



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

2004

INTERIM
REPORT

FINANCIAL HIGHLIGHTS:

Results	Six months ended 30 June,		Changes
	2004	2003	
	Unaudited HK\$'000	Unaudited HK\$'000	
Turnover	522,654	397,251	31.6%
Profit from operating activities	123,486	82,787	49.2%
Profit attributable to shareholders	78,022	44,067	77.1%
Basic earnings per share (<i>HK cents</i>)	5.88	3.32	77.1%

The Board has declared an interim dividend of HK2 cents per share for the six months ended 30 June, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE PROFILE

Sino Biopharmaceutical Limited ("the Company"), its subsidiaries and jointly-controlled entity ("the Group"), is an integrated pharmaceutical enterprise. The Group researches and develops, manufactures and markets a broad range of biopharmaceutical products, modern Chinese medicines and chemical medicines by applying advanced biotechnologies and modernized Chinese medicinal technologies.

The Group's main products include:

Ophthalmic Medicines: Moisten eyedrop and Mioclear eyedrop

Hepatitis Medicines: Diammonium Glycyrrhizinate injections and capsules, and Tianqingfuxin injections and capsules

Cardio-cerebral Medicines: Alprostadil injections and Spring injections

Osteoarthritis Medicines: Sofast injections

The Group has obtained 14 dosage-forms with GMP certifications issued by the State Food and Drug Administration of the People's Republic of China ("PRC") ("SFDA") for: large volume injections; small volume injections; powder injections; eye drops; ointments; tablets; capsules; eye ointments; nose drops; ear drops; powdered medicines; granulated medicines; PVC-free soft bags for intravenous injection and liniments.

BUSINESS REVIEW

During the period under review, despite the generally sluggish domestic pharmaceutical market environment in the PRC, the Group successfully implemented its business strategies and plans for the year, and moved forward whilst maintaining operational integrity. All the Group's business units did well, achieving an encouraging growth.

The Group's mission is to deliver solid and persistent performance and create long-term value for its shareholders. For the six months ended 30 June, 2004, we lived up to that mission. Turnover increased 31.6% to approximately HK\$522.65 million, net profit attributable to shareholders grew 77.1% to approximately HK\$78.02 million, while basic earnings per share were HK5.88 cents (2003: HK3.32 cents per share). This result reflected the concerted efforts of all our subsidiaries in striving for better performance, credit for the impressive results also goes to our new jointly-controlled entity Beijing Tide Pharmaceutical Co. Ltd. ("Beijing Tide"). Beijing Tide has greatly enhanced the Group's profitability since its acquisition in October 2003. The Group's profit was further boosted by another subsidiary, Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT") beginning full operations in late 2003. NJCTT was established in August 2001.

First phase construction of the new production facilities of Shandong Chia Tai Freda Pharmaceutical Co. Ltd. ("CTF") has been completed and the plant will begin operation in late 2004. The new plant of Beijing Tide is still being constructed. It is expected to be completed by year-end and will become fully operational next year.

During the period under review, the Group's principal earnings contributors were CTF, Jiangsu Chia Tai-Tianqing Pharmaceutical Co. Ltd. ("JCTT"), Beijing Tide and Chia Tai Qingchunbao Pharmaceutical Co. Ltd..

Ophthalmic medicines

CTF is principally engaged in the manufacture and development of ophthalmic products. During the period under review, CTF saw continued growth in turnover, a 34.7% increase against last year's figure, accounting for 47.1% of the Group's total turnover. Sales of ophthalmic medicines accounted for 39.8% of the Group's total turnover. Supported by a comprehensive over-the-counter retail operation, the Group's eyedrops products (including Moisten eyedrop, Mioclear eyedrop, Red Mioclear eyedrop, C.P. Bright eyedrop

and C.P. Jasper eyedrop) produced with the patented HA application sold exceptionally well in the PRC market. In particular the "best-buy" products, Moisten eyedrops (anti-bacteria and anti-inflammation, treating for keratitis and conjunctivitis) and Mioclear eyedrops (treating for eye fatigue) were strong sellers. Both "Moisten" and "Mioclear" have become strong brands in the pharmaceutical industry in the PRC. During the first half of the year, Moisten Eyedrops recorded a turnover of HK\$72.30 million, an increase of 20.3% over that of last year's; while the sales of Mioclear eyedrops increased 18.4% to HK\$60.40 million. Red Mioclear for relieving severe fatigue of the eyes, which was launched in January 2003, received an overwhelming response from the market. Its sales exceeded HK\$35 million, a forceful growth of 137.1% compared with last year. It is expected to become yet the Group's another product with turnover reaching a hundred million (Hong Kong) dollars.

