

Interim Report

| 2003



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

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This document, for which the directors (the “Directors”) of Sino Biopharmaceutical Limited (“Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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 six months ended 30 June, 2003, the turnover of the Group amounted to approximately HK\$397.25 million, representing an increase of approximately 27.9% over the corresponding period last year; net profit attributable to shareholders amounted to approximately HK\$44.07 million, representing an increase of approximately 28.1% over the corresponding period last year; and basic earnings per share amounted to approximately HK13.3 cents, representing an increase of approximately 15.6% over the corresponding period last year.

The Board proposed an interim dividend of HK5 cents per share for the six months ended 30 June, 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. The turnover amounted to approximately HK\$397.25 million, representing an increase of approximately 27.9% over the corresponding period last year; net profit attributable to shareholders amounted to approximately HK\$44.07 million, representing an increase of approximately 28.1% over the corresponding period last year; and basic earnings per share amounted to approximately HK13.3 cents, representing an increase of approximately 15.6% over the corresponding period last year. Accordingly, the board of directors of the Company (the "Board") proposed an interim dividend of HK5 cents per ordinary share for the six months ended 30 June, 2003.

In the second quarter, the outbreak of Severe Acute Respiratory Syndrome ("SARS") affected the pharmaceutical industry in the People's Republic of China ("PRC") as fewer patients sought medical treatment in hospitals. As the Group does not manufacture products for the treatment and prevention of SARS, its turnover for May and June this year was adversely affected, with turnover being 14.1% less than expected. In particular, SARS affected the marketing of new products. To protect the well being of the staff and safeguard its normal business operation, the Group adopted strong preventive measures by making use of internet, telephone and video conference facilities as the means of communication. During the SARS outbreak, no case of SARS was reported in the Group.

During the first half of the year, sales of the Group's principal products continued to grow, rising approximately 9.4% over the corresponding period last year. These principal products include medicines for hepatitis (such as Diammonium Glycyrrhizinate injections and capsules), and ophthalmic medicines (Moisten eyedrops and Mioclear eyedrops). The performance of certain mid-stream products, such as Sofast Sodium Hyaluronate injection (an osteoarthritis medicine) and Fredex eyedrops (an ophthalmic medicine), was especially well, with sales rose by approximately 17.3% when compared to the corresponding period last year. Contribution of new products accounted for approximately 20.2% of the Group's revenues, with sales of Tianqingfuxin (a hepatitis medicine) which has launched in the market in December 2001, amounting to approximately HK\$61.46 million, representing an increase of approximately HK\$45.46 million at approximately 284.1% as compared with the corresponding period last year. This demonstrates the popularity of the Group's products and brand names.

During the period under review, the Group's research and development projects proceeded well. It obtained five registration approvals for new medicine products and thirteen approvals for clinical research from the State Food and Drug Administration of the PRC ("SFDA"). It also received one health-care food certificate from the Ministry of Public Health of the PRC ("MPH"). In addition, Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CT Green Continent"), which was established in October 2002 and principally engaged in the research and development ("R&D") for new medicines, has been progressing well with its scheduled R&D projects. It has successfully lodged applications for three invention patents and has obtained patent application acceptance notification from the State Intellectual Property Office.

According to statistics in "Chinese Medicine Annual Report 2002" issued by the State Economic and Trade Commission in July, 2003, Shandong Chia Tai Freda Pharmaceutical Co. Ltd. ("CTF") and Jiangsu Chia Tai Tianqing Pharmaceutical Co., Ltd. ("JCTT"), two principal subsidiaries of the Group, were ranked among the Top 100 entirely independent audited enterprises in terms of aggregate profit for 2002.

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

CTF

The business of CTF experienced continuous growth with turnover growing by approximately 20.5% over the corresponding period last year. Sales of principal products, such as Moisten eyedrops and Mioclear eyedrops, continued to grow. In particular, sales of Mioclear eyedrops for relief of eye tiredness grew 45.0% over the corresponding period last year. As more people spend longer hours in front of TVs and computers, eye tiredness is likely to become common ailment. This is likely to boost the market potential of anti-eye tiredness medicine. It is estimated that the sales of Mioclear eyedrops will exceed HK\$100 million for the year and also in turn stimulate the development of other products for treatment of eye diseases. During the first half of the year, sales of new products for treatment of eye diseases reached HK\$19.01 million, representing 10.2% of the sales of CTF. We believe that the strengthening of our sales service supporting system during the year will enhance the launch promotion of Butenafine Hydrochloride Ointment, a dermatitis medicine which has been granted the production approval from SFDA in May 2003. CTF is actively engaged in planning this product launching, and expects good results.

