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## **SINO BIOPHARMACEUTICAL LIMITED**

**中國生物製藥有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

### **FIRST QUARTERLY RESULTS** **(For the three months ended 31 March 2001)**

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

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## **HIGHLIGHTS**

- Turnover increased by approximately 37.0% for the three months ended 31 March 2001.
- Gross profit margin increased from approximately 77.5% to 80.2% for the three months ended 31 March 2001.
- Attributable profit was approximately HK\$12.1 million for the three months ended 31 March 2001.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2001.

## **BUSINESS REVIEW AND OUTLOOK**

Sino Biopharmaceutical Limited (the “Company”) and its subsidiaries (together the “Group”) achieved a turnover of approximately HK\$111.9 million for the three months ended 31 March 2001, representing a growth of 37.0% from the same period last year. Profit attributable to shareholders was approximately HK\$12.1 million. The attributable profit was derived primarily from the operations of Shandong Chia Tai Freda Pharmaceutical Co. Ltd., and Lianyungang Chiatai-Tianqing Pharamceutical Co. Ltd.

During the first quarter of 2001, the Group further extended its sales network, increasing its sales offices to 67 from 60, further enhancing its sales and marketing efforts. In line with the new industry reform in the People’s Republic of China (the “PRC”) aimed at separating the regulatory management of prescription and non-prescription medicines, the Group has been stepping-up the marketing of non-prescription medicines. During the period, emphasis was placed on the promotion of its product brands – such as ophthalmic medicines MOISTEN eye-drops and MIOCLEAR eye-drops; hepatitis medicines DIAMMONII GLYCYRRHIZINATIS injections and capsules; and urinary tract medicine ZEGUI LONGSHUANG capsules – to prompt the sales growth of other products. The Group also readjusted its product classification structure to create a clearer and more stable classification structure, dividing its products into principal products, mid-end products, ordinary products and emerging products categories. From the research and development (“R&D”) perspective, the Group now has products in production, products under development and products under initial research, establishing a strong foundation for the Group’s sustained development.

During the period, the Group also speeded up the pace of talks with a number of renowned medical research institutions, biomedicine developers and modernized Chinese medicine manufacturers in the PRC, with a view to securing an acquisition at the earliest possible date, to boost the Group’s profits.

In January 2001, the Group granted its first batch of share options, to encourage better performance from its staff and to stabilize its workforce.

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

During the quarter under review, CTF expanded its sales network from 30 sales offices to 34 sales offices. While maintaining its primary commercial wholesale channels, direct marketing through the Group’s medical representatives, and marketing through academic conferences, CTF also expanded its OTC (over-the-counter) sales force and intensified its advertising campaigns. The coverage of the Group’s sales network was expanded and sales continued to grow. CTF’s net profit grew 34.4% compared to the same period last year.

With the quickening pace of daily life, the mounting needs of modern living and the increasing importance of computers, television and other electronic media, the market for eye-care medicine are expected to continue its growth. While there is relatively intense competition in the eye-care market segment, CTF has already established a firm foundation in this market segment, owns strong brand names, and is continuing to expand the market for its products. For the three months ended 31 March 2001, turnover achieved for its principal products MOISTEN eye-drops grew 25.0% compared to the same period last year and SOFAST injection saw growth of 114.7%; MIOCLEAR eye-drops, launched in May 2000, has performed well ever since and the immense market potential of this product can now be seen.

The GMP (Good Manufacturing Practice) upgrading of CTF's ointment workshop was completed during the period, and in accordance with GMP administrative procedures, the workshop can apply for GMP certification soon.

