



SINO BIOPHARMACEUTICAL LIMITED



third quarter
report
2001



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This document, for which the directors (the “Directors”) of Sino Biopharmaceutical Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, : (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- For the nine months ended 30 September 2001, the turnover of the Group amounted to approximately HK\$394.5 million, representing an increase of approximately 34.4% over the corresponding period in 2000.
- For the nine months ended 30 September 2001, the profits attributable to shareholders amounted to approximately HK\$46.8 million, representing an increase of approximately 22.8% over the corresponding period in 2000.
- Earnings per share was HK15.6 cents for the nine months ended 30 September 2001.
- The Directors do not recommend an interim dividend for the three months ended 30 September 2001.

BUSINESS REVIEW

The Company and its subsidiaries (together, the “Group”) have made significant progress in line with its business development plan during the period under review. All its businesses developed as planned. To further consolidate and develop its existing operations, as well as to maintain its profitability and growth, the Group boosted its total sales by strengthening the promotion of its major products and increasing its sale efforts during the period under review. For the nine months ended 30 September 2001, the turnover of the Group amounted to approximately HK\$394.5 million, representing an increase of approximately 34.4% over the corresponding period in 2000. Profits attributable to shareholders amounted to approximately HK\$46.8 million, representing an increase of 22.8% over the corresponding period in 2000. Earnings per share was HK15.6 cents. Turnover and profits of the Group for the first nine months of 2001 have already exceeded those achieved for 2000. Profit of the Group was mainly contributed by Shangdong Chia Tai Freda Pharmaceutical Co., Ltd. (“CTF”) and Lianyungang Chiatai-Tianqing Pharmaceutical Co., Ltd. (“CTT”).

Pursuant to its development strategies, the Group is actively seeking suitable merger and acquisition opportunities while exploring its own growth potential in order to maintain its growth trend and achieve maximum return for shareholders. During the period under review, Chia Tai Pharmaceutical (Lianyungang) Company Limited, (a wholly-owned subsidiary of the Company), Jiangsu State Agribusiness Group Corporation Limited and Golden Bloom Pharmaceutical Company Limited co-established Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (“Nanjing Tianqing”) in the Nanjing High Technology Zone. The joint venture company will be engaged in the production of cardio-cerebral and anti-cancer intravenous injections packed in PVC-free soft bags. Details of this joint venture were set out in an announcement of the Company dated 1 August 2001.

All of the production facilities of Shangdong Chia Tai Freda New Packing Resources Co. Ltd., a new joint venture established in December 2000 for the production of packaging bottles for eyedrops, were installed and tuned and production commenced during the period under review. It is expected that this new joint venture will have an annual production capacity of 10 million bottles. Emphasis will be placed on the anti-forgery function of the packaging bottles it produces for the eyedrops produced by CTF.

CTF

CTF experienced continuous growth during the period and has achieved even better results on all business objectives than the Directors had expected. CTF has increased its production capacity of eyedrops by improving its production facilities during the period in order to meet the increasing market demand. CTF has also adjusted its product mix to set a clearer direction for its future development.

The sale policies formulated by CTF enabled a balanced development of ophthalmic medicine, osteoarthritis medicine and dermatitis medicine produced by CTF. Out-patient medicines such as Moisten eyedrop and Mioclear eyedrop are the major products of CTF. CTF also produces osteoarthritis medicine such as SOFAST sodium hyaluronate injection and dermatitis medicine such as HEPUDIOD cream. For the nine months ended 30 September 2001, the sales of CTF increased by approximately 42.8% compared to the corresponding period in 2000. The sales of Mioclear eyedrop continued to increase since its launch in May 2000. Like Moisten eyedrop, Mioclear eyedrop has demonstrated its great market potential and has developed into one of the leading anti-fatigue eyedrops in the market.