The material synthesis workshops of CTF are under construction in Jinan New and High Technology Development Zone (濟南高新技術開發區). It is anticipated that a GMP Certificate will be obtained in the first half of next year.

CTFP produced the high quality and anti-counterfeit eyedrop bottles used by CTF under exclusive arrangements. Due to the significant growth in sales of eyedrops, the production line of eyedrop bottles has reached full capacity. To meet the demand of bottles from CTF, the Group plans to add one production line. In July 2003, CTFP was awarded the "High and New Technology Enterprise" by Shandong Scientific Technology Committee.

JCTT

JCTT also experienced continuous growth, with turnover increasing by approximately 25.3% over the corresponding period last year. During the outbreak of SARS, there was sharp decrease in hepatitis patients in the hospitals, JCTT intensified its promotion efforts to drugstores and promoted sales of oral medicines, such as Diammonium Glycyrrhizinate capsules and Tianqingfuxin capsules. Sales of the new hepatitis medicine, Tianqingfuxin capsules, is still growing rapidly, with revenue amounting to HK\$61.46 million at 30 June, 2003. This product is expected to record sales exceeding HK\$100 million this year and become another major product of the Group. With this product, the Group will further strengthen its position in the hepatitis medicine market. Another new hepatitis medicine, the Hactitol Monohydrate Powder, was launched this year and is expected to have good performance. JCTT also fine tuned its sales structure this year and reorganised its sales teams into various medical specialties. All departments are functioning well and clearly benefiting from the advantage of specialization. The New Medicine Department, which is mainly engaged in cardiovascular sales, has established 16 sales representative offices, with a growth of 4.3% in sales over the corresponding period last year.

The material synthesis workshops of JCTT have passed the GMP certification requirements on 31 July, 2003 and will obtain the GMP certificate issued by the State Drug Administration of the PRC soon. The plants distilled workshops are currently undergoing GMP renovation, and are expected to receive GMP certification in the first half of 2004.

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

NJCTT started trial production in January 2003 and has made good progress. It is currently preparing for the new product launch for Shenning ("Compound Marnital") Injection PVC-free soft bags for intravenous injections for angiopathy of cardio-cerebral. NJCTT is expected to commence production by the end of the year.

R&D

During the period under review, the Group's R&D projects proceeded well. The Group obtained five approvals for new medicine products registration from SFDA, namely CTF's dermatitis medicine Butenafine Hydrochloride and Butenafine Hydrochloride Ointment (Trademark: Jiarui), CTF's Anethol Trithionc and Tablets for treatment of pathological xerostomia (Trademark: Zhengrui), and JCTT's oxymatrine glucose injection for treatment of hepatitis (Trademark: Tianqingshunxin). It also received thirteen approvals for clinical research from SFDA. Besides, the Group obtained one health-care food certificate from the MPH for Yueji Liangli capsule, a beauty product for xerosis cutis which is produced by CTF. This is the Group's trial product in a new area using hyaluronan in healthcare products. The Group believes that this will become a new growth area.

CT Green Continent, which is engaged in the R&D of the new products, is currently progressing well with its research efforts on ten new products. Three of them have successfully applied for invention patents and obtained the patent application acceptance notification from the State Intellectual Property Office. CT Green Continent will contribute to the Group's ownership of proprietary intellectual property.

Financial resources and liquidity

The Group maintained a strong financial position. As at 30 June, 2003, shareholders' equity of the Group was approximately HK\$299,288,000, and current assets were approximately HK\$438,742,000, including cash and bank deposit of approximately HK\$295,551,000. The Group had no bank overdraft or borrowing. As at 30 June, 2003, the Group's current ratio (current assets over current liabilities) and gearing ratio (total liabilities over total assets) were 2.65 and 0.37 respectively. The Directors considered that the Group had sufficient financial resources to meet its ongoing operating requirements.

Exposure to foreign exchange fluctuation

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

Significant investment and acquisition

For the period ended 30 June, 2003, there were no significant investment, nor were there any material acquisition or disposal of subsidiaries.

Employees

As at 30 June, 2003, the Group had 2,522 employees. Remuneration was determined on the basis of the performance and experience of individual employees.