Other eye products, IVIZ Sodium Hyaluronate Injection (cataract extraction) and Carbamylcholine Injection (an iridoconstrictor) recorded sales growth of 34.2% and 28.8% respectively.

Collyium, a Mioclear eye care product, was launched in April 2004. It was the first eye wash product launched in the PRC market and was promoted as "a trend setting product that marks the unveiling of the new eye care concept". This marked the expansion of the Group's ophthalmic product scope to cover eye care products. Management has full confidence in the market potential of the new product line.

Hepatitis medicines

JCTT is principally engaged in the manufacture and development of hepatitis medicine. During the period under review, JCTT's sales grew to reach approximately HK\$251.87 million, 17.9% higher than last year, accounting for 48.2% of the Group's total sales. Sales of hepatitis medicines accounted for 43.5% of the Group's total turnover. Diammonium Glycyrhinate (protect liver by lowering enzyme level), the Group's principal hepatitis product and one of the most trusted and best selling in the market, reported an encouraging turnover of HK\$150 million, surpassing last year's by 25.3%. Tianqingfuxin, which is for fighting hepatitis virus, is particular effective when used together with Diammonium Glycyrhinate. Boasting prominent therapeutic effects and notwithstanding its short history Tianqingfuxin has been hailed as a leading product in fighting the hepatitis causing virus in the modernized Chinese medicine category. For the six months ended 30 June, 2004, its sales reached HK\$72.60 million. In addition to the two major hepatitis products, the Group also launched Tianqingshunxin (lowering bilirubin) and Lactitol Powder (treatment of hepatopathy coma) last year and Ganping (protect liver by lowering enzyme level) in May 2004, augmenting a hepatitis treatment series that gives it unique access to the abundant opportunities in the hepatitis medicine market in the PRC.

Cardio-cerebral medicines

This product line is developed and manufactured by Beijing Tide. Alprostadiol injection is the only recognized Lipo-microspheres target and sustained release medicine available in the PRC. The product's uniqueness and patented status, superb therapeutic effect and minimum side effects make it an ideal platform for the Lipo-microspheres target and sustained release medicine. For the six months ended 30 June, 2004, this product has already recorded sales over HK\$140 million, profits grew at 47.9%.

In addition, serving complementary market segments, the Spring Injections (by JCTT) and the PVC-free soft bags for intravenous injections (by NJCTT) recorded total sales of approximately HK\$24 million, representing a 116.4% increase against that of last year. They are among products of the Group that have tremendous growth potential.

Osteoarthritis medicines

CTF is also engaged in the manufacture and development of the Group's osteoarthritis medicines. Its primary product Sofast injection, applying biotechnology component HA, treats painful arthritic joints by viscosupplementation (supplementing the natural lubricating and protective properties of the synovial fluid). For the six months ended 30 June, 2004, this product recorded sales over HK\$33 million, representing an increase of 54.6% over that in the same period last year.

RESEARCH AND DEVELOPMENT ("R&D")

During the period under review, the Group obtained 8 approvals for the production of new drugs and 13 approvals for clinical research from the SFDA; and 39 cases are under or pending clinical trials and research. After the clinical trials are completed and if proven successful, production and sale approvals will be sought. These new products will support the continuous growth of the Group's business.

The achievements of the Group's various research institutes are as follows:

<i>Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd.:</i>
<ul style="list-style-type: none">- 2 Cardio-cerebral products have applied to SFDA and are pending approval for clinical trials;- 9 inventions' patent application were filed with the State Intellectual Property Rights Bureau.
<i>JCT:</i>
<ul style="list-style-type: none">- 5 approvals for production from SFDA;- 12 approvals for clinical research from SFDA;- 24 cases are under or pending clinical trials, among them, 8 are hepatitis products.
<i>CTF:</i>
<ul style="list-style-type: none">- 3 approvals for production from SFDA;- 1 approval for clinical research from SFDA;- 15 cases are under or pending clinical trials, among them, 8 are ophthalmic products, which are primarily for the treatment of children's eye tiredness, cataract, glaucoma, pupil enlarger and anti-bacteria and anti-inflammation.
<i>Beijing Tide:</i>
<p>Product research and development proceed smoothly. The clinical trials for Lipo-microspheres targeted analgesic injection are completed and show promising results. Application to SFDA for production approval is underway and approval is expected to be secured in late 2004. It is expected to commit production in early 2005.</p>

CAPITAL STRUCTURE

On 28 April, 2004, each of the existing issued and unissued shares of the Company of HK\$0.10 each has been divided into 4 subdivided Shares.

