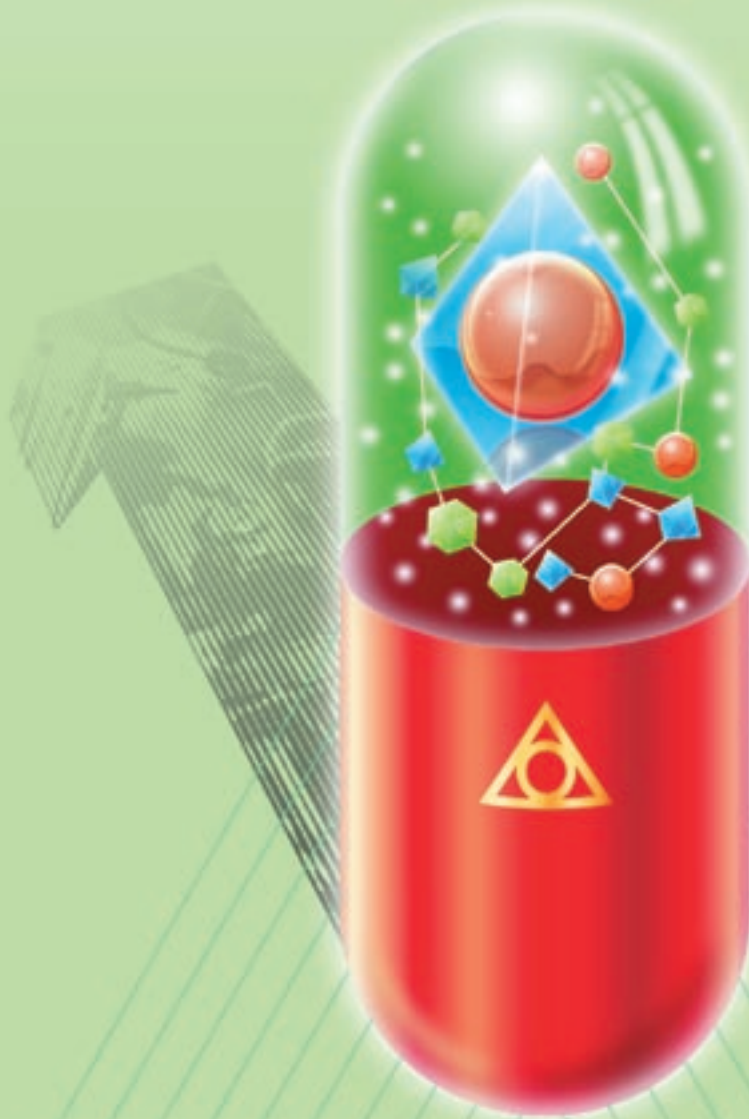




SINO BIOPHARMACEUTICAL LIMITED



annual
report
2000



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 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 in order to obtain up-to-date information on GEM-listed issuers.

This annual report, for which the directors of Sino Biopharmaceutical Limited (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange for the purpose of giving information with regard to Sino Biopharmaceutical Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this annual report 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CORPORATE PROFILE

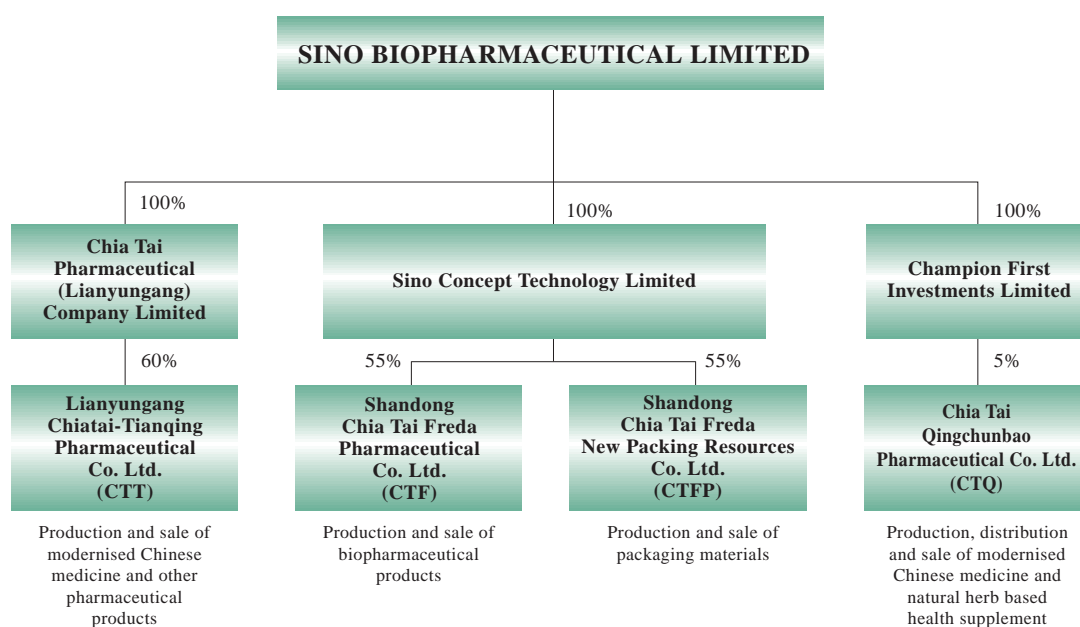
Sino Biopharmaceutical Limited (the “Company”) is one of the PRC’s leading developers of biomedicine and modernized Chinese medicine, supported by some of the country’s top researchers and a far-reaching sales network.

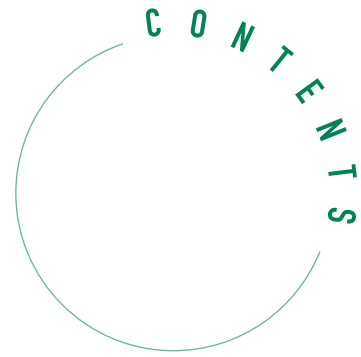
The Company’s aim is to bring healthier lives to people and greater value to shareholders by developing innovative biopharmaceuticals and modernized chinese medicines.

Over the past years, the Company’s subsidiaries have dedicated their efforts to developing new and improved treatments for a range of diseases.

While taking a broad-based, entrepreneurial approach in its research and development, the Group’s focus is on therapeutics for ophthalmic diseases, liver diseases and illnesses associated with aging.

On 29 September, 2000, the Company was successfully listed on GEM of the Stock Exchange. Its ordinary shares are traded under the stock code 8027. The successful flotation is helping the Group to further expand its business and develop more innovative therapeutics for patients in the PRC.





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FINANCIAL SUMMARY

Operating Results

	For the year ended		
	31 December 2000 HK\$'000	31 December 1999 HK\$'000	31 December 1998 HK\$'000
TURNOVER	393,235	305,776	237,972
Cost of sales	(83,222)	(82,161)	(74,080)
Gross profit	310,013	223,615	163,892
Selling and distribution costs	(163,740)	(112,838)	(84,114)
Administrative expenses	(54,987)	(41,547)	(32,877)
Other operating income	2,314	881	1,000
Other operating expenses	(5,400)	(4,976)	(3,601)
PROFIT FROM OPERATING ACTIVITIES	88,200	65,135	44,300
Finance costs	(2,483)	(3,721)	(4,400)
PROFIT BEFORE TAX	85,717	61,414	39,900
Tax	(6,767)	(2,611)	–
PROFIT BEFORE MINORITY INTERESTS	78,950	58,803	39,900
Minority interests	(33,428)	(22,969)	(17,796)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	45,522	35,834	22,104

Assets And Liabilities

	31 December 2000 HK\$'000	31 December 1999 HK\$'000	31 December 1998 HK\$'000
TOTAL ASSETS	381,947	270,127	245,172
TOTAL LIABILITIES	144,297	132,623	124,501
MINORITY INTERESTS	38,131	33,499	33,713
NET ASSETS	199,519	104,005	86,958

FINANCIAL SUMMARY (cont'd)

Notes:

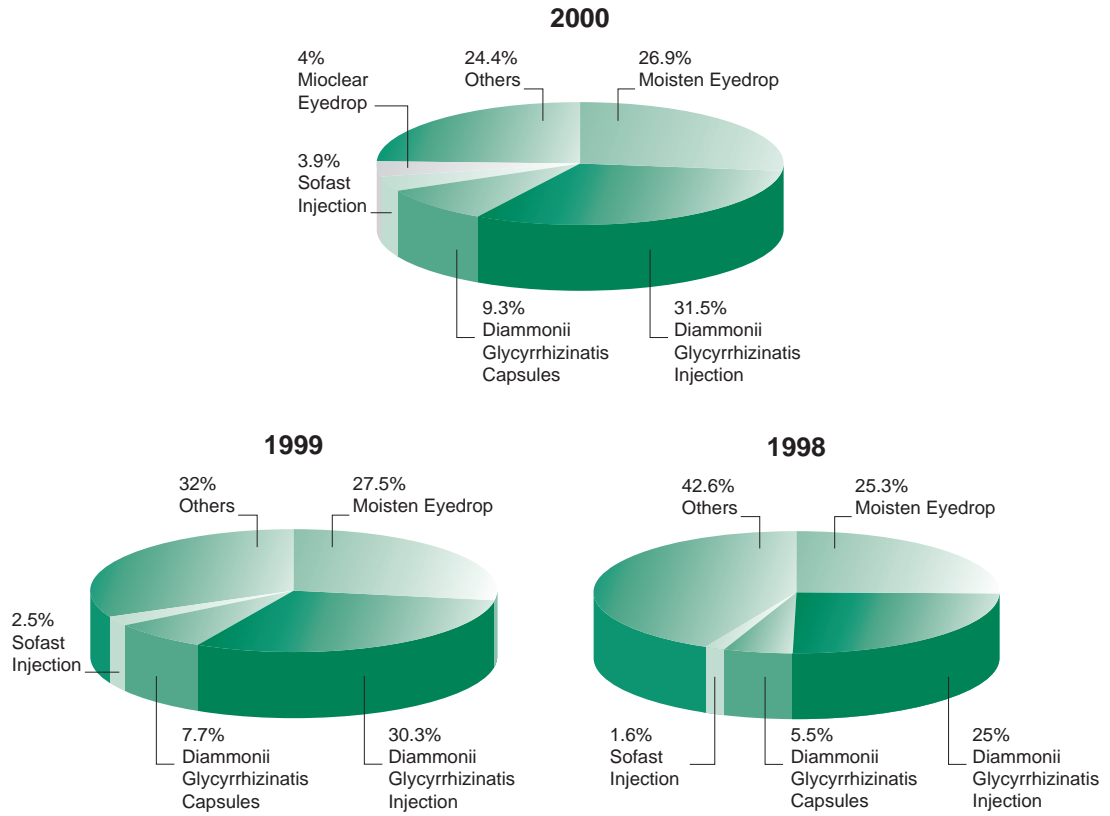
1. Pursuant to a group reorganization (the "Group Reorganisation") in preparing for the listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding company of the Group on 19 September 2000. The summary of consolidated assets and liabilities as at 31 December 1998, 1999 and 2000 and the consolidated results for the years ended 31 December, 1998, 1999 and 2000 were prepared as if the current group structure had been in existence throughout those years. Details of the basis of presentation are set out in note 1 to the accompanying financial statements.
 2. As the Company has only become the holding company of the Group since 19 September 2000, no audited consolidated financial statements for the Group had been prepared before 31 December 2000. The consolidated results of the Group for the years ended 31 December 1998 and 1999 were extracted from the Company's prospectus dated 22 September 2000 (the "Prospectus").
- * *The amount of contributed surplus disclosed in the Company's third quarter results announcement published on 9 November 2000 ("3Q Report") was HK\$183,894,000. The Company hereby clarifies that the Group's contributed surplus should have been HK\$52,605,000. The contributed surplus of HK\$183,894,000 stated in the 3Q Report represented the aggregate amount of the respective contributed surplus accounts of the Company and the subsidiaries acquired pursuant to the Group Reorganisation as disclosed in the Prospectus. The difference of HK\$131,289,000 represents the fair value of the acquired subsidiaries as at the date of acquisition. This amount should have been accounted for in consolidating the financial statements of the Company and its subsidiaries to arrive at the Group contributed surplus of HK\$52,605,000.*

This accounting entry to eliminate the fair value of the acquired subsidiaries has no impact on the Group's results for the nine months ended 30 September 2000.

