



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER, 2002

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This announcement, for which the directors (the “Directors”) of Sino Biopharmaceutical Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, : (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.

Highlights:-

For the year ended 31 December, 2002, turnover of the Group amounted to approximately HK\$692.32 million; profit attributable to shareholders reached approximately HK\$57.37 million; and basic earnings per share was approximately HK18.9 cents, respectively.

The board of Directors recommended the distribution of a final dividend of HK9 cents per share for the year ended 31 December, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS**Business review**

During the year, the Company and its subsidiaries (together, the “Group”) reported continuous growth in performance. Apart from the Group’s dividend income (i.e., income derived from the investment in 5% equity interest of Chia Tai Qingchunbao Pharmaceutical Co., Ltd (“CTQ”). As a result of revision of accounting policies, dividend income for the financial years of both 2000 and 2001 totally amounted to approximately HK\$9.9 million which was recognised in 2001, while a dividend income for the financial year of 2002 amounted to approximately HK6.8 million and was recognised in January 2003 according to the date of board resolution of CTQ), turnover of the Group amounted to approximately HK\$692.32 million, representing an increase of approximately 30.6% over last year; profit attributable to shareholders reached approximately HK\$57.37 million, representing an increase of approximately 10.7% over last year; and basic earnings per share was approximately HK18.9 cents, respectively.

Principal products, mid-end products, new products and products under research showed satisfactory development. During the year under review, 13 new products of the Group have obtained production approvals. Sales of principal products, including Diammonium Glycyrrhizinate injection and capsules for treatment of hepatitis and Moisten and Mioclear eyedrops for treatment of eye diseases, accounted for approximately 65.6% of the Group’s total sales, representing an increase of approximately 24.4% as compared with the previous year, while sales of mid-end products had an increase of approximately 17.2% as compared with the previous year. New products (products launched for less than two years), such as Tianqingfuxin (Matrine glucose injection and capsule), Spring (Puerarin glucose injection), and Helen (Levofloxacin Hydrochloride eyedrops) etc., which were launched in the market after January 2001, generated revenue of approximately HK\$94 million. Accordingly, the sales of the Group’s principal products still have growth potential, while mid-end products and new products are having promising outlook and lots of room for development.

During the year under review, profit of the Group was contributed by Shandong Chia Tai Freda Pharmaceutical Co., Ltd. (“CTF”), Shandong Chia Tai Freda New Packaging Resources Co., Ltd. (“CTFP”) and Jiangsu Chia Tai Tianqing Pharmaceutical Co., Ltd. (“JCTT”).

In order to keep abreast with the ever-changing market momentum, the Group continued to strengthen its management, adjust its sales strategies, focus on sales to end-users, improve its product mix, establish comprehensive internal system and develop new markets during the year under review. During the year, the reform of the medical system in the People’s Republic of China (the “PRC”) further intensified. For example, drug bidding systems were introduced in hospitals, prices of products under price control of the government kept decreasing, while competition of the pharmaceutical market became more intense after PRC accession to the World Trade Organisation. Despite these, the Group managed to achieve relatively

rapid growth. This was attributable to unique business concept and strategy, successful objectives and risk management, a man-oriented human resources perception and an incentive reward mechanism. A system with humanistic management, ideal working environment as well as sustained comprehensive staff training have encouraged commitment, stimulated creativity of staff and nurtured an efficient workforce – the most precious resource and competitive advantage of the Group.

Turnover of the Group of the fourth quarter is relatively lower as compared with the prior two quarters. In 2002, reasons are due to: (i) the negative effect on the sales of the products, which were manufactured at the end of year, by using the manufacturing approval number throughout the whole year; and (ii) under the adoption of revised business policy of the Company in 2003, the effect of slow down the delivery of products for sales as lower sales discount set in next year.

During the year under review, Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. (“CT Green Continent”) was established in Beijing. It focuses on the research and development (“R&D”) of dripping pills, fast release, sustained release, controlled release preparations and injections for the treatment of cardiovascular and respiratory diseases, anti-bacterial and anti-viral infection. The first batch of products for R&D was dripping pills, with ten products having entered the research stage.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (“NJCTT”), which was established in August 2001, has completed its plant construction and machinery installation. NJCTT has obtained the Good Manufacturing Practice (“GMP”) standard set by the State Drug Administration of the PRC (the “SDA”) in July 2002 and has commenced trial production.

