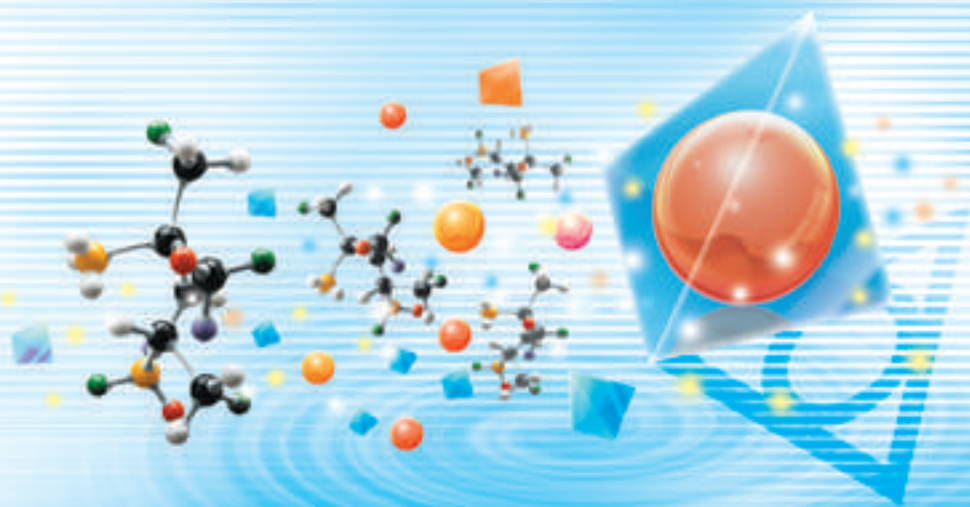




**SINO BIOPHARMACEUTICAL LIMITED**



THIRD 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](http://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 (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM 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, the information contained in this document is accurate and complete in all material respects and not misleading; there are no other matters the omission of which would make any statement in this document misleading; and 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 nine months ended 30 September 2002, the turnover of the Group amounted to approximately HK\$525.14 million, representing an increase of approximately 31.5% over the corresponding period of the previous year; net profit amounted to approximately HK\$56.15 million; and earnings per share was approximately HK18.7 cents.

Tianqingfuxin (天晴復欣) a new product for treating hepatitis launched for ten months, recorded sales of approximately HK\$20 million for the third quarter this year.

Another new product, Helen (海倫) eyedrops, has been used by more than 400 hospitals in the PRC since its launch in June 2002.

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2002.

## BUSINESS REVIEW AND PROSPECTS

### Business Review

During the period under review, the business of the Company together with its subsidiaries, (the "Group") continued to grow. Turnover grew by approximately 33.1% (before restatement) and 31.5% (after restatement), respectively, over the corresponding period of the previous year. Net profit grew by approximately 20.0% (before restatement) and 9.0% (after restatement), respectively, over the corresponding period last year. Earnings per share increased by approximately 19.9% (before restatement) and 8.7% (after restatement) when compared with that of the corresponding period last year. The development of major products, mid-end products, new products and products under research was encouraging. The sale of the major products (Diammonii Glycyrrhizinatis (甘利欣) injection and capsules, Moisten (潤舒) eyedrops and Mioclear (潤潔) eyedrops) increased by approximately 30.8 % mid-end products (Zegui Longshuang (澤桂癆爽) capsules, Carnet (可耐) injection, Sofast (施沛特) injection, Hepudido (海普林) cream and Fredex (F-的確當) eyedrops) increased by approximately 17.1 % and new products Tianqingfuxin (天晴復欣) Marine injection and capsules, Spring injection (普潤), Helen (海倫) eyedrops and Jing Da (靜達) eyedrops, etc.) contributed approximately HK\$50 million in turnover. The development of product mix has been in line with the Group's planned strategies. Tianqingfuxin (天晴復欣), being a new product for treating hepatitis, has attracted from the industry close attention since its launch 10 months ago. Its sales amounted to HK\$20 million for the third quarter of the year. The annual sales of the product are anticipated in time to exceed a hundred million dollars. Another new product of the Group, Helen (海倫) eyedrops (Levofloxacin eyedrops), has been well received by many doctors and patients and has been used by more than 400 hospitals since its launch in June 2002. It is widely accepted as an ophthalmic medicine for treating bacterial kerato conjunctivitis with the highest potential.

To cope with the Group's development, the Company conducted two fund raising activities – an issue of convertible bonds and a placement of new shares. On 14 August 2002 the Company entered into agreements with two strategic investors to issue, in aggregate, principal amount of US\$10 million convertible bonds due 2006. The principal amount of US\$6.0 million bonds had been issued to Jian Kang Ltd, which is wholly owned by a private equity fund managed by CLSA Private Equity Management Limited, on 22 October 2002. The remaining US\$4.0 million will be issued in December 2002. The Company also entered into an agreement with a placing agent on 13 September 2002 for the placement of 20,000,000 new shares to 11 independent investors. Such placement was completed on 8 October 2002. Net proceeds after deducting related expenses was approximately HK\$36.1 million, which will be used for the Group's future investments and as general working capital.