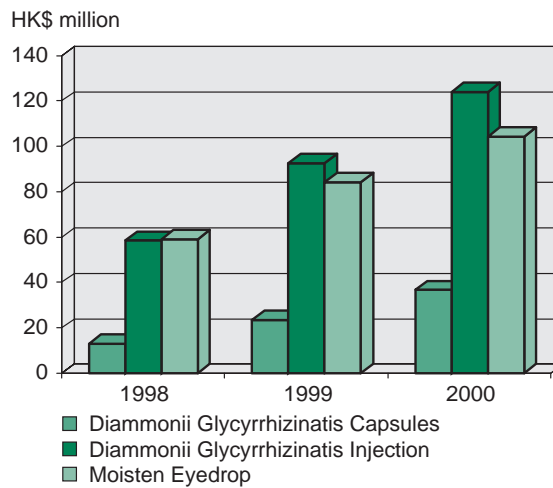
The Company issued a clarification announcement on the GEM website on 19 March, 2001 on the above matter.

Product Mix

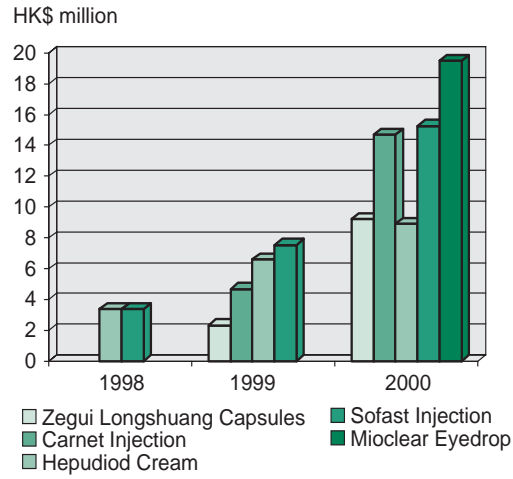
Percentage Sales by product



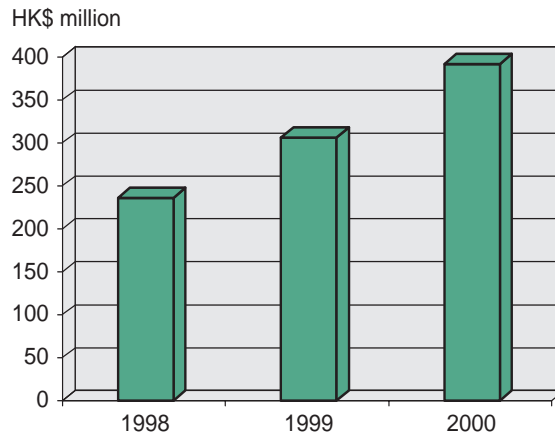
Growth of Major Products



Growth of Mid-end Products



Sales Growth



CHAIRMAN'S STATEMENT



MR. Tse Ping, Chairman

Sino Biopharmaceutical Limited (The "Company") is principally engaged in the research and development, production and sale of a series of biopharmaceutical products, a series of Chinese medicines and chemical medicines. The Company was listed on GEM of the Stock Exchange on 29 September, 2000.

I am pleased to report the Company's first set of annual results since going public. The results were considerably better than the profit forecast as set out in the prospectus of the Company dated 22 September, 2000.

For the year ended 31 December, 2000, the Company and its subsidiaries (the "Group") achieved the following outstanding results:—

Financial Performance

The Group's audited turnover was HK\$393,235,000, representing an increase of approximately 29% over the amount for the previous year.

Overall gross profit margin increased to 78.8% from 73.1% in the previous year.

Attributable profit amounted to HK\$45,522,000, representing an increase of approximately 27% over the amount for the previous year and approximately 17% higher than the forecast figure of HK\$39 million stated in the Prospectus.

Earnings per share were HK cents 17.8, approximately 17% higher than the forecasted figure of HK cents 15.2 as stated in the Prospectus.

After considering the expansion plan of the Group, the Board of Directors (the "Board") has recommended a final dividend of HK5 cents per ordinary share.

The Directors are of the view that the attributable profit achieved was significantly higher than the forecasted figure stated in the Prospectus for the following reasons: (i) the increase in the gross profit margin of the Group as a result of its product-mix adjustment strategy to focus on high margin products during the second half of 2000; (ii) the decrease in the account receivables of the Group as a result of tightened credit control; and (iii) a profit tax reduction from 12% to 7.5% granted to CTT as a result of its reclassification into a more favourable tax bracket, which was approved by the State Tax Bureau in November 2000.

Business Review

The outstanding results achieved by the Group last year can be attributed to the unique insights and strategic decision-making of its executive leadership, who were supported by dedicated, innovative and high-calibre research and development, production, sales and marketing and financial management professionals. The proprietary products and technologies owned by the Group were also critical to its success. The Group subscribes to the belief that “delegating responsibility, and setting up a motivational mechanism”, will nurture and cultivate its human capital. It believes that “success comes from team work and dedication”, and that this precept holds the key to bringing out the best in its employees, allowing the Group to maximize the utility from its human capital. In addition to creating a favourable working environment, the Group pays special attention to the out-of-work life of its staff, to communicating with and training its staff, and educating staff in the Group's operational objectives and strategies. This has encouraged employees to tie their career development to the development of the Group. The Group and its employees thus grow together, and the cohesiveness of its workforce is enhanced.

In January, 2001 the Group for the first time issued options under its employee Share Option Scheme, so that its staff may share in the success of the Group.

The Group's earnings are derived primarily from the operations of Shandong Chia Tai Freda Pharmaceutical Co., Ltd. and Lianyungang Chiatai-Tianqing Pharmaceutical Co., Ltd.

Shandong Chia Tai Freda Pharmaceutical Co. Ltd. (“CTF”)

Based in Jinan, Shandong Province, CTF produces a series of products bolstered by biotechnology which use hyaluronan (HA) – a naturally occurring biochemical substance – as substrates. With world class expertise in HA applications, CTF has developed a range of HA-based products for ophthalmic diseases (including MOISTEN and MIOCLEAR eye-drops), for treating osteoarthritis (including SOFAST Sodium Hyaluronate injection) and for dermatitis applications (including HEPUDIOD cream). In June last year, CTF's range of proprietary HA-based products were especially awarded second



prize, in research and development (“R&D”) and production, for Scientific Achievement by the Shandong Provincial Party Committee and Shandong Provincial Government. CTF was further designated by the provincial government as one of the “Top Ten High-Technology Enterprises” in the province. CTF's operations grew at a rapid pace during the year. Its core product – MOISTEN eye-drops, has established its position as an eminent ophthalmic brand in the PRC. Meanwhile, CTF's new eye-care product – MIOCLEAR eye-drops, for treating strained and fatigued eyes – received an overwhelming response from the market. The Directors believe this product will become a new profit driver for the Group. Besides its ophthalmic products, CTF's osteoarthritis medication SOFAST Sodium Hyaluronate injection and its dermatitis product HEPUDIOD cream have also seen robust growth. On the R&D front, with the exception of the composite tobramycin gel project, all other projects proceeded according to plan. The R&D of composite tobramycin gel was abandoned as another company had already registered its application with the State Drug Administration (SDA). During the year, the registered capital of CTF was approved to increase from RMB20 million to RMB28 million by way of capitalisation of an aggregate amount of RMB8 million from the general reserve fund and enterprise expansion fund.

Lianyungang Chiatai-Tianqing Pharmaceutical Co. Ltd. ("CTT")

Based in Lianyungang, Jiangsu Province, CTT is a leading developer of modernised Chinese medicine, focused on therapeutics for liver disease and age-related diseases. CTT's operations experienced steady growth during the year. CTT's product-mix strategy – to focus on high-margin products – enabled the division to further increase its overall gross margin. Its main product – DIAMMONII GLYCYRRHIZINATIS – a modernised Chinese medicine for treating hepatitis, once again achieved a new sales



record. Other products, such as anti-virus injection Foscarnet Disodium injection, urinary tract drug ZEGUI LONGSHUANG capsules and osteoporosis medication ETIDRONATE capsules also achieved stellar growth. During the year, CTT's powder injection workshop, large-volume injection workshop and small-volume injection workshop were granted GMP certification. Furthermore, a number of products being developed by CTT saw their R&D timetables move ahead of schedule. Netimycin Sulfate and Sodium Chloride injection (product name: JUNXIN) and Puerarin capsules (product name: SPRING) have both received new medicine certification and production approval six months ahead of schedule, and have now commenced commercial production. Both of these products are expected to become significant revenue streams for the Group in the future. Furthermore CTT was classified by the Jiangsu Provincial government as a "High and New Technology Enterprise" and a "Technology-Intensive and Knowledge-Intensive Enterprise". In November, 2000, formal approval from the State Tax Bureau was granted to CTT for a more favourable tax bracket of 15%. For the financial years of 2000 through 2002, CTT is also permitted a 50% tax reduction. Thus, during this period CTT will be subject to income tax at a rate of 7.5%, half of the normal rate for its designated tax bracket. (As stated in the Prospectus, CTT was subject to profit tax at a rate of 24%, discounted to 12% for 2000 through 2002.)

Production Facilities and GMP certification



All of the Group's major production facilities, including those for tablet, capsule, eye-drops, powder injection, large-volume injection, small-volume injection, have now attained GMP certification from the SDA. Products manufactured by GMP certified workshops now account for more than 95% of the products manufactured by the Group. GMP compliance will benefit the Group's overall development and confers a significant competitive advantage. It provides a strong assurance for the quality of the Group's products and will help boost sales volumes. GMP compliance

also bodes well for product pricing, providing further assurance that the Group will be allowed to maintain its current price levels, or possibly raise the prices of its products. Furthermore, it provides a strong foundation for the R&D and commercialisation of new products. More importantly, obtaining GMP compliance has to a very large extent reduced the GMP-associated risks faced by investors in the PRC pharmaceuticals sector.

To satisfy the strong growth in demand for MIOCLEAR and the Group's other eye-drops products, CTF invested HK\$11.84 million in total during the year in a new eye-drops production line with an annual production capacity of 12 million bottles, in expanding storage space and in new sterilization equipment and cooling equipment needed in the production of eye-drops. Meanwhile, CTT invested HK\$9.49 million to upgrade its facilities to comply with GMP specifications. The above mentioned investments have been reflected in the Group's financial statements for the year ended 31 December, 2000. These investments were financed by the internally generated resources of HK\$85.8 million, which as stated in the Prospectus have been earmarked for expanding CTF and CTT's production facilities for the years 2000 through 2002.

To fully exploit the so-called "two-year free, three-year half" tax concessions offered to sino-foreign joint ventures ("JV"), in particular, the benefits given to foreign investors for reinvesting their return of investment, Sino Concept Technology Limited, a wholly-owned subsidiary of the Company, set up a new JV with its existing JV partner in CTF – Chia Tai Freda New Packaging Resources Limited – with a registered capital of RMB8 million. Sino Concept Technology Limited invested RMB 4.4 million (approximately HK\$4.15 million) in the new JV for a 55% stake. The Group's investment was derived from its share of the attributable profits of CTF. The new JV will manufacture high quality, high visual-appeal eye-drops bottles for CTF. Besides ensuring the quality of CTF's products, this initiative will also help to save production costs.

