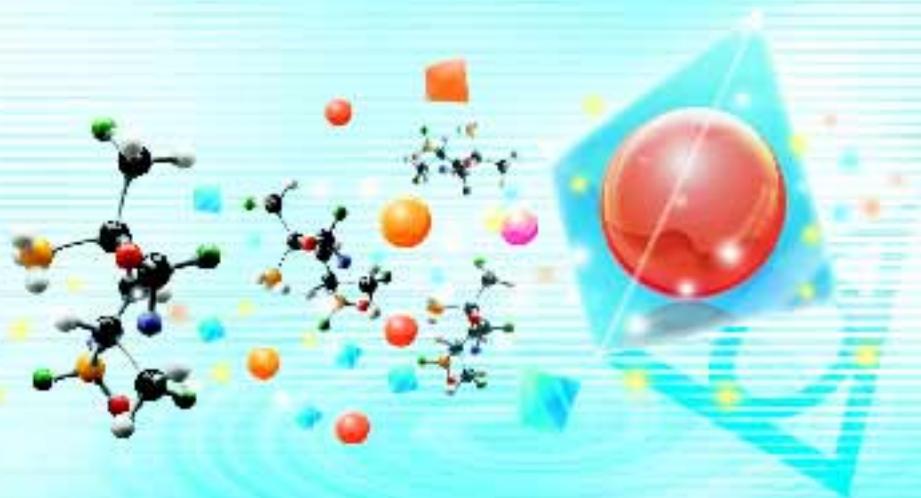




**SINO BIOPHARMACEUTICAL LIMITED**



INTERIM REPORT

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## **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](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

*This document, for which the Directors 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.*

## SUMMARY

For the six months ended 30 June 2002, the turnover of the Group amounted to approximately HK\$310.62 million, the net profit amounted to approximately HK\$34.39 million, earnings per share of the Company was approximately HK11.5 cents.

The Directors proposed an interim dividend of HK5.0 cents per share of the Company for the six months ended 30 June 2002.

## BUSINESS OVERVIEW AND PROSPECTS

### Business Overview

During the period under review, the business of the Company and its subsidiaries (together, the “Group”) continued to grow, though the unit prices of certain products decreased as the result of competitive bidding in hospitals in the People’s Republic of China (the “PRC”). The turnover grew by 25.3% (before restatement) and 23.0% (after restatement). Net profit grew by 21.7% (before restatement) and 4.3% (after restatement) respectively over the corresponding period of the previous year. Earnings per share increased by 22.3% (before restatement) and 4.5% (after restatement) respectively over the corresponding period last year. The sales of major products continued their growth, while the sales of midstream products showed an upward trend, and the sales of new products are demonstrating promising prospects. The sales of Oxymatrine Capsules and Oxymatrine Injection for treating hepatitis amounted to HK\$16 million during the first seven months since their launch in December 2001. Levofloxacin (Helen) Eyedrops, launched in June 2002, is another kind of popular eyedrops for treating bacterial keratitis and conjunctivitis. It has attracted increasing attention from the ophthalmology circle as soon as it was launched.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (“NJCTT”), one of the subsidiaries of the Company, has completed the construction of its plant and has submitted its application to the State Drug Administration of the PRC for Good Manufacturing Practice (“GMP”) certification for its production facilities.

The design of the production plant of Hainan Chia Tai Freda Pharmaceutical Co., Ltd. (“Hainan CTF”), a wholly-owned subsidiary of Shandong Chai Tai Freda Pharmaceutical Co., Ltd. (“CTF”) which is in turn a 55% subsidiary of the Company, has been finalised. The production complex will be equipped with internationally renowned. We believe that this new investment will enhance CTF’s leading position in the field of eye-drop products in terms of production technology as well as packaging technology.

During the period under review, the profit of the Group was principally contributed by the business operations of CTF and Jiangsu Chiatai-Tianqing Pharmaceutical Co., Ltd. (“JCTT”). The Group continues to seek business development opportunities through mergers and acquisitions with renowned pharmaceutical companies in the PRC, but there was no commitment has been made to date.

