

Chairman's Statement



Mr. Tse Ping
Chairman

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report a profitable year ended 31 December, 2004 for the Group.

RESULTS

The Group had a solid year ended 31 December, 2004, with revenue, earnings and dividend reaching record highs. Turnover rose 27.8% to approximately HK\$1,050.38 million compared with the previous year, while profit attributable to shareholders increased substantially by 106.3% to approximately HK\$168.34 million. Basic earnings per share amounted to approximately HK12.63 cents, representing an increase of approximately 105.4% over the corresponding period last year. Cash equivalents and bank balance as at balance sheet date amounted to approximately HK\$276.21 million. Return on shareholders' fund increased from 24.0% to 36.8%. Sales of new products amounted to 24.8% of the Group's total turnover.

In view of the Group's confidence in the performance of its operations, the Group subdivided each of issued and unissued shares of HK\$0.10 each in the share capital into four shares of HK\$0.025 each on 28 April, 2004, and commenced a quarterly dividend payment policy from the second quarter of 2004. The interim dividend of HK2 cents per share and the third quarter dividend of HK2 cents per share totalling HK4 cents have been paid.

The board of Directors has recommended the payment of a final dividend of HK4 cents per share and a bonus issue of 1 share for every 2 existing shares, subject to the respective approval of shareholders at the Annual General Meeting and Extraordinary General Meeting to be held on 13 May, 2005. The total dividend paid for the year amounted to HK8 cents per share (2003: HK3.75 cents – after adjusting for the share subdivision effect).

INDUSTRY OVERVIEW AND THE GROUP'S POSITION IN THE PRC PHARMACEUTICAL MARKET

The Chinese pharmaceutical market experienced steady growth in 2004. Although the PRC Government continued to impose stringent measures towards the drug pricing and promotions campaigns, together with the widespread use of drug tendering system, the growing demand of the country's 1.3-billion population, the increasing rural-urbanisation and the new village-cooperative medical system (the system was launched in January 2003, of which designed to provide comprehensive medical insurance coverage to the entire rural population by 2010) have collectively created abundant growth opportunities in the PRC pharmaceutical market. The promising market also brought up rural pharmaceutical market a rising star in the industry.

With the enforcement of more new regulations, the industry has become more standardised and market competition has become more structured. During the year, the PRC Government implemented various changes in the pharmaceutical and healthcare policies and measures, including: drug pricing reform, pharmaceutical categorization, addition of more prescription drugs in the national medical insurance catalogue, healthcare system reforms, relaxation of restrictions on the wholesaling of pharmaceuticals, centralised drug tendering, and the implementation of the village-cooperative medical system.

The pharmaceutical market has also become more polarized, in terms of production scale and profits. In order to align with the international standards, the PRC Government encouraged the development of large-scale pharmaceutical enterprises. This has created considerable pressure on the smaller players who are less competitive (in terms of technology, quality and pricing). As a result, many pharmaceutical companies are confronting with the risk of being ousted. Under the prevailing trend of globalisation, many of the 6,000 pharmaceutical enterprises in the country are seeking mergers and acquisitions opportunities.

According to the Chinese Medicine Annual Report 2004 issued by Beijing JiQi Medpharm Net Co. Ltd. ("Beijing JiQi"), national sales within the pharmaceutical industry in the year surged 17% compared with 2003, while profit grew by 11% over the previous year.

Being one of the most prominent pharmaceutical enterprises in the PRC, the Group's core competencies include its strategic focus on the Chinese pharmaceutical market, its abilities to develop exclusive proprietary drugs, to effectively collect market information, and to operate a comprehensive sales network. According to the Chinese Medicine Annual Report 2004 issued by Beijing JiQi, the Group's subsidiaries and its jointly-controlled entity, namely Shandong Chia Tai Freda Pharmaceutical Co. Ltd. ("CTF"), Jiangsu Chia Tai Tianqing Pharmaceutical Co. Ltd. ("JCTT"), Beijing Tide Pharmaceutical Co. Ltd. ("Beijing Tide"), and Chia Tai Qingchunbao Pharmaceutical Co. Ltd (the Group's long-term investment), all ranked amongst the top fifty enterprises in the industry in terms of profitability.

