

## Frequently Asked Questions

**1. Did the Group make any substantial change to its market positioning and development strategy?**

Since its establishment in 1987, the Group is dedicated to introducing well-known pharmaceuticals into the PRC, being distributor of European drugs in the PRC and being producer of generic drugs imitated those of western countries in the PRC in 1993. Since then, the Group has continually upgraded its production facilities, extended its sales network and boosted its scientific research capability. Currently, the Group is ready to transit from a producer of generic drugs to a pharmaceutical company with a strong focus on scientific research to develop its own new pharmaceutical products and enhance production technologies. There would be a gradual move away from the competitive generics market towards specialised drug market emphasizing on the development, production and sale of the five therapeutic categories of drugs identified by the Group.

**2. This year's earnings decreased due to the PRC government policy of reducing the price of antibiotics. How long will the impact last?**

Although the price-cut policy of antibiotics instructed by CSDRC of PRC has caused a larger than expected negative impact on the results of this year, the Group believes that it is just a transition. The Group is moving towards a more specialised drug market which is less prone to market competition and State intervention on prices. It is expected that operating results would improve with the continual launch of new products.

**3. What are the drivers of future earnings' growth?**

- 1) Expanded sales network would enhance growth in product sales;
- 2) Boosting the launch of new products would provide impetus for growth in margins;
- 3) Broadening the sales channel of prescription drugs and over-the-counter drugs respectively would increase the sale;
- 4) Explore new self-produced pharmaceutical raw materials and export to U.S. market;
- 5) Full utilization of new plant would reduce the operating cost effectively.

**4. What is the expected timing of export of pharmaceutical raw materials produced by the Group?**

The raw material manufacturing plant which the Group has injected resources is under remodeling so as to obtain certification from SFDA (PRC) and FDA (USA). The Group expects that export of pharmaceutical raw materials would commence by the end of 2006.

**5. The Group's administrative expenses during the period increased by approximately 40% compared with that of last year, what are the main reasons? What strategies does the management take to control cost?**

The increase in administrative expenses is due to increased expenses attributed to the commencement of operations of the new

## Frequently Asked Questions

plant in Kunming, PRC. The Group decided to relocate all production lines in the old plant to the new plant in 2005. It is expected that operating costs would be reduced substantially when economies of scale can be achieved. The assets of the old plant would be capitalised next year.

The Group has also introduced the internal work goal "Increase Efficiency and Control Cost" in June 2004 to encourage the staff to achieve productivity, enhancing resources saving and cost saving.

**6. Will the Group increase substantial R&D cost in the near future?**

The Group adopts a prudent expansion strategy. Currently, the focus is to seek out cooperation with reputable domestic and international research institutes of new products, new technology and new technique. For instance, the cooperation with Rintech Inc. of U.S.A would assist the Group in the development of new international pharmaceutical products.

**7. What are the effects of the regulated PRC pharmaceutical industry on the Group?**

Increased regulation by the PRC over pharmaceutical industry will eliminate small to medium pharmaceutical enterprises which lack a competitive edge in terms of technology, quality and price. Meanwhile, such increased regulation also elevates the barrier to entry into the PRC pharmaceutical market. Therefore, the regulation over the PRC pharmaceutical industry will be beneficial to the development of the Group.

**8. What are the strength and prospects of the Group in the PRC pharmaceutical market?**

The Group expects to have a total of 17 GMP certified production lines by the end of 2006, which differentiates it from most manufacturers in the PRC pharmaceutical industry. This provides maximum flexibility for the Group's production and operation to bring in new products quickly, adapting the huge demand market and to enhance its own competitiveness.

The Group's decision-making team and management are based in Hong Kong, with many years of experience in the PRC pharmaceutical industry and global pharmaceutical market. Its heads of the technology department, marketing department and product development department, have all good understanding of the PRC market as well as an international outlook. The Group actively recruits specialists with professional qualification in pharmacy to lead sales teams, so as to raise the professional standard of its sales force and to establish its brand name.

With the competitive strengths in product, development, marketing, human capital and management, the Group is optimistic about the prospect.

**9. What is the Group's dividend policy in future?**

The Board has decided on a policy of dividend payout ratio of not less than 25% with effect from 2005. The Group will continue to improve its competitiveness and endeavour to increase value for its shareholders.