### CTF

During the period under review, the business of CTF experienced continuous growth. In particular CTF has newly introduced a sales management system and adjusted its sales policy, enhanced its marketing management and emphasised on direct sales of products to end-users. For the six months ended 30 June 2002, the sales of CTF increased by 23.5% over the corresponding period of the previous year. The sales of midstream products such as SOFAST sodium hyaluronate injection (for treating osteoarthritis), Fredex Eyedrops and F-keratitis eyedrops increased significantly. The Levofloxacin (Helen) eye-drops, a new Category 4 drug, attracted wide industry attention since it was launched in June 2002, and we believe that this product will soon become another one of the major products in the eye-drops market after the Mioclear eyedrops which was launched by CTF in May 2000 (for the period from January to June 2002, sales reached approximately RMB40 million). These developments demonstrated CTF’s ability in new product development.

In May 2002, CTF was granted GMP certificates for seven kinds of medicine production, namely ointment, eye ointment, eardrops, nosedrops, liniments, tablets and capsules. All these expanded the product mix of CTF and, laid down a solid foundation for CTF to further develop into the field of otorhinolaryngological applications. As at 30 June, 2002 CTF has obtained GMP certificates for nine forms of medicine.

Hainan CTF hepatitis registered capital injection and completed the design of its production plant, which occupies an area of approximately 4,100 sq.m. Hainan CTF has decided to implement a “three-in-one” production line for the production of disposal eye-drop products. We anticipate that the production line can be commissioned in early 2003 with the objective of satisfying GMP requirements during the second half of 2003. After completing the production facilities of Hainan CTF, we believe that CTF can further consolidate its leading position in the industry of ophthalmic medicine in product development, production, packaging and market sales.

## *JCTT*

During the period under review, JCTT also experienced continuous growth. Its turnover increased by 27.1% over the corresponding period of the previous year. The sales of its major products, Diammonii Glycyrrhizinatis injection and capsule, being one of the most renowned brands of hepatitis drug in the PRC, increased by 25.1% over the corresponding period of the previous year. Its new medicines for treating hepatitis, Oxymatrine injection and Oxymatrine capsule. Recorded sales of HKD16 million during the period under review since they were launched in December 2001. Hepatitis is a common disease in the PRC, and it costs the country between approximately RMB30 billion and approximately RMB 50 million every year in medical treatment. We believe that the Oxymatrine injection and capsule will become one of the major products of the Group, and will be of products with significant sales increase potential. The anticipated success of Oxymatrine injection and capsule is expected to provide JCTT valuable experience in developing new medicines for treatment of other common diseases in the PRC, such as Cirrhosis, JCTT has announced.

## *NJCTT*

NJCTT has seen its production facilities put in place and launched the pilot production successfully. In early July 2002, NJCTT applied to the GMP licensing center of the State Drug Administration for GMP certification, which is expected to be processed soon.

## **Research and Development**

During the period under review, the Group obtained seven new drugs production certificates including Levofloxacin (Helen) eye-drops, one among these new drugs for the Group to be granted the first approval in PRC. The Group emphasized on the research and development, totally having forty nine new products on pipeline. Despite these included in the prospectus, CTF and JCTT, two subsidiaries respectively have twenty four and twenty one new products under development. About two third of these new developments focused on ophthalmic and hepatic treatments. Currently the Group achieved a leading position in developing ophthalmic and hepatic drugs, and possessing a strongest research capacity in PRC.

The Nanjing research center of JCTT, and the Beijing research center of CTF will be in operation soon. These will add to the Group a strengthened R&D capacity for continuously rapid growth.