Sales and Marketing

The Group adopts a meritocratic system in which the able advance and the mediocre are relegated. This has now been generally implemented in the Group's sales and marketing departments. While focusing on staff training and building the Group's sales network, the Group has also placed more emphasis on market research and analysis to better discover market potentials and better cultivate its markets. Furthermore, extra emphasis has been placed on brand-building, improving post sales service and increasing receptiveness to customer feedback. This is helping to further enhance the Group's positive image in the industry and is adding to its brand equity. Throughout the year, the Group had focused on and was successful in maintaining good relationships with its more than 3,000 institutional customers.

At the end of last year, the Group had 60 sales offices spread across the PRC and had expanded its sales force to around 900 salesmen, most of whom are doctors, pharmacists and healthcare professionals. The Group had also invested substantially in advertising its products on television, in specialized journals, newspapers, and on billboards and public transport and has organized and sponsored various academic conferences and academic exchanges to promote its products and brands. All together, these initiatives aim at ensuring the widespread market penetration of the Group's products.

The Company's website (www.sinobiopharm.com) has now been set up and has been linked with the revamped websites of CTF (www.cp-freda.com) and CTT (www.zdtqzy.com). This enables the Group to promote its products on the internet and provides the foundation for the Group's possible push into B2B e-commerce in the future. On account of its website, CTT was chosen by the Jiangsu Provincial government authorities as an "Advanced Enterprise" in the corporate image category of its "Enterprise Going On-line Program".

Research and Development

Besides the progress achieved in the ongoing R&D projects stated in the Prospectus, CTF has further embarked on a new anti-bacterial medicine Helen eye-drops. This R&D project creates the foundation for the optimization and innovation of CTF's anti-bacterial eye-drops line. CTT has also embarked on several new projects, involving the development of a Category 2 Chinese medicine for treating liver fibrosis, a Category 2 chemical medicine for treating hepatic coma and a Category 2 Chinese medicine for treating cardiovascular and cerebralvascular diseases. The R&D projects for liver disease and liver fibrosis will further enhance the Group's position as one of the leading developers of liver disease therapeutics in the PRC. Meanwhile, its Chinese medicine project further attests to the Group's innovative R&D capabilities in the realm of modernised Chinese medicine.



Furthermore, in the second half of 2001 CTT is planning to invest RMB4 million to establish a research laboratory in Nanjing, Jiangsu Province, to support its existing in-house R&D activities. At the same time, the Group is in talks with a number of leading research institutions in Beijing to form co-operative partnerships in product R&D and strategic alliances which would further strengthen the Group's R&D capabilities, and ensure the Group's continued development.

Business Strategy

With the rapid advances being made in sciences and biotechnology catching newspaper headlines, the world's attention has become evermore focused on the resulting breakthroughs in the field of medicine, and the accelerating growth it has stoked in the pharmaceutical industry. Meanwhile, economic growth, improvement in living standards and advancement in healthcare services have offered the backdrop to a new global trend – "the return to nature". Demand for traditional Chinese medicine, based on natural herbal ingredients, has grown at an astonishing pace. The application of modern technological know-how and hardware, furthermore, has aided a rapid development in the modernization of traditional Chinese medicine.

Given this background, the Group's strategies for 2001 will be as follows:

1. Further strengthen the innovative ability of the Group's subsidiaries. With biotechnology and modern medical science as the central focus, the Group will import state-of-the-art medicinal preparation technologies to further enhance the quality of its preparations. The Group will continue to make its contribution in innovative biopharmaceuticals and modernised Chinese medicines to satisfy the ever-growing demand of patients in the PRC.

2. The institutional reforms in the PRC's scientific research institutions have brought new opportunities for both enterprises and research bodies, who can now benefit from each other's strengths through mutually complimentary co-operation. The Group has, and will continue to seek, co-operative partnerships with research institutes which possess proprietary know-how in natural medicine, pharmaceuticals and biotechnology. This will provide further human resource and product innovation support to aid the Group's future development.
3. Through mergers, acquisitions and strategic alliances, form tie-ups with reputable international and PRC-based corporations with mutually complimentary strengths, to further expand and rationalize the Group's core-business.

Outlook

Within the pharmaceutical industry, biopharmaceuticals and modernised Chinese medicine are both hi-tech and high growth sub-sectors. The Group has now established a profitable track record in both of these sectors, and possesses well-established brand names and relatively stable market shares. With further progress in the R&D of new products and the continued expansion and consolidation of the Group's sales and distribution network, the Directors are confident that the Group will outpace growth in the PRC pharmaceutical sector, and generate lucrative returns for its shareholders.

On behalf of the Board, I would like to take this opportunity to thank our shareholders for their support and our staff for their dedicated efforts.



Tse Ping
Chairman

Hong Kong, 19 March 2001

Executive Directors

Mr. Tse Ping (謝炳先生), aged 51, is the Founder, Chairman and President of Sino Biopharmaceutical Limited. Mr. Tse is one of the most successful foreign investors in the PRC's pharmaceuticals and biomedicine sector, with more than 10 years of related investment and management experience. Mr. Tse was formerly the vice-chairman of 999 Pharmaceutical Co. Ltd., which he helped build into one of the PRC's biggest pharmaceuticals companies by sales. He also invested in Hainan Pharmaceutical Industrial Ltd., the first PRC-based company to develop a world-class drug for fighting cancer, and Chia Tai Qingchunbao Pharmaceutical Ltd. ("CTQ") - renowned for its Ginseng and Mai Dong-based intravenous drug for treating cardio-muscular systolysis. The A shares of 999 Pharmaceutical and Hainan Pharmaceutical are now listed on stock exchanges in the PRC. CTQ is now a subsidiary of SIIC Medical Science and Technology Ltd., which is Listed on GEM. Mr. Tse is also Chairman of Xian Chia Tai Pharmaceutical Co. Ltd., and US-based ABH Nature's Products Inc., and a major shareholder of Ankanng Chia Tai Pharmaceutical Co. Ltd. and Hainan Tigerlily Pharmaceutical Co. Ltd.. Mr. Tse is also a committee member of the Association of Pharmaceutical Biotechnology of China. Beyond the drugs and biotechnology field, Mr. Tse is the deputy-chairman of Hong Kong Fortune Ltd, an investment holding company listed on the Stock Exchange of Hong Kong, and executive chairman of TM International Bank, based in Shanghai. He is also a member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC).

Mr. Ling Peixue (凌沛學先生), aged 38, joined the Group in October 1994 and is a Director and General Manager of CTF. Mr. Ling graduated from the Shandong University of Medicine with a master degree. He is also a guest professor of the Shenyang University of Pharmacy and a visiting professor of the Shenyang University of Medicine. Mr. Ling is an accomplished expert on the therapeutic applications of sodium hyaluronate (HA) and has published more than 30 related research papers. He has won numerous awards for his work on HA-based therapeutics from the State Council, SDA, Ministry of Domestic Trade, the State Science and Technology Committee and the Shandong Provincial Government, among others. Mr. Ling is the deputy chairman of the Biochem Pharmaceutical Professionals Committee of the Association of Chinese Medicine, a deputy head of the Industrial Biochemistry Professionals Committee of the Association of Biochemistry and Molecular Biology of China, an executive director of the Association of Biochemical Pharmaceutical Manufacturers of China and a member of the editorial committee of the Chinese Medicine Magazine and Chinese Biochem Pharmaceutical Magazine.

Mr. Tao Huiqi (陶惠啟先生), aged 51, joined the Group in May 1997 and is the vice-chairman and president of CTT. A university graduate and senior economist, Mr. Tao has nearly 30 years experience in managing pharmaceutical companies. He has been awarded "Outstanding Entrepreneur" by the China Pharmaceutical Association, China Chinese Medicine Association, the Jiangsu Economic Planning Commission and Jiangsu Pharmaceutical Administration respectively.

Mr. Wang Jinyu (王金宇先生), aged 31, joined the Group in March 1999 and is a Director. Prior to joining the Group, Mr. Wang worked in the corporate finance division of BNP Prime Peregrine Capital Ltd., where he gained extensive experience in corporate finance, investment management and the development and promotion of high technology. He is also a co-chairman and general manager of Dic Network Company Ltd..

Independent Non-Executive Directors

Dr. Patrick Ho Chi Ping JP. (何志平太平紳士), aged 50, was appointed independent non-executive Director on 19 September, 2000. He is a medical specialist in eye disease and surgery in Hong Kong. He further sub-specialises in the disease and surgery of the retina and vitreous, especially in the treatment of diabetic eye complications. He was a professor of surgery (Ophthalmology) at the Chinese University of Hong Kong before he began his private clinical practice in eye disease and surgery in 1994. Dr. Ho was a member of the Hong Kong SAR Preparatory Committee and is a member of the 8th and 9th Chinese People's Political Consultative Conference.

Mr. Hu Xi Ming, (胡熙明先生), aged 68, was appointed independent non-executive Director on 19 September, 2000. Mr. Hu was the former Deputy Minister of the Ministry of Public Health, where he served for more than 30 years. He has also assumed a number of other titles, including director of the State Administration of Traditional Chinese Medicine, deputy head of the Traditional Medicine Research Academy and vice-chairman of the State Committee for Combating Narcotics. Mr. Hu is a member of the Chinese People's Political Consultative Conference, editor-in-chief of the Chinese Traditional Medicine Magazine of China, president of the China Acupuncture Society and vice-president of the Chinese Traditional Medical and Pharmaceutical Society of China.

Senior Management

Ms. Zhao Yanping (趙艷萍女士), aged 38, joined the Group in 1992 is a vice president of the Company. Ms. Zhao graduated from the Shenyang Pharmaceutical Institute with a degree in science and completed the Master of Business Administration course in Dalian Polytechnic University. Ms. Zhao was a general manager of the research and development department of the Group, an executive director of CTF and a visiting professor of Shenyang University of Medicine Ms. Zhao one of the editors of the "1998 National Development Guide for New Chemical Medicine" ("1998 國家級化學醫藥新產品開發指南"). Ms. Zhao brings to the Group 17 years' experience in the pharmaceutical industry.

Stephen Tse Hsin (謝焯先生), aged 31, is a vice-president of the Company. He is in charge of the Group's audit department and is responsible for its mergers and acquisitions. Mr. Tse graduated from the University of Hong Kong with a degree in engineering. He joined the Group in 1995 as an assistant to the executive vice-president. He then served as the managing director of Xian C. P. Pharmaceutical Co. Ltd.. In 1999, he was awarded the "Outstanding Management Award for foreign-invested enterprises of Shaanxi Province" by the Shaanxi Provincial Government. He is also a director of ABH Nature's Products Inc. and a cousin of Mr. Tse Ping.

Mr. Zhang Baowen (張寶文先生), aged 44, is an assistant to the president of the Company. He is a graduate of the Shenyang University of Medicine with a bachelor's degree in science. Mr. Zhang, joined the Group in 1995 and has nearly 20 years of experience in the pharmaceutical industry. He is an expert in microbiological pharmaceuticals production. Mr. Zhang's research papers on the use of computer software programs in the biosynthesis of spiramycin, done in conjunction with the Chinese Academy of Sciences, have been published in international academic journals. Mr. Zhang's research has demonstrated that specialised computer software programs can be used to predict the results of particular biopharmaceutical experiments, and can greatly reduce the time needed to complete biosynthesis-related experiments. Mr. Zhang is a committee member of the Association of Chinese Medicine of China.

Senior Management (cont'd)

Ms. Wong Pui Shan (黃佩珊小姐), aged 30, is the financial controller and company secretary of the Company. Ms. Wong graduated from the Hong Kong Polytechnic University with a degree in accountancy. She is an associate member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. Ms. Wong worked in an international accounting firm prior to joining the Company in August 2000.