As at 30 June, 2004, the Group had a short term bank loan of approximately HK\$9.43 million (2003: nil).

FINANCIAL RESOURCES AND LIQUIDITY

The Group maintained a strong financial position. As at 30 June, 2004, the shareholders' equity of the Group was approximately HK\$359,476,000, and current assets were approximately HK\$463,130,000, including cash and bank deposit of approximately HK\$229,734,000. As at 30 June, 2004, the Group's current ratio (current assets over current liabilities) and gearing ratio (total liabilities over total assets) were 1.66 and 0.42 respectively. The Directors considered that the Group had sufficient financial resources to meet its ongoing operating requirements.

CONTINGENT LIABILITIES

During the period under review, the Group had no significant contingent liabilities (2003: nil).

CHARGE ON ASSETS

The Group did not have any charges on assets during the period under review (2003: nil).

EXPOSURE TO FOREIGN EXCHANGE FLUCTUATION

Most of the Group's sales and purchases were denominated in Renminbi. Therefore, the Directors consider the foreign exchange risks to be minimal.

SIGNIFICANT INVESTMENT AND ACQUISITION

For the six months ended 30 June, 2004, there were no significant investment, nor were there any material acquisition or disposal of subsidiaries.

EMPLOYEES

As at 30 June, 2004, the Group had 2,972 employees. Remuneration was determined on the basis of the performance and experience of individual employees.

CORPORATE GOVERNANCE

The Group continues to emphasize high levels of corporate governance. A representative from the Group was invited to participate in the 37th International General Meeting of Pacific Basin Economic Council – “harnessing Corporate Governance for Business Growth in China” in Beijing in June 2004 to share their approach. The Group has improved transparency through the voluntary disclosure of quarterly results since its listing on the Main Board in 2003 and constant communication with investors. Over the past six months, the Group has participated in 19 rounds of analyst meetings, 9 rounds of media briefings and one investor forum organized for institutional investors. The Group also strives to improve shareholder return through a consistent dividend policy and from this quarter will commence a quarterly dividend payment policy.

OUTLOOK AND PROSPECTS

With excellent R&D capabilities and successful record, the Group has been able to develop and produce medicines by biotechnology and modernized Chinese medicine technology, taking full advantage of optimal market opportunities. The Group's R&D strengths provide a solid foundation and engine for its future growth. The Group will continue to invest in the R&D of new biopharmaceutical products and modern Chinese medicines, the two fastest growing areas in the pharmaceutical industry. At the same time, the Group will also establish a more comprehensive sales network and sales appraisals mechanism and take every opportunity to promote its core products. Through improving brand influence and effective implementation of marketing efforts, it will aim to enhance the market share of its new products. Based on the successful experience of working with research organizations, technological institutes and universities both within and outside the PRC in developing new products, the Group is strengthening its own R&D capabilities and it has been able to significantly shorten the debut period of new products by focusing on producing new products with market advantages. As a result, the contribution of new products to the Group's revenue is accelerated and the market reach is extended.

With a solid profitable foundation, well-known brand names, a dedicated management team, 14 GMP certifications and a prominent reputation in the pharmaceutical industry in the PRC, the Group makes an attractive partner for quality enterprises. It is confident of forging cooperative relationships with different organizations and also attracting high calibre to join its team, making it stronger, more able to grow and more competitive. The Group is committed to achieving the performance goals it has set for itself for the year.

