

First Quarterly Report

2003



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

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.

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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

This document, for which the directors (the “Directors”) of Sino Biopharmaceutical Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) 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 document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

For the three months ended 31 March, 2003, the turnover of the Group amounted to approximately HK\$203.65 million, representing an increase of 47.1% over the corresponding period last year; net profit attributable to shareholders amounted to approximately HK\$20.27 million, representing an increase of 66.8% over the corresponding period last year; and basic earnings per share amounted to HK6.13 cents, representing an increase of approximately 51.4% over the corresponding period last year.

The Board does not recommend the payment of dividend for the three months ended 31 March, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Review

During the period under review, the business of the Company together with its subsidiaries (the "Group") continued to grow. As compared with the corresponding period last year, turnover increased by approximately 47.1% to HK\$203.65 million. Demand for the Group's principal products continued to grow, increasing by approximately 18.1% over the corresponding period last year. Sales of new products accounted for 18.5% of the Group's turnover. Sales of Tianqingfuxin, a hepatitis medicine, amounted to approximately HK\$29.67 million and are expected to reach HK\$100 million this year. The range of products falling under tenders have increased. The prices of the government-pricing pharmaceutical products are still subject to adjustment. Despite increasingly intense competition in the pharmaceutical market, the Group's first quarterly results reflected both its unique ability to react rapidly to the changing market and good strength. During the quarter, the Group was granted two new medicine certificates and nine approvals for clinical tests, and had six products under application for clinical tests.

Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CT Green Continent") was established in October 2002. CT Green Continent is principally engaged in the research and development ("R&D") for new medicines and related technology transfers. The first batch of products for R&D was modernised Chinese medicines, with ten new products being under research. It focuses on the R&D of dripping pills, fast release, sustained release and controlled release preparations for the treatment of cardiovascular disease and anti-infectives.

During the period under review, the Group continued to develop its established core business. It is also in preliminary discussion with certain domestic pharmaceutical companies for business co-operation and/or investment.

During the period under review, the principal sources of earnings of the Group were generated from Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF"), Jiangsu Chia Tai Tianqing Pharmaceutical Co., Ltd. ("JCTT"), Shandong Chia Tai Freda New Packaging Resources Co., Ltd. and Chia Tai Qingchunbao Pharmaceutical Co., Ltd.

CTF

The business of CTF experienced continuous growth with turnover growing approximately 38.3% over the corresponding period last year. Sales of its principal products, such as Moisten eyedrops and Mioclear eyedrops, recorded continuous growth, increasing by approximately 30.4% over the corresponding period last year. Sale of mid-end products has been promising with the sales of Sofast Sodium Hyaluronate

injection, an osteoarthritis medicine, growing approximately 51.0% over the corresponding period last year. In order to expand market share by better developing its market for medicines to treat eye diseases, dermatitis and osteoarthritis diseases, CTF strengthened its sales support system and professionalised its sales staffs. Teams receiving support included teams for eye medicines, retail medicines, dermatitis medicines and osteoarthritis medicines. After years of advertising on TV channels, such as CCTV, and Phoenix Satellite TV, together with newspapers, internet, magazines and vehicles advertising, Moisten eyedrops and Mioclear eyedrops have established good brand names and good corporate images among doctors, pharmacies assistants and consumers. All these have considerably helped the promotion of the Group's other eye medicines, sales of other products and the Group's ability to recruit staff.