## **Outlook**

Adhering to its business development plans and strategies adopted since early this year, the Group has progressed as scheduled to achieve its goals. The solid continuous growth and development of its existing subsidiaries also provide the Group with resources to pursue its merger and acquisition strategy with both overseas biopharmaceutical companies and domestic biopharmaceutical companies in the PRC and companies engaged in the business of modernisation of tradition Chinese medicines. The Directors believe that the business objectives of the Company for the year ending 31 December 2002, as set forth in its prospectus dated 22 September 2000, will be achieved. We also believe that the continuous support from our shareholders and our staff are important to the further business development of the Group.

On behalf of the Board, we would like to take this opportunity to extend our sincere gratitude to all our shareholders.

## COMPARISON OF BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS

	<b>Business objectives up to 30 June, 2002 as stated in the prospectus</b>	<b>Actual business progress up to 30 June, 2002</b>
<b>1. Research &amp; development</b>		
(1) <i>Establish a research and development centre in Beijing</i>	<p>Continue to carry out research work on development projects</p> <p>Complete research work on 1-2 development projects</p> <p>Prepare information for applications of registration and approval of projects with research work completed</p>	Continue to discuss with several research institutes
(2) <i>Plan of new product research and development of CTF</i>		
Jingfu Eyedrops	Commence commercial production	Delayed the commencement of the commercial production as the Company is waiting for the approval from the relevant authorisation for the completion of clinical trial
Composite Tobramycin Gel	Commence commercial production	Research project has been stopped .The reason has been disclosed in the 2000 annual report.
Butenfine Hydrochloride Gel	Commence clinical trial	Being in clinical trial
(3) <i>Plan for new product research and development of JCTT</i>		
Oxymatrine capsules and oxymatrine glucose injection	Market and promote product	As described in the business objective
Diammonii Glycyrrhizinatis sodium chloride and Glucose injection	Market and promote product	Delayed the marketing and promotion of the product because it is in the stage of preparation for commercial production
Puerarin glucose injection	Market and promote product	As described in the business objective
Buyang huanwutang injection	Complete clinical trial	Delayed to apply for clinical trial because of the technical problems
Roloxifene hydrochloride and tablets	Complete clinical trial	Research project has been stopped because the technical problems

	<b>Business objectives up to 30 June, 2002 as stated in the prospectus</b>	<b>Actual business progress up to 30 June, 2002</b>
Sotalol hydrochloride injection	Complete clinical trial	As described in the business objective
Clindamycin phosphate powder injection	Market and promote product	This product has been transferred because the market consideration
Sanzi kechuan capsules	Complete clinical trial	Waiting for approval from SDA to commence clinical trial
Netimycin sulfate and sodium chloride injection	Market and promote product	As described in the business objective
Puerarin capsules	Commence commercial production	Conducting clinical trail

## 2. Production of pharmaceutical products

(1) <i>Forming alliance with reputable producers of biopharmaceuticals, chinese medicine or natural herbal products</i>	Continue to identify cooperative partners and execute cooperative agreements	Continue to discuss with several cooperative partners
(2) <i>Expansion of production facilities of CTF:</i>		
Factory	Located in Jinan, Shandong Province, the PRC with a total gross floor area reaching 12,000 sq.m.	Located in Jinan, Shandong Province, the PRC with a total gross floor area reaching 12,960 sq.m
GMP compliance	New eyedrop workshop in the High and New Technology Development Zone commence construction according to GMP standard	Construction of a new eyedrop workshop in High and New Technology Development Zone has not been approved. Now plan to establish a new factory in Hainan Province.
(3) <i>Expansion of production facilities of JCTT</i>		
Factory	Located in Lianyungang, Jiangsu Province, the PRC with a total gross floor area of 15,800 sq.m.	As described in the business objective
GMP compliance	Plant extraction workshop and synthetic drugs raw material workshop implement GMP procedures	As described in the business objective

**Business objectives  
up to 30 June, 2002  
as stated in  
the prospectus**

**Actual business progress  
up to 30 June, 2002**

**3. Marketing and sales**

(1) *Establishment of the Group's website with the medium-term aim of commencing e-commerce of pharmaceuticals* Complete e-commerce system, continue to refine the website content Established a website to provide information related to eye and liver health care. Continue to refine the content of the forum