Nanjing Chiatai-Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), established in August 2001, obtained the Good Manufacturing Practice ("GMP") certification for large volume injection (intravenous injection) from the State Drug Administration (the "SDA") of the People's Republic of China (the "PRC") on 23 September 2002.

During the period, the principal earnings contribution to the Group was still made by Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") and Jiangsu Chiatai-Tianqing Pharmaceutical Co., Ltd. ("JCTT").

### CTF

The business of CTF experienced continuous growth and its turnover grew by 32.8% over the corresponding period of the previous year. In this year, CTF's has strengthened flexibility in sales to meet changes in market demand. As a result of increased sensitivity to the market and quickened response, CTF was able to better seize the opportunities to expand its sales and to enhance product promotion. For instance, CTF grasped the market opportunity of epidemic pinkeye (acute contagious conjunctivitis) in the southern part of the PRC in September and recorded turnover of approximately HK\$45 million in September 2002.

Over 80% of the products of CTF are ophthalmic, with currently 15 types available and 14 types under research. These basically cover all ophthalmic indications. The objective of CTF is to become PRC's largest and best ophthalmic medicine base with the most comprehensive products. CTF has built a good earning base, a fundamentally healthy sales network, and an effective product mix with comprehensive ophthalmic formulations such as eyedrops, eye ointment and injection, all being granted with GMP certification by the SDA of the PRC. As a principal subsidiary of the Company, CTF has launched successfully new products including Mioclear (潤潔), Jing Da (靜達) and Helen (海倫) eyedrops, and nearly doubled its revenue since the listing of the shares of the Company on GEM. CTF has been gradually achieving its objectives.

Hainan Chai Tai Freda Pharmaceutical Co., Ltd. ("Hainan CTF"), a subsidiary of CTF, is under development as planned. The one-stop three-in-one eyedrops equipment being imported is expected to be delivered on site in early 2003.

#### *JCTT*

JCTT also experienced continuous growth and its turnover increased by approximately 32.1% over the corresponding period of the previous year. The sale of major products comprising Diammonii Glycyrrhizinatis (甘利欣) injection and capsule continued to grow, representing an increase of approximately 27.5% over the corresponding period last year. The product has further room for sales expansion in the market. Strengthening the collection of end-users' data has made JCTT's sales network more effective. In promoting the newly launched Tianqingfuxin (天晴復欣) injection and capsule, it was recommended to be prescribed in combination with the Diammonii Glycyrrhizinatis (甘利欣) injection and capsule and it has achieved a significantly better treatment result. As a result, it has now been well received by many doctors and patients. The sales growth and its brand name of Diammonii Glycyrrhizinatis (甘利欣) helped drive the sales of Tianqingfuxin (天晴復欣). The sales of Tianqingfuxin (天晴復欣) amounted to approximately HK\$35 million for almost ten months since its launch. Sales amounted to approximately HK\$20 million for the third quarter only. We believe that it will become one of our major products with significant contribution to the Group's turnover and profit.

At the same time while JCTT stepped up the market development for major products as well as new products, it also paid special attention to the development of the market for mid-end products, seeking new indications for launched products to expand its market. Taking the antiviral Carnet injection for example, the Group's researchers continued their studies on the pharmacodynamics and therapeutic effects of this product, and, based on feedback from the market, found that it had a significant therapeutic effect on serious hepatitis B. The SDA of the PRC approved a clinical trial on this indication of the product and the relevant clinical testing has been in progress. When this indication is proven, the Group's advantage in hepatitis medicine market will be further strengthened.

Hepatitis is prevalent nationwide in the PRC and it costs RMB30 billion-RMB50 billion to treat the disease annually. Therefore, there is a huge market potential for hepatitis medicine. Given JCTT's strength in the research and development of hepatitis medicine and its well-developed sales network, JCTT is playing an increasingly and a significant role in the market.

#### *NJCTT*

NJCTT obtained the GMP certification for its PVC-free soft bags for large volume injection (intravenous injection) production line on 23 September 2002. The application procedures for the product permits are in progress and it is expected to commence operations in early 2003.

#### **Research and development ("R&D")**

During the period under review, the Group was granted new drug certificates and production approvals for two new products – a medicine for treating dry mouth and Dewhow (潤博) eyedrops for treating allergic ophthalmic diseases – out of the existing 45 products under research.

In September 2002, the Group and an independent third party invested US\$1 million in the establishment of Beijing China Tai Green Continent Pharmaceutical Co., Limited in the Beijing Economic Technological Development Zone. This company focuses on the research of drop pills, controlled release, fast release and sustained release preparation and injection formulations for the treatment of cardiovascular and respiratory diseases and bacterial, viral infections. Its establishment has expanded the Group's research scope to new types of drop pills, controlled release, fast release and sustained release preparation. The Group, therefore, has entered into the development of internationally advanced medicine.

