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## STATEMENT OF BUSINESS OBJECTIVES

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### BUSINESS STRATEGY

The business strategy of the Group is to promote the use of biopharmaceutical medicine in the PRC and enhance the modernisation process of TCM to bring about further growth in the core business of the Group. The Directors are of the opinion that the medicine industry in the PRC possesses high growth potential. To capitalise on such growth, the Group intends to adopt the following principal business strategies:—

— **Focus on the development of biopharmaceutical products and modernised Chinese medicine**

The Directors believe that the Group possesses expertise in using hyaluronan and low molecular heparin in the research, development and production of biopharmaceutical products in the PRC and has experience in extraction, separation and synthesis of medicinal ingredients in Chinese herbal materials and, in particular, applying alpha licorice acid in the production of modernised Chinese medicine for the treatment of hepatitis. The Group will continue to focus on developing these products.

— **Expand through mergers, acquisitions, cooperative arrangements, strategic alliances and joint ventures**

The Group will continue to seek suitable investment candidates and business partnerships, including strategic alliances with foreign and PRC-based pharmaceutical companies in order to further expand and strengthen its core business.

— **Further expand production capacity and research and development capabilities to meet the increasing demand in the PRC**

The Directors intend to further expand production capacity and its research and development capabilities to further strengthen the competitive advantages currently enjoyed by the Group. It is also one of the business objectives of the Group to further develop new products in order to serve the increasing demands in the PRC, in particular, the needs of the aging population.

— **Further expand distribution networks and sales teams and strengthen the brandnames through promotional activities**

The Directors believe that, in view of the vast geographical span and population in the PRC, it is feasible for the Group to further expand its existing distribution networks and sales outlets from its present coverage to regional cities and rural areas in the PRC.

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— **Further enhancement and refinement of production technologies and facilities**

The Directors intend to improve the Group's product quality by upgrading its production technologies and facilities and intend to actively seek certification of its products by international organisations to ensure international standards are achieved. This will facilitate expansion into overseas markets.

— **Diversify into new realms of the biopharmaceuticals sector**

The Directors believe that the biopharmaceuticals industry in the PRC is still in its infancy. The development in genetic technology is expected to improve the treatment and the prevention of genetic diseases and stimulate the development of biopharmaceutical products. The Group will seek to cooperate with enterprises which possess advanced genetic technology and/or acquire proprietary technologies.

— **Establish the Group's website with the medium-term objective of engaging in e-commerce**

The Directors plan to establish a website to enhance the core businesses of the Group. Initially, the website will be used to advertise the Group's products and to gauge market demand. The medium-term objective is to develop the website into a sales channel and an e-commerce platform for the Group's products.

### BASES AND ASSUMPTIONS

The Directors have assessed the potential of the markets involved in the Group's business during the forward looking period. Based on the past development trends of the industry and the forecast of future growth, coupled with the prospective demand deemed through experience, the Directors have formulated strategies to achieve the Group's business objectives. In assessing the potentials and formulating the strategies, the Directors have made the following principal assumptions:—

- there will be no material changes in the existing laws (whether in the PRC, Hong Kong or any part of the world), policies or industry or regulatory treatment relating to the Group, or in the political, economic or market conditions in which the Group operates.
- inflation, interest rate and exchange rates will not differ materially from those prevailing as of the date of this prospectus;
- no material changes in the bases or rates of taxation applicable to the Group;
- suitable personnel can be recruited and retained by the Group;
- there will be no change in the funding requirement for each of the near term development strategies described herein from the amount as estimated by the management of the Group;
- external financing will be readily available to the Group; and
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its property or facilities.

