



SINO BIOPHARMACEUTICAL LIMITED



FIRST QUARTER REPORT

2
0
0
2

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability.

Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

This document, for which the directors (“the Directors”) of Sino Biopharmaceutical Limited 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 three months ended 31 March, 2002, turnover amounted to HK\$138.49 million, representing a rise of approximately 18.7% over the same period last year. Net profit was HK\$12.15 million. Earnings per share were 4.05 HK cents.

The Directors do not recommend distribution of an interim dividend for the period ended 31 March, 2002.

BUSINESS REVIEW

The Group's business continued to grow during the period under review, with turnover rising 18.7% to HK\$138.49 million. It's main products sustained their growth while new products achieved encouraging growth. According to a latest survey on epidemic diseases in China, there were some 150,000,000 hepatitis B virus carriers in the nation. A nationwide call by the Mainland government for precaution against the disease should stimulate the sales of the Group's hepatitis drugs – Diammonii Glycyrrhizinatis injection and capsule. Meanwhile, Shangdong Chia Tai Freda Pharmaceutical Co., Ltd.'s plant in the province has been running at full capacity but is still unable to cater fully for the growth in demands for eye medicine, particularly for eye drops. To ensure the long-term continuing development of the Group, the Group plans to establish Hainan Chai Tai Freda Pharmaceutical Co., Ltd. and Hainan Chai Tai Freda Medicine Co., Ltd. in Haikou, Hainan province, with new eye medicine plants to take advantage of various local government incentives.

During the period under review, the Group continued to pursue its strategy of growing its business through mergers, takeovers and business alliances. In-depth discussions on various projects have taken place but no definite terms or agreements have been reached.

Currently, Shangdong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") and Jiangsu Chia Tai – Tianqing Pharmaceutical Co., Ltd. ("JCTT") are major profit contributors to the Group.

CTF

The business of CTF continued to grow, with turnover rising 16.6% over the corresponding period last year. Major product – Mioclear eyedrop reported significant growth of approximately 62.9% over the corresponding period last year. Mid-stream products – Sofact injection for treating arthritis and Fredex eyedrop recorded an increase of 31.5% and 25.5%, respectively, over the same period in 2001. This year, the Group has implemented a fine marketing management scheme which further enhanced sales network. Number of sales representative office increased to 35, being 5 more than the corresponding period last year. Due to refinement of sales strategies and the newly set up sales representative offices are at their preliminary stage, only moderate increment in sales was reported for the first quarter of 2002. However, refinement of sales strategies was proved to be successful and reached international advanced standard. The production lines of the eye drop products reached their full capacity but are still unable to meet the increasing market demands. CTF, therefore, plans to establish a new eye-drop factory in the Jin Pan Industrial Zone (金盤工業區) in the city of Haikou in the Hainan province. The factory with a registered capital of RMB 12 million, will have a total investment of RMB 24 million. Following completion of the relevant legal procedures and the lease of the factory site, the Group will start to build the factory in compliance with the State Drug Administration's good manufacturing practice ("GMP") requirements. It is expected that construction of the factory will be completed in the first half of year 2003, with GMP accreditation and production permit to be granted at the same time.

JCTT

JCTT also enjoyed a sustained business growth during the period under review, with turnover up 30.8% over the same period last year. Sales of hepatitis medicines, Diammonii Glycyrrhizinatis injection and capsule, continued to rise, representing an increase of 28.8%, while new hepatitis drugs Oxymatine glucose injection and Oxymatine capsule, have built up a healthy momentum since their launch in December 2001, enjoying encouraging sales and generated RMB4 million revenue in the first quarter of the year. It is believed that the new hepatitis drugs will develop into two of the Group's main products in the near future. New products launched in 2001 had generated RMB8 million sales in one quarter. The fact that there are as much as 150,000,000 hepatitis virus carriers in the country has attracted the government's attention. With the increasing general awareness of the importance to make precautions against the disease, leading hepatitis drug Diammonii Glycyrrhizinatis will be given a greater room of development in the future. In order to take full advantage of its competitive edge, the JCTT Nanjing Pharmaceutical Research Center (南京藥物研究中心) has applied to the Jiangsu science and technology committee for a funding of RMB 3 million to conduct a research on hepatitis precaution and treatment and the science committee has confirmed the research center as the base for the research of hepatitis drugs in the province. This serves as a solid assurance of the Group's leading position in the research, manufacturing and sales of products relating to liver protection and the treatment of hepatitis, cirrhosis and liver coma (肝昏迷) in China.

JCTT has entered the guidance stage for its shareholding restructuring and will undergo its first guidance announcement in the middle of 2002.

NJCTT

The construction of NJCTT's plant has run smoothly, reaching the stage of interior pipeline and circuit installation and interior decoration. The production facilities, which will be delivered to the site this month, are expected to be installed, tested and given a trial run in June 2002.

Product research and development has progressed well and is expected to be completed on schedule.

OUTLOOK

The Group will pursue its business objectives according to its development strategies hammered out early in the year. Aside from the efforts to maintain growth and expand the horizons of its existing business, the Group are actively seeking mergers with and acquisitions of domestic and overseas biopharmaceutical companies, focusing on Chinese medicine modernization. The Group has been accomplishing its objectives as planned and has achieved satisfactory progress. The Directors believe that, under the correct leadership of the board of Directors (the "Board"), with full support from its shareholders and its dedicated, hard-working staff, the Group should be able to accomplish the objectives for this year.

On behalf of the Board, I would like to extend my sincere gratitude to all of them.

