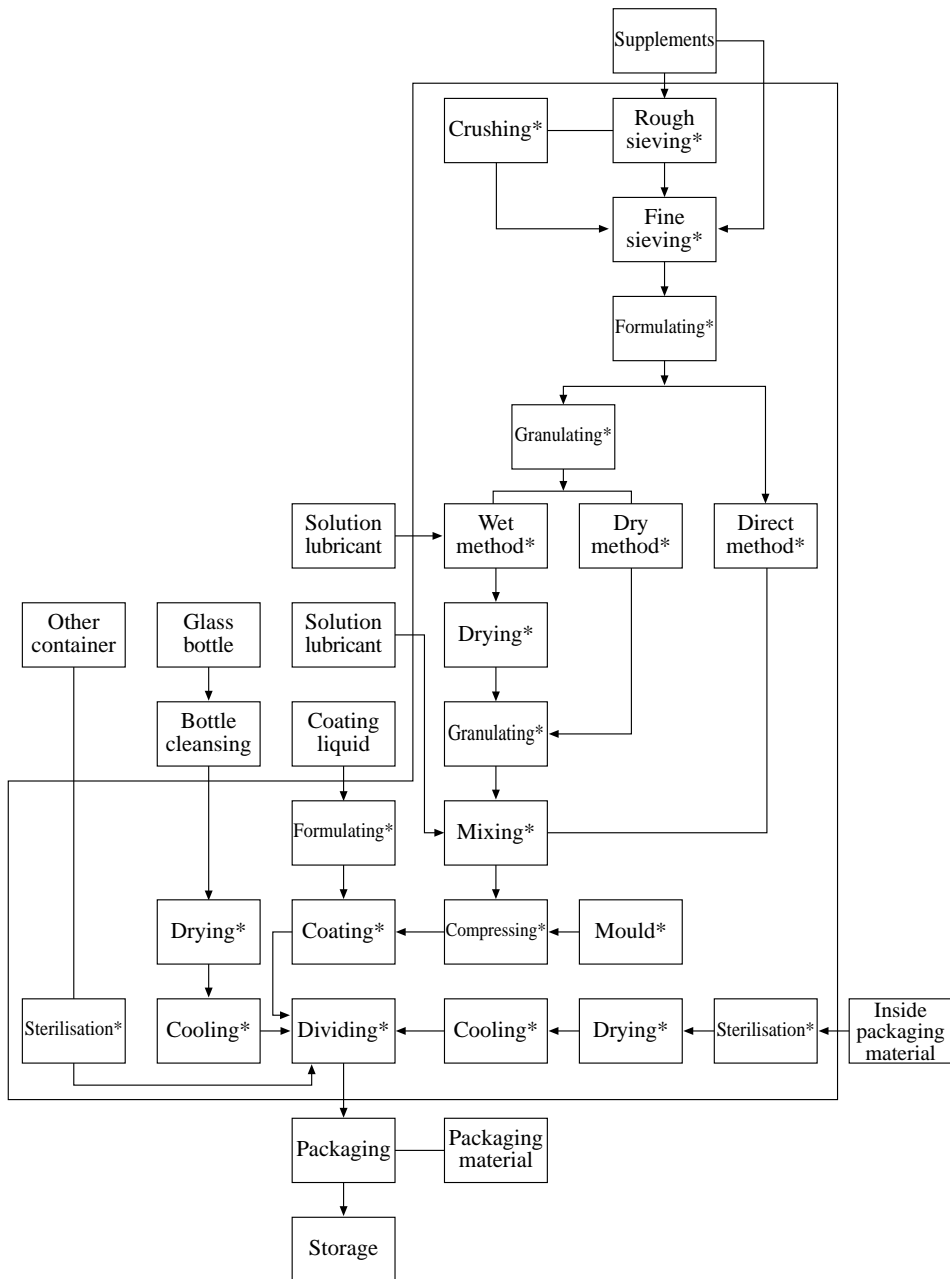


\* *Bacteria-free at 10,000*

\*\* *Bacteria-free at 100,000*

# GENERAL OVERVIEW OF THE GROUP

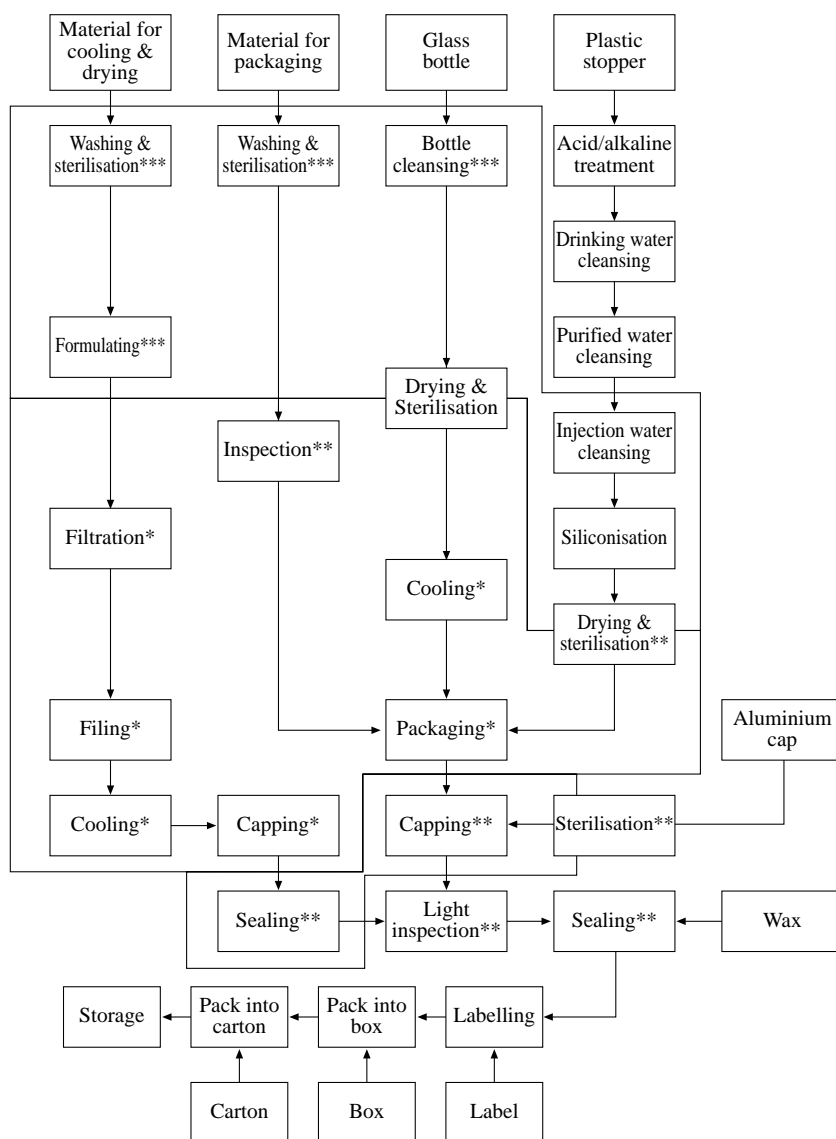
## 3. Production process for solid form products (capsules, tablets)



\* Bacteria-free at 100,000

# GENERAL OVERVIEW OF THE GROUP

## 4. Production process of injection powder



\* *Bacteria-free at 100*

\*\* *Bacteria-free at 10,000*

\*\*\* *Bacteria-free at 100,000*

### Raw materials

CTT uses numerous types of Chinese medicinal herbs, Chinese medicinal extractions and chemical medicines as raw materials for its products. CTT sources its raw materials from Chinese medicinal herb wholesalers in the PRC. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the costs of raw medicinal materials represented 42 per cent., 43 per cent. and 39 per cent. of the total production costs of CTT, respectively.