(2) *Expansion and consolidation of the PRC distribution network*

The expansion plan of the sales network of CTF

No. of representative offices	40	35
No. of sales staff	400	480

The expansion plan of the sales network of JCTT

No. of representative offices	40	35
No. of sales staff	820	596

**USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING**

	<b>Amount to be used up to 30 June, 2002 as disclosed in the Prospectus HK\$'m</b>	<b>Actual amount used up to 30 June, 2002 HK\$'m</b>
For research and development activities including the establishment of a research and development center in Beijing	13.0	1.0
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceuticals, Chinese medicine and/or natural herbal products	20.0	Nil
For the expansion of the distribution networks of the Group	10.0	Nil
For the establishment of the Group's website and commencement of e-commerce	2.5	0.7
General working capital	10.0	10.0
<b>Total</b>	<b>55.5</b>	<b>11.7</b>

## RESULTS

The Board of Directors of Sino Biopharmaceutical Limited announces the unaudited consolidated results of the Group for the three months and the six months ended 30 June, 2002 together with the comparative unaudited consolidated results for the respective corresponding periods in 2001 as follows:–

	<i>Notes</i>	<b>For the three months ended 30 June,</b>		<b>For the six months ended 30 June,</b>	
		<b>2002 Unaudited HK\$'000</b>	<b>2001 Unaudited HK\$'000</b>	<b>2002 Unaudited HK\$'000</b>	<b>2001 Unaudited HK\$'000 (restated)</b>
Turnover	(2)	172,130	135,974	310,616	252,621
Costs of sale		<u>(32,833)</u>	<u>(25,098)</u>	<u>(59,422)</u>	<u>(47,287)</u>
Gross profit		139,297	110,876	251,194	205,334
Selling and distribution costs		(78,502)	(63,239)	(142,292)	(115,300)
Administrative expenses		<u>(14,793)</u>	<u>(14,694)</u>	<u>(34,818)</u>	<u>(29,248)</u>
Profit from operating activities		46,002	32,943	74,084	60,786
Finance costs	(4)	(416)	(750)	(752)	(1,168)
Other operating income/(expenses) (net)		<u>362</u>	<u>997</u>	<u>522</u>	<u>2,135</u>
Profit before tax	(3)	45,948	33,190	73,854	61,753
Tax	(5)	<u>(4,076)</u>	<u>(2,520)</u>	<u>(6,746)</u>	<u>(4,281)</u>
Profit before minority interests		41,872	30,670	67,108	57,472
Minority interests		<u>(19,637)</u>	<u>(14,549)</u>	<u>(32,719)</u>	<u>(24,499)</u>
Net profit attributable to shareholders		22,235	16,121	34,389	32,973
Dividends	(6)	15,000	12,000	15,000	12,000
Earnings per share	(7)				
– basic		HK7.4 cents	HK5.4 cents	HK11.5 cents	HK11.0 cents
– diluted		HK7.0 cents	HK5.1 cents	HK10.8 cents	HK10.5 cents

**CONSOLIDATED BALANCE SHEET**

30 June, 2002

		<b>2002</b>	<b>2001</b>
	<i>Note</i>	<b>Unaudited</b>	<b>Unaudited</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
	(8)		
Fixed assets		148,466	111,984
Intangible assets		2,860	2,889
Long term investment		29,820	29,820
		<hr/>	<hr/>
		181,146	144,693
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories	(9)	47,509	39,778
Notes receivable		–	3,186
Trade receivables	(10)	87,192	69,623
Other receivables	(11)	25,216	15,180
Dividend receivable		3,638	4,715
Cash and cash equivalents	(12)	143,483	121,929
		<hr/>	<hr/>
		307,038	254,411
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade payables	(13)	22,013	19,878
Tax payable		2,365	13,926
Other payables and accruals	(14)	83,678	42,088
Bank and other borrowings	(15)	28,302	26,898
Amount due to a related company		113	112
		<hr/>	<hr/>
		136,471	102,902
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>			
		170,567	151,509
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
Non-current liabilities		351,713	296,202
Minority interests		1,560	–
		101,275	67,665
		<hr/>	<hr/>
		248,878	228,537
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Issued capital	(16)	30,000	30,000
Reserves	(17)	218,878	198,537
		<hr/>	<hr/>
		248,878	228,537
		<hr/>	<hr/>