Ms. Chen Xiaofung (陳曉楓女士), aged 47, is the deputy financial controller of the Company. Ms. Chen joined the Group in 1993 and was a manager of the investment division, deputy controller of the accounting division, officer of the audit division and controller of the finance and accounting division. Ms. Chen is a certified accountant in the PRC and has 20 years' experience in accounting and finance.

Mr. Shun Jian (孫建先生), aged 40, Mr. Shun is the vice-president and senior engineer of CTT. He was graduated from Nanjing Polytechnic with degree in engineering. He has 18 years of experience in pharmaceutical industry.

Ms. Ho Yan Li (賀艷麗女士), aged 37, Chief engineer of CTF. Ms. Ho was graduated from Shangdong Medical University with a master degree. She has 17 years of experience in the research and development of pharmaceutical products and has published around 20 academic journals. Ms. Ho worked in Shandong Provincial Pharmaceutical Research Centre and as head of research and development and general manager of CTF. She has also rewarded outstanding female in 1999.

Mr. Zhang Xi Gian (張喜全先生), aged 32, chief engineer of CTT. Mr. Zhang has a master degree in science, He is one of the top management of CTT and has extensive experience in development of new pharmaceutical products.

COMPARISON OF OBJECTIVE AND ACTUAL BUSINESS PROGRESS

	Business objectives up to 31 December, 2000 as stated in the Prospectus	Actual business progress up to 31 December, 2000
1. Research & Development		
<i>i. Establish Research and Development Centre in Beijing</i>	1. Complete feasibility study of the R&D Centre; 2. identify scientific research organizations to cooperate on research and development projects	1. Completed feasibility study of the R&D Centre 2. Identified and initiated talks with five research organisations
<i>ii. Plan for new product research and development of CTF</i>		
Jingfu Eye drops	Apply for approval from SDA to commence clinical trial	Applied in November, 2000
Composite Tobramycin Gel	Pre-clinical trial study reviewed by provincial level SDA	Project abandoned as product application already filed with SDA by another company
Butenafine Hydrochloride Gel	Complete pre-clinical trial study	Completed pre-clinical trial study ahead of schedule; received approval for clinical trials and commenced clinical trials
<i>iii. Plan for new product research and development of CTT</i>		
Oxymatrine Capsules and Oxymatrine Glucose injection	Obtain production approval from SDA	Deferred due to requests from SDA to re-establish quality standards; Expect to obtain approval in the second half of 2001

**COMPARISON OF BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS
(cont'd)**

	Business objectives up to 31 December, 2000 as stated in the Prospectus	Actual business progress up to 31 December, 2000
Diammonii Glycyrrhizinatis Sodium Chloride and Glucose Injection	Apply for production approval	Applied in October, 2000
Puerarin glucose injection	Apply and obtain production approval from SDA	Obtained production approval from SDA in November, 2000 and commenced commercial production in January, 2001
Buyang Huanwutang injections	Continued with pre-clinical trial study	Pre-clinical trial study in final stage
Roloxifene Hydrochloride and tablets	Pre-clinical trial study reviewed by provincial level SDA	Review completed by provincial level SDA ahead of schedule and the Group applied to SDA for clinical trials
Sotalol Hydrochloride injection	Prepare for commercial production	Commenced commercial production ahead of schedule
Clindamycin Phosphate powder injections	Obtain production approval from SDA	Completed approval hearing in November 2000, awaiting approval documents
Sanzi Kechuan capsules	Complete pre-clinical trial study	Completed pre-clinical trial study
Netimycin Sulfate and Sodium Chloride injection	Apply for production approval	Obtained new medicine certification and production approval in October 2000
Puerarin capsules	Complete clinical trial	Completed clinical trial

**COMPARISON OF BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS
(cont'd)**

	Business objectives up to 31 December, 2000 as stated in the Prospectus	Actual business progress up to 31 December, 2000
2. Production of Pharamceutical Products		
<i>i. Forming alliance with reputable producers of biopharmaceuticals, Chinese medicine or natural herbal products</i>	Continue to identify and assess suitable cooperative partners; Commence negotiations with cooperative partners	Under negotiation with a few potential cooperative partners
<i>ii. Expansion of production facilities of CTF</i>		
(a) Factory	Located in Jinan, Shandong Province, the PRC, with a total gross floor area of 8,700 sq.m.	As stated in the Prospectus
(b) GMP compliance	Canned injection workshop and eye drops workshop comply fully with GMP procedures;	Fully complied with GMP
	Ointment workshop commences installation of air purification system and GMP complying equipment	Installed
<i>iii. Expansion of production facilities of CTT</i>		
(a) Factory	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800sq.m	As stated in the Prospectus
(b) GMP compliance	Large-volume injection workshop and small-volume injection workshop fully comply with GMP	Fully complied with GMP

**COMPARISON OF BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS
(cont'd)**

	Business objectives up to 31 December, 2000 as stated in the Prospectus	Actual business progress up to 31 December, 2000
3. Marketing and Sales		
<i>i. Establishment of the Group's website with the medium-term aim of commencing e-commerce of pharmaceuticals</i>	Edit CTT's website (www.zdtqzy.com) and improve website content to include more information about CTT and products; promote CTT's products as well as website; launch CTF's website (www.cp-freda.com)	CTT's website upgraded – CTT named "Advanced Enterprise" in the Jiangsu provincial government authority's "Enterprise Going On-line Program"; CTF's website launched
<i>ii. Expansion and consolidation of the PRC distribution network</i>		
(a) The expansion plan of the sales network of CTF		
No. of representative offices	30	30
No. of sales staff	330	332
(b) The expansion plan of the sales network of CTT		
No. of representative offices	30	30
No. of sales staff	550	557

**COMPARISON OF BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS
(cont'd)**

Use of Net Proceeds from the Placing

	Amount to be used in 2000 as disclosed in the Prospectus <i>HK\$'M</i>	Actual amount used up to 31 December, 2000 <i>HK\$'M</i>
For the research and development activities including the establishment of a research and development center in Beijing	5.0	Nil
For the establishment of business alliances with pharmaceutical enterprises in the field of biopharmaceutical, Chinese medicine and/or natural herbal products	Nil	Nil
For the expansion of the distribution networks of the Group	5.0	Nil
For the establishment of the Group's website and commencement of e-commerce	1.0	0.1
General working capital	4.0	3.0
TOTAL	15.0	3.1

AWARDS AND ACCOLADES

Chia Tai Freda Pharmaceutical Limited (“CTF”)

<p>1st Prize</p> <p>Scientific Advancement Award</p> <p>Sodium hyaluronate injection</p> <p>National Domestic Trade Department</p>	<p>3rd Prize</p> <p>New Medicine R&D Award</p> <p>Intra-articular sodium hyaluronate injection</p> <p>SDA</p>	<p>3rd Prize</p> <p>Scientific Advancement Award</p> <p>CTF Biochem Pharmaceutical Research</p> <p>Ministry of Domestic Trade</p>
<p>2nd Prize</p> <p>Scientific Achievement Award</p> <p>HA-based therapeutics</p> <p>Shandong Provincial Government</p>	<p>Top-Ten Hi-tech Enterprise</p> <p>CTF</p> <p>Shandong Provincial Government</p>	

Chia-tai-Tianqing Pharmaceutical Limited (“CTT”)

<p>Golden Bull Award</p> <p>For Outstanding Product Innovation & New Technology Application</p> <p>DIAMMONII GLYCYRHIZINATIS</p> <p>Jiangsu Provincial Government</p>	<p>3rd Prize</p> <p>Scientific Advancement Award</p> <p>DIAMMONII GLYCYRHIZINATIS</p> <p>Jiangsu Provincial Government</p>	<p>New Product Award</p> <p>(State Awards)</p> <p>ZEGUI LONGSHUANG</p> <p>Ministry of Domestic Trade</p>
<p>Top-Ten Sino-Foreign JV</p> <p>CTT</p> <p>Jiangsu Agricultural Authority</p>	<p>Tech-intensive, Knowledge-intensive Enterprise</p> <p>CTT</p> <p>Jiangsu Provincial Government</p>	<p>High & New Technology Enterprise</p> <p>CTT</p> <p>Jiangsu Provincial Government</p>

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

Group Reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Laws (2000 Revision) of the Cayman Islands. On 19 September 2000, pursuant to a reorganisation (the "Group Reorganisation") to rationalise the Group's structure in preparation for public listing of the Company's shares on GEM of the Stock Exchange, the Company acquired the entire issued share capital of each of Chia Tai Pharmaceutical (Lianyungang) Company Limited, Champion First Investments Limited and Sino Concept Technology Limited, and became the holding company of the Group. Further details of the Group Reorganisation are set out in note 1 to the financial statements and in the Company's prospectus dated 22 September 2000.

The shares of the Company were listed on GEM of the Stock Exchange with effect from 29 September 2000.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 21 to the financial statements.

There were no changes in the nature of the Group's principal activities during the year.

Segmental Information

An analysis of the Group's turnover and contribution to profit from operating activities by principal activities for the year ended 31 December 2000 is as follows:

	Turnover	Contribution to profit from operating activities
	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activities:		
Manufacture and sale of pharmaceutical products	388,520	86,628
Dividend income from an unlisted investment	4,715	4,706
Unallocated expenses	—	(3,134)
	<u>393,235</u>	<u>88,200</u>

More than 90% of the Group's turnover and contribution to the profit from operating activities was derived from the principal activities carried out in mainland China.

Results And Dividends

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 64.

The directors recommend the payment of a final dividend of 5 cents per ordinary share in respect of the year to shareholders on the register of members on 18 April 2001. This recommendation has been incorporated in the financial statements.

Summary Financial Information

A summary of the results and of the assets and liabilities of the Group for the last three financial years, prepared on the basis set out in note 1 below and reclassified as appropriate, is set out below. This summary is not part of the audited financial statements.

	31 December 2000 HK\$'000	31 December 1999 HK\$'000	31 December 1998 HK\$'000
RESULTS			
TURNOVER	393,235	305,776	237,972
Cost of sales	(83,222)	(82,161)	(74,080)
Gross profit	310,013	223,615	163,892
Selling and distribution costs	(163,740)	(112,838)	(84,114)
Administrative expenses	(54,987)	(41,547)	(32,877)
Other operating income	2,314	881	1,000
Other operating expenses	(5,400)	(4,976)	(3,601)
PROFIT FROM OPERATING ACTIVITIES	88,200	65,135	44,300
Finance costs	(2,483)	(3,721)	(4,400)
PROFIT BEFORE TAX	85,717	61,414	39,900
Tax	(6,767)	(2,611)	-
PROFIT BEFORE MINORITY INTERESTS	78,950	58,803	39,900
Minority interests	(33,428)	(22,969)	(17,796)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	45,522	35,834	22,104
ASSETS AND LIABILITIES			
TOTAL ASSETS	381,947	270,127	245,172
TOTAL LIABILITIES	144,297	132,623	124,501
MINORITY INTERESTS	38,131	33,499	33,713
NET ASSETS	199,519	104,005	86,958

Summary Financial Information (cont'd)

Notes:—

- (1) The summary of the combined results of the Group for each of the two years ended 31 December 1999 have been extracted from the accountants report included in the Company's prospectus dated 22 September 2000. Such summary was prepared in a combined basis to reflect the Group Reorganisation, as set out in note 1 to the financial statements, as if the current structure of the Group had been in existence throughout these financial years. The consolidated results of the Group for the year ended 31 December 2000 are extracted from the audited financial statements as set out on page 32 of the financial statements.
- (2) As the Company was incorporated on 2 February 2000, the only published consolidated profit and loss account and balance sheet of the Group are set out in pages 32 and 34 of the financial statements, respectively.