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## IMPLEMENTATION PLANS

The Group's plans to implement the above strategies to achieve its business objectives during the forward looking period are stated below. **It should be noted that as the Group operates in a fast-growing and ever-changing market, the following implementation plans have been formulated on the bases of the Directors' best estimate of market trend and demand and may be subject to changes should any material changes in market conditions arise. As a result, the following implementation plans should be read with caution.**

The chart below illustrates business objectives and the implementation plans of the Group for each of the five consecutive six-month periods from the Latest Practicable Date to 31 December, 2002:—

Principal business activities	Implementation plans	From the Latest Practicable Date to 31 December, 2000	For the six months ending			
			30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002
Research and development	<p>Establish a research and development centre in Beijing</p> <p>Product research and development activities carried out by CTF</p> <p>Product research and development activities carried out by CTT</p>	○	□		△	~~~~~
						Research and development at different periods with the objective of introducing 3 new medicines into the PRC market
						Research and development at different periods with the objective of introducing 12 new medicines into the PRC market
Production of biopharmaceutical products	<p>Establish business alliances with pharmaceutical enterprises in the fields of biopharmaceutical, Chinese medicine and/or natural herbal products</p> <p>Expand existing business</p>	○	□		△	~~~~~
Marketing and sales	<p>Expand and consolidate distribution networks</p> <p>Establish website of the Group and e-commerce activities</p>	○	□		△	~~~~~
		○	□		△	~~~~~

Keys: ○ preparation stage □ implementation stage △ initial completion stage ~~~~ on-going development

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### Research and development

i. *Establish a research and development centre in Beijing*

In view of the clustering of medical research institutions in Beijing, which would enable the Group to enlist medical experts and to be up to date with the latest developments in the pharmaceutical industry, the Directors intend to establish a company for research and development in Beijing. This research and development centre will be principally engaged in the research and development of new medicines for the therapeutic treatment of hepatitis, senility and ophthalmia, research and development of new medicine dosage and renovation of production techniques.

The Group will also identify business opportunities to cooperate with research institutes and enterprises possessing genetic technology with the objective of developing biotechnological products. In this connection the Group is discussing with independent research institutes in the PRC to explore such co-operative business relationship. No memorandum of understanding or any other agreement has been signed for such business cooperation.

In relation to the research and development of ophthalmic medicine, the Group will focus on the medical treatment of cataract and eye fatigue. The Group will also take its advantage in hyaluron based ophthalmic medicine to further develop new medicines for the medical treatment of trachoma, acute conjunctivitis, keratitis, glaucoma and near-sighted.

In relation to the research and development of medicine for the medical treatment of hepatitis, the Group will focus on the medical treatment of cirrhosis of liver and fatty liver. The Group will take advantage in its modernised production technology and research capacity to further improve the medical treatment efficacy of its existing products and to develop new medicines targeting at jaundice, anti-virus, high transaminase indicators, hepatitis coma and hepatitis C.

The Group will also focus on the research and development of medicine for the medical treatment of age-related diseases especially in the area of cardiovascular and cerebral system. The Group will derive active ingredients from Chinese medicinal herbs using advanced technology and manufacture new medicine in the forms of injections, capsules or tablets which will have better medical treatment efficacy than the traditional Chinese medicine.

The planned funding is primarily intended for the research expenditure, acquisition of equipment, clinical tests and approval expenses of the above projects.

## STATEMENT OF BUSINESS OBJECTIVES

Time	From the Latest Practicable Date to 31 December, 2000		Six months ending		
	30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002	
Stage of development	Preparation stage	Implementation stage	Implementation stage	Implementation stage	On-going stage
Description	<ol style="list-style-type: none"> <li>1. Complete feasibility study of the research and development centre</li> <li>2. Identify scientific research organisations to cooperate on research and development projects</li> </ol>	<ol style="list-style-type: none"> <li>1. Commence operation of the centre</li> <li>2. Confirm research and development projects</li> </ol>	<ol style="list-style-type: none"> <li>1. Cooperate with scientific research organisations by entering into research and development project agreements</li> <li>2. Commence to carry out research work on development projects (a maximum of 5 projects at one time)</li> </ol>	<ol style="list-style-type: none"> <li>1. Continue to carry out research work on development projects</li> <li>2. Complete research work on 1–2 development projects</li> <li>3. Prepare information for applications of registration and approval of projects with research work completed</li> </ol>	<ol style="list-style-type: none"> <li>1. Complete applications of registration and approval of new products</li> <li>2. Confirm transfer and production of new products</li> <li>3. Continue to carry out research work on incomplete projects</li> </ol>