**CONSOLIDATED CASH FLOW STATEMENT***Six months ended 30 June, 2002*

	<b>2002</b> <b>Unaudited</b> <i>HK\$'000</i>	<b>2001</b> <b>Unaudited</b> <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	38,847	31,370
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	881	2,272
Interest paid	(752)	(1,168)
Dividend received from an unlisted investment	1,551	–
Dividends paid to minority shareholders	(28,234)	(23,078)
Dividends paid	(30,000)	(15,000)
Net cash outflow from returns on investments and servicing of finance	<u>(56,554)</u>	<u>(36,974)</u>
TAX		
PRC profit tax paid	<u>(3,506)</u>	<u>(955)</u>
INVESTING ACTIVITIES		
Purchases of fixed assets and construction in progress	<u>(35,566)</u>	<u>(20,315)</u>
Net cash outflow from investing activities	<u>(35,566)</u>	<u>(20,315)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	<u>(56,779)</u>	<u>(26,874)</u>
FINANCING ACTIVITIES		
Increase in minority interests	–	14,950
New short term bank loans	28,302	69,691
Repayment of bank loans	–	(57,123)
Repayment of loans from minority shareholders	–	(3,772)
Net cash inflow from financing activities	<u>28,302</u>	<u>23,746</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(28,477)</u>	<u>(3,126)</u>
Cash and cash equivalents at beginning of period	<u>171,960</u>	<u>125,055</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>143,483</u>	<u>121,929</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	70,202	41,206
Time deposits with original maturity of less than three months when acquired	<u>73,281</u>	<u>80,723</u>
	<u>143,483</u>	<u>121,929</u>

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 period under review, the Group adopted certain revised Statements of Standard Accounting Practices ("SSAPs"). To comply with these revised SSAPs, certain comparative figures for the quarter ended 30 June, 2001 have been restated. During the period under review, the Group consistently applied the accounting policies stated in the annual report for the year ended 31 December 2001.

**(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.

*Segment information*

The Group's turnover analysis by principal activities:

	For the three months ended 30 June,		For the six months ended 30 June,	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000 (restated)
Sales of goods	172,130	135,974	310,616	247,906
Dividend income	—	—	—	4,715
Total	<u>172,130</u>	<u>135,974</u>	<u>310,616</u>	<u>252,621</u>

More than 90% of the Group's turnover was derived from the principal activities carried out in Mainland China.

**(3) Profit from operating activities**

The Group's profit from operating activities is arrived at after charging:

	For the three months ended 30 June,		For the six months ended 30 June,	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Cost of inventories sold	32,833	25,098	59,422	47,287
Depreciation	3,241	2,655	5,966	5,564
Amortisation of intangible assets	193	6	385	21
Amortisation of goodwill	—	183	—	366
Minimum lease payments under operating leases:				
Land and buildings	1,736	1,360	3,333	2,680
Plant and machinery	597	332	1,232	684
	<u>2,333</u>	<u>1,692</u>	<u>4,565</u>	<u>3,364</u>
Research and development costs	4,256	1,965	7,163	4,426
Auditors' remuneration	98	47	261	75
Exchange loss, net	—	2	4	68
Staff costs				
Wages and salaries	12,724	15,140	32,322	27,391
Pension contributions	2,367	1,551	4,310	2,856
Total	<u>15,091</u>	<u>16,691</u>	<u>36,632</u>	<u>30,247</u>

and after crediting:

	For the three months ended 30 June,		For the six months ended 30 June,	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000 (restated)
Exchange gains, net	34	—	—	—
Dividend income from unlisted investment	—	—	—	4,715
Interest income	453	1,086	881	2,272

(4) **Finance costs**

	For the three months ended 30 June,		For the six months ended 30 June,	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Interest on bank loans wholly repayable within one year	416	750	752	1,168

(5) **Tax**

	For the three months ended 30 June,		For the six months ended 30 June,	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Hong Kong	—	—	—	—
PRC income tax	4,076	2,520	6,746	4,281
Total	4,076	2,520	6,746	4,281

No Hong Kong profits tax has been provided for in the three months and six months ended 30 June, 2002 as there was no assessable profit arising in or derived from Hong Kong during these periods. (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 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" to 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 June, 2002, JCTT and CTF are subject to an income tax rate of 7.5% and 10% respectively (2001 both JCTT and CTF: 7.5%).

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

(6) **Dividends and books closure**

The Board of Directors has recommended an interim dividend of HK5.0 cents per ordinary share. The dividend will be paid to shareholders whose names appear on the Register of Members of the Company on Monday, 21 August 2002.

The Register of Members of the Company will be closed from Thursday, 22 August 2002 to Monday, 26 August 2002, both days inclusive, during which period no transfer of share of the Company will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong by 4:00 p.m. on Wednesday, 21 August 2002.

(7) **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 six months ended 30 June, 2002 of HK\$22,235,000 (2001: HK\$16,121,000) and HK\$34,389,000 (2001: HK\$32,973,000) respectively and the 300,000,000 (2001: 300,000,000 shares) ordinary shares in issue during the respective periods.

Diluted earnings per share for the three months and six months ended 30 June, 2002 is based on 300,000,000 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 19,844,465 shares (2001: 16,706,587 shares) and 19,793,103 shares (2001: 13,480,663 shares), respectively deemed to be issued at average fair value if all outstanding options had been exercised during the respective periods.

(8) **Fixed Assets**

	<b>Leasehold Buildings Unaudited HK\$'000</b>	<b>Leasehold Improve- ments Unaudited HK\$'000</b>	<b>Plant and Machinery Unaudited HK\$'000</b>	<b>Motor Vehicles Unaudited HK\$'000</b>	<b>Furniture and Fixtures Unaudited HK\$'000</b>	<b>Construction In Progress Unaudited HK\$'000</b>	<b>Total Unaudited HK\$'000</b>
Cost or valuation:							
At beginning							
of period	33,023	15,907	76,487	9,467	14,517	14,971	164,372
Additions	–	–	631	241	1,660	33,034	35,566
Disposals	–	–	–	–	–	–	–
Transfers	439	8	398	–	(350)	(3,708)	(3,213)
<b>At 30 June 2002</b>	<b>33,462</b>	<b>15,915</b>	<b>77,516</b>	<b>9,708</b>	<b>15,827</b>	<b>44,297</b>	<b>196,725</b>
Analysis of cost or valuation:							
At cost	1,062	15,915	77,516	9,708	15,827	44,297	164,325
At valuation	32,400	–	–	–	–	–	32,400
	<b>33,462</b>	<b>15,915</b>	<b>77,516</b>	<b>9,708</b>	<b>15,827</b>	<b>44,297</b>	<b>196,725</b>
Accumulated depreciation:							
At beginning							
of period	2,376	8,225	22,244	3,836	5,612	–	42,293
Provided during the period	212	827	3,273	759	895	–	5,966
Disposals	–	–	–	–	–	–	–
At 30 June 2002	2,588	9,052	25,517	4,595	6,507	–	48,259
Net book value:							
<b>At 30 June 2002</b>	<b>30,874</b>	<b>6,863</b>	<b>51,999</b>	<b>5,113</b>	<b>9,320</b>	<b>44,297</b>	<b>148,466</b>
At 1 January 2002	30,647	7,682	54,243	5,631	8,905	14,971	122,079

(9) **Inventories**

	<b>2002 Unaudited HK\$'000</b>	<b>2001 Unaudited HK\$'000</b>
Raw materials	16,284	13,735
Work in progress	9,196	8,393
Finished goods	20,688	15,974
Spare parts and consumables	1,341	1,676
	<b>47,509</b>	<b>39,778</b>

No inventories were carried at net realisable value at the balance sheet dates.