Fixed Assets

Details of movements in the fixed assets of the Company and the Group are set out in note 13 to the financial statements.

Capital Commitments

Details of the capital commitments of the Group as at 31 December 2000 are set out in note 31 to the financial statements.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 21 to the financial statements.

Bank Loans And Other Borrowings

Details of the bank loans and other borrowings of the Group are set out in note 24 to the financial statements.

Share Capital And Share Options

Details of movements in the Company's share capital and share options during the period from 2 February 2000 (date of incorporation) to 31 December 2000, together with reasons therefor, are set out in note 26 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale Or Redemption Of Listed Securities Of The Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

Distributable Reserves

At 31 December 2000, the Company's reserves, including share premium account, available for cash distribution/ or distribution in specie, calculated in accordance with the provisions of the Companies Law (2000 Revision) of the Cayman Islands, amounted to HK\$190,138,000. Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

Major Customers And Suppliers

In the year under review, sales to the Group's five largest customers accounted for 6% of the total sales for the year and sales to the largest customer included therein amounted to 1%. Purchases from the Group's five largest suppliers accounted for 36% of the total purchases for the year and purchases from the largest supplier included therein amounted to 11%.

None of the directors of the Company or any of their associates or any shareholders who to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers or five largest suppliers.

Directors

The directors of the Company during the year were:

Executive directors:

Mr. Neil T. Cox	<i>(appointed and resigned on 2 February 2000)</i>
Mr. Tse Ping	<i>(appointed on 2 February 2000)</i>
Mr. Wang Jinyu	<i>(appointed on 2 February 2000)</i>
Mr. Ling Peixue	<i>(appointed on 2 February 2000)</i>
Mr. Tao Huiqi	<i>(appointed on 2 February 2000)</i>

Independent non-executive directors:

Dr. Patrick Ho Chi Ping JP.	<i>(appointed on 19 September 2000)</i>
Mr. Hu Xi Ming	<i>(appointed on 19 September 2000)</i>

In accordance with article 87 of the Company's articles of association, all the directors will retire at the forthcoming annual general meeting and, being eligible, they have offered themselves for re-election. The independent non-executive directors are not appointed for specific terms but are also subject to retirement by rotation in accordance with the Company's articles of association.

Directors And Senior Management Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 16 of the Annual Report.

Emoluments Of Directors And The Five Highest Paid Individuals

Details of the directors' emoluments and of the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements, respectively.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 19 September 2000 which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' Interests In Contracts

During the year, the Company entered into a tenancy agreement with a company beneficially owned by Mr. Tse Ping. The terms of the tenancy are at arm's length and on normal commercial terms.

Save as disclosed above, no Director had a material interest in any contract of significance to the business of the Group to which the Company, its subsidiaries, its holding company or its fellow subsidiaries was a party during the year.

Directors' Interests In Shares

At 31 December 2000, the interests of the Directors 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"), or otherwise notified to the Stock Exchange or the Company as required by Chapter 5.40 of the GEM Listing Rules, were as follows:

Ordinary shares of the Company

Name of Director	Notes	Number of shares held and nature of interest				Total
		Personal	Family	Corporate	Other	
Mr. Tse Ping	(1)	–	–	231,120,000	–	231,120,000
Mr. Wang Jinyu	(2)	–	–	8,880,000	–	8,880,000
		–	–	240,000,000	–	240,000,000

The interests of Directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares".

Notes:

- (1) The shares are held by Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited, companies beneficially owned by Mr. Tse Ping.
- (2) The shares are held by Discover Profits Limited, a company beneficially owned by Mr. Wang Jinyu .

Save as disclosed above, at 31 December 2000, 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.

Directors' Rights To Acquire Shares

No share options were granted in 2000 under the Company's share option scheme.

Pursuant to the Company's share option scheme, subsequent to the balance sheet date, the Company has granted options to subscribe the Company's ordinary shares in favour of certain directors on 2 January 2001, the details of which are set out in notes 26 and 33 to the financial statements.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any of the Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Details of the Directors' interests in the Company's shares are set out in the section "Directors' Interests in Shares".

Substantial Shareholders

At 31 December 2000, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	%
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 person, other than the Directors of the Company, whose interests are set out in the section "Directors' Interests in Shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Competing Interests

As at 31 December 2000 and disclosed in the Prospectus, 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 U.S..

Competing Interests (cont'd)

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 to the Company dated 19 September 2000 and has undertaken that, for so long as Mr. Tse Ping, together with his associated, shall remain beneficially interested, directly or indirectly, in shares with at least 35 per cent. of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities of which more than 50 per cent. 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 (the "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 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 or may compete with the business of the Group.

Connected Transactions

Details of the connected transactions of the Group are set out in note 32 to the financial statements.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

Pension Scheme

Details of the pension scheme of the Group and the employers' pension costs charged to the profit and loss account for the year are set out in note 5 to the financial statements.

Sponsor's Interests

Pursuant to the agreement dated 21 September 2000 made with the Company, DBS Asia Capital Limited ("DBS") received, and will receive, fees for acting as the Company's retained sponsor for the period from the date on which dealings in the Company's shares commenced on the GEM of the Stock Exchange to 31 December 2002.

As updated and notified by DBS, as at 31 December 2000, neither DBS nor its directors or employees had any interest in the share capital of the Company.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the board of directors. The audit committee will also be responsible for reviewing the financial reporting process and internal control system of the Group. The Group's financial statements for the year ended 31 December 2000 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards and the GEM and legal requirements, and that adequate disclosures had been made.

The audit committee has two members comprising the two independent non-executive directors, Dr. Patrick Ho Chi Ping JP and Mr. Hu Xi Ming. The audit committee held one meeting since the committee was established and performed the functions specified in the GEM Listing Rules.

Year 2000 Issue

All accounting and financial applications of the Group were fully year 2000 compliant and therefore the Year 2000 compliance issue did not create any material adverse impact on the business of all functional areas of the Group.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



Tse Ping
Chairman

Hong Kong
19 March 2001

REPORT OF THE AUDITORS



To the members

SINO BIOPHARMACEUTICAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 32 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities Of Directors And Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis Of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Hong Kong

19 March 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
TURNOVER	4	393,235	305,776
Cost of sales		(83,222)	(82,161)
Gross profit		310,013	223,615
Selling and distribution costs		(163,740)	(112,838)
Administrative expenses		(54,987)	(41,547)
Other operating income		2,314	881
Other operating expenses		(5,400)	(4,976)
PROFIT FROM OPERATING ACTIVITIES	5	88,200	65,135
Finance costs	6	(2,483)	(3,721)
PROFIT BEFORE TAX		85,717	61,414
Tax	9	(6,767)	(2,611)
PROFIT BEFORE MINORITY INTERESTS		78,950	58,803
Minority interests		(33,428)	(22,969)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	45,522	35,834
Dividends	11	(15,000)	(24,820)
RETAINED PROFIT FOR THE YEAR		30,522	11,014
EARNINGS PER SHARE	12	HK17.8 cents	HK14.9 cents
Basic			

CONSOLIDATED STATEMENT OF GAINS AND LOSSES

Year ended 31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
Surplus on revaluation of leasehold buildings	13/27	2,546	–
Exchange differences on translation of the financial statements of foreign entities	27	<u>383</u>	<u>(2)</u>
Net gains/(losses) not recognised in the profit and loss account		2,929	(2)
Net profit for the year attributed to shareholders		<u>45,522</u>	<u>35,834</u>
Total recognised gains		<u>48,451</u>	<u>35,832</u>

CONSOLIDATED BALANCE SHEET

31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	110,800	80,412
Goodwill	14	3,852	4,448
Long term investment	15	29,820	29,820
		<u>144,472</u>	<u>114,680</u>
CURRENT ASSETS			
Inventories	16	34,671	28,238
Trade receivables	17	47,080	57,981
Other receivables	18	21,835	12,410
Amounts due from related companies	19	8,834	2,605
Cash and cash equivalents	20	125,055	54,213
		<u>237,475</u>	<u>155,447</u>
CURRENT LIABILITIES			
Trade payables		12,811	12,455
Profit tax payable		1,824	861
Taxes payable other than profit tax	22	10,297	6,066
Other payables and accruals	23	95,144	59,113
Bank and other borrowings	24	24,091	52,532
Amounts due to related companies	25	130	1,596
		<u>144,297</u>	<u>132,623</u>
NET CURRENT ASSETS		<u>93,178</u>	<u>22,824</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>237,650</u>	<u>137,504</u>
Minority interests		(38,131)	(33,499)
		<u>199,519</u>	<u>104,005</u>
CAPITAL AND RESERVES			
Issued capital	26	30,000	24,000
Reserves	27	169,519	80,005
		<u>199,519</u>	<u>104,005</u>



Tse Ping
Director



Wang Jinyu
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	28(a)	102,967	74,184
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		2,206	881
Interest paid		(2,199)	(3,721)
Dividend received from an unlisted investment		4,206	3,000
Dividends paid to minority shareholders of subsidiaries		(15,998)	(23,061)
Dividend paid		(10,200)	(8,596)
Net cash outflow from returns on investments and servicing of finance		(21,985)	(31,497)
TAXATION			
PRC profit tax paid		(5,804)	(1,750)
INVESTING ACTIVITIES			
Purchases of fixed assets and construction in progress		(30,294)	(18,353)
Proceeds from disposal of fixed assets		855	220
Proceeds from disposal of long term investments		–	724
Net cash outflow from investing activities		(29,439)	(17,409)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		45,739	23,528

CONSOLIDATED CASH FLOW (cont'd)

Year ended 31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		45,739	23,528
FINANCING ACTIVITIES	28(b)		
Proceeds from issue of share capital		72,000	-
Share issue expenses		(10,027)	-
Advances to a minority shareholder of a subsidiary		(8,486)	-
New short term bank loans		52,944	38,298
Repayment of bank loans		(55,301)	(39,020)
Repayment of loans from minority shareholders of subsidiaries		(22,781)	-
Repayment of other loans		(3,526)	-
Net cash inflow/(outflow) from financing activities		<u>24,823</u>	<u>(722)</u>
INCREASE IN CASH AND CASH EQUIVALENTS		70,562	22,806
Cash and cash equivalents at beginning of year		54,213	31,270
Effect of foreign exchange rate changes, net		<u>280</u>	<u>137</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>125,055</u>	<u>54,213</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u>125,055</u>	<u>54,213</u>

BALANCE SHEET

31 December 2000

	Notes	2000 HK\$'000
NON-CURRENT ASSETS		
Fixed assets	13	144
Interests in subsidiaries	21	129,910
		<u>130,054</u>
CURRENT ASSETS		
Other receivables	18	45,163
Cash and cash equivalents	20	60,521
		<u>105,684</u>
CURRENT LIABILITIES		
Other payables and accruals	23	15,600
		<u>15,600</u>
NET CURRENT ASSETS		
		<u>90,084</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		
		<u>220,138</u>
CAPITAL AND RESERVES		
Issued capital	26	30,000
Reserves	27	190,138
		<u>220,138</u>



Tse Ping
Director



Wang Jinyu
Director

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2000

1. Group Reorganisation

The Company was incorporated as an exempted Company with limited liability in the Cayman Islands on 2 February 2000 under the Companies Law (2000 Revision) of the Cayman Islands.

Pursuant to a reorganisation completed on 19 September 2000 (“the Group Reorganisation”) to rationalise the Group’s structure in preparation for the public listing of the Companies’ share on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited, the Company acquired the entire issued share capital of Chin Tai Pharmaceutical (Lianyungang) Company Limited, Champion First Investments Limited and Sino Concept Technology Limited, and became the holding company of the companies now comprising the Group.