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

During the period, CTT further expanded its sales network from 30 sales offices to 33 sales offices. CTT, which undertakes both commercial wholesale and direct selling, has also assigned product managers to each of the major sales regions. This has bolstered the commercial wholesale operations, reduced the collection time of receivables and reduced the amount of account receivables. CTT's net profit for the quarter grew 21.3% compared to the same period last year. What is more, CTT's internal computer network was established during the period, so that information resources may be shared throughout the company, giving each sales office access to detailed information of the company. The increase in communication efficiency will insure that CTT's salesmen are kept informed of any changes in pharmaceutical industry policy or in company sales policy, and will ensure the effective exchange of information and operational experience between staff. This has resulted in the enhanced quality and efficiency of CTT's sales operations.

Sales of CTT's principal product, hepatitis drug DIAMMONNI GLYCYRRHIZINATIS continued to grow during the quarter, while mid-end products experienced accelerated growth, displaying a favourable up-trend. Anti-virus medicine CARNET injection, for instance, achieved 162.1% growth over the period, while urinary tract medicine ZEGUI LONGSHUANG achieved 158.2% growth.

Cardiovascular medicine SPRING (Puerarin) injection, antibiotic JUNXIN (Netimycin Sulfate and Sodium Chloride) injection, and hypertension therapeutics Sotalol Hydrochloride injection - all of which received new medicine certificates and production approvals ahead of schedule - commenced production on 1 January 2001 in GMP-compliant workshops. The SPRING injection, in particular, is expected to have strong prospects.

### **Research and Development**

The R&D initiatives being undertaken by CTF and CTT outlined in the prospectus issued by the Company on 22 September, 2000 (the "Prospectus") have been progressing well. The four newly initiated projects (including CTF's new anti-bacterial medicine Helen eye-drops, CTT's 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) are also progressing successfully. The Group is continuing talks with renowned medical research institutions in the PRC, and is exploring the best methods of collaboration, so as to benefit the sustained development of the Group.

## Outlook

In accordance with the Group's original business objectives and strategies, besides pushing forward with CTF and CTT's ongoing businesses, which will sustain a stable earnings base, the Group may consider tie-ups with renowned biomedicine and modernized Chinese medicine developers in the PRC through mergers and acquisitions, to further hone the Group's strengths. The Group will also further enhance its R&D capabilities through collaborations with renowned research institutions in the PRC. The Directors are confident that the targets that the Company set at the beginning of the year will be met, generating steady returns for its shareholders.

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

## RESULTS

The Board announces the unaudited consolidated results of the Group for the three months ended 31 March, 2001 together with the comparative unaudited consolidated results for the corresponding period in 2000 as follows:—

		For the three months ended 31 March,	
		2001	2000
		Unaudited	Unaudited
	Notes	HK\$'000	HK\$'000
Turnover	(2)	111,932	81,698
Costs of sales		(22,189)	(18,418)
Gross profits		89,743	63,280
Selling expenses		(52,061)	(32,276)
Administrative expenses		(14,554)	(10,459)
Finance costs		(343)	(180)
Other operating income (net)		1,063	536
Profit before taxation		23,848	20,901
Taxation	(3)	(1,761)	(1,799)
Profit before minority interests		22,087	19,102
Minority interests		(9,950)	(8,006)
Profit attributable to the Group		12,137	11,096
Dividends	(4)	—	—
Earnings per share	(5)		
– basic		HK4.05 cents	HK4.62 cents
– diluted		HK3.94 cents	N/A

Notes:

### (1) Group reorganization and basis of preparation

The Company was incorporated in the Cayman Islands on 2 February, 2000 as an exempted company with limited liabilities under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a reorganization scheme (the "Group Reorganization") to rationalize the structure of the Group in preparation for the public listing of its shares in September 2000, the Company became the holding company of the companies now comprising the Group on 19 September, 2000. The trading of the Company's shares on the GEM of the Stock Exchange began on 29 September, 2000.

The Group's financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of certain fixed assets.

The consolidated financial statements have been prepared using the merger basis accounting as a result of the Group Reorganisation completed on 19 September, 2000 as set out above. Under this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Group Reorganisation for the financial periods presented rather than from the date of their acquisition through the Group Reorganisation. Accordingly, the consolidated results of the Group for the three months ended 31 March, 2000 include the results of the Company and its subsidiaries with effect from 1 January, 2000 or since their respective dates of incorporation, where this is a shorter period.