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

RESULTS

The Board has pleasure to announce the unaudited consolidated results of the Group for the six months ended 30 June, 2004 together with the comparative figures for the respective corresponding period in 2003 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the six months ended 30 June,	
		2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
Turnover	(2)	522,654	397,251
Cost of sales		(100,553)	(76,996)
Gross profit		422,101	320,255
Other revenue		3,111	1,635
Selling and distribution costs		(219,921)	(177,339)
Administrative expenses		(55,860)	(43,894)
Other operating expenses		(25,945)	(17,870)
Profit from operating activities	(3)	123,486	82,787
Finance costs	(4)	(771)	(865)
Share of profit of:			
A jointly-controlled entity		23,367	-
Amortisation of goodwill on acquisition of a jointly-controlled entity		(2,231)	-
Profit before tax		143,851	81,922
Tax	(5)	(17,905)	(7,233)
Profit before minority interests		125,946	74,689
Minority interests		(47,924)	(30,622)
Net profit attributable to shareholders		78,022	44,067
Dividends	(6)	26,560	16,600
Earnings per share	(7)		
- basic		HK5.88 cents	HK3.32 cents
- diluted		HK5.24 cents	HK2.99 cents

CONSOLIDATED BALANCE SHEET

		30 June, 2004	31 December, 2003
	<i>Notes</i>	Unaudited HK\$'000	Audited HK\$'000
NON-CURRENT ASSETS			
Fixed assets	<i>(8)</i>	248,814	197,951
Intangible assets		8,371	3,784
Deferred development costs		6,594	11,024
Goodwill		2,653	2,937
Interest in a jointly-controlled entity		99,411	81,079
Long term investment		29,820	29,820
		395,663	326,595
CURRENT ASSETS			
Inventories	<i>(9)</i>	63,039	57,695
Trade receivables	<i>(10)</i>	119,698	54,550
Other receivables	<i>(11)</i>	50,659	8,314
Cash and cash equivalents	<i>(12)</i>	229,734	288,849
		463,130	409,408
CURRENT LIABILITIES			
Trade payables	<i>(13)</i>	32,999	21,424
Profits tax payable		8,014	7,816
Taxes payable other than profits tax	<i>(14)</i>	14,501	11,100
Other payables and accruals	<i>(15)</i>	213,095	116,828
Bank and other borrowings	<i>(16)</i>	9,426	–
Amount due to a related company		757	4,501
		278,792	161,669
NET CURRENT ASSETS		184,338	247,739
		580,001	574,334
CAPITAL AND RESERVES			
Issued capital	<i>(17)</i>	33,200	33,200
Reserves	<i>(18)</i>	326,276	273,586
Proposed dividend		–	33,200
		359,476	339,986
Minority interests		142,525	156,348
Convertible bonds		78,000	78,000
		580,001	574,334

CONSOLIDATED SUMMARY OF STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June,	
	2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
1 January – total equity	339,986	292,808
Exchange differences on translation of the financial statements of foreign entities	1,228	13
Net gains not recognised in the profit and loss account	341,214	292,821
Net profit attributable to shareholders	78,022	44,067
Dividends	(59,760)	(46,480)
Issue of new shares, including share premium	–	8,880
30 June – total equity	359,476	299,288

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	143,851	81,922
Adjustment for:		
Interest income	(1,739)	(1,349)
Interest expenses	771	865
Share of profit of a jointly-controlled entity	(23,367)	-
Dividend received from an unlisted investment	(8,589)	(6,791)
Depreciation	12,244	8,245
Goodwill amortisation	2,515	365
Intangible assets amortisation	575	159
Loss on disposal/transfer of fixed assets	2,953	200
Operating profit before working capital changes	129,214	83,616
Increase in inventories	(5,344)	(9,162)
Increase in trade receivables	(65,147)	(27,273)
Increase in other receivables	(42,345)	(1,132)
Increase in amounts due from related companies	-	(53)
Increase/(decrease) in trade payables	11,575	(2,367)
(Decrease)/increase in taxes payables other than profits tax	3,401	(3,635)
Increase in other payables and accruals	96,267	50,537
(Decrease)/increase in amount due to related companies	(3,744)	1,331
Cash generated from operations	123,877	91,862
PRC profits tax paid	(14,903)	(7,293)
NET CASH INFLOW FROM OPERATING ACTIVITIES	108,974	84,569
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,739	1,349
Dividend received from an unlisted investment	8,589	6,791
Purchases of fixed assets	(65,229)	(19,516)
Purchases of intangible assets	-	(1,464)
Addition of deferred development costs	(660)	-
Proceeds from disposal of fixed assets	-	950
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(55,561)	(11,890)