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ii. *Plan of new product research and development of CTF*

Product name	From the Latest Practicable Date to 31 December,		Six months ending		
	2000	30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002
Jingfu Eyedrops	Apply for approval from state level SDA to commence clinical trial	Obtain approval from state level SDA to commence clinical trial	Obtain new medicine certificate from SDA and apply for production approval	Commence commercial production	Market and promote product
Composite Tobramycin GEL	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from state level SDA to commence clinical trial	Obtain new medicine certificate from SDA and apply for production approval	Commence commercial production	Market and promote product
Butenafine Hydrochloride Gel	Complete pre-clinical trial study	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from State level SDA to commence clinical trial	Commence clinical trial	obtain new medicine certificate from SDA and apply for production approval

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### iii. Plan of new product research and development of CTT

Product name	From the Latest Practicable Date to 31 December, 2000	30 June, 2001	Six months ending 31 December, 2001	30 June, 2002	31 December, 2002
	Oxymatrine Capsules and Oxymatrine Glucose injection (苦參素膠囊及葡萄糖輸液)	Obtain production approval from SDA	Prepare for commercial production	Commence commercial production	Market and promote product
Diammonii Glycyrrhizinatis Sodium Chloride and Glucose injection (甘草酸二銨氯化鈉及葡萄糖輸液)	Apply for production approval	Obtain production approval from SDA	Commence commercial production	Market and promote product	Market and promote product
Puerarin glucose injection (葛根素葡萄糖輸液)	Apply and obtain production approval from SDA	Commence commercial production	Market and promote product	Market and promote product	Market and promote product
Buyang Huanwutang injections (腦脈康注射液)	Continued with pre-clinical trial study	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from state level SDA to commence clinical trial	Complete clinical trial	Apply for production approval
Roloxifene Hydrochloride and tablets (雷洛昔芬原料及片劑)	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from state level SDA to commence clinical trial	Complete clinical trial	Complete clinical trial	Apply for production approval
Sotalol Hydrochloride injection (鹽酸索它絡爾注射液)	Prepare for commercial production	Prepare for commercial production	Commence commercial production	Market and promote product	Market and promote product
Clindamycin Phosphate powder injections (克林霉素磷酸酯粉針)	Obtain production approval from SDA	Prepare for commercial production	Commence commercial production	Market and promote product	Market and promote product
Sanzi Kechuan capsules (三子咳喘膠囊)	Complete pre-clinical trial study	Pre-clinical trial study reviewed by provincial level SDA	Obtain approval from state level SDA to commence clinical trial	Complete clinical trial	Apply for production approval
Netimycin Sulfate and Sodium Chloride injection (硫酸奈替米星氯化鈉輸液)	Apply for production approval	Obtain production approval from SDA	Commence commercial production	Market and promote product	Market and promote product
Puerarin capsules (葛根素膠囊)	Complete clinical trial	Apply for production approval documents	Obtain production approval documents from SDA	Commence commercial production	Market and promote product

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### Production of pharmaceutical products

- i. *Forming alliance with reputable producers of biopharmaceuticals, Chinese medicine or natural herbal products*

The Group intends to seek co-operation with selected Chinese prescription medicine enterprises which have famous brandnames, proven therapeutic uses by clinical trials and a long history in the TCM industry. This will expand the markets of the Group's business.