According to statistics in “Chinese Medicine Statistics Annual Report 2001” issued by the State Economic and Trade Committee, CTF, JCTT and CTQ were ranked among the top 100 Chinese medicine entirely independent audited enterprises based on aggregate profit.

During the year under review, the Company has also carried out two fund-raising activities – the issuance of convertible bonds and the placement of new shares of the Company (the “Shares”). A strategic investor was introduced to the Group for the issuance of convertible bonds, which was a fund managed by CLSA Private Equity Management Limited. The introduction of such a strategic investor had a positive effect on enhancing the Group’s management structure and transparency and furtherance of its corporate governance. The Company has also placed 20,000,000 new Shares. These fund-raising activities have provided funding for the Group’s future development plan.

CTF

Principal products of CTF are biopharmaceuticals based on biotechnology. The substrates used in the product series are hyaluronan. Commonly existed in animal tissues, hyaluronan is a kind of polysaccharide substance and a moisturising agent with a high degree of adhesion. CTF’s research and applications in hyaluronan have reached sophisticated international standards. The Moisten eyedrops, containing chloromycetin eyedrops with hyaluronan, together with its method of production, was among those awarded as one of the “Top Ten Invention Patents” by Shandong Scientific Technology Bureau. In 2002, CTF’s eye-drops with hyaluronan and the method of production was also awarded as one of Jinan’s “Top Ten Invention Patents”. These two patents cover all eye-drops products of CTF.

For the year ended 31 December, 2002, turnover of CTF increased by approximately 29.5% as compared with the previous year. Helen (Levofloxacin Hydrochloride eyedrops), which was successfully launched in June 2002, has attracted extensive attention of the eye disease treatment practitioners and has been applied by more than 500 hospitals.

In May 2002, CTF obtained GMP certificates for seven dosage forms, including ointment, eye ointment, eardrops, nosedrops, liniments, tablets and capsules. This laid a solid foundation for the further expansion of its production and R&D areas and for the development of products treating diseases of the five sense organs. Together with the certificates awarded in 1999 for eyedrops and injections dosage forms, CTF has been awarded with GMP certificates for all of its 9 dosage forms.

During 2002, CTF capitalised RMB14,000,000 from the enterprise's expansion funds and reserve funds to increase its capital. As a result, the registered capital of CTF was increased to RMB42,000,000.

JCTT

JCTT is one of the leading manufacturers engaged in the R&D and production of modernised Chinese medicines and chemical medicines for treatment of hepatitis and elderly diseases. It is particularly famous in the PRC pharmaceutical industry for its R&D and production of medicines in treating hepatitis. Its Diammonium Glycyrrhizinate, a product for curing hepatitis, is the first choice for doctors and patients in the PRC in caring liver. Tianqingfuxin, which was launched in December 2001 capitalising the awareness of Diammonium Glycyrrhizinate, has been prescribed in combination with Diammonium Glycyrrhizinate to achieve better result and shorten the treatment course, and hence reinforcing the brand name effect of the enterprise products and achieving satisfactory sales performance. Over the last year, turnover of JCTT increased by approximately 31.6%, in which sales of Diammonium Glycyrrhizinate alone accounted for approximately 16.9%. Further, Tianqingfuxin has recorded a significant sales income of approximately HK\$63 million since its launch to the market for the first year. It is believed that the product will soon be among products with annual sales of HK dollars 100 million.

While boosting sales of major products and exploring markets of new products, JCTT focused particularly on tapping markets for mid-end products, application of launched products to new diseases and continuous response to increased market demand. Take Carnet (Foscarnet Disodium) injection, an anti-virus medicine, is an for example. According to the continuous assessment of the theory and effects of the medicine and from the feedback of doctors, researchers discovered that the medicine has significant effect in curing hepatitis B. Increased approvals for clinical tests in respect of new applications has been granted by the SDA and clinical tests are currently undergoing.

Hepatitis B, fatty liver or alcoholic damaged liver will lead to different degree of hepatic fibrosis. People always concern with issues of liver caring and protection and try to reduce the degree of hepatic fibrosis. Therefore, it has a great potential development in the market of medicines in treating hepatitis. JCTT will continue with its intensive R&D as well as production of hepatitis medicines. With its established sales network of hepatitis medicines, JCTT is playing an increasingly important role in this market.