1. Sales and Marketing

The Group adjusted its sales strategies to keep pace with changes in the national pharmaceutical market. During the year, the Group adopted innovative sales and marketing approaches by restructuring its product portfolio, and extending its market reach to both hospitals and pharmaceutical retailers. In addition, it continued academic promotions, introducing new products to medical practitioners, and utilised information and networking technologies to enhance sales efficiency and strengthen client relationship management. In the advertising programming, the Group focused on promoting its corporate image and the top-selling product brands for branding synergies. It also placed special emphasis on the development of midstream products and new products that are identified as having great potential and room to expand its market share.

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The Group has 1,490 sales delegates with professional medical backgrounds. Its sales and distribution network spans over 30 provinces, municipalities and autonomous regions in the PRC.

2. Human Resources Management

During the year, the Group adhered to its management principle of "achieving results and containing crisis". It carefully assessed the capabilities of every employee. An effective staff incentive mechanism helped the Group build a high-calibre team. The Group ensured its personnel assets were involved in helping it map out its business development strategy. This helped to align the goals of its staff with those of the Group. As a caring employer, the Group provided its staff with a favourable working environment and a comprehensive on-the-job training. As a result, the Group benefited from the boosted efficiency and innovation of its dedicated staff. The Group's employees are its most important asset and one of its core competitive advantages.

3. Research and Development ("R&D")

The Group committed major R&D efforts towards self-development and co-development of innovative drugs, and the development of non-patented (generic) drugs, that cater for the market needs. The Group focused on the development of "blockbuster drugs" (products with a turnover of more than HK\$100 million), and monitored closely its medical effectiveness. At the same time, the Group placed special importance on patent protection during product development. It strongly believes that by protecting its intellectual property rights, it can enhance its technological level and be able to develop new products and sustain business growth.

BUSINESS STRATEGIES

1. By pursuing a technology-driven R&D strategy, the Group's objective is to move towards technological development via internal innovation and co-development of generic drugs using biotechnology and modernized Chinese medicinal technologies. The Group also leverages external advanced pharmaceutical technology resources. Utilizing the strengths of the JCTT R&D Centre in Nanjing, CTF, CTGC and Beijing Tide, the Group is striving to enhance its R&D capabilities and accelerate the R&D process, boosting its creativity and its ability to develop patent medicines. By integrating internal and external technical resources, the Group is looking forward to improving its capabilities for producing proprietary drugs.
2. Building on the strong foundation of its core business by JCTT, CTF and Beijing Tide, the Group is committed relentless efforts in exploring market opportunities. It encourages staff to achieve maximum effectiveness at the levels of marketing and management, and is working to strengthen and improve corporate sales, internal control, human resources and financial management.
3. Maximising the tremendous potential of its product portfolio and product quality, the Group allied with strategic investors and is expanding through mergers and acquisitions. Given the Group's comprehensive sales network operating across 30 provinces, municipalities and autonomous regions in the country, the Group is looking for strategic partnership that will bring complementary benefits and enhance its economies of scale. It is aiming for corporate expansion and business consolidation, from which the Group can move on to become one of the most prominent pharmaceutical enterprises involved in biopharmaceutical products and modernised Chinese medicine in the country.

OUTLOOK AND PROSPECT

Though anticipating further policy changes for the pharmaceutical industry and also restructuring of the industry, the Group continues to see steady growth of the pharmaceutical economy. The country's 1.3-billion population, increasing rural-urbanisation and the introduction of the village medical system will promote the development of, and create lucrative business opportunities for the pharmaceutical industry. Leveraging our extensive sales network spanning over 30 provinces, municipalities and autonomous regions; superb quality products and their proven therapeutic effects; reasonable pricing; well-established corporate and product image among medical practitioners and patients; quality management team; GMP-certified production facilities with 14 dosage forms; as well as blockbuster drugs addressing continual market needs, we will capture our business opportunities and strengthen our leadership position in the domestic pharmaceutical market.

Boasting high level of corporate transparency and governance, established profit foundation and abundant cash reserves, and recognition from and cooperation experience with other industry players, the Group attracted mergers and acquisitions propositions from various domestic and overseas pharmaceutical enterprises during the year. Such deals will facilitate our growth and development, and in turn drive our profit growth in the year ahead.

We will continue to enhance internal management as well as our corporate governance level. Our aim is to expand the Group's market share and bring rewarding returns to our shareholders.

APPRECIATION

On behalf of the Board of Directors, I would like to extend my thanks to our shareholders for their full trust, support and understanding, and to all our staff for their contribution, diligence, creativity and loyalty.



Tse Ping
Chairman

30 March, 2005