## Prospects

Adhering to its business development plans and strategies formulated earlier this year, the Group will continue to develop its business on the basis of the technology of bio-medicines and modernised Chinese medicines. The Group believes that its stable earnings, renowned brand-names, healthy sales network, increasing market share, well-defined research and development directions, and a professional and strong R&D team have laid a GMP certified facilities, solid foundation for its future development. In addition, through continuous acquisition and merger and alliance with strategic investors, the strength of the Group will further be enhanced. The Directors believe that under the leadership of the management, with full support from the shareholders and the dedication of the Group's staff, the Group will achieve its business objectives laid down by the management.

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

## RESULTS

The unaudited consolidated results of the Group for the three months and the nine months ended 30 September 2002, together with the comparative unaudited consolidated results for the respective corresponding periods in 2001, were as follows:—

	<i>Notes</i>	For the three months ended 30 September		For the nine months ended 30 September 2001	
		2002 Unaudited HK\$'000	2001 Unaudited HK\$'000	2002 Unaudited HK\$'000	Unaudited (restated) HK\$'000
Turnover	(2)	214,526	146,634	525,142	399,255
Costs of sales		(44,738)	(28,312)	(104,160)	(75,599)
Gross profits		169,788	118,322	420,982	323,656
Selling expenses		(98,498)	(66,995)	(240,790)	(182,295)
Administrative expenses		(25,884)	(14,645)	(60,702)	(43,893)
Profit from operating activities		45,406	36,682	119,490	97,468
Finance costs		(32)	698	(784)	(1,335)
Other operating income/(expenses) (net)		347	125	869	3,125
Profit before taxation		45,721	37,505	119,575	99,258
Taxation	(3)	(4,251)	(2,816)	(10,997)	(7,097)
Profit before minority interests		41,470	34,689	108,578	92,161
Minority interests		(19,713)	(16,170)	(52,432)	(40,669)
Profit attributable to the Group		21,757	18,519	56,146	51,492
Dividends	(4)	—	—	45,000	12,000
Earnings per share	(5)				
– basic		HK7.3 cents	HK6.2 cents	HK18.7 cents	HK17.2 cents
– diluted		HK6.8 cents	HK5.8 cents	HK17.6 cents	HK16.3 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 30 September 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 30 September		For the nine months ended 30 September 2001	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000	2002 Unaudited HK\$'000	Unaudited (restated) HK\$'000
Sales of goods	214,526	146,634	525,142	394,540
Dividend income	—	—	—	4,715
Total	<u>214,526</u>	<u>146,634</u>	<u>525,142</u>	<u>399,255</u>

(3) **Taxation**

	For the three months ended 30 September		For the nine months ended 30 September 2001	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Hong Kong	—	—	—	—
PRC income tax	<u>4,251</u>	<u>2,816</u>	<u>10,997</u>	<u>7,097</u>
Total	<u>4,251</u>	<u>2,816</u>	<u>10,997</u>	<u>7,097</u>

No Hong Kong profits tax has been provided for the three months and nine months ended 30 September 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, 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 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).

(4) **Dividends**

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2002. (2001: 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 2002 of HK\$21,757,000 (2001: HK\$18,519,000) and HK\$56,146,000 (2001: HK\$51,492,000) respectively and the 300,000,000 (2001: 300,000,000) ordinary shares in issue during the respectively periods.

Diluted earnings per share for the three months and nine months ended 30 September 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 19,528,302 shares (2001: 20,347,826 shares) and 19,722,222 shares (2001: 16,645,391 shares), respectively deemed to be issued at average fair value if all outstanding options had been exercised during the respective periods.

(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.

On 7 October 2002, the Company allotted and issued an aggregate of 20,000,000 ordinary shares of HK\$0.10 each at HK\$1.83 per share to 11 independent investors by way of private placing for a total cash consideration before expenses of HK\$36.6 million. After deducting share issue expenses of approximately HK\$0.5 million, net proceed amounted to approximately HK\$36.1 million and the share premium account increased by approximately HK\$34.1 million.

**DIRECTORS' INTERESTS IN SHARE CAPITAL**

As at 30 September 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.
- (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.

(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 30 September 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 30 September 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 30 September 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:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of shareholding</b>
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 September 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**

DBS Asia Capital Limited ("DBS Asia") has entered into a sponsorship agreement with the Company whereby, for a fee, DBS Asia would act as the Company's continuing sponsor for the period up to 31 December 2002.

To the best knowledge of the Company, DBS Asia, its directors, employees or associates (as defined in the GEM Listing Rules), 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, as at 30 September 2002.

#### **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 30 September 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, 6 November 2002