JCTT

JCTT also experienced continuous growth. In order to further consolidate its current market share of hepatitis medicines and to highlight its R&D and market advantages, JCTT has been reviewing the existing product mix and the products under research. JCTT strengthened the market exploration of cardiovascular medicines and medicines for the elderly in order to expand these market shares. This year, JCTT adjusted its sales framework and classified sales teams by medical speciality. The team was divided into three departments: Hepatitis Medicine, New Medicine and Commercial Trading. With 38 sales representative offices, the Hepatitis Medicine Department accounted for approximately 80% of JCTT's total turnover. The New Medicine Department had 14 sales representative offices and operated according to its marketing development plan. The departments share market resources and enjoy good synergies while operating independently. JCTT's turnover for the first quarter of 2003 represented a growth of approximately 41.6% over the corresponding period last year. Sales of Diammonium Glycyrrhizinate injections and capsules, its principal products of hepatitis medicines, grew by approximately 8.5%. Turnover of Tianqingfuxin, a new hepatitis medicine, amounted to approximately HK\$29.67 million and is expected to reach HK\$100 million this year. With its professional sales teams, it is believed that the Group's cardiovascular medicines and medicines for the elderly will become another source of profit growth. This sales model has proven its high effectiveness in rapidly boosting market shares.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT")

NJCTT commenced trial production in January 2003. All functional departments are preparing to launch the new products, in particular, a new national standard medicine, Compound Marnital injection PVC-free soft bags for intravenous injections.

R&D

JCTT's R&D center in Nanjing and CTF's R&D center in Beijing have started operating during the quarter. During the period under review, the Group was granted two new medicine certificates, received nine approvals for clinical tests, applied for clinical tests of six products, and accelerated the development of other products. CT Green Continent commenced operations with modernised Chinese medicines as its first batch of products. Currently, research is being undertaken on ten new kinds of medicines, mainly medicines for the treatment of cardiovascular and anti-infectives. In March 2003, CT Green Continent was certified by Beijing Science and Technology Committee as a "High and New Technology Enterprise", indicating a research approach in line with the development trends for the state's scientific research and industrialisation.

OUTLOOK

The Group is operating as planned, adhering to business development plans and strategies formulated earlier this year. The Group will further foster and build its sales network, and use its core business, biomedicines and modernised Chinese medicines to consolidate the Group's position among Chinese pharmaceutical enterprises. In addition, the Group aims to enhance growth through acquisitions and mergers, and alliances with strategic investors where suitable opportunities arise. The Directors believe that the Group's currently stable earnings, renowned brand-names, Good Manufacturing Practice certified facilities, and consolidated and increasing market shares will provide profit growth, and ensure fruitful returns to shareholders.

With the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the People's Republic of China (the "PRC") in April, the Group's sales to end-users (sales to hospitals and pharmacies) has been affected. The Group is now closely monitoring the situation. Meanwhile, the Group is implementing appropriate and effective precautionary measures to maintain normal operation of business and the well-beings of its staff. As at the date of this announcement, no cases or suspected cases of SARS is related to the staff of the Group have been reported.

On behalf of the board of the Directors (the "Board"), I would like to express my sincere gratitude to all shareholders for their full support, and to all our dedicated, diligent and honorable staff.

FIRST QUARTERLY RESULTS

The Board announces the unaudited consolidated results of the Group for the three months ended 31 March, 2003 together with the comparative unaudited consolidated results for the corresponding period in 2002 as follows:—

		For the three months ended 31 March,	
		2003	2002
		Unaudited	Unaudited
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	(2)	203,652	138,486
Cost of sales		(44,772)	(26,589)
Gross profit		158,880	111,897
Other revenue		862	386
Selling and distribution costs		(96,909)	(63,790)
Administrative expenses		(24,932)	(20,025)
Profit from operating activities		37,901	28,468
Finance costs		(240)	(562)
Profit before tax		37,661	27,906
Tax	(3)	(3,270)	(2,670)
Profit before minority interests		34,391	25,236
Minority interests		(14,117)	(13,082)
Net profit attributable to shareholders		20,274	12,154
Dividends	(4)	—	—
Earnings per share	(5)		
– basic		HK6.13 cents	HK4.05 cents
– diluted		HK5.51 cents	HK3.80 cents

Notes:

(1) Basis of preparation

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

(2) Turnover

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

The Group's turnover arose from the following activities:—

	For the three months ended 31 March, 2003	2002
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Sales of goods	196,861	138,486
Dividend income from an unlisted investment	6,791	—
Total	<u>203,652</u>	<u>138,486</u>

(3) Tax

	For the three months ended 31 March, 2003	2002
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Hong Kong profits tax	—	—
PRC income tax	3,270	2,670
Total	<u>3,270</u>	<u>2,670</u>

No Hong Kong profits tax has been provided for in the three months ended 31 March, 2003 as there was no assessable profit arising in or derived from Hong Kong during the period (2002: Nil).