**(2) Turnover**

Turnover represents the invoiced value of goods sold, net of discounts and returns and dividend income. All significant intra-Group transactions have been eliminated on consolidation.

The Group's turnover arose from the following activities:

	<b>For the three months ended 31 March,</b>	
	<b>2001</b>	<b>2000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	111,932	81,698
Dividend income	—	—
	<hr/>	<hr/>
Total	<u>111,932</u>	<u>81,698</u>

**(3) Taxation**

	<b>For the three months ended 31 March,</b>	
	<b>2001</b>	<b>2000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	—	—
PRC income tax	1,761	1,799
	<hr/>	<hr/>
Total	<u>1,761</u>	<u>1,799</u>

No Hong Kong profits tax has been provided for the three months ended 31 March, 2001 as there was no assessable profit arising in or derived from Hong Kong during the period. (2000: Nil)

PRC income tax is provided at the rates applicable to enterprises in the PRC on the income for statutory reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretation thereof.

Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the “Income Tax Laws”), joint venture companies are subject to the statutory income tax rate of 33% (30% state income taxes plus 3% local income taxes) unless the enterprise is qualified as a “High and New Technology Enterprise” or located in specially designated regions or cities for which more favorable effective tax rates apply. The Group’s principal operating subsidiaries are qualified as “High and New Technology Enterprises” for which a preferential tax rate of 15% applies and are entitled to an income tax exemption for two years commencing from the first profitable year (after deducting losses carried forward), and a 50% reduction for the succeeding three years.

As of 31 March, 2001, the Group’s principal subsidiaries are subject to an income tax rate of 7.5%. (2000: CTF: 7.5%, CTT 12% for the first quarter of 2000. In November 2000, formal approval from the State Tax Bureau was granted and the effective tax rate for 2000 became 7.5%)

There are no material potential deferred tax liabilities for which provision has not been made (2000: Nil).

**(4) Dividends**

The Board does not recommend the payment of an interim dividend for the three months ended 31 March, 2001. (2000: Nil).

**(5) Earnings per share**

The calculation of the basic earnings per share is based on profit from the ordinary activities attributable to shareholders for the three months ended 31 March, 2001 of HK\$12,137,000 and the 300,000,000 ordinary shares in issue during the period. The basic earnings per share for the three months ended 31 March, 2000 is based on profit of HK\$11,096,000 and on the assumption that 240,000,000 shares had been in issue throughout the period.

Diluted earnings per share for the period is based on 308,352,751 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 8,352,751 ordinary shares deemed to be issued at average fair value if all outstanding options had been exercised. The comparative diluted earnings per share has not been calculated because no diluting events existed during the period.

**(6) Reserves**

There has been no movement of reserves, other than retained earnings, during the period. (2000: Nil)

**DIRECTORS’ INTERESTS IN SHARE CAPITAL**

As at 31 March, 2001, the interests of the Directors and their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”), were as follows:

**(1) Shares**

Name of director	Notes	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interest				Total
		Personal	Family	Corporate	Other	
Mr. Tse Ping	(1)	–	–	231,120,000	–	231,120,000
Mr. Wang Jinyu	(2)	–	–	8,880,000	–	8,880,000

Notes:–

- (1) The shareholding interest attributable to Mr. Tse Ping in the Company is held through Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited. Each of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited is an investment holding company wholly owned by Mr. Tse Ping who is the chairman and an executive director of the Company.
- (2) The shareholding interest attributable to Mr. Wang Jinyu in the Company is held through Discover Profits Limited. Discover Profits Limited is an investment holding company wholly owned by Mr. Wang Jinyu who is an executive director of the Company.