## GENERAL OVERVIEW OF THE GROUP

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, purchases from CTT's five largest suppliers of raw materials accounted for approximately 29 per cent., 40 per cent. and 43 per cent., respectively, of CTT's total purchases and 25 per cent., 30 per cent. and 31 per cent., respectively, of the Group's total purchases. The major raw material used by CTT for production is Diammonii Glycyrrhizinatis of which Xinjiang Tianshan Pharmaceutical Industrial Company (新疆天山製藥工業公司) is the largest supplier for the two years ended 31 December, 1999 and the five months ended 31 May, 2000 as a whole and accounted for approximately 9 per cent., 6 per cent. and 14 per cent., respectively, of CTT's total purchases and 8 per cent., 5 per cent. and 10 per cent., respectively, of the Group's total purchases for the corresponding periods. None of CTT, the Company and the Directors nor their respective associates has any interests in any of these five largest suppliers of raw materials. CTT has established long-standing relationship with its major suppliers. The Group did not experience any significant difficulty in sourcing raw materials during the Track Record Period and the Directors do not expect any significant difficulty in the sourcing of raw materials in the foreseeable future.

During each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the cost of packaging materials accounted for approximately 31 per cent., 27 per cent. and 28 per cent., respectively, of CTT's total production costs. Purchases of CTT are settled in Renminbi. Credit terms granted by suppliers are generally 60 days.

### Sales and marketing

The following table sets out the sales of the major products of CTT during the Track Record Period:—

	Year ended 31 December,		Five months ended 31 May,			
	1998	1999	2000			
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<i>Major modernised Chinese medicine</i>						
Diammonii Glycyrrhizinatis injection	58,465	38.9	92,511	50.5	46,570	51.9
Diammonii Glycyrrhizinatis capsule	12,971	8.6	23,572	12.9	14,482	16.1
Polyporuse Polysaccharide injection	12,537	8.4	8,516	4.6	2,943	3.3
<i>Major chemical medicine</i>						
Foscarnet Disodium injection	180	0.1	4,508	2.5	4,657	5.2
Etidronate Disodium tablet	2,837	1.9	4,429	2.4	3,765	4.2
<i>Non-core products (Note 1)</i>	60,880	40.5	45,211	24.7	15,591	17.4
Exported products (Note 2)	<u>2,467</u>	<u>1.6</u>	<u>4,536</u>	<u>2.4</u>	<u>1,758</u>	<u>1.9</u>
<b>Total</b>	<b><u>150,337</u></b>	<b><u>100.0</u></b>	<b><u>183,283</u></b>	<b><u>100.0</u></b>	<b><u>89,766</u></b>	<b><u>100.0</u></b>



# GENERAL OVERVIEW OF THE GROUP

Notes:—

1. Non-core products include Glycerin and Sodium Chloride (甘油氯化鈉), Tinidazoliet and Glucose Injection (替硝唑葡萄糖), Mannitol (甘露醇), Sepctinomycin Hydrocheoride (大觀霉素), Ciprofloxacin Lactate (乳酸環丙沙星) and Lincomycin (潔霉素).
2. Currently, only Proanthociandin (原花青素) is exported to the U.S., Japan and countries in Africa.

CTT divides its sales area into five regions, namely, East China, South China, Central China, Southwest China and North China, and has established five sales centres in Chengdu, Fuzhou, Wuhan, Shanghai and Beijing which are in charge of a total of 30 representative offices in various locations in the PRC.

The map below illustrates the geographical locations of CTT's sales centres and representative offices in the PRC:—

**Sales network of CTT**



## GENERAL OVERVIEW OF THE GROUP

CTT has a total of over 400 sales staff. The sales centres and offices are responsible for liaising with its commercial clients and hospitals, as well as the promotion and after-sales service of products and for monitoring feedback and market information. The following table sets out a geographical analysis of the sales of the products manufactured by CTT during the Track Record Period:—

	<b>Year ended 31 December,</b>		<b>Five months ended 31st</b>
	<b>1998</b>	<b>1999</b>	<b>May, 2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
East China ( <i>Note 1</i> )	70,271	79,886	36,804
South China ( <i>Note 2</i> )	15,768	23,142	12,465
Central China ( <i>Note 3</i> )	15,538	25,648	13,652
Southwest China ( <i>Note 4</i> )	5,081	6,278	4,489
North China ( <i>Note 5</i> )	<u>43,679</u>	<u>48,329</u>	<u>22,356</u>
<b>Total</b>	<u><u>150,337</u></u>	<u><u>183,283</u></u>	<u><u>89,766</u></u>