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

Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws, joint venture companies are subject to the statutory income tax rate of 33% (30% state income taxes plus 3% local income taxes) unless the enterprise is qualified as a "High and New Technology Enterprise" or 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 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. Those Foreign Investment Enterprises are qualified as "Advanced Technology Enterprises", they can extend three more years for 50% tax reduction, but the minimum tax rate should not be lower than 10%.

As of 31 March, 2003, the Group's principal operating subsidiaries are subject to an income tax rate of 10% (2002: 7.5%–10%).

There are no material potential deferred tax liabilities for which provision has not been made (2002: Nil).

(4) Dividends

The Board does not recommend the payment of dividend for the three months ended 31 March, 2003 (2002: Nil).

(5) Earnings per share

The calculation of the basic earnings per share is based on net profit attributable to shareholders for the three months ended 31 March, 2003 of HK\$20,274,000 (three months ended 31 March, 2002: HK\$12,154,000) and the weighted average of 330,933,333 (2002: 300,000,000) ordinary shares in issue during the period.

The diluted earnings per share amount for the period is based on net profit attributable to shareholders for the period of HK\$20,274,000 (2002: HK\$12,154,000) and interest of HK\$98,280 (2002: Nil) on convertible bonds and 369,505,836 (2002: 319,897,611) ordinary shares which was the weighted average number of ordinary shares in issue during the period plus the weighted average number of 11,204,082 (2002: 19,897,611) ordinary shares deemed to be issued at average fair value if all outstanding options were exercised during the period and the weighted average of 27,368,421 (2002: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all convertible bonds during the period.

(6) Reserves

During the period, the Group's reserves had the following movement:–

- (i) Transfer of HK\$13,370,000 (2002: HK\$9,089,000) from retained earnings to statutory reserve funds.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 March, 2003, 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)	3,000,000	–	231,120,000	–	234,120,000
Mr. Tao Huiqi		400,000	–	–	–	400,000
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 the corporate interest of 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. Ling Peixue, Mr. Tao Huiqi and Mr. Wang Jinyu were granted options on 2 January, 2001 to subscribe for 7,500,000 shares, 1,000,000 shares, 1,000,000 shares and 1,000,000 shares of the Company, respectively, at a subscription price of HK\$0.74 per share exercisable during the period from 3 January, 2003 to 1 January, 2007 (both days inclusive). On 8 January 2003, Mr. Tse Ping, Mr. Ling Peixue, Mr. Tao Huiqi and Mr. Wang Jinyu had subscribed the share options of 3,000,000 shares, 400,000 shares, 400,000 shares and 400,000 shares of the Company, respectively.

Save as disclosed above, at 31 March, 2003, 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.

Outstanding share options

As at 31 March, 2003, options to subscribe for an aggregate of 18,000,000 shares (which include the options granted to Mr. Tse Ping, Mr. Ling Peixue, Mr. Tao Huiqi and Mr. Wang Jinyu, as disclosed above) of the Company granted pursuant to the Scheme were outstanding. Details are as follows:-

Number of share options	Number of employees	Subscription price per share HK\$	Option period
18,000,000	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 March, 2003, 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, 2003, 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	32.53
Remarkable Industries Limited	57,317,760	17.26
Validated Profits Limited	65,802,240	19.82

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, 2003 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 may compete directly or indirectly with the Group. Currently, the above enterprises do not conduct 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 in favour of the Company dated 19 September, 2000 under which he has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30% of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities in 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.

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 of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the period from 1 January, 2003 to 31 March, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Sino Biopharmaceutical Limited
Tse Ping
Chairman

PRC, 13 May, 2003