NJCTT

Established in August 2001, NJCTT has completed its plant construction and machinery installation and has obtained GMP certificates for the production lines of PVC-free soft bags for intravenous injection granted by SDA's GMP certificate center. Currently, NJCTT has commenced trial production. Shenning (Compound Marnital injection) injection has obtained new medicine certificate and production approval. Shenning injection is a medicine for dehydration and discharge of urine, particularly effective in eliminating hydrocephalus and reducing pressure within the head bone. It is believed that this will be another product with great contribution to the Group's turnover.

R&D

During the year, the Group obtained a total of 13 certificates and production approvals for new medicines and 12 medicines undergoing clinical tests. The sales contribution of the new products to the Group in 2002 amounted to approximately HK\$94 million. This shows that the Group has formed a solid integrated operation model in product development and marketing in terms of selection of products for development, research and market development. It provides valuable experience for the Group's continuous development and for the industrialisation of new medicines after their R&D.

In October 2002, the Group formed a joint venture with Mr. Qu Yun Zhi, an independent third party, whereby CT Green Continent was established in the Beijing Economic Technology Development Zone to focus on the R&D of dripping pills, fast release, sustained release and controlled release preparations and injections for the treatment of cardiovascular and respiratory diseases, anti-bacterial and anti-viral infection. The first batch of products for R&D was dripping pills, with 10 products having entered into the research stage. Mr. Qu Yun Zhi has more than 20 years experience in the R&D of new products. He is particularly keen in the research and production technology of dripping pills for Chinese medicines. This will enable the Group to explore new research areas and develop new dosage forms, so as to keep abreast of international advanced dosage forms and enter the realms of international advanced medicines.

Currently JCTT's Nanjing Research and Development Centre has also started operation during the year. The planning for trial-production workshop has completed and construction will soon commence. CTF's Beijing Research Centre has also started operation during the year.

The Group's main objective on R&D is to be better equipped to compete internationally in the future. To this end, it will concentrate the most sophisticated workforce for the R&D of effective medicines for treating eye diseases and hepatitis.

Development and management of network sales

With the improvement of living standards, healthcare has been one of the most important concerns in people's daily life. In view of this, the Group has provided a general introduction of its products as well as certain information on topics about eye disease, eye protection and skin diseases on CTF's website (www.cp-freda.com). In JCTT's website (www.zdtqzy.com), knowledge about prevention and cure consultancy of hepatitis and elderly diseases are provided. The Group aims to develop the websites to become the first choice for online information relating to eye protection, prevention and cure consultancy of skin diseases, hepatitis B, elderly diseases and related subjects.

Currently, the Group can fully utilise the internet to carry out daily production and sales and financial management. Through the internet, the sales staff can update themselves on a timely manner with information on the R&D status and related sales policies of enterprise's products; enterprise's management personnel through the internet can obtain on a timely manner information on sales of the Group's sales networks covering various regions, and can get updated market information on time. This can substantially enhance production and sales efficiency and the effective communication and interaction between enterprises and customers, which in turn can upgrade the management standard of the enterprises.

In the near future, the Group will implement an online e-commerce system with an aim to start online sales.

Business strategies

1. To adopt a scientific R&D concept combining with self innovation and replication, with technology as orientation and biotechnology and modernisation of Chinese medicines as the focus of scientific development. Meanwhile, advanced domestic and foreign pharmaceutical technologies will be introduced from time to time at the disposal of the Group. R&D of subsequent products will be carried out fully, capitalising on the opportunity that the R&D centers of JCTT and CTF in Nanjing and Beijing respectively have commenced operation to enhance the Group's innovation capacity.
2. To adopt a human resources-based strategy and fully develop the businesses of JCTT and CTF, and to strengthen the corporate management by applying an innovative approach to sales and internal management and the development of staff's creativity so as to achieve better market and management efficiency.
3. To build strategic alliances through mergers and acquisitions and to adjust product mix, improve its quality and make full use of the edge of the Group's sales networks. Complementary advantages will serve to enhance corporate economic effectiveness, with an aim to further expand and consolidate the Group's major businesses and make it an entity with great potential in the development of biopharmaceuticals and modernisation of Chinese medicines.
4. To research and develop dripping pills, fast release, sustained release and controlled release new dosage forms through the establishment of CT Green Continent. Through consolidating internal and external technological resources, methods like High-throughput Molecular Screening System, High-throughput Molecular Expression System and Humanized Monoclonal Antibodies etc, new biopharmaceutical medicines have finally been obtained and enhance the Group's capacity in specialised technology.