*Notes:—*

1. East China — Jiangsu, Zhejiang, Jiangxi, Anhui and Shandong provinces and Shanghai.
2. South China — Fujian and Guangdong provinces and the Guangxi Autonomous Region.
3. Central China — Hunan, Hubei and Henan provinces.
4. Southwest China — Sichuan, Yunnan and Guizhou provinces.
5. North China — Hebei, Shanxi, Gansu, Heilongjiang, Liaoning and Jilin provinces and the Xinjiang Autonomous Region.

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## GENERAL OVERVIEW OF THE GROUP

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The products of CTT are mainly sold in the PRC while an insignificant portion is exported to the U.S., Japan and Africa. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, exports accounted for approximately 2 per cent., 2 per cent. and 2 per cent. of the total sales of CTT, respectively.

CTT has more than 2,000 customers in the PRC. During the Track Record Period, the sales to the five largest customers accounted for approximately 9 per cent. of the total sales of CTT.

In general, the credit terms granted by CTT to its customers are 60 days. Customers will receive cash discounts if they pay in advance. CTT will usually withhold the next delivery if payment for the previous delivery is overdue until that payment is received. Products are generally delivered by rail and truck. Extended credit terms will be granted to foreign customers taking into consideration the delivery time. As at 31 December, 1998, 31 December, 1999 and 31 May, 2000, the provision for bad debts of CTT was approximately HK\$4.7 million, HK\$5.2 million and HK\$4.9 million, respectively.

In addition to advertising through mass communication media (including newspapers and magazines), CTT also holds promotion seminars in various hospitals through its regional representative offices to promote its products. It places particular emphasis on the presentations made by the medical representatives of CTT at professional medical conferences to disseminate information about its own products. Since such seminars and conferences are open to medical practitioners, the Directors believe such activities have had significant positive effects on the results of CTT.

CTT organises training programs to sharpen the marketing skills and product knowledge of its sales and marketing staff on a regular basis.

### **Pricing policy**

Pharmaceutical products are subject to price controls administered at the State or provincial levels in the PRC. The main objective of price controls is to set ceilings for the ex-factory prices, wholesale prices and retail prices of pharmaceutical products. However, pharmaceutical enterprises in the PRC can apply to the provincial price bureau to adjust such prices for their products.

A majority of CTT's pharmaceutical products are subject to price control. For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, sales of the products which were subject to the price control by the State represented approximately 98 per cent., 98 per cent. and 98 per cent., respectively, of CTT's total sales. The Directors are not aware of any CTT's applications for price adjustments having been denied by the relevant price control administrative authorities during the Track Record Period.

### **Intellectual property rights**

The trademarks of several products of CTT have been granted intellectual property rights protection. Furthermore, the packaging of several products of CTT has trademark registration to prevent imitation by its competitors. Detailed information is set out in the section headed "Intellectual property" in Appendix V to this prospectus.

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To prevent forgery of its products, CTT maintains regular contacts with its distributors, including hospitals, so that early investigation of any forgery can be initiated.

CTT has protection registered for the following products:—

<b>Product name</b>	<b>Category</b>	<b>Expiry date of product protection</b>
Polyporus Polysaacharide injection	Class 2 Protected Chinese medicine	1 February, 2001 <i>(Note 1)</i>
Zegui Longshuang capsule	Class 3 Chinese medicine	26 May, 2002 <i>(Note 2)</i>
Foscarnet Disodium injection	Class 4 chemical medicine	4 May, 2001

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*Notes:—*

1. Protection on this modernised Chinese medicine may be renewed for seven years upon expiration of its Certificate of Protected Chinese Medicine.
2. Application for the “Certification of Protected Chinese Medicine” can be filed upon the expiration of the protection period. If the application is approved, this medicine will be entitled to another 7 to 30 years of protection.

Particulars of the Intellectual property right of the Group are set forth in Appendix V to this prospectus.