CTT

As for CTF, CTT also experienced continuous growth during the period. CTT has strengthened the marketing efforts for its branded products (being Diammonii Glycyrhizinatis injection and Diammonii Glycyrhizinatis capsules for treating hepatitis), including by placing advertisements on CCTV in China during peak hours. As

a result, both the public recognition of CTT and Diammonii Glycyrrhizinatis were enhanced and in turn boosted the sales of CTT. According to the analysis on medicine for treating hepatitis conducted by China Medicines Economic Information in the major cities of China, Diammonii Glycyrrhizinatis has become a leading brand name in the field of medicine for treating hepatitis. For the nine months ended 30 September 2001, the aggregate sales of CTT increased by approximately 27.0% and for the three months ended 30 September 2001, the combined sales of Diammonii Glycyrrhizinatis injection and Diammonii Glycyrrhizinatis capsules increased by approximately 30.4% compared to the corresponding period in 2000.

All research and development projects made satisfactory progress. Oxymatrine capsules and Oxymatrine and Glucose injection are newly formulated Chinese medicine for treating hepatitis with great market potential. The new medicine certificates and production approval documents for the above products are expected to be obtained in the fourth quarter of 2001. Upon receipt of the necessary approvals, it is expected that the market share of CTT in the field of medicine for treating hepatitis and its profit will both increase.

Nanjing Tianqing

Nanjing Tianqing obtained its business license on 31 August 2001 and the first installment of the registered capital of Nanjing Tianqing was paid up on 29 September 2001 pursuant to the joint venture contract and articles of association of Nanjing Tianqing. Verification of the contribution of the registered capital was also completed. Nanjing Tianqing plans to acquire a plot of land with an area of 32.2 mou in the Nanjing High Technology Zone for construction of its plant, although its land acquisition proposal is still under preliminary discussion and no concrete terms have been reached. The contract for the production facilities of PVC-free soft bags has been signed and the production facilities are expected to be received in May 2002.

PROSPECTS

In accordance with the Group's business objectives and strategies determined earlier this year, the Group will focus on the development of biopharmaceutical business and newly formulated Chinese medicines. In view of the satisfactory progress and financial performance of the core operations of the Group during the nine months ended 30 September 2001, the board (the "Board") of Directors is confident that the objectives set earlier this year will be met and satisfactory return is expected to be achieved for shareholders.

On behalf of the Board, I would like to extend my sincere gratitude towards all shareholders who provide support to us and towards our dedicated and hardworking staff. The Group will leverage on the innovation and dedication of all staff and continue to develop new products in order to maximize return for shareholders.

RESULTS

The unaudited consolidated results of the Group for the three months and the nine months ended 30 September 2001, together with the comparative unaudited consolidated results for the respective corresponding periods in 2000, were as follows:—

	<i>Notes</i>	For the three months ended 30 September		For the nine months ended 30 September	
		2001	2000	2001	2000
		Unaudited	Unaudited	Unaudited	Unaudited
		<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Turnover	(2)	146,634	103,108	394,540	293,648
Costs of sales		(28,312)	(22,979)	(75,599)	(62,318)
Gross profits		118,322	80,129	318,941	231,330
Selling expenses		(66,995)	(42,016)	(182,295)	(121,096)
Administrative expenses		(14,645)	(12,747)	(43,893)	(35,730)
Finance costs		698	(561)	(1,335)	(989)
Other operating income/(expenses) (net)		125	97	3,125	115
Profit before taxation		37,505	24,902	94,543	73,630
Taxation	(3)	(2,816)	(2,552)	(7,097)	(7,119)
Profit before minority interests		34,689	22,350	87,446	66,511
Minority interests		(16,170)	(9,560)	(40,669)	(28,426)
Profit attributable to the Group		18,519	12,790	46,777	38,085
Dividends	(4)	—	—	12,000	—
Earnings per share	(5)				
– basic		HK6.2 cents	HK5.3 cents	HK15.6 cents	HK15.8 cents
– diluted		HK5.8 cents	N/A	HK14.8 cents	N/A

Notes:

(1) Group reorganization and basis of preparation

The Company was incorporated in the Cayman Islands on 2 February 2000 as an exempted company with limited liabilities under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a reorganization scheme (the "Group Reorganization") to rationalize the structure of the Group in preparation for the public listing of its shares in September 2000, the Company became the holding company of the companies now comprising the Group on 19 September 2000. The trading of the Company's shares on the Growth Enterprise Board of the Hong Kong Stock Exchange began on 29 September 2000.

The Group's financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of certain fixed assets.