Period	From the Latest	30 June, 2001	Six months ending		31 December, 2002
	Practicable Date to 31 December, 2000		31 December, 2001	30 June, 2002	
Description	Continue to identify and assess suitable cooperative partners Commence negotiations with cooperative partners	Execute cooperative agreements under appropriate circumstances	Continue to identify cooperative partners and execute cooperative agreements prior to year end	Continue to identify cooperative partners and execute cooperative agreements	Continue to identify cooperative partners and execute cooperative agreements

- ii. *Expansion of production facilities of CTF*

The Directors forecast that during the period from 2000 to 2002, the production capacity of CTF will be expanded from annual production of 25 million bottles of eyedrops in 2000 to 55 million bottles in 2002. It is estimated that an additional production workshop will be required to satisfy additional orders. The total cost of expansion of the production facilities of CTF is expected to be approximately HK\$55.8 million, which is expected to be financed by CTF's internal resources. As part of the expansion, the ointment production workshop of CTF will be upgraded to meet the GMP requirements before June 2001 at the cost of approximately HK\$12.1 million, of which HK\$250,000 will be used for floor area expansion and the remaining will be used for workshop renovation and equipment upgrading.

Period	Factory	GMP compliance
From the Latest Practicable Date to 31 December, 2000	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 8,700 sq.m.	Canned injection workshop and eyedrops workshop comply fully with GMP procedures  Ointment workshop commences installation of air purification system and GMP complying equipment.
Six months ending 30 June, 2001	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 10,200 sq.m. as a result of business expansion, a new power workshop of 1,500 sq.m. in the High and New Technology Development Zone.	Ointment workshop complies fully with GMP procedures



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<b>Period</b>	<b>Factory</b>	<b>GMP compliance</b>
Six months ending 31 December, 2001	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 10,200 sq.m.	All workshops comply fully with GMP procedures
Six months ending 30 June, 2002	Located in Jinan, Shandong Province, the PRC with a total gross floor area reaching 12,000 sq.m.	New eyedrop workshop in the High and New Technology Development Zone commence construction according to GMP standard
Six months ending 31 December, 2002	Located in Jihan, Shandong Province, the PRC with a total gross floor area of 12,000 sq.m.	All workshops comply fully with GMP procedures

### iii. *Expansion of production facilities of CTT*

The present production facilities of CTT are conducted in two work shifts. Should there be any sudden increase in product demands, extra shifts shall be arranged to meet additional orders. The focus of CTT's business expansion is to further improve and upgrade its production facilities including installing air purification systems and necessary equipment, workshop renovations, etc., in order to pass GMP certification of all workshops. Such expansion is expected to be at a total cost of approximately HK\$30.0 million which will be financed by the internal resources of CTT.

<b>Period</b>	<b>Factory</b>	<b>GMP compliance</b>
From the Latest Practicable Date to 31 December, 2000	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Large-volume workshop and small-volume workshop fully comply with GMP
Six months ending 30 June, 2001	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Plant extraction workshop, synthetic drugs raw material workshop commence to implement GMP procedures. Husbandry room fully complies with GMP
Six months ending 31 December, 2001	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Plant extraction workshop and synthetic drugs raw material workshop implement GMP procedures
Six months ending 30 June, 2002	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Plant extraction workshop and synthetic drugs raw material workshop fully comply with GMP procedures

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Period	Factory	GMP compliance
Six months ending 31 December, 2002	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	All workshops fully comply with GMP procedures

### Marketing and sales

- i. *Establishment of the Group's website with the medium-term aim of commencing e-commerce of pharmaceuticals*

The Internet is fast-becoming an effective channel for the promotion and advertising of products, gauging market demand and selling products. The Directors are of the opinion that the application of the Internet technology will enhance the reputation and sales of the Group's products. The Directors intends to establish a website to advertise the businesses and products of the Group and collect relevant information to develop products tailored for customers needs. The medium-term target is to develop the Group's website into a sales channel and an e-commerce platform for the Group's products.