### **Competition**

According to the “Pharmaceutical Statistics Yearbook 1999” of SETC, in 1998, CTT was one of the top 50 chemicals pharmaceutical industrial enterprises in the PRC in terms of taxable profit. Diammonii Glycyrrhizinatis, the principal product of CTT, has been classified as one of the State Basic Medicines of the PRC. Another principal product of CTT, Polyporus Polysaccharide injection, which has been applied in the treatment of hepatitis B for over nine years, is a Class 2 State protected Chinese medicine. The Directors believe that CTT has achieved a leading position in the research and production of modernised Chinese medicine in the treatment of hepatitis, and its products and brandnames have enjoyed great prestige in the market.

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the aggregate sales of Diammonii Glycyrrhizinatis injection and capsule and Polyporus Polysaccharide injection accounted for approximately 60 per cent., 68 per cent. and 71 per cent. of the total sales of CTT, respectively. At present, there are approximately ten domestic producers producing similar products in the PRC. However, since Diammonii Glycyrrhizinatis, which is solely produced by CTT, is listed in the public medicare catalogue and its price is relatively low compared with those not listed in the catalogue, the Directors believe that Diammonii Glycyrrhizinatis has competitive advantages over such similar products, especially in the rural market in the PRC. Competition with Diammonii Glycyrrhizinatis comes from imported or domestic made bio-

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## GENERAL OVERVIEW OF THE GROUP

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engineering products such as interferon. In terms of pricing, the medical expenses come to around RMB10,000 to RMB30,000 for using other local or imported interferon to treat hepatitis while it is only about RMB1,000 for Diammonii Glycyrrhizinatis.

CTT is designated by the Scientific Technology Commission of Jiangsu Province as a “Knowledge and Technology Intensive Enterprise”. It possesses advanced technologies in the research, development and production of modernised Chinese medicines. CTT has obtained GMP certificates to produce tablet and capsule products and the Directors expect that the production of the remaining products will be granted GMP certification by 2002. The Directors believe that it is not currently common for pharmaceutical manufactures in the PRC to fully comply with GMP certification and obtaining GMP certification will enable CTT to further enhance its competitive advantages.

CTT has 30 representative offices and over 2,000 customers spread across the country, which enables CTT to fully utilise its production capacity and achieve economies of scale, thereby reducing its production cost.

CTT employs a group of scientific research staff and experts in hepatitis. The Directors believe that the knowledge and experience of such staff and experts in the research and development enables CTT to detect and set new trends in the development of medicines for hepatitis treatment and develop new products required by the market.

While the principal products of CTT face significant market competition, the Directors believe that CTT’s products have competitive advantages in the market in respect of its quality, efficacy, price, production size and marketing network.

### **Research and development**

As at the Latest Practicable Date, CTT had 27 employees in its research and development department. Most of its employees are holders of university degrees including doctorates. CTT also carries out research and development with its advanced equipment for research and analysis. The Directors believe that, with personnel with years of experience and expertise, CTT has competitive advantages in the research and development of hepatitis medicine.

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CTT currently has undertaken research and development of ten principal products. Among them, Oxymatrine (苦參素) is a follow-up product of Diammonii Glycyrrhizinatis and Polyporuse Polysaccharide and aims at anti-virus in the medical treatment of hepatitis. Sanzi Kechuan is for respiratory system diseases and Puerarin (葛根素) is for cardiovascular system diseases. Both diseases have been the major death causes recently. The products under the research and development by CTT are summarised as follows:—