Liquidity and financial resources

During the year, the Group's primary source of fund was cash provided by operating activities and funds raised by placing new shares and the issuance of convertible bonds in 2002. As at 31 December, 2002, the Group's bank balances and cash in hand was approximately HK\$280.53 million (2001: HK\$171.96 million) whereas the short-term bank loan was approximately HK\$4.71 million (2001: Nil).

Gearing ratio

As at 31 December, 2002, the total assets of the Group amounted to approximately HK\$593.99 million (2001: HK\$433.13 million) whereas the total liabilities amounted to approximately HK\$171.45 million (2001: HK\$91.80 million). The gearing ratio (total liabilities to total assets) was approximately 28.9% (2001: 21.2%).

Employees and Remuneration Policy

As at 31 December, 2002, the Group had 2,227 employees (2001: 2,010). With deep exploration of the market, continuous R&D of new products and adoption of high technology, the Group expects to recruit more professionals. The staff's salaries and bonus are paid with reference to the Group's human resources management policy and reward stimulation policy. Other benefits include mandatory pension fund, pension, unemployment insurance, housing fund, etc in accordance with relevant policies in the PRC and region.

Exposure to fluctuation in exchange rates

Most of the assets and liabilities of the Group was denominated in RMB and HK dollars. In the PRC, foreign investment enterprises are authorised to convert RMB to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner), the Directors consider that the Group is not significantly exposed to foreign currency exchange risk and no hedging or other alternatives have been implemented.

Outlook

Biomedicines and modernised Chinese medicine represent high technology and high growth in the pharmaceutical industry. On the base of these two high and new technology areas, together with its stable profit base and awareness of its well-known brand names, the Group will continue to increase its market share at a steady space. The Directors believed that the enhancement of the Group's scientific research ability will facilitate the continuous launch of new products. These, together with the increase and continuous improvement of paralleled production facilities, the fact that the medicines produced have all obtained GMP certificates, the more sophisticated and effective sales networks and the strategic alliance through mergers and acquisitions, are the Group's profit growing points, and will continuously ensure fruitful returns to the shareholders of the Company.

On behalf of the Board, I would like to express my sincere gratitude to all shareholders of the Company for their full support, and to all our dedicated, hardworking and honorable staff for achieving the business objectives set at the beginning of the year.

COMPARISON OF OBJECTIVE AND ACTUAL BUSINESS PROGRESS

**Business objective
up to 31 December, 2002
as stated in the prospectus
of the Company dated
22 September, 2000
(the “Prospectus”)**

**Actual business progress
up to 31 December, 2002**

1. R&D

<i>(1) Establish a research & development centre in Beijing</i>	<ul style="list-style-type: none"> a. Complete applications of registration and approval of new products b. Confirm transfer and production of new products c. Continue to carry out research work on incomplete projects 	Established equity joint venture with an independent third party CT Green Continent, with ten products having entered the research stage
<i>(2) Plan of new product research and development of CTF</i>		
Jingfu Eyedrops	Market and promote product	Waiting for the clinical approval of SDA
Composite Tobramycin Gel	Market and promote product	Research has been terminated. It's reasons have been disclosed in the annual report 2000
Butenafine Hydrochloride Gel	Obtain new medicine certificate from SDA and apply for production approval	Waiting for new medicine certificate and production approval
<i>(3) Plan for new product research and development of JCTT</i>		
Oxymatrine (now known as Matrine) capsules and oxymatrine (now known as Matrine) glucose injection	Market and promote product	Marketed and promoted product
Diammonium Glycyrrhizinate sodium chloride and glucose injection	Market and promote product	Preparing for business production and the date of launch postponed

	Business objective up to 31 December, 2002 as stated in the Prospectus	Actual business progress up to 31 December, 2002
Puerarin glucose injection	Market and promote product	Marketed and promoted product
Buyang huanwutang injection	Apply for production approval	Due to technical reasons, clinical applications suspended. This has been disclosed in annual report 2001
Roloxifene hydrochloride and tablets	Apply for production approval	Due to technical reasons, research has been terminated
Sotalol hydrochloride injection	Market and promote product	Marketed and promoted product
Clindamycin phosphate powder injection	Market and promote product	Due to market reasons, this product has been transferred
Sanzi kechuan capsules	Apply for production approval	Waiting for SDA's clinical approval
Netimycin sulfate and sodium chloride injection	Market and promote product	Marketed and promoted product
Puerarin capsules	Market and promote product	Undergoing clinical testing