Time	Contents of work
From the Latest Practicable Date to 31 December, 2000	Edit CTT's website ( <a href="http://www.zdtqzy.com">www.zdtqzy.com</a> ), improve website content to include more information about the company and products, promote CTT's products as well as website; launch CTF's website ( <a href="http://www.cpfreda.com">www.cpfreda.com</a> )
Six months ending 30 June, 2001	Turn static release of information into interactive website by enhancing health consultation content as regards ophthalmia and hepatitis
Six months ending 31 December, 2001	design and trial run of e-commerce strengthen website content, turn the website into the leading website for doctors and patients of eye and liver health care
Six months ending 30 June, 2002	Complete e-commerce system, continue to refine the website content.

- ii. *Expansion and consolidation of the PRC distribution network*

The Group's marketing and sales strategies are to expand and consolidate its distribution network. Apart from the expansion and consolidation of its distribution network, the Group is planning to boost the sales of its out-patient medicine and healthcare products by cooperating with major chain stores and supermarkets.

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The expansion plan of the sales network of CTF:—

Time	Number of representative offices	Number of sales staff
From the Latest Practicable Date to 31 December, 2000	30	330
Six months ending 30 June, 2001	35	350
Six months ending 31 December, 2001	35	380
Six months ending 30 June, 2002	40	400
Six months ending 31 December, 2002	40	450

The expansion plan of the sales network of CTT:—

Time	Number of representative offices	Number of sales staff
From the Latest Practicable Date to 31 December, 2000	30	550
Six months ending 30 June, 2001	35	650
Six months ending 31 December, 2001	35	750
Six months ending 30 June, 2002	40	820
Six months ending 31 December, 2002	40	900

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

Growth through acquisitions and alliances is one of the principal strategies of the Group. The Directors intend to expand the Group through mergers, acquisitions, cooperative arrangements, strategic alliance and joint ventures. The Directors are currently evaluating a number of business opportunities. However, the evaluation and related negotiations with the relevant parties are only at preliminary stages and there is no assurance that any of these negotiations will be consummated.

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

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### USE OF PROCEEDS

The net proceeds from the Placing, after deducting related expenses, are estimated to be approximately HK\$60 million. The Directors presently intend to use such net proceeds as follows:—

	From the Latest Practicable Date to 31 December, 2000	Six months ending				Total
	30 June, 2001	31 December, 2001	30 June, 2002	31 December, 2002		
For the research and development activities including the establishment of a research and development centre in Beijing	5.0	3.0	2.0	3.0	2.0	15.0
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceutical, Chinese medicine and/or natural herbal products	—	10.0	10.0	—	—	20.0
For the expansion of the distribution networks of the Group	5.0	5.0	—	—	—	10.0
For the establishment of the Group's website and commencement of e-commerce	1.0	0.5	0.5	0.5	0.5	3.0
General working capital	<u>4.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>12.0</u>
	<u>15.0</u>	<u>20.5</u>	<u>14.5</u>	<u>5.5</u>	<u>4.5</u>	<u>60.0</u>

In the event that the Over-allotment Option is exercised in full and based on the Issue Price, the additional net proceeds of approximately HK\$10.8 million will be applied by the Company for general working capital of the Group to support its ongoing operations and expansion.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that such proceeds should be placed on short-term deposits with banks or financial institutions in Hong Kong.

**The Directors believe that the net proceeds from the Placing will not be sufficient to finance all planned and/or intended projects of the Group as described in the section headed “Statement of business objectives” in this prospectus. The Directors currently estimate that an additional funding of no more than approximately HK\$85.8 million may be required to achieve all the business objectives of the Group up to 31 December, 2002 including, in particular, the expansion of the production facilities of CTF and CTT, subject to the achievement of all other respects of the business plans of the Group and the same bases and assumptions as stated in the section headed “Statement of business objectives” in this prospectus. The Directors believe that the Group will be able to satisfy such additional funding requirements through internally generated financial resources and banking facilities. In the event that there is any material change in the use of proceeds from the Placing, the Company will make a separate announcement.**