	Six months ended 30 June,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
CASH FLOW FROM FINANCING ACTIVITIES		
Interest paid	(771)	(865)
Dividend paid to minority shareholders	(61,759)	(46,954)
Dividends paid	(59,760)	(46,480)
Proceeds from issue of share capital	-	8,880
Proceeds from issue of convertible bonds	-	31,200
Increase in minority interests	-	1,457
Repayments to advances from a minority shareholder	-	(191)
New short term bank loans	56,556	47,114
Repayment of bank loans	(47,130)	(51,827)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(112,864)	(57,666)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(59,451)	15,013
Cash and cash equivalents at beginning of period	288,849	280,525
Effect of foreign exchange rate changes, net	336	13
CASH AND CASH EQUIVALENTS AT END OF PERIOD	229,734	295,551
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	112,456	102,650
Time deposits with original maturity of less than three months when acquired	57,912	161,701
Time deposits with original maturity of less than one year when required	59,366	31,200
	229,734	295,551

Notes:

(1) Basis of preparation

The Group's financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice ("SSAP") Number 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and disclosure requirements set out in the Listing Rules.

The principal accounting policies adopted in preparing the consolidated interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 December, 2003 except that the Group has adopted the revised SSAPs which became effective on 1 January, 2004. The adoption of these revised SSAPs has no material effect on the Group's results.

(2) Turnover

Turnover represents the invoiced value of goods sold, after allowances for sales returns and discounts, 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 six months ended 30 June,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Sales of goods	514,065	390,460
Dividend income	8,589	6,791
Total	522,654	397,251

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

(3) Profit from operating activities

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

	For the six months ended 30 June,	
	2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
Cost of inventories sold	100,553	76,996
Depreciation	12,244	9,117
Amortisation of intangible assets	575	159
Amortisation of goodwill	2,515	365
Minimum lease payments under operating leases:		
Land and buildings	3,696	3,115
Loss on disposal of fixed assets	1,469	200
Research and development costs	25,945	17,670
Auditors' remuneration	300	290
Exchange loss, net	-	145
Staff costs:		
Wages and salaries	62,337	51,589
Pension contributions	7,390	4,023
Total	69,727	55,612

and after crediting:

Exchange gains, net	505	-
Dividend income from an unlisted investment	8,589	6,791
Interest income	1,739	1,349

(4) Finance costs

	For the six months ended 30 June,	
	2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
Interest on bank loans wholly repayable within one year	383	554
Interest on convertible bonds	388	311
	771	865

(5) Tax

	For the six months ended 30 June,	
	2004	2003
	Unaudited HK\$'000	Unaudited HK\$'000
Provision for the period		
PRC income tax	15,101	7,233
Share of tax attributable to:		
A jointly-controlled entity	2,804	–
Total tax charge for the period	17,905	7,233

No Hong Kong profits tax has been provided for the six months ended 30 June, 2004 as there was no assessable profit arising in or derived from Hong Kong during this period (2003: Nil).

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 corporate income tax rate of 33% (comprising 30% state income tax plus 3% local income tax) unless the enterprise is qualified as a "High and New Technology Enterprise" for which more favourable effective corporate income tax rates apply. The Group's principal operating subsidiaries are qualified as "High and New Technology Enterprises" for which a preferential corporate income tax rate of 15% applies.

JCTT, one of the Group's principal operating subsidiaries, is exempted from corporate income tax for the two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% exemption from the full corporate income tax rate for the succeeding three years (the "Tax Exemption"). JCTT was entitled to the 50% exemption for its corporate income tax and therefore JCTT's corporate income tax rate was 7.5% for each of three years ended 31 December, 2002. The Tax Exemption expired on 31 December, 2002. As JCTT qualifies as a foreign investor – "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, JCTT is subject to a corporate income tax rate of 10% since 2003. Income tax rate in 2004 was 10%.

CTF, another principal operating subsidiary of the Group, is also entitled to the Tax Exemption. The Tax Exemption expired on 31 December, 2001. As CTF qualifies as a foreign investor – "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, CTF has been subject to a corporate income tax rate of 10% since 2002. Income tax rate in 2004 was 10%.

Deferred tax has not been provided because the taxable and deductible temporary differences are immaterial for the current and prior years.

(6) Dividends

The Board of Directors has declared an interim dividend of HK2 cents per ordinary share. The dividend will be paid on Thursday, 30 September, 2004 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 22 September, 2004.