Product name	Clinical application	Development stage
Oxymatrine capsules, Oxymatrine and Glucose injection (苦參素膠囊及苦參素葡萄糖輸液)	Treatment for viral hepatitis	Obtained new medicine certificate from SDA and applied for production approval document
Diammonii Glycyrrhizinatis Sodium Chloride and Glucose injection (甘草酸二銨氯化鈉及葡萄糖輸液)	Treatment for hepatitis	Completed clinical trial study
Puerarin and Glucose capsule and injection (葛根素膠囊及注射液)	Treatment for angina pectoris and myocardial infarction	Completed pre-clinical trial technical information review by provincial level SDA
Buyang Huanwutang injection (腦脈康注射液)	Treatment for apoplexy and its sequelae	Commenced pre-clinical trial study
Roloxifene Hydrochloride bulk and tablet (雷洛昔分原料及片劑)	Treatment for osteoporosis	Commenced pre-clinical trial study
Sotaloi Hydrochloride injection (鹽酸索它絡爾注射液)	Treatment for hypertension	Completed clinical trial study and obtained new medicine certificate from SDA
Clindamycin Phosphate Powder Injection (克林霉素磷酸酯粉針)	Antibiotic	Applied for production approval from SDA
Sanzi Kechuan capsule (三子咳喘膠囊)	Treatment for respiratory system diseases	Commenced pre-clinical trial study
Netimycin Sulfate and Sodium Chloride Injection (硫酸奈替米星氯化鈉輸液)	Antibiotic	Applied for production approval

For each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000, the research and development cost incurred by CTT was approximately HK\$2.1 million, HK\$1.3 million and HK\$3.2 million, respectively.

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### Quality control

The Directors believe that the maintenance of quality control during the production stage is one of the basic factors on which the long-term growth of CTT depends. Tablets and capsules of CTT have obtained GMP certificates and powder injection has passed credentials examination conducted by GMP Certification Centre of SDA. Applications for GMP certification have been made in respect of the workshop for large volume injection and small volume injection which are expected by the Directors to be approved in the second half of 2000.

As at 30 June, 2000, CTT employed 48 staff who were responsible for quality control. CTT organises regular training programmes for its staff to improve their knowledge of quality control. Furthermore, CTT has also compiled a quality control manual.

During the Track Record Period, CTT did not experience any material interruption to its business because of failure in the quality control systems. The Directors confirm that CTT has never experienced any claims, lawsuits or litigation concerning the quality of its products.

### (IV) ACTIVE BUSINESS PURSUITS IN THE GROUP'S MODERNISED CHINESE MEDICINE AND CHEMICAL MEDICINE BUSINESSES

#### *Sales*

The sales volume of the principal products of CTT during the Track Record Period were as follows:—

Product name	Year ended 31 December,		Five months ended
	1998	1999	31 May, 2000
		( '000 boxes)	
Diammonii Glycyrrhizinatis injection	4,446	5,942	2,810
Polyporus Polysaacharide injection	282	192	65
Diammonii Glycyrrhizinatis capsules	1,373	2,064	1,181

#### *Marketing*

Between the period of May 1997 (following CTT's establishment) and May 2000, the marketing strategies of CTT include mainly the active development of its sales network, involvement in academic conferences in promoting its own products and visits to hospitals, clinics and other customers by its regional sales representatives. Furthermore, CTT also arranges promotional shows and seminars to promote its products. CTT's products are promoted through advertisements in newspapers, magazines and television. Some of the products of CTT are sold overseas. These exports, however, accounted for less than 3 per cent. of the total sales of CTT during the entire period.

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The expansion in the marketing operations of CTT during the Track Record Period was as follow:—

Period	Number of sales center	Number of sales office	Number of sales Staff	Marketing expenses <i>HK\$'000</i>
Six months ended 30 June, 1998	3	10	250	9,088
Six months ended 31 December, 1998	3	11	277	11,107
Six months ended 30 June, 1999	5	20	300	7,767
Six months ended 31 December, 1999	5	30	401	14,991
From 1 January, 2000 to the 31 May, 2000	5	30	462	16,071

### *Production facilities and GMP compliance*

During the period of May 1997 to the Latest Practicable Date, even though there was no expansion of the plants and workshops of CTT, its production facilities underwent the following GMP compliance procedures:—