Further details of the Group Reorganisation are set out the prospectus issued by the Company dated 22 September 2000 and the details of the subsidiaries acquired pursuant to the Group Reorganisation are set out in note 21 to the financial statements. The shares of the Company were listed on the GEM of the Stock Exchange of Hong Kong Limited with effect from 29 September 2000.

2. Corporate Information

The head office and principal place of business of Sino Biopharmaceutical Limited in Hong Kong is located at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the group was principally engaged in the research and development, production and sale of a series of biopharmaceutical products for the medical treatment of ophthalmic and a series of modernised Chinese medicines and chemical medicines for the treatment of hepatitis; and investment in an sino-joint venture enterprise, whose principal activities is the manufacture, distribution and sale of pharmaceutical products.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of certain fixed assets as further explained in note 13.

3. Summary of Significant Accounting Policies (cont'd)

Basis of consolidation and presentation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 19 September 2000 as set out in note 1 above. Under this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the financial years presented, rather than from the date of their acquisition through the Group Reorganisation. Accordingly, the consolidated results of the Group for the years ended 31 December 2000 and 1999 include the results of the Company and its subsidiaries as listed in note 21 with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period. The comparative consolidated balance sheet as at 31 December 1999 has been prepared on the assumption that the above Group Reorganisation had been completed at that date. In the opinion of the directors, the consolidated financial statements prepared on the above basis present fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

As the Company was incorporated on 2 February 2000, no comparative balance sheet of the Company at 31 December 1999 has been presented in these financial statements.

Subsidiaries

A subsidiary is a company, other than a jointly controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. The joint venture agreement stipulates the composition of the joint venture parties' capital contributions, the duration of the joint venture, and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the joint venture parties in proportion to their respective capital contributions.

A joint venture is treated as a subsidiary if, under the joint venture contract, the Group holds more than half of the joint venture company's registered capital and the Group can control the composition of the board of directors or exercise unilateral control over the joint venture.

3. Summary of Significant Accounting Policies (cont'd)

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is amortised on a straight-line basis over its useful life, not exceeding a period of 10 years. On disposal of subsidiaries, the relevant portion of attributable goodwill previously amortised is written back and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that assets.

Changes in the value of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss accounts. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued assets, the relevant portion of the revaluation reserve realised in respect of a previous valuation is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	4% – 5%
Leasehold improvements	5% – 20%
Plant and machinery	5% – 9%
Motor vehicles	9% – 18%
Furniture and fixtures	18%

The carrying amounts are reviewed periodically in order to assess whether they are recorded in excess of their recoverable amounts, and where carrying amounts exceed the estimated recoverable amounts, assets are written down to their recoverable amounts. In determining the recoverable amounts of items of fixed assets, expected future cash flows have not been discounted to their present values.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. Summary of Significant Accounting Policies (cont'd)

Fixed assets and depreciation (cont'd)

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction or installation and is stated at cost and is not depreciated. Cost comprises direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects in developing new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised on the straight-line basis over the shorter of the commercial lives of the underlying products or five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at their cost, less any provision for diminution in value, other than those considered to be temporary in nature, considered necessary by the directors on an individual basis. A provision is recognised as an expense immediately. The profit or loss on disposal of unlisted securities is accounted for in the period in which the disposals occurs as the difference between the net sales proceeds and the carrying amount of the securities.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

3. Summary of Significant Accounting Policies (cont'd)

Deferred taxation

Deferred taxation is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses when incurred.

Retirement benefit scheme

The Group operates a defined contribution retirement benefits scheme for those employees who are eligible and have elected to participate in the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions, except for those contributions made under the existing PRC regulations.

3. Summary of Significant Accounting Policies (cont'd)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (iii) dividends, when the shareholders' right to receive payment is established.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common influence. Related parties may be individuals or corporate entities.

Cash equivalents

For purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represents assets similar to cash, which are not restricted as to use.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31st December 2000

4. Turnover and Revenue

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and dividend income.

An analysis of turnover and revenue is as follows:

	2000 HK\$'000	1999 HK\$'000
Sale of goods	388,520	298,570
Dividend income from an unlisted investment	4,715	7,206
Turnover	<u>393,235</u>	<u>305,776</u>
Interest income	2,206	881
Sales of scrap materials	108	—
Total revenue	<u>395,549</u>	<u>306,657</u>

5. Profit from Operating Activities

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

	2000 HK\$'000	1999 HK\$'000
Cost of inventories sold	83,222	82,161
Depreciation:		
Owned fixed assets	6,643	4,743
Leased fixed assets	2,854	2,300
	<u>9,497</u>	<u>7,043</u>
Operating lease rentals:		
Land and buildings	2,566	2,878
Plant and machinery	1,834	1,137
	<u>4,400</u>	<u>4,015</u>
Amortisation of goodwill	596	792
Loss on disposal of fixed assets	–	1,094
Research and development costs	5,400	3,151
Auditors' remuneration	480	155
Staff costs (including directors' remuneration, note 7):		
Wages and salaries	49,899	33,853
Pension contributions*	5,105	4,704
Total staff costs	<u>55,004</u>	<u>38,557</u>
and after crediting:		
Gain on disposal of fixed assets	72	–
Sales of scrap materials	108	–
Exchange gains, net	42	46
Dividend income from an unlisted investment	4,715	7,206
Interest income	<u>2,206</u>	<u>881</u>

Note:* During the year, certain of the Company's subsidiaries were members of a pension contribution scheme managed by the respective local governments. Contributions made were based on 25% (1999: 25%) of the employees' salaries and were charged to the profit and loss account as they became payable.

According to the existing PRC regulations, no forfeited contributions may be used by the employer to reduce the existing level of contributions.

6. Finance Costs

	2000 HK\$'000	1999 HK\$'000
Interest on bank loans wholly repayable		
within one year	2,136	2,065
Interest on other loans	39	395
Interest on loans from minority shareholders of subsidiaries	24	1,261
Others	284	–
	<u>2,483</u>	<u>3,721</u>

7. Directors' Remuneration

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance, is as follows:

	2000 HK\$'000	1999 HK\$'000
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	958	96
Pension contributions	10	8
Discretionary bonuses	650	136
	<u>1,618</u>	<u>240</u>

Four (1999: one) executive directors received emoluments of approximately HK\$622,000 (1999: HK\$240,000), HK\$584,000 (1999: HK\$ Nil), HK\$317,000 (1999: HK\$ Nil) and HK\$59,000 (1999: HK\$ Nil), respectively for the year ended 31 December 2000.

Two (1999: Nil) independent non-executive directors received emoluments of approximately HK\$27,000 and HK\$9,000, respectively for the year ended 31 December 2000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

As further explained in note 33, subsequent to the year end certain directors received share options with respect to their services for the year ended 31 December 2000. No value is included in directors' remuneration in respect of share options granted because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Further details on the share option scheme are set out in note 26 to the financial statements.

8. Five Highest Paid Employees

The five highest paid employees of the Company during the year included two (1999: one) directors, details of whose remuneration are set out in note 7 above.

The details of the remuneration of the remaining three (1999: four) non-directors and highest paid employee are as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries, allowances and benefits in kind	555	626
Pension contributions	13	24
Discretionary bonuses	638	135
	<u>1,206</u>	<u>785</u>

The remuneration of all the non-directors and highest paid employees fell within the range of HK\$ Nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as inducement to join the Group, or as compensation for loss of office.

9. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	2000 HK\$'000	1999 HK\$'000
Provision for the year		
PRC income tax	6,767	2,611
	<u>6,767</u>	<u>2,611</u>
Tax charge for the year		
	<u>6,767</u>	<u>2,611</u>

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 tax plus 3% local income tax) unless the enterprise is qualified as an "Advanced Technology Enterprise" or located in specially designated regions or cities for which more favorable effective tax rates apply. The Group's principal operating subsidiaries are qualified "Advanced Technology Enterprise" for which a preferential tax rate of 15% applies and are entitled to an income tax exemption for the two years commencing from the first profitable year (after deducting losses carried forward) and a 50% reduction for the succeeding three years.

9. Tax (cont'd)

As of 31 December 2000, the Group's principal subsidiaries are subject to an income tax rate of 7.5%.

There are no significant potential deferred tax liabilities for which provision has not been made.

10. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period from 2 February 2000 (date of incorporation) to 31 December 2000 is HK\$41,866,000.

11. Dividends

	Group	
	2000 HK\$'000	1999 HK\$'000
Proposed final	<u>15,000</u>	<u>24,820</u>

The dividends for the year ended 31 December 1999 were paid by subsidiaries of the Company to their then shareholders prior to the Group Reorganisation and the listing of the Company's shares on the GEM of the Stock Exchange of Hong Kong Limited.

The directors recommend the payment of a final dividend of 5 cents per ordinary share in respect of the year to shareholders. This recommendation has been incorporated in the financial statements.

12. Earnings per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$45,522,000 (1999: HK\$35,834,000) and the weighted average of 255,737,705 (1999: 240,000,000) ordinary shares in issue during the year on the assumption that the Group Reorganisation had been completed on 1 January 1999.

Diluted earnings per share for the year ended 31 December 2000 and the comparative diluted earnings per share have not been calculated because no diluting events existed during these years .

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31st December 2000

13. Fixed Assets

	Leasehold Buildings HK\$'000	Leasehold Improve- ments HK\$'000	Plant and Machinery HK\$'000	Motor Vehicles HK\$'000	Furniture and Fixtures HK\$'000	Construction In Progress HK\$'000	Total HK\$'000
Group							
Cost/valuation:							
At beginning of year	34,783	12,246	44,419	4,979	6,493	9,677	112,597
Additions	–	27	583	1,819	2,380	30,979	35,788
Revaluation	(9,577)	–	–	–	–	–	(9,577)
Surplus on revaluation (note 27)	4,267	–	–	–	–	–	4,267
Disposals	–	–	(884)	(409)	(118)	–	(1,411)
Transfers	3,550	2,307	22,433	1,982	852	(31,124)	–
Exchange realignment	–	355	317	50	48	69	839
At 31 December 2000	<u>33,023</u>	<u>14,935</u>	<u>66,868</u>	<u>8,421</u>	<u>9,655</u>	<u>9,601</u>	<u>142,503</u>
Analysis of cost or valuation:							
At cost	623	14,935	66,868	8,421	9,655	9,601	110,103
At valuation	<u>32,400</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>32,400</u>
	<u>33,023</u>	<u>14,935</u>	<u>66,868</u>	<u>8,421</u>	<u>9,655</u>	<u>9,601</u>	<u>142,503</u>
Accumulated depreciation:							
At beginning of year	8,827	5,026	14,008	1,733	2,591	–	32,185
Provided during the year	1,638	1,216	4,068	1,403	1,172	–	9,497
Revaluation	(9,577)	–	–	–	–	–	(9,577)
Disposals	–	–	(207)	(343)	(78)	–	(628)
Exchange realignment	–	94	97	17	18	–	226
At 31 December 2000	<u>888</u>	<u>6,336</u>	<u>17,966</u>	<u>2,810</u>	<u>3,703</u>	<u>–</u>	<u>31,703</u>
Net book value:							
At 31 December 2000	<u>32,135</u>	<u>8,599</u>	<u>48,902</u>	<u>5,611</u>	<u>5,952</u>	<u>9,601</u>	<u>110,800</u>
At 31 December 1999	<u>25,956</u>	<u>7,220</u>	<u>30,411</u>	<u>3,246</u>	<u>3,902</u>	<u>9,677</u>	<u>80,412</u>

13. Fixed Assets (cont'd)

Company

	Furniture and Fixtures <i>HK\$'000</i>
Cost:	
Additions and at 31 December 2000	151
Accumulated depreciation:	
Provided during the period and at 31 December 2000	7
Net book value:	
At 31 December 2000	144

All of the Groups' leasehold buildings were revalued on 31 July 2000 by DTZ Debenham Tie Leung Limited ("DTZ"), independent professional valuers at an aggregate open market value of HK\$32,400,000 based on their existing use. The surplus arising from the above revaluation attributable to the Group amounted to HK\$2,546,000 and was credited to the revaluation reserve. The additional depreciation attributable to the Group charged to the profit and loss account as a consequence of such revaluation amounted to HK\$57,000. From 31 July 2000, no further revaluations of the Group's leasehold land and buildings have been carried out.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$28,133,000.