The Register of Members of the Company will be closed from Monday, 20 September, 2004 to Wednesday, 22 September, 2004, both days inclusive, during which period no transfer of shares 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, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on Friday, 17 September, 2004.

(7) Earnings per share

The calculation of the basic earnings per share is based on net profit attributable to shareholders for the six months ended 30 June, 2004 of HK\$78,022,000 (2003: HK\$44,067,000) and the weighted average of 1,328,000,000 (2003: HK\$1,325,878,452) ordinary shares in issue during the period. The weighted average number of shares outstanding for the six months ended 30 June, 2003 and 2004 has been retrospectively adjusted for the effect of the subdivision of shares with effect from 28 April, 2004,

Diluted earnings per share for the six months ended 30 June, 2004 is based on net profit attributable to shareholders for the six months ended 30 June, 2004 of HK\$78,022,000 (2003: HK\$44,067,000) and interest of HK\$327,600 (2003: HK\$262,080) on convertible bonds and 1,328,000,000 ordinary shares which were the weighted average number of ordinary shares in issue during the respective periods plus the weighted average number of 56,924,384 (2003: 47,768,052) ordinary shares deemed to be issued at average fair value if all outstanding options had been exercised during the respective periods and the weighted average of 109,473,684 (2003: 109,473,684) ordinary shares assumed to have been issued at nil consideration on the deemed exercises of all convertible bonds during the respective periods. The weighted average number of shares outstanding for the six months ended 30 June, 2003 and 2004 has been retrospectively adjusted for the effect of the subdivision of shares with effect from 28 April, 2004.

(8) Fixed Assets

	Leasehold Buildings Unaudited HK\$'000	Land use rights Unaudited HK\$'000	Leasehold Improve- ments Unaudited HK\$'000	Plant and Machinery Unaudited HK\$'000	Motor Vehicles Unaudited HK\$'000	Furniture and Fixtures Unaudited HK\$'000	Con- struction in Progress Unaudited HK\$'000	Total Unaudited HK\$'000
Cost or valuation:								
At beginning of period	60,050	6,100	23,009	106,074	17,368	24,176	29,686	266,463
Additions	-	17,513	48	1,051	1,796	3,925	40,896	65,229
Disposals	-	-	(3,181)	(3,981)	(270)	(535)	(21)	(7,988)
Transfers in/(out)	-	-	-	153	-	-	(153)	-
Exchange realignment	321	16	69	483	62	104	129	1,184
At 30 June, 2004	60,371	23,629	19,945	103,780	18,956	27,670	70,537	324,888
Analysis of cost or valuation:								
At cost	-	17,513	19,945	103,780	18,956	27,670	70,537	258,401
At valuation	60,371	6,116	-	-	-	-	-	66,487
	60,371	23,629	19,945	103,780	18,956	27,670	70,537	324,888
Accumulated depreciation:								
At beginning of period	-	-	10,103	40,945	6,412	11,052	-	68,512
Provided during the period	1,698	-	607	6,690	1,393	1,856	-	12,244
Disposals	-	-	(1,806)	(2,577)	(194)	(458)	-	(5,035)
Exchange realignment	87	-	28	166	27	45	-	353
At 30 June, 2004	1,785	-	8,932	45,224	7,638	12,495	-	76,074
Net book value:								
At 30 June, 2004	58,586	23,629	11,013	58,556	11,318	15,175	70,537	248,814
At 1 January, 2004	60,050	6,100	12,906	65,129	10,956	13,124	29,686	197,951

(9) Inventories

	30 June, 2004 Unaudited HK\$'000	31 December, 2003 Audited HK\$'000
Raw materials	24,083	19,261
Work in progress	13,295	10,127
Finished goods	25,400	24,952
Spare parts and consumables	261	3,355
	63,039	57,695

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:

	30 June, 2004 Unaudited HK\$'000	31 December, 2003 Audited HK\$'000
Current to 90 days	116,851	52,857
91 days to 180 days	2,108	1,669
Over 180 days	739	24
	119,698	54,550

(11) Other receivables

	30 June, 2004 Unaudited HK\$'000	31 December, 2003 Audited HK\$'000
Advances to suppliers	8,595	2,043
Other receivables	40,312	4,709
Prepaid expenses	1,752	1,562
	50,659	8,314