(10) **Trade receivables**

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	<b>2002</b> <b>Unaudited</b> <i>HK\$'000</i>	<b>2001</b> <b>Unaudited</b> <i>HK\$'000</i>
Current to 90 days	82,102	57,096
91 days to 180 days	2,129	6,123
Over 180 days	2,961	6,404
	<u>87,192</u>	<u>69,623</u>

(11) **Other receivables**

	<b>2002</b> <b>Unaudited</b> <i>HK\$'000</i>	<b>2001</b> <b>Unaudited</b> <i>HK\$'000</i>
Advances to suppliers	4,490	821
Other receivables	20,203	13,981
Prepaid expenses	523	378
	<u>25,216</u>	<u>15,180</u>

(12) **Cash and cash equivalents**

	<b>2002</b> <b>Unaudited</b> <i>HK\$'000</i>	<b>2001</b> <b>Unaudited</b> <i>HK\$'000</i>
Cash and bank balances	70,202	41,206
Time deposits	73,281	80,723
	<u>143,483</u>	<u>121,929</u>

(13) **Trade payables**

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is as follows:

	<b>2002</b> <b>Unaudited</b> <i>HK\$'000</i>	<b>2001</b> <b>Unaudited</b> <i>HK\$'000</i>
Current to 90 days	19,790	17,762
91 days to 180 days	1,265	1,722
Over 180 days	958	394
	<u>22,013</u>	<u>19,878</u>

(14) **Other payables and accruals**

	<b>2002</b> <b>Unaudited</b> <i>HK\$'000</i>	<b>2001</b> <b>Unaudited</b> <i>HK\$'000</i>
Advances from customers	17	–
Accrued payroll	5,217	6,113
Other payables	53,214	12,273
Accrued expenses	19,005	16,507
Housing fund	1,145	567
Staff welfare and bonus fund	5,080	1,581
Interim dividend payable to minority interests	–	5,047
	<u>83,678</u>	<u>42,088</u>

(15) **Bank and other borrowings**

	<b>2002</b> <b>Unaudited</b> <i>HK\$'000</i>	<b>2001</b> <b>Unaudited</b> <i>HK\$'000</i>
Interest-bearing bank loans repayable within one year:		
– secured	4,717	22,181
– unsecured	23,585	4,717
	<u>28,302</u>	<u>26,898</u>

At 30 June 2002, the Group's secured bank loans were pledged by the Group's fixed assets with aggregate net book value of approximately HK\$28,302,000 (2001: HK\$14,151,000). The unsecured bank loans were guaranteed by a Chinese joint venture partner of a subsidiary.

(16) **Share capital**

	<b>2002</b> <b>Unaudited</b> <i>HK\$'000</i>	<b>2001</b> <b>Unaudited</b> <i>HK\$'000</i>
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.1 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
300,000,000 ordinary shares of HK\$0.1 each	<u>30,000</u>	<u>30,000</u>

(17) **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 30 June, 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	Personal	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interest			Total
			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).

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

#### Outstanding share options

As at 30 June, 2002, 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:–

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 30 June, 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 June, 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 30 June, 2002 and as disclosed in the prospectus issued by the Company on 22 September, 2000, Mr. Tse Ping owned 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 business which may compete directly or indirectly with the Group. Currently, the above enterprises do not have 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 to the Company dated 19 September, 2000 and 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 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 is 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 30 June, 2002, DBS Asia Capital Limited, 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.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

From 1 January, 2002 to 30 June, 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**  
**Tse Ping**  
*Chairman*

Hong Kong, 30 July, 2002