**Business objective
up to 31 December, 2002
as stated in the Prospectus**

**Actual business progress
up to 31 December, 2002**

2. Production of pharmaceutical products

<i>(1) Forming alliance with reputable producers of biopharmaceuticals, chinese medicine or natural herbal products</i>	Continue to identify cooperative partners and execute cooperative agreements	Continue to discuss with several cooperative partners
<i>(2) Expansion of production facilities of CTF:</i>		
(a) Factory	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 12,000 sq.m.	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 12,123 sq.m.
(b) GMP compliance	All workshops comply fully with GMP procedures	All workshops obtained GMP certificates
<i>(3) Expansion of production facilities of JCTT:</i>		
(a) Factory	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.
(b) GMP compliance	All workshops comply with GMP procedures	Other than plant procurement, GMP procedures implemented for plant extraction workshop and synthetic drugs raw material workshop, while, all other workshops have obtained GMP certificates

**Business objective
up to 31 December, 2002
as stated in the Prospectus**

**Actual business progress
up to 31 December, 2002**

3. Marketing and sales

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

The expansion plan of
the sales network of
CTF:

No. of representative offices	40	30
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No. of sales staff	450	480
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The expansion plan of
the sales network of
JCTT:

No. of representative offices	40	38
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No. of sales staff	900	596
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COMPARISON OF USE OF PROCEEDS RAISED FROM THE COMPANY'S INITIAL PUBLIC OFFER WITH ACTUAL APPLICATION

The Group raised net proceeds of approximately HK\$60 million from its initial public offer. The following table sets forth the intended use of the net proceeds as stated in the Prospectus and the actual application of such net proceeds up to 31 December, 2002:–

	<i>Notes</i>	Amount to be used up to 31 December, 2002 as disclosed in the Prospectus HK\$ million	Actual amount used up to 31 December, 2002 HK\$ million
For research and development activities including the establishment of a research and development centre in Beijing		15.0	6.8
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceuticals, Chinese medicine and/or natural herbal products	<i>1</i>	20.0	–
For the expansion of the distribution networks of the Group	<i>2</i>	10.0	–
For the establishment of the Group's website and commencement of e-commerce	<i>3</i>	3.0	0.8
General working capital		12.0	12.0
Total		60.0	19.6

Notes:

1. The Group is in the process of negotiating with several potential cooperative partners and no concrete agreement has been reached.
2. The Group is in the process of negotiating with potential cooperative partners and no concrete agreement has been reached.
3. Development of website and e-commerce are mainly financed by income generated by the Group's principal subsidiaries.

RESULTS

The board of Directors (the “Board”) announces the audited consolidated results of the Group for the year ended 31 December, 2002 together with the comparative audited consolidated results for 2001 as follows:–

	<i>Notes</i>	2002 HK\$'000	2001 <i>HK\$'000</i>
Turnover	(2)	692,320	539,910
Cost of sales		(145,286)	(101,436)
Gross profit		547,034	438,474
Other revenue		3,932	5,092
Selling and distribution costs		(309,437)	(237,601)
Administrative expenses		(84,257)	(78,610)
Other operating expenses		(20,562)	(7,793)
Profit from operating activities	(3)	136,710	119,562
Finance costs	(4)	(1,124)	(1,913)
Profit before tax		135,586	117,649
Tax	(5)	(17,175)	(8,184)
Profit before minority interests		118,411	109,465
Minority interests		(61,042)	(47,730)
Net profit from ordinary activities attributable to shareholders		57,369	61,735
Dividends – interim	(6)	15,000	12,000
– proposed final	(6)	29,880	30,000
Earnings per share – basic	(7)	<u>HK18.9 cents</u>	<u>HK20.6 cents</u>
– diluted	(7)	<u>HK16.9 cents</u>	<u>HK19.4 cents</u>

Notes:

(1) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

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

The Group's 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 periodic remeasurement of certain fixed assets.

During the year, the Group consistently applied the accounting policies stated in the annual report for the year ended 31 December 2002.