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 19 September 2000 referred to above. Under this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the financial periods presented rather than from the date of their acquisition through the Group Reorganisation. Accordingly, the consolidated results of the Group for the three months and the nine months ended 30 September 2000 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, where this is a shorter period.

(2) Turnover

Turnover represents the invoiced value of goods sold, net of discounts and returns and dividend income. All significant intra-Group transactions have been eliminated on consolidation.

The Group's turnover arose from the following activities:

	For the three months ended 30 September		For the nine months ended 30 September	
	2001	2000	2001	2000
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Sales of goods	146,634	103,108	394,540	293,648
Dividend income	—	—	—	—
Total	<u>146,634</u>	<u>103,108</u>	<u>394,540</u>	<u>293,648</u>

(3) Taxation

	For the three months ended 30 September		For the nine months ended 30 September	
	2001	2000	2001	2000
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Hong Kong	—	—	—	—
PRC income tax	<u>2,816</u>	<u>2,552</u>	<u>7,097</u>	<u>7,119</u>
Total	<u>2,816</u>	<u>2,552</u>	<u>7,097</u>	<u>7,119</u>

No Hong Kong profits tax has been provided for the three months and nine months ended 30 September 2001 as there was no assessable profit arising in or derived from Hong Kong during these periods. (2000: Nil)

PRC income tax is provided at the rates applicable to enterprises in the PRC on the income for statutory reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretation thereof.

Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws, joint venture companies are subject to the statutory income tax rate of 33% (30% state income taxes plus 3% local income taxes) unless the enterprise is qualified as a “High and New Technology Enterprise” or is located in specially designated regions or cities for which more favorable effective tax rates apply. The Group’s principal operating subsidiaries are qualified as “High and New Technology Enterprises” for which a preferential tax rate of 15% applies and are entitled to an income tax exemption for two years commencing from the first profitable year (after deducting losses carried forward), and a 50% reduction for the succeeding three years.

As of 30 September 2001, the Group’s principal subsidiaries are subject to an income tax rate of 7.5%. (2000: CTF: 7.5%, CTT: 12% for the first nine months of 2000; in November 2000, formal approval from the State Tax Bureau was granted and the effective tax rate for 2000 became 7.5%.)

There are no material potential deferred tax liabilities for which provision has not been made (2000: Nil).

(4) Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2001. (2000: Nil).

(5) Earnings per share

The calculation of the basic earnings per share is based on profit from the ordinary activities attributable to shareholders for the three months and the nine months ended 30 September 2001 of HK\$18,519,000 and HK\$46,777,000 respectively and the 300,000,000 ordinary shares in issue during the respective periods. The basic earnings per share for the three months and the nine months ended 30 September 2000 was based on profit of HK\$12,790,000 and HK\$38,085,000 respectively and the weighted average of 241,304,348 and 240,437,956 ordinary shares in issue during the respective periods.

Diluted earnings per share for the three months and nine months ended 30 September 2001 is based on 300,000,000 ordinary shares which was the weighted average number of ordinary shares in issue during the period plus the weighted average number of 20,347,826 and 16,645,391 ordinary shares deemed to be issued at average fair value if all outstanding options had been exercised during the respective periods. The comparative diluted earnings per share has not been calculated because no diluting events existed during the period.

(6) Reserves

There has been no movement of reserves, other than retained earnings, during the period. (2000: Nil)

DIRECTORS’ INTERESTS IN SHARE CAPITAL

As at 30 September 2001, the interests of the Directors and their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”), were as follows:

(1) Shares

Name of Director	Notes	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interest				Total
		Personal	Family	Corporate	Other	
Mr. Tse Ping	(1)	–	–	231,120,000	–	231,120,000
Mr. Wang Jinyu	(2)	–	–	8,880,000	–	8,880,000

Notes:–

- (1) The shareholding interest attributable to Mr. Tse Ping in the Company is held through Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited. Each of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited is an investment holding company wholly owned by Mr. Tse Ping who is the chairman and an executive director of the Company.
- (2) The shareholding interest attributable to Mr. Wang Jinyu in the Company is held through Discover Profits Limited. Discover Profits Limited is an investment holding company wholly owned by Mr. Wang Jinyu who is an executive director of the Company.