## (2) Directors' rights to acquire shares

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 19 September, 2000, Mr. Tse Ping, Mr. Wang Jinyu, Mr. Ling Peixue and Mr. Tao Huiqi were granted options on 2 January, 2001 to subscribe for 7,500,000 shares, 1,000,000 shares, 1,000,000 shares and 1,000,000 shares of the Company, respectively, at a subscription price of HK\$0.74 per share exercisable during the period from 2 January, 2003 to 1 January, 2007 (both days inclusive).

Save as disclosed above, during the three months ended 31 March, 2001, none of the Directors or their associates were granted options to subscribe for shares of the Company.

### Outstanding share options

As at 31 March 2001, options to subscribe for an aggregate of 30,000,000 shares (which include the options granted to Mr. Tse Ping, Mr. Wang Jinyu, Mr. Ling Pei Xue and Mr. Tao Huiqi as disclosed above) of the Company granted pursuant to the Scheme were outstanding. Details are as follows:–

<b>Number of share options</b>	<b>Number of employees</b>	<b>Subscription price per share HK\$</b>	<b>Option period</b>
30,000,000	13	0.74	2 January, 2003 to 1 January, 2007

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

Save as disclosed above, as at 31 March, 2001, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March, 2001 the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of shareholding</b>
Mr. Tse Ping	231,120,000	77.04
Conspicuous Group Limited	108,000,000	36.00
Remarkable Industries Limited	57,317,760	19.11
Validated Profits Limited	65,802,240	21.93

Save as disclosed above, no persons, other than the Directors whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

## COMPETING INTERESTS

As at 31 March, 2001 and as disclosed in the prospectus issued by the Company on 22 September, 2000, Mr. Tse Ping owns controlling interests or investment interests in Xian C.P. Pharmaceutical Co., Ltd. (“CT Xian”), Ankang Chia Tai Pharmaceutical Co., Ltd. (“CT Ankang”), Hainan Tigerlily Pharmaceutical Co., Ltd. (“HTPC”) and ABH Nature’s Products Inc. (“ABH”).

CT Xian is a medicine producing enterprise principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine for psoriasis. CT Ankang is principally engaged in the production and distribution of medicine reducing blood-fat level, gynaecomastia medicines and other chemical medicines. HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines from Europe, the United States, Korea and other countries. ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States.

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into the business which compete directly or indirectly with the Group. Currently, the above enterprises do not have any business which constitute competition, whether directly or indirectly, with the Group’s business.

Mr. Tse Ping has signed a deed of non-competition undertaking to the Company dated 19 September, 2000 and has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 35% of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities of which more than 50% of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse



Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature (“Mr. Tse Ping’s Companies”) (excluding for this purpose the Group) will:–

- (a) within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, carry on, become engaged or otherwise become interested (save through Mr. Tse Ping’s interest in the Company), directly or indirectly, in any business activities involving the business of the Company, and
- (b) in the PRC, other than within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, (save through Mr. Tse Ping’s interest in the Company) become engaged or otherwise become interested, directly or indirectly, in or otherwise commence any business activities involving the business of the Company if to do so will result in competition or likely to compete with any part of the business of the Company already carried on by the Group in such territory at the time Mr. Tse Ping and/or Mr. Tse Ping’s Companies (excluding for this purpose the Group) propose to invest in such business activities.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes with the business of the Group.

#### **SPONSORS’ INTERESTS**

As at 31 March, 2001, DBS Asia Capital Limited (the “Sponsor”), its directors, employees or associates, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

#### **AUDIT COMMITTEE**

The Company set up an Audit Committee (the “Committee”) on 19 September, 2000 with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors. The Committee held one meeting on 16 March, 2001 and performed the functions specified in the GEM Listing Rules.

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

From 1 January, 2001 to 31 March, 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

By order of the Board  
**Sino Biopharmaceutical Limited**  
**Tse Ping**  
*Chairman*

Hong Kong, 14 May, 2001

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

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