(2) Turnover

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

Segment information

The Group's turnover analysis by principal activities:

	Year ended 31 December,	
	2002 HK\$'000	2001 HK\$'000
Sales of goods	692,320	530,006
Dividend income from an unlisted investment	–	9,904
Total	<u>692,320</u>	<u>539,910</u>

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

	Turnover		Contribution to profit from operating activities	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
By principal activities:				
Manufacture and sale of pharmaceutical products	692,320	530,006	157,376	121,742
Dividend income from an unlisted investment	–	9,904	–	9,592
Unallocated expenses	–	–	(20,666)	(11,772)
	<u>692,320</u>	<u>539,910</u>	<u>136,710</u>	<u>119,562</u>

(3) Profit from operating activities

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

	Year ended 31 December,	
	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold	145,286	101,436
Depreciation	13,703	13,075
Amortisation of intangible assets	153	21
Amortisation of goodwill	732	732
Minimum lease payments under operating leases:		
Land and buildings	10,016	4,763
Plant and machinery	–	1,604
	<u>10,016</u>	<u>6,367</u>
Research and development costs	19,793	6,470
Auditors' remuneration	540	480
Loss on disposal of fixed assets	149	1,323
Staff costs (including directors' remuneration)		
Wages and salaries	87,699	56,895
Pension contributions	9,363	6,395
	<u>97,062</u>	<u>63,290</u>
Total		
	<u>97,062</u>	<u>63,290</u>
and after crediting:		
Exchange (loss)/gain, net	(119)	76
Dividend income from an unlisted investment	–	9,904
Interest income	2,024	3,603
	<u>2,024</u>	<u>3,603</u>

(4) Finance costs

	Year ended 31 December,	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within one year	1,033	1,770
Interest on convertible bonds	91	–
Others	–	143
	<u>1,124</u>	<u>1,913</u>

(5) Tax

	Year ended 31 December,	
	2002	2001
	HK\$'000	HK\$'000
Provision for the year		
PRC income tax	17,175	8,184
	<u>17,175</u>	<u>8,184</u>

No Hong Kong profits tax has been provided for the year ended 31 December, 2002 as there was no assessable profit arising in or derived from Hong Kong during the year. (2001: Nil)

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

Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory income tax rate of 33% (30% state income taxes plus 3% local income taxes) unless the enterprise is qualified as a "High and New Technology Enterprise" or is located in specially designated regions or cities for which more favorable effective tax rates apply. The Group's principal operating subsidiaries are qualified as "High and New Technology Enterprise" to which a preferential tax rate of 15% applies and one subsidiary is 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 December, 2002, JCTT and CTF are subject to an income tax rate of 7.5% and 10% respectively (2001 both JCTT and CTF: 7.5%).

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

(6) Dividends

	Year ended 31 December,	
	2002	2001
	HK\$'000	HK\$'000
Interim dividend		
– HK\$0.05 (2001: HK\$0.04) per ordinary share	<u>15,000</u>	<u>12,000</u>
Proposed final dividend		
– HK\$0.09 (2001: HK\$0.10) per ordinary share	<u>29,880</u>	<u>30,000</u>

The Board has recommended a final dividend of HK9 cents per ordinary share for the year ended 31 December 2002 (2001: HK10 cents per ordinary shares). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the dividend will be paid to shareholders on Monday, 5 May 2003 whose names appear on the Register of Members of the Company on Wednesday, 23 April 2003.

The Register of Members of the Company will be closed from Thursday, 17 April 2003 to Wednesday, 23 April 2003, both days inclusive, during which period no transfer of share of the Company will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tengis Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:30 p.m. on Wednesday, 16 April 2003.

(7) Earnings per share

The calculation of the basic earnings per share is based on net profit from the ordinary activities attributable to shareholders for the year ended 31 December, 2002 of HK\$57,369,000 (2001: HK\$61,735,000) and the 304,166,667 ordinary shares (2001: 300,000,000 ordinary shares) weighted average number of ordinary shares in issue during the years.

Diluted earnings per share for year ended 31 December, 2002 is based on net profit from ordinary activities attributable to shareholders for the year of HK\$57,369,000 (2001: HK\$61,735,000) plus interest of HK\$91,000 (2001: Nil) on convertible bonds and 304,166,667 ordinary shares (2001: 300,000,000 ordinary shares) which was the weighted average number of ordinary shares in issue during the year plus the weighted average number of 19,416,476 shares (2001: 17,714,535 shares), deemed to be issued at average fair value if all outstanding options had been exercised during respective years and the weighted average of 16,421,053 (2001: Nil) ordinary shares assumed to have been issued at no consideration on deemed exercise of all convertible bonds during the year.