Save as disclosed above and in the section headed "Business Review", there is no material change between the updated information set out under Rule 18.41 of the GEM Listing Rules and those disclosed in the Company's annual report dated 18 March, 2003.

Outlook

The Group continues to view the production of biopharmaceutical products and modernized Chinese medicines as its core business and develop the production of chemical medicines and health-care products at the same time. The Group will further foster and build its sales network, and strengthen its R&D capability to increase its competitiveness. Additionally, through acquisitions and mergers, and strategic alliances, the Group can grow and consolidate its position among Chinese pharmaceutical enterprises. The continuous revenue contribution from the new products provides the reliable base for continuous rapid growth of the Group, and demonstrates the distinctive operation ability of the Group. The Directors believe that the Group's excellent management team, stable earnings base, renowned brand-names, GMP certified facilities, consolidated and increasing market shares, will enhance profit growth of the Group and ensure fruitful returns to shareholders.

On behalf of the Board, I would like to express my sincere gratitude to all shareholders for their full support, and especially to all our staff who have behaved bravely to ensure the Group's normal operation during the SARS outbreak.

RESULTS

The Board has pleasure to announce the unaudited consolidated results of the Group for the three months and the six months ended 30 June, 2003 together with the comparative figures for the respective corresponding periods in 2002 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Three months and six months ended 30 June, 2003

	Notes	For the three months ended 30 June,		For the six months ended 30 June,	
		2003 Unaudited HK\$'000	2002 Unaudited HK\$'000	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Turnover	(2)	193,599	172,130	397,251	310,616
Cost of sales		(32,224)	(32,833)	(76,996)	(59,422)
Gross profit		161,375	139,297	320,255	251,194
Selling and distribution costs		(80,430)	(78,502)	(177,339)	(142,292)
Administrative expenses		(36,632)	(14,793)	(61,564)	(34,818)
Profit from operating activities		44,313	46,002	81,352	74,084
Finance costs	(4)	(625)	(416)	(865)	(752)
Non-operating income (net)		573	362	1,435	522
Profit before tax	(3)	44,261	45,948	81,922	73,854
Tax	(5)	(3,963)	(4,076)	(7,233)	(6,746)
Profit before minority interests		40,298	41,872	74,689	67,108
Minority interests		(16,505)	(19,637)	(30,622)	(32,719)
Net profit attributable to shareholders		23,793	22,235	44,067	34,389
Dividends	(6)	16,600	15,000	16,600	15,000
Earnings per share	(7)				
– basic		HK7.17 cents	HK7.4 cents	HK13.3 cents	HK11.5 cents
– diluted		HK6.44 cents	HK7.0 cents	HK12.0 cents	HK10.8 cents

CONSOLIDATED BALANCE SHEET

30 June, 2003

	Notes	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
NON-CURRENT ASSETS			
Fixed assets	(8)	183,417	173,293
Intangible assets		2,230	2,389
Goodwill		3,485	2,388
Long term investment		29,820	29,820
		218,952	207,890
CURRENT ASSETS			
Inventories	(9)	54,413	45,251
Trade receivables	(10)	78,940	51,667
Other receivables	(11)	9,769	8,637
Amount due from a related company		69	16
Cash and cash equivalents	(12)	295,551	280,525
		438,742	386,096
CURRENT LIABILITIES			
Trade payables	(13)	22,070	24,437
Profits tax payable		3,355	3,415
Taxes payable other than profits tax	(14)	10,712	14,347
Other payables and accruals	(15)	128,166	77,629
Bank and other borrowings	(16)	–	4,712
Amount due to a related company		1,444	113
		165,747	124,653
NET CURRENT ASSETS		272,995	261,443
		491,947	469,333
CAPITAL AND RESERVES			
Issued capital	(17)	33,200	32,000
Reserves	(18)	266,088	230,928
Proposed dividend		–	29,880
		299,288	292,808
MINORITY INTERESTS		114,659	129,725
CONVERTIBLE BONDS		78,000	46,800
		491,947	469,333

CONSOLIDATED SUMMARY OF STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June, 2003*

	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
1 January – total equity	292,808	244,539
Exchange differences on translation of the financial statements of foreign entities	13	(168)
Net gains not recognised in the profit and loss account	292,821	244,371
Net profit attributable to shareholders	44,067	34,389
Dividends	(46,480)	(45,000)
Issue of new shares, including share premium	8,880	–
30 June – total equity	299,288	233,760

CONSOLIDATED CASH FLOW STATEMENT*Six months ended 30 June, 2003*

	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000 (restated)
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	81,922	73,854
Adjustment for:		
Interest income	(1,349)	(881)
Interest expenses	865	752
Investment income	(6,791)	–
Depreciation	8,245	5,966
Goodwill amortisation	365	–
Intangible assets amortisation	159	385
Loss on disposal/transfer of fixed assets	200	3,213
Operating profit before working capital changes	83,616	83,289
Increase in inventories	(9,162)	(9,951)
Increase in trade receivables	(27,273)	(30,821)
Increase in other receivables	(1,132)	(17,197)
(Increase)/decrease in amounts due from related companies	(53)	16
(Decrease)/increase in trade payables	(2,367)	5,628
Increase in taxes payables other than profits tax	(3,635)	(12,642)
Increase in other payables and accruals	50,537	20,525
Increase in amount due to related companies	1,331	–
Cash generated from operations	91,862	38,847
PRC profits tax paid, net	(7,293)	(3,506)
Net cash flow from operating activities	84,569	35,341
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,349	881
Dividend received from an unlisted investment	6,791	1,551
Purchases of fixed assets	(19,516)	(35,566)
Purchases of intangible assets	(1,464)	–
Proceeds from disposal of fixed assets	950	–
Net cash outflow from investing activities	(11,890)	(33,134)

	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000 (restated)
CASH FLOW FROM FINANCING ACTIVITIES		
Interest paid	(865)	(752)
Dividend paid to minority shareholders	(46,954)	(28,234)
Dividends paid	(46,480)	(30,000)
Proceeds from issue of share capital	8,880	–
Proceeds from issue of convertible bonds	31,200	–
Increase in minority interests	1,457	–
Repayments to advances from a minority shareholder	(191)	–
New short term bank loans	47,114	28,302
Repayment of bank loans	(51,827)	–
	<hr/> (57,666)	<hr/> (30,684)
Net cash outflow from financing activities		
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	15,013	(28,477)
Cash and cash equivalents at beginning of period	280,525	171,960
Effect of foreign exchange rate changes, net	13	–
	<hr/> 295,551	<hr/> 143,483
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
	<hr/> 295,551	<hr/> 143,483
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	102,650	70,202
Time deposits with original maturity of less than three months when acquired	161,701	73,281
Time deposits with original maturity of less than one year when required	31,200	–
	<hr/> 295,551	<hr/> 143,483
	<hr/> 295,551	<hr/> 143,483

Notes:

(1) Basis of preparation

The Group's financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice ("SSAP") Number 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The principal accounting policies adopted in preparing the consolidated interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 December, 2002 except that the Group has adopted the revised SSAPs which became effective on 1 January, 2003. The adoption of these revised SSAPs has no material effect on the Group's results.

(2) Turnover

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

Segment information

The Group's turnover analysis by principal activities:

	For the three months ended 30 June,		For the six months ended 30 June,	
	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Sales of goods	186,808	172,130	390,460	310,616
Dividend income	6,791	–	6,791	–
Total	<u>193,599</u>	<u>172,130</u>	<u>397,251</u>	<u>310,616</u>

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

(3) Profit from operating activities

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

	For the three months ended 30 June, 2003		For the six months ended 30 June, 2003	
	Unaudited HK\$'000	2002 Unaudited HK\$'000	Unaudited HK\$'000	2002 Unaudited HK\$'000
Cost of inventories sold	32,224	32,833	76,996	59,422
Depreciation	3,971	3,241	9,117	5,966
Amortisation of intangible assets	79	193	159	385
Amortisation of goodwill	182	-	365	-
Minimum lease payments under operating leases:				
Land and buildings	801	1,736	1,615	3,333
Plant and machinery	740	597	1,500	1,232
	<u>1,541</u>	<u>2,333</u>	<u>3,115</u>	<u>4,565</u>
Loss on disposal of fixed assets	199	-	200	-
Research and development costs	8,629	4,256	17,670	7,163
Auditors' remuneration	155	98	290	261
Exchange loss, net	199	-	145	4
Staff costs:				
Wages and salaries	19,734	12,724	51,589	32,322
Pension contributions	1,476	2,367	4,023	4,310
Total	<u>21,210</u>	<u>15,091</u>	<u>55,612</u>	<u>36,632</u>
and after crediting:				
Exchange gains, net	-	34	-	-
Dividend income from an unlisted investment	6,791	-	6,791	-