(12) Cash and cash equivalents

	30 June, 2004 Unaudited HK\$'000	31 December, 2003 Audited HK\$'000
Cash and bank balances	112,456	170,313
Time deposits	117,278	118,536
	<u>229,734</u>	<u>288,849</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:

	30 June, 2004 Unaudited HK\$'000	31 December, 2003 Audited HK\$'000
Current to 90 days	21,818	19,340
91 days to 180 days	8,598	578
Over 180 days	2,583	1,506
	<u>32,999</u>	<u>21,424</u>

(14) Taxes payable other than profits tax

	30 June, 2004 Unaudited HK\$'000	31 December, 2003 Audited HK\$'000
Value added tax	12,638	6,025
Individual income tax	1,624	4,708
Property tax	192	367
Stamp duties	47	-
	<u>14,501</u>	<u>11,100</u>

(15) Other payables and accruals

	30 June, 2004 Unaudited HK\$'000	31 December, 2003 Audited HK\$'000
Advances from customers	1,026	8,797
Accrued payroll and bonus	107	25,194
Other payables	61,949	29,936
Accrued expenses	109,385	33,021
Housing fund	190	980
Staff welfare and bonus fund	13,878	18,900
Interim dividend	26,560	-
	213,095	116,828

(16) Bank and other borrowings

	30 June, 2004 Unaudited HK\$'000	31 December, 2003 Audited HK\$'000
Interest-bearing bank loans repayable within one year:		
– secured	-	-
– unsecured	9,426	-
	9,426	-

(17) Share capital

	30 June, 2004 Unaudited HK\$'000	31 December, 2003 Audited HK\$'000
Authorised:		
4,000,000,000 ordinary shares of HK\$0.025 each (Note) (2003: 1,000,000,000 ordinary shares of HK\$0.10 each)	100,000	100,000
Issued and fully paid:		
1,328,000,000 ordinary shares of HK\$0.025 each (2003: 332,000,000 ordinary shares of HK\$0.10 each)	33,200	33,200

Note: On 28 April, 2004, each of the existing issued and unissued shares of the Company of HK\$0.10 each has been divided into 4 subdivided shares of HK\$0.025 each.

(18) Reserves

During the period, there was a transfer of HK\$22,070,000 (2003: HK\$16,359,000) from the Group's retained earnings to statutory reserve funds.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 June, 2004, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were, as follows:

LONG POSITION IN SHARES

Name of director	Capacity/Nature of Interest		Total number of shares in the Company	Approximate percentage of issued share capital of the Company
	Beneficial owner	Interest of controlled corporations		
Mr. Tse Ping	12,000,000	924,480,000 <i>(Note 1)</i>	936,480,000	70.52%
Mr. Wang Jinyu	-	35,520,000 <i>(Note 2)</i>	35,520,000	2.67%
Mr. Tao Huiqi	1,600,000	-	1,600,000	0.12%

Notes:

1. Mr. Tse Ping held these shares through Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in each of these companies is owned by Mr. Tse Ping. The interest of each of these companies in the shares of the Company is set out in the section headed "Persons who have an interest or short position which is discloseable under the SFO and substantial shareholders" below.
2. Mr. Wang Jinyu held these shares through Discover Profits Limited, the entire issued share capital of which is owned by Mr. Wang Jinyu.

LONG POSITION IN UNDERLYING SHARES

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 19 September, 2000, certain Directors, being Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu, were granted options on 2 January, 2001 to subscribe for 7,500,000 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 3 January, 2003 to 1 January, 2007 (both days inclusive). On 8 January, 2003, Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu exercised part of their respective share options and subscribed 3,000,000 shares, 400,000 shares and 400,000 shares of the Company, respectively. As at 30 June, 2004 (after the share subdivision became effective on 28 April, 2004), 18,000,000 shares, 2,400,000 shares and 2,400,000 shares remained issuable upon the exercise in full of all the respective share options of Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu granted under the Scheme which were yet to be exercised.

Save as disclosed above, as at 30 June, 2004, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June, 2004, the following interests and short positions of 5% or more of the issued share capital and underlying shares under equity derivatives of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

LONG POSITION IN SHARES

Name of shareholder	Capacity/Nature of Interest	Number of shares of the Company	Approximate percentage of issued share capital of the Company
Conspicuous Group Limited	Beneficial owner	432,000,000 (Note 1)	32.53%
Remarkable Industries Limited	Beneficial owner	229,271,040 (Note 1)	17.26%
Validated Profits Limited	Beneficial owner	263,208,960 (Note 1)	19.82%
Ms. Cheng Cheung Ling	Held by spouse	954,480,000 (Note 2)	70.91%

Notes:

1. 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 a Director.
2. Ms. Cheng Cheung Ling is the spouse of Mr. Tse Ping and is deemed to be interested in 954,480,000 shares in which Mr. Tse Ping is deemed or taken to be interested.