(8) Reserves

Movements in the reserves of the Group during the year were as follows:

	Year ended 31 December,	
	2002	2001
	HK\$'000	HK\$'000
Contributed surplus		
Balance brought forward and carried forward	52,605	52,605
Share premium		
Balance brought forward	55,973	55,973
Issue of shares	34,600	–
Share issued expenses	(535)	–
Balance carried forward	90,038	55,973
Capital reserve		
Balance brought forward	21,687	4,149
Transfer from statutory reserve fund	7,256	7,642
Transfer from retained profits	–	9,896
Exchange realignment	(19)	–
Balance carried forward	28,924	21,687
Leasehold building revaluation reserve		
Balance brought forward and carried forward	2,546	2,546
Statutory reserve fund		
Balance brought forward	3,412	4,280
Transfer to capital reserve	(7,256)	(7,642)
Exchange realignment	(9)	–
Transfer from retained profits	8,418	6,774
Balance carried forward	4,565	3,412
Exchange fluctuation reserve		
Balance brought forward	498	498
Exchange realignment	(137)	–
Balance carried forward	361	498
Retained profits		
Balance brought forward	47,818	44,753
Net profit for the year	57,369	61,735
Interim dividend	(15,000)	(12,000)
Transfer to other reserve funds	(8,418)	(16,670)
Proposed final dividend	(29,880)	(30,000)
Balance carried forward	51,889	47,818

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December, 2002, the interests of the Directors and their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Stock Exchange or the Company as required by Rules 5.40 of the GEM Listing Rules, 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 president 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.

Save as disclosed above, at 31 December, 2002, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

(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 3 January, 2003 to 1 January, 2007 (both days inclusive).

Save as disclosed above, during the year ended 31 December, 2002, none of the Directors or their associates were granted options to subscribe for shares of the Company.

Outstanding share options

As at 31 December, 2002, options to subscribe for an aggregate of 30,000,000 shares of the Company (which include the options granted to Mr. Tse Ping, Mr. Wang Jinyu, Mr. Ling Peixue and Mr. Tao Huiqi as disclosed above) granted pursuant to the Scheme were outstanding. Details are as follows:–

Number of share options	Number of employees	Subscription price per share HK\$	Option period
30,000,000	13	0.74	3 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 December, 2002, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2002 the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares	Percentage of shareholding
Conspicuous Group Limited	108,000,000*	33.75
Remarkable Industries Limited	57,317,760*	17.91
Validated Profits Limited	65,802,240*	20.56

* The interests of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited have been disclosed as the corporate interest of Mr. Tse Ping in the “Directors’ interests in share capital” section.

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 December, 2002 and as disclosed in the prospectus issued by the Company on 22 September, 2000, Mr. Tse Ping owns controlling interests or investment interests in Xian C.P. Pharmaceutical Co., Ltd. (“CT Xian”), Ankang Chia Tai Pharmaceutical Co., Ltd. (“CT Ankang”), Hainan Tigerlily Pharmaceutical Co., Ltd. (“HTPC”) and ABH Nature’s Products Inc. (“ABH”).

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

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

Mr. Tse Ping has signed a deed of non-competition undertaking to the Company dated 19 September, 2000 and has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30% of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities of which more than 50% of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or

management body of similar nature (“Mr. Tse Ping’s Companies”) (excluding for this purpose the Group) will:–

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

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

SPONSORS’ INTERESTS

As at 31 December, 2002, DBS Asia Capital Limited (“DBS”), 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. Pursuant to the agreement dated 21 September 2000 entered with the Company, DBS received, and will receive fees for acting as the Company’s retainer sponsor for the period from the date on which dealing in the Company’s shares commenced on the GEM of the Stock Exchange to 31 December 2002.

AUDIT COMMITTEE

The Company set up an Audit Committee (the “Committee”) on 19 September, 2000 with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. This announcement has been reviewed and approved by the Committee.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December, 2002 with Rules 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

From 1 January, 2002 to 31 December, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

By order of the Board
Sino Biopharmaceutical Limited
Tse Ping
Chairman

Beijing, 18 March, 2003

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for 7 days from the day of its posting.