(2) Directors' rights to acquire shares

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 19 September 2000, Mr. Tse Ping, Mr. Wang Jinyu, Mr. Ling Peixue and Mr. Tao Huiqi were granted options on 2 January 2001 to subscribe for 7,500,000 shares, 1,000,000 shares, 1,000,000 shares and 1,000,000 shares of the Company, respectively, at the subscription price of HK\$0.74 per share exercisable during the period from 2 January 2003 to 1 January 2007 (both days inclusive).

Save as disclosed above, during the three months and nine months ended 30 September 2001, none of the Directors or their associates were granted options to subscribe for shares of the Company.

Outstanding share options

As at 30 September 2001, options to subscribe for an aggregate of 30,000,000 shares of the Company (which include the options granted to Mr. Tse Ping, Mr. Wang Jinyu, Mr. Ling Pei Xue and Mr. Tao Huiqi as disclosed above) granted pursuant to the Scheme were outstanding. Details are as follows:–

Shares issuable under options	Number of employees	Subscription price per share HK\$	Option period
30,000,000	13	0.74	2 January 2003 to 1 January 2007

Generally, the options may be exercised in different tranches within the option period.

Save as disclosed above, as at 30 September 2001, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2001 the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests which the Company is required to maintain pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares	Percentage of shareholding
Mr. Tse Ping	231,120,000	77.04
Conspicuous Group Limited	108,000,000	36.00
Remarkable Industries Limited	57,317,760	19.11
Validated Profits Limited	65,802,240	21.93

Save as disclosed above, no persons, other than the Directors whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded in the register maintained by the Company under Section 16(1) of the SDI Ordinance.

COMPETING INTERESTS

As at 30 September 2001, Mr. Tse Ping owned controlling interests or investment interests in Xian Chia Tai Pharmaceutical Co., Ltd. ("CT Xian"), Ankang Chia Tai Pharmaceutical Co., Ltd. ("CT Ankang"), Hainan Tigerlily Pharmaceutical Co., Ltd. ("HTPC") and ABH Nature's Products Inc. ("ABH") (being interests which had been disclosed in the prospectus issued by the Company on 22 September 2000).

CT Xian is a medicine producing enterprise principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine for psoriasis. CT Ankang is principally engaged in the production and distribution of medicine reducing blood-fat level, gynaecomastia medicines and other chemical medicines. HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines from Europe, the United States, Korea and other countries. ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States.

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into any business which may compete directly or indirectly with the Group. Currently, the above enterprises do not conduct any business which constitutes competition, whether directly or indirectly, with the Group's business.

Mr. Tse Ping has signed a deed of non-competition undertaking in favour of the Company dated 19 September 2000 under which he has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 35% of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities in which more than 50% of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature ("Mr. Tse Ping's Companies") (excluding for this purpose the Group) will:—

- (a) within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, carry on, become engaged or otherwise become interested (save through Mr. Tse Ping's interest in the Company), directly or indirectly, in any business activities involving the business of the manufacturing, sales and research of biopharmaceuticals and modernised Chinese medicines (the "Restricted Business"); and
- (b) in the PRC, other than within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, (save through Mr. Tse Ping's interest in the Company) become engaged or otherwise become interested, directly or indirectly, in or otherwise commence any business activities involving the Restricted Business if to do so will result in competition, or is likely to compete, with any part of the Restricted Business already carried on by the Group in such territory at the time Mr. Tse Ping and/or Mr. Tse Ping's Companies (excluding for this purpose the Group) propose to invest in such business activities.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competed with the business of the Group as at 30 September 2001.

SPONSOR'S INTERESTS

Pursuant to a sponsor's agreement dated 21 September 2000 entered into between the Company and DBS Asia Capital Limited ("DBS Asia"), DBS Asia has been retained to act as the Company's sponsor for the period from 29 September 2000 to 31 December 2002 in return for an advisory fee.

Neither DBS Asia nor any of its directors, employees and associates had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30 September 2001.

AUDIT COMMITTEE

The Company set up an Audit Committee (the "Committee") on 19 September 2000 with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive Directors. The Committee held one meeting on 16 March 2001 and performed the functions specified in the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

From 1 January 2001 to 30 September 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Sino Biopharmaceutical Limited
Tse Ping
Chairman

Hong Kong, 8 November 2001