The relevant title certificates of certain of the above leasehold buildings (the "Property") with cost of approximately HK\$623,000 and net book value of approximately HK\$545,000 as at 31 December 2000 are in the process of being transferred to the names of the Group's subsidiary. As the relevant title has not been obtained, no commercial value was assigned to these buildings by DTZ. For the purposes of this consolidated financial statements, these buildings are stated at their net book value as at 31 December 2000 as in the opinion of the directors, no impairment to the value of these buildings to the Group has occurred. In the opinion of the Group's PRC legal advisers, there is no legal impediment for the Group to obtain good title to the Property after compliance with outstanding requisite procedures and the Group would be entitled to transfer, dispose of, let or mortgage the Property after such compliance. The major shareholders of the Company have given an indemnity to the Company against any financial loss to the Group arising from the failure of securing the transfer of the titles to the Group.

All the Group's leasehold buildings are located in the PRC and are held under long term leases.

The Group's leasehold buildings with net book value amounting to HK\$29,733,000 (1999: HK\$23,717,000) have been pledged to secure bank loans (note 24) obtained.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31st December 2000

14. GOODWILL

	Group	
	2000	1999
	HK\$'000	HK\$'000
Cost:		
At beginning and end of year	<u>6,781</u>	<u>6,781</u>
Accumulated amortisation:		
At beginning of year	2,333	1,541
Provided during the year	<u>596</u>	<u>792</u>
	<u>2,929</u>	<u>2,333</u>
Net book value:		
At end of year	<u>3,852</u>	<u>4,448</u>

15. LONG TERM INVESTMENT

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted equity investment, at cost	<u>29,820</u>	<u>29,820</u>

16. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	11,535	8,630
Work-in-progress	8,825	3,437
Finished goods	13,298	14,565
Spare parts and consumables	<u>1,013</u>	<u>1,606</u>
	<u>34,671</u>	<u>28,238</u>

The carrying amount of inventories carried at net realisable value included in the above is HK\$ Nil (1999: HK\$ Nil).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31st December 2000

17. TRADE RECEIVABLES

	Group	
	2000 HK\$'000	1999 HK\$'000
Notes receivable	4,786	4,882
Accounts receivable	47,497	59,000
	<u>52,283</u>	<u>63,882</u>
Less: Provision for doubtful debts	(5,203)	(5,901)
	<u>47,080</u>	<u>57,981</u>

18. OTHER RECEIVABLES

	Group		Company
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000
Advance to suppliers	1,397	3,451	–
Other receivables	4,774	4,500	124
Prepaid expenses	10,949	253	39
Dividends receivable	4,715	4,206	45,000
	<u>21,835</u>	<u>12,410</u>	<u>45,163</u>

19. AMOUNTS DUE FROM RELATED COMPANIES

	2000 HK\$'000	1999 HK\$'000
Advance to a Chinese joint venture partner of a subsidiary	8,486	–
Amounts due from related companies	348	2,605
	<u>8,834</u>	<u>2,605</u>

The advance to a Chinese joint venture partner of a subsidiary is unsecured, bearing interest at 6.138% per annum and has been repaid in March 2001.

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31st December 2000

20. Cash and Cash Equivalents

	Group		Company
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000
Cash and bank balances	125,055	54,213	60,521

21. Interests in Subsidiaries

	Company 2000 HK\$'000
Unlisted shares, at cost	131,299
Due to subsidiaries	(1,389)
	129,910

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Company	Place and date of incorporation/ registration	Nominal value of issued ordinary share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chia Tai Pharmaceutical (Lianyungang) Co., Limited ("CTL")	British Virgin Islands 2 July 1998	US\$3 Ordinary	100%	–	Investment holding
Sino Concept Technology Limited ("Sino Technology")	Hong Kong 21 February 1991	HK\$10,100 Ordinary	100%	–	Investment holding and provision of management services
Champion First Investments Limited ("Champion First")	British Virgin Islands 22 September 1998	US\$2 Ordinary	100%	–	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

for the year ended 31st December 2000

21. Interests in Subsidiaries (cont'd)

Company	Place and date of incorporation/ registration	Nominal value of issued ordinary share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shandong Chia Tai Freda Pharmaceutical Co., Limited ("CTF")	People's Republic of China 31 March 1992	Rmb28,000,000	–	55%	Development, manufacture and distribution of pharmaceutical products
Liangyungang Chiatai-Tianqing Pharmaceutical Co., Limited ("CTT")	People's Republic of China 16 April 1997	Rmb68,000,000	–	60%	Development, manufacture and distribution of pharmaceutical products
Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP") *	People' Republic of China 20 December 2000	Rmb8,000,000	–	55%	Production and sales of packaging materials

* A subsidiary incorporated after the listing of the Company's shares.

22. Taxes Payable other than Profit Tax

	Group	
	2000 HK\$'000	1999 HK\$'000
Value-added-tax	9,967	6,048
Individual income tax	44	18
Property tax	286	–
	10,297	6,066

23. Other Payables and Accruals

	Group		Company
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000
Advance from customers	2,069	751	–
Accrued payroll	13,796	9,656	281
Other payables	10,999	6,173	–
Accrued expenses	10,898	6,289	319
Housing fund	2,449	1,847	–
Staff welfare and bonus fund	9,245	8,199	–
Dividends payable to shareholders	15,000	10,200	15,000
Dividends payable to minority interests (note 28(b))	30,688	15,998	–
	<u>95,144</u>	<u>59,113</u>	<u>15,600</u>

24. Bank and other Borrowings

	Group	
	2000 HK\$'000	1999 HK\$'000
Interest-bearing bank and other borrowings repayable within one year:		
Bank loans – secured (note a)	10,843	18,434
– unsecured (note b)	9,476	7,902
Other loans, unsecured	–	26,196
	<u>20,319</u>	<u>52,532</u>
Non-interest bearing borrowings repayable within one year:		
Other loans, unsecured (note c)	3,772	–
	<u>24,091</u>	<u>52,532</u>

Notes:

- (a) The Group's secured bank loans are secured by the Group's leasehold buildings with aggregate net book value at the balance sheet date of approximately HK\$29,733,000 (1999: HK\$23,717,000);
- (b) The Group's unsecured bank loans are guaranteed by a Chinese joint venture partner of a subsidiary; and
- (c) The non-interest bearing other loans are unsecured and repayable in June 2001.

25. Amounts due to Related Companies

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

26. Share Capital

Company
2000
HK\$'000

Authorised:

1,000,000,000 ordinary shares of HK\$0.1 each

100,000,000

Issued and fully paid:

300,000,000 ordinary shares of HK\$0.1 each

30,000,000

During the period from 2 February 2000 (date of incorporation) to 31 December 2000, the following movements in the Company's share capital arose:

- (a) As at the date of incorporation, the authorised share capital of the Company was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each, of which one share was allotted and issued to a subscriber at par on 2 February 2000;
- (b) Pursuant to written resolutions of the sole shareholder of the Company passed on 19 September 2000, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of 996,200,000 shares of HK\$0.10 each;
- (c) On 19 September 2000, the Company allotted and issued an aggregate of 239,999,999 shares of HK\$0.10 each credited as fully paid in exchange and as consideration for the acquisition of the entire issued share capital of Chia Tai Pharmaceutical (Lianyungang) Company Limited, Champion First Investments Limited and Sino Concept Technology Limited to Conspicuous Group Limited, Remarkable Industries Limited, Validated Profits Limited and Discover Profits Limited;
- (d) On 19 September 2000 following the allotment of the shares as referred to in (c) above, the one issued share referred to in (a) above was transferred to Conspicuous Group Limited at its nominal value of HK\$0.10; and
- (e) On 27 September 2000, 60,000,000 shares of HK\$0.10 each were issued at HK\$1.20 each to the public by way of placing for a total cash consideration before expenses of HK\$72,000,000.

Save as aforesaid, there has been no alteration in the share capital of the Company since the date of its incorporation.

26. Share Capital (cont'd)

A summary of the transactions during the period with reference to the above movements of the Company's ordinary share capital is as follows:

	Number of shares issued	Paid-up nominal value <i>HK\$'000</i>
Share allotted and issued at par on incorporation	1	–
Shares allotted and issued as consideration for the acquisition of the entire issued share capital of Chia Tai Pharmaceutical (Lianyungang) Company Limited, Champion First Investments Limited and Sino Concept Technology Limited	239,999,999	24,000
Proforma issue capital at 31 December 1999	240,000,000	24,000
New issue of shares on public listing	60,000,000	6,000
Issued share capital at 31 December 2000	300,000,000	30,000

Share options

On 19 September 2000, the Company approved a share option scheme (the "scheme") under which the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The subscription price for shares under the Scheme will be determined by the directors, which shall be calculated with reference to the higher of (i) the closing price of the shares on GEM of the Stock Exchange of Hong Kong Limited on the date of grant of the option, and (ii) the average closing price of the shares in the GEM of the Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant of option. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the share capital of the Company in issue for a period of 10 consecutive year, excluding shares issued upon the exercise of any options granted under the Scheme (or any other employee share option scheme) and pro rata entitlements to future shares issued in respect of those shares mentioned above. The Scheme will remain in force for the period of 10 years commencing on 19 September 2000. No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Scheme exceeding 25% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Scheme. No share options had been granted under the Scheme as at 31 December 2000.

27. Reserves

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Statutory reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Retained Profits HK\$'000	Total HK\$'000
At 1 January 1999	-	52,605	-	-	5,744	117	10,527	68,993
Retained profit for the year	-	-	-	-	-	-	11,014	11,014
Transferred from retained profits	-	-	-	-	2,595	-	(2,595)	-
Exchange realignment	-	-	-	-	-	(2)	-	(2)
At 31 December 1999	-	52,605	-	-	8,339	115	18,946	80,005
Issue of shares	66,000	-	-	-	-	-	-	66,000
Share issue expenses	(10,027)	-	-	-	-	-	-	(10,027)
Retained profit for the year	-	-	-	-	-	-	30,522	30,522
Transfer from statutory reserve fund	-	-	4,149	-	(4,149)	-	-	-
Surplus on revaluation	-	-	-	2,546	-	-	-	2,546
Transfer from retained profits	-	-	-	-	4,713	-	(4,713)	-
Exchange realignment	-	-	-	-	90	383	-	473
At 31 December 2000	55,973	52,605	4,149	2,546	8,993	498	44,755	169,519
Reserves retained by Company and subsidiaries:								
31 December 2000	55,973	52,605	4,149	2,546	8,993	498	44,755	169,519
31 December 1999	-	52,605	-	-	8,339	115	18,946	80,005

The contributed surplus of the Group represents the difference between the nominal value of the shares and the share premium account of the former holding companies acquired pursuant to the Group Reorganisation as set out in note 1, over the nominal value of the Company's shares issued in exchange therefor.

27. Reserves (cont'd)

According to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the PRC on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's PRC joint ventures, profit of the Group's PRC joint ventures, as determined in accordance with the accounting rules and regulations in the PRC, are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have (1) satisfied all tax liabilities; (2) provided for losses in previous years and (3) made any required appropriations to the statutory reserve funds, including general reserve fund, enterprise expansion fund and staff welfare and bonus fund. The appropriation to the statutory reserve funds are at the discretion of the joint ventures' board of directors.