RESULTS

The Board announces the unaudited consolidated results of the Group for the three months ended 31 March, 2002 together with the comparative unaudited consolidated results for the corresponding period in 2001 as follows:-

| | | For the three months ended 31 March, | |
|---|--------------|---|------------------|
| | | 2002 | 2001 |
| | <i>Notes</i> | Unaudited | Unaudited |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | (restated) |
| Turnover | (2) | 138,486 | 116,647 |
| Cost of sales | | (26,589) | (22,189) |
| Gross profit | | 111,897 | 94,458 |
| Selling expenses | | (63,790) | (52,061) |
| Administrative expenses | | (20,025) | (14,554) |
| Finance costs | | (562) | (343) |
| Other operating income (net) | | 386 | 1,063 |
| Profit before taxation | | 27,906 | 28,563 |
| Taxation | (3) | (2,670) | (1,761) |
| Profit before minority interests | | 25,236 | 26,802 |
| Minority interests | | (13,082) | (9,950) |
| Net profit attributable to shareholders | | 12,154 | 16,852 |
| Dividends | (4) | - | - |
| Earnings per share | (5) | | |
| – basic | | HK4.05 cents | HK5.62 cents |
| – diluted | | HK3.80 cents | HK5.47 cents |

Notes:

(1) Basis of preparation

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 periodic remeasurement of certain fixed assets.

During the corresponding prior period, the Group adopted certain revised Statements of Standard Accounting Practices ("SSAPs"). To comply with these revised SSAPs, certain comparative figures for the quarter ended 31 March, 2001 have been restated.

(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 31 March, | |
|-----------------|---|------------|
| | 2002 | 2001 |
| | Unaudited | Unaudited |
| | HK\$'000 | HK\$'000 |
| | | (restated) |
| Sales of goods | 138,486 | 111,932 |
| Dividend income | — | 4,715 |
| | <hr/> | <hr/> |
| Total | 138,486 | 116,647 |
| | <hr/> | <hr/> |

(3) Taxation

| | For the three months ended 31 March, | |
|----------------|---|-----------|
| | 2002 | 2001 |
| | Unaudited | Unaudited |
| | HK\$'000 | HK\$'000 |
| Hong Kong | — | — |
| PRC income tax | 2,670 | 1,761 |
| | <hr/> | <hr/> |
| Total | 2,670 | 1,761 |
| | <hr/> | <hr/> |

No Hong Kong profits tax has been provided for in the three months ended 31 March, 2002 as there was no assessable profit arising in or derived from Hong Kong during the period (2001: 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 (the "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 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 31 March, 2002, CTF and JCTT are subject to an income tax rate of 10% and 7.5% respectively. (2001 both CTF and JCTT: 7.5%)

There are no material potential deferred tax liabilities for which provision has not been made (2001: Nil).

(4) Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2002. (2001: Nil).

(5) Earnings per share

The calculation of the basic earnings per share is based on profit from ordinary activities attributable to shareholders for the three months ended 31 March, 2002 of HK\$12,154,000 (three months ended 31 March, 2001: HK\$16,852,000) and the 300,000,000 (2001: 300,000,000) ordinary shares in issue during the period.

Diluted earnings per share for the period is based on 319,897,611 (2001: 308,352,751) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 19,897,611 (2001: 8,352,751) ordinary shares deemed to be issued at average fair value if all outstanding options had been exercised.

(6) Reserves

During the period, the Group's reserves had the following movement/restatements:-

- i) Transfer HK\$9,089,000 (2001: HK\$6,774,000) from retained earnings to statutory reserve funds.
- ii) To conform with the revised SSAP 9, as at 1 January, 2001, the Group's statutory reserve funds have decreased by HK\$4,713,000 and retained profits has increased by the same amount; and
- iii) To conform with the revised SSAP 18, adjustment was made to a dividend income of HK\$4,715,000 which was declared after 31 December, 2000 and previously recognised as income in the Group's financial statements in that year; a prior year adjustment has been made to reduce dividend receivable and opening balance of retained profits both by HK\$4,715,000 as at 1 January, 2001.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 March, 2002, 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 a subscription price of HK\$0.74 per share exercisable during the period from 2 January, 2003 to 1 January, 2007 (both days inclusive).

Outstanding share options

As at 31 March, 2002, options to subscribe for an aggregate of 30,000,000 shares (which include the options granted to Mr. Tse Ping, Mr. Wang Jinyu, Mr. Ling Pei Xue and Mr. Tao Huiqi as disclosed above) of the Company granted pursuant to the Scheme were outstanding. Details are as follows:-

| Number of share 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 31 March, 2002, 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 31 March, 2002 the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests 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 under Section 16(1) of the SDI Ordinance.

COMPETING INTERESTS

As at 31 March, 2002 and as disclosed in the prospectus issued by the Company on 22 September, 2000, Mr. Tse Ping owns controlling interests or investment interests in Xian C.P. 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").

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 the business which compete directly or indirectly with the Group. Currently, the above enterprises do not have any business which constitute 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% (or such other percentage as the Hong Kong Code on Takeovers and Mergers shall specify from time to time as being the minimum percentage of voting rights in respect of an entity the holding of which is deemed to mean "control" of such entity) of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities of 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 Company, 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 business of the Company if to do so will result in competition or be likely to compete with any part of the business of the Company 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 competes with the business of the Group.

SPONSORS' INTERESTS

As at 31 March, 2002, DBS Asia Capital Limited (the "Sponsor"), its directors, employees or associates, did not have 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.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

From 1 January, 2002 to 31 March, 2002, 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
Wong Pui Shan
Company Secretary

Hong Kong, 14 May, 2002