Period	Plant	GMP compliance
May to December 1997	Total gross floor area of 15,000 sq.m. for six workshops, two ancillary workshops	Solid form dosage workshop commenced trial run of GMP standards
Six months ended 30 June, 1998		Solid form dosage workshop commenced to implement GMP standards
Six months ended 31 December, 1998		Powder injection workshop commenced to implement GMP standards
Six months ended 30 June, 1999		Powder injection workshop complied with GMP standards
Six months ended 31 December, 1999		Large and small volume injection workshops commenced to implement GMP procedures. Solid form dosage workshop complied with GMP standards. Powder injection workshop complied with GMP standards
From 1 January, 2000 to the Latest Practicable Date		Large and small volume injection workshops commenced to implement GMP standards. Solid form dosage workshop complied with GMP standards. Powder injection workshop complied with GMP standards



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### *Research and development*

CTT has been developing new products continuously since its establishment. Its progress during the following periods is shown below:—

Period	Etidronate Disodium	Foscarnet Disodium	Zegui Longshuang	Marine Glucose injection and capsule	Puerarin Glucose Capsules and injections	Diammonii Glycyrrhizinatis and Glucose injections
May 1997 to December 1997	Obtained new medicine certificate and approval document from SDA	Concluded clinical trial and applied for new medicine certificate and production approval	Concluded clinical trial and applied for new medicine certificate and production approval			
Six months ended 30 June, 1998	Marketed	Obtained new medicine certificate and approval document from SDA	Obtained new medicine certificate and approval document from SDA	Conducted feasibility study	Conducted feasibility study	Conducted feasibility study
Six months ended 31 December, 1998		Marketed	Marketed	Established project	Established project	Established project
Six months ended 30 June, 1999				Commenced pre-clinical trial study	Commenced pre-clinical trial study	Commenced pre-clinical trial study
Six months ended 31 December, 1999				Commenced pre-clinical trial study	Commenced pre-clinical trial	Commenced clinical trial
From 1 January, 2000 to the Latest Practicable Date				Commenced pre-clinical trial study	Obtained new medicine certificate from SDA	Obtained new medicine certificate from SDA

### *Number of full-time staff*

The table below sets out a breakdown of full-time staff of CTT according to their major operational functions:—

Functions	As at 31 December,		As at the Latest Practicable Date
	1998	1999	Date
Production	561	535	532
Quality management and control	40	46	48
Sales and marketing	285	409	445
Research and development	23	27	27
Purchasing	9	9	9
Administration	191	204	204
Total	<u>1,109</u>	<u>1,230</u>	<u>1,265</u>

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### INSURANCE

The Group maintains insurance policies which cover the Group's fixed and current assets against damage caused by accidents and natural disasters. In accordance with established practice in the PRC, however, the insurance policies maintained by the Group do not cover any indirect losses (such as loss of profits) caused by termination of its business. The Group also maintains medical insurance in relation to its employees which also covers the death and personal injury at work of employees.

Other than the above-mentioned insurance policies effected by the Group, the Group does not maintain any third party liability insurance to cover any claims in respect of personal injury or the deterioration of products sold by the Group. However, the Group has never experienced any material third party liability claim in relation to its products. The Directors believe that the Group can effectively control the product liability risk through stringent quality control of its operations. In addition, all of the Group's products must meet quality standards imposed by regulatory authorities in its principal markets in order for the Group to obtain and maintain the necessary certificates, permits and approvals for the production, sale and distribution of such products. The Directors believe that product liability claims are not common in the PRC, which is the principal market for its products.

### ENVIRONMENTAL PROTECTION

The Group's production facilities have complied with applicable PRC standards relating to environmental protection. It is the Directors' intention that CTT and CTF should continuously improve their environmental protection measures in order to ensure continuing compliance with future relevant regulations. To the knowledge of the Directors, the Group has not violated any environmental laws and regulations of the PRC.

### YEAR 2000 COMPUTER COMPLIANCE

The "Year 2000 Compliance Problem" refers to the failure of certain computer hardware and software and electronic systems to process correctly four digit year dates beginning with the year 2000. The Group implemented and completed several measures to resolve the Year 2000 Computer Problem with free assistance from computer and software suppliers. As at the Latest Practicable Date, the Directors were not aware of any such problem occurring in the computer hardware and software used by the computer and electronic systems of the Group, and do not expect that it will result in any significant exposure to potential problems for the Group.