The general reserve fund can be used either to offset accumulated losses or to be capitalised as equity. The enterprise expansion fund can be used to expand the joint ventures' production and operations and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint ventures. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonus or collective welfare to the employees of the joint ventures.

Pursuant to a written resolution of a subsidiary's board of directors passed on 21 November 2000, the registered capital of that subsidiary was approved to increase from Rmb20,000,000 to Rmb28,000,000 by way of capitalisation of the general reserve fund and enterprise expansion fund at an aggregate amount of Rmb8,000,000. Accordingly, an amount attributable to the Group of Rmb4,400,000, equivalent to HK\$4,149,000 was transferred to capital reserve on consolidation.

Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
Arising from the issue of shares for				
the acquisition of subsidiaries	–	107,299	–	107,299
Issue of shares on public listing	66,000	–	–	66,000
Share issue expenses	(10,027)	–	–	(10,027)
Profit for the period	–	–	41,866	41,866
Dividends	–	–	(15,000)	(15,000)
	<u>55,973</u>	<u>107,299</u>	<u>26,866</u>	<u>190,138</u>
At 31 December 2000	55,973	107,299	26,866	190,138

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation as set out in note 1, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2000 Revision) of Cayman Islands, the share premium account may be distributed to shareholders under certain circumstances.

28. Notes to Consolidated Cash Flow Statement

(a) Reconciliation of profit before tax to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit before tax	85,717	61,414
Interest income	(2,206)	(881)
Interest expenses	2,199	3,721
Investment income	(4,715)	(7,206)
Depreciation	9,497	7,043
Amortisation of goodwill	596	792
(Gain)/loss on disposal of fixed assets	(72)	1,094
Increase in inventories	(6,433)	(4,553)
Decrease in trade receivable	10,901	4,312
(Increase)/decrease in other receivables	(10,740)	4,574
Decrease in amounts due from related companies	2,257	9,696
(Decrease)/increase in trade payables	(686)	629
Increase in taxes payable other than profit tax	4,231	1,187
Increase in other payables and accruals	13,887	10,420
Decrease in amounts due to related companies	(1,466)	(18,058)
	<hr/>	<hr/>
Net cash inflow from operating activities	102,967	74,184

28. Notes to Consolidated Cash Flow Statement (cont'd)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) <i>HK\$'000</i>	Bank and other loans <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 1 January 1999	24,000	53,118	34,257
Cash outflow from financing activities, net	–	(722)	–
Share of profit after taxation	–	–	22,969
Reclassified as dividends payable to minority interests	–	–	(23,730)
Exchange realignment	–	136	3
	<u>24,000</u>	<u>53,118</u>	<u>34,257</u>
Balance at 31 December 1999 and beginning of year	24,000	52,532	33,499
Cash outflow from financing activities, net	–	(28,664)	–
Issuance of shares	61,973	–	–
Share of profit after taxation	–	–	33,428
Share of surplus on revaluation	–	–	1,721
Reclassified as dividends payable to minority interests	–	–	(30,688)
Exchange realignment	–	223	171
	<u>61,973</u>	<u>223</u>	<u>171</u>
Balance at 31 December 2000	<u>85,973</u>	<u>24,091</u>	<u>38,131</u>

(c) Major non-cash transactions

- (i) The consideration for the acquisitions of subsidiaries pursuant to the Group Reorganisation as set out in note 1 to the financial statements were satisfied by the issuing of the Company's shares.
- (ii) During the year, the registered capital of a subsidiary was increased from Rmb20,000,000 to Rmb28,000,000. The increase in registered capital was satisfied by capitalisation of the general reserve fund and enterprise expansion fund at an aggregate amount of Rmb8,000,000, equivalent to HK\$7,543,200.

29. Contingent Liabilities

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

30. Pledge of Assets

Details of the Group's bank loans secured by assets of the Group are included in note 24 to the financial statements.

31. Commitments

As at 31 December, 2000, the Group had the following commitments:

(a) Capital commitments

	Group	
	2000 HK\$'000	1999 HK\$'000
Contracted, but not provided for	9,134	7,813
Authorised, but not contracted for	6,129	25,212
	15,263	33,025

(b) Commitments under operating leases

Annual commitments payable in the following year under non-cancelable operating leases for land and buildings and plant and machinery expiring:

Group

	2000		Total HK\$'000
	Land and buildings HK\$'000	Plant and machinery HK\$'000	
Within one year	3,076	1,860	4,936
In the second to fifth year, inclusive	886	–	886
After five years	566	–	566
	4,528	1,860	6,388

31. Commitments (cont'd)

(b) Commitments under operating leases (cont'd)

Group

	Land and buildings <i>HK\$'000</i>	1999 Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
Within one year	965	823	1,788
In the second to fifth year, inclusive	61	–	61
After five years	563	–	563
	<u>1,589</u>	<u>823</u>	<u>2,412</u>

Company

	2000 Land and buildings <i>HK\$'000</i>
In the second to fifth year, inclusive	<u>808</u>

32. Related Party Transactions

The Group had the following material transactions with related parties during the year:

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i>
Continuing transactions:		
Bank loan guaranteed by a Chinese joint venture partner of a subsidiary	9,476	7,902
Sales of goods to a Chinese joint venture partner of a subsidiary (<i>note a</i>)	2,270	1,584
Operating lease rentals payable to:		
– a fellow subsidiary of a Chinese joint venture partner of a subsidiary (<i>note b</i>)	2,952	2,974
– a Chinese joint venture partner of a subsidiary (<i>note b</i>)	562	563
– a company beneficially owned by a director (<i>note c</i>)	385	–
	<u>385</u>	<u>–</u>

32. Related Party Transactions (cont'd)

Notes:

- (a) Sales of goods to a Chinese joint venture partner of a subsidiary were conducted at market prices.
- (b) Operating lease rentals payable to a fellow subsidiary of a Chinese joint venture partner of a subsidiary and a Chinese joint venture partner of a subsidiary were determined at an agreed rate in accordance with the relevant lease contracts.
- (c) Tenancy agreement entered between the Company and a company beneficially owned by a director are determined at normal commercial terms.
- (d) As disclosed in note 19, the Group has an advance due from a Chinese joint venture partner of a subsidiary of HK\$8,486,000 (1999: HK\$ NIL). The advance is unsecured, bears interest at 6.138% per annum and has been repaid in March 2001.
- (e) As disclosed in note 24, the Group has unsecured non-interest bearing loans of HK\$3,772,000 from the Chinese joint venture partner of a subsidiary, which is repayable in June 2001.

33. Post Balance Sheet Event

On 2 January 2001, options to subscribe 30,000,000 shares of the Company were granted to certain executive directors and employees of the Group under the scheme as detailed in note 26 above. The options are exercisable at HK\$0.74 per share and pursuant to the Scheme, may only be exercised at any time during the period commencing on the day falling on the second anniversary of the date of grant and ending on the close of business on the day falling immediately prior to the sixth anniversary of the date of grant (both days inclusive).

34. Approval of the Financial Statements

The financial statements were approved by the board of directors on 19 March 2001.

CORPORATE INFORMATION

Legal name of the Company	Sino Biopharmaceutical Limited
Stock code (ordinary shares)	8027
Place of incorporation	Cayman Islands
Date of initial listing on GEM	29 September, 2000
Directors	<i>Executive Directors</i> Mr. Tse Ping Mr. Wang Jinyu Mr. Ling Peixue Mr. Tao Huiqi <i>Independent non-executive Directors</i> Dr. Patrick Ho Chi Ping JP Mr. Hu Xi Ming
Compliance officer	Mr. Tse Ping
Qualified accountant and Company Secretary	Ms. Wong Pui Shan, ACCA, AHKSA
Audit committee	Dr. Patrick Ho Chi Ping JP (<i>Chairman</i>) Mr. Hu Xi Ming
Authorised representatives	Mr. Tse Ping Ms. Wong Pui Shan
Authorised persons to accept services of process and notices	Ms. Tse Wun
Principal bankers	CITIC Ka Wah Bank Limited 166 Hennessy Road Wanchai Hong Kong Agricultural Bank of China, Lianyungang Branch No. 43 North Tong-guan Road, Xinpu, Lianyungang, Jiangsu Province PRC Bank of China, Jinan Branch 22 Luoyuan Street, Jinan Province, PRC

Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands
Hong Kong branch share registrar and transfer office	Tengis Limited 4th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
Registered office	Codan Trust Company (Cayman) Limited Zephyr House George Town Grand Cayman British West Indies
Head office and principal place of business in Hong Kong	Unit 09, 41st Floor, Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong
Web-site address	www.sinobiopharm.com
Sponsor	DBS Asia Capital Limited 16th Floor, Man Yee Building 68 Des Voeux Road Central Central Hong Kong
Auditors	Ernst & Young <i>Certified Public Accountants</i> 15th Floor, Hutchison House 10 Harcourt Road Central Hong Kong

Legal advisers

As to Hong Kong Law:—

Chao and Chung

26th Floor, Asia Pacific Finance Tower

Citibank Plaza

3 Garden Road

Central

Hong Kong

As to Cayman Islands Law:—

Conyers Dill & Pearman, Cayman

Zephyr House

Mary Street

George Town

Grand Cayman

British West Indies

As to PRC Law:—

Tianping Law Office

Unit 1107/08, CNT Manhattan Building

6 Chaoyangmen Beidajie

Beijing

PRC

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Sino Biopharmaceutical Limited (the “Company”) will be held at Chater Room II, Function Room Level 1, Ritz Carlton Hotel, Three Connaught Road Central, Hong Kong on 23rd April, 2001, Monday, at 11:00 a.m. for the following purposes:–

1. To receive and consider the Audited Consolidated Financial Statements of the Company and the Reports of the Directors and the Auditors for the year ended 31st December, 2000;
2. To approve the payment of a final dividend for the year ended 31st December, 2000;
3. To re-elect the Directors and to authorize the Board of Directors to fix the remuneration of the Directors;
4. To re-appoint the Auditors and to authorize the Board of Directors to fix their remuneration; and
5. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:–

A. **“THAT**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval of paragraph (a) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal value of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or any issue of shares of the Company on the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time or the exercise of the options granted under the share option scheme of the Company or an issue of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue at the date of the passing of this resolution, and the said approval shall be limited accordingly; and
- (d) for the purpose of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
 - (iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares whose names on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company).”

B. "THAT

- (a) subject to paragraph (b) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase securities of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal value of securities authorized to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal value of the issued share capital of the Company at the date of the passing this resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this resolution:

"Relevant Period" means the period from the time of the passing of this resolution until whichever is the earliest of :

 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; and
 - (iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution."

- C. "THAT, conditional upon the resolutions set out in paragraphs 5A and 5B of the notice convening this meeting being duly passed, the general mandate granted to the Directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares in the capital of the Company pursuant to the resolution set out in paragraph 5A of the notice convening this meeting be and is hereby extended by the addition thereon of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution set out in paragraph 5B of the notice convening this meeting provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue at the date of passing of the said resolution."

By Order of the Board
Tse Ping
 Chairman

Hong Kong, 30th March, 2001

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not to be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority must be deposited at the Company's principal place of business in Hong Kong at Unit 09, 41st Floor, Office Tower Convention Plaza, 1 Harbour Road, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
3. The registrar of members of the Company will be closed from 12 April, 2001 (Thursday) to 18 April, 2001 (Wednesday) (both dates inclusive) during which period no transfer of shares will be registered. In order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on 11 April, 2001 (Wednesday) for registration.
4. Concerning resolution 5B above, the explanatory statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own shares, as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, will be set out in a separate letter from the Company to be enclosed with the annual report 2000.