LONG POSITION IN UNDERLYING SHARES UNDER EQUITY DERIVATIVES

Name of shareholder	Capacity/Nature of Interest	Number of underlying shares of the Company	Approximate percentage of issued share capital
Jian Kang Ltd.	Beneficial owner	109,473,684	8.24%
Aria Investment Partners, L.P.	Interest of a controlled corporation	109,473,684 <i>(Note 1)</i>	8.24%
CLSA Private Equity Management Limited	Investment manager	109,473,684 <i>(Note 2)</i>	8.24%
CLSA Funds Limited	Interest of a controlled corporation	109,473,684 <i>(Note 3)</i>	8.24%
CLSA B.V.	Interest of a controlled corporation	109,473,684 <i>(Note 4)</i>	8.24%
Calyon Capital Markets Asia B.V.	Interest of a controlled corporation	109,473,684 <i>(Note 5)</i>	8.24%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation	109,473,684 <i>(Note 6)</i>	8.24%
Credit Agricole Indosuez	Interest of a controlled corporation	109,473,684 <i>(Note 7)</i>	8.24%
Credit Agricole S.A.	Interest of a controlled corporation	109,473,684 <i>(Note 8)</i>	8.24%
SAS Rue la Boetie	Interest of a controlled corporation	109,473,684 <i>(Note 9)</i>	8.24%

Notes:

1. Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Jian Kang Ltd. and is deemed or taken to be interested in the 109,473,684 underlying shares in which Jian Kang Ltd. has declared an interest for the purpose of the SFO.
2. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P..
3. CLSA Funds Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 109,473,684 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
4. CLSA B.V. beneficially interested in the entire issued share capital of CLSA Funds Limited and is deemed or taken to be interested in the 109,473,684 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
5. Calyon Capital Markets Asia B.V. is beneficially interested in 65% of the issued share capital of CLSA B.V. and is deemed or taken to be interested in the 109,473,684 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 4 above.
6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Calyon Capital Markets Asia B.V. and is deemed or taken to be interested in the 109,473,684 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4 and 5 above.
7. Credit Agricole Indosuez is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 109,473,684 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4, 5 and 6 above.
8. Credit Agricole S.A. is beneficially interested in the entire issued share capital of Credit Agricole Indosuez and is deemed or taken to be interested in the 109,473,684 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4, 5, 6 and 7 above.
9. SAS Rue la Boetie is beneficially interested in 51.50% of the share capital of Credit Agricole S.A. and is deemed or taken to be interested in the 109,473,684 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4, 5, 6, 7 and 8 above.

Save as disclosed above, as at 30 June, 2004, no person, other than the directors and chief executive, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered an interest of short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Details of the Directors' interest in the Scheme are set out in the sub-section headed "Long position in underlying shares" under the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares or debentures" above.

OUTSTANDING SHARE OPTIONS

On 28 April, 2004, the exercise price of the outstanding options and the number of shares subject to the outstanding options were adjusted from HK\$0.74 each to HK\$0.185 each and 18,000,000 shares to 72,000,000 subdivided shares respectively.

As at 30 June, 2004, options to subscribe for an aggregate of 72,000,000 shares (which include the options granted to Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu, 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
72,000,000	13	0.185	3 January, 2003 to 1 January, 2007

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

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in accordance with the requirement of the Code. The primary duties of the Committee are to review the Company's annual report and accounts, half-yearly reports and quarterly results and to provide advice and comments thereon to the board of directors. The Committee is also responsible for reviewing the financial reporting process and internal control system of the Group. The Committee has two members comprising the two independent non-executive directors, Ms. Zheng Qun, Grace and Mr. Hu Ximing.

The Group's unaudited interim results for the six months ended 30 June, 2004 has been reviewed by the Committee, which was of the opinion that the preparation of the results complied with the applicable accounting standards and adequate disclosures have been made.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the period under review, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the period from 1 January, 2004 to 30 June, 2004, 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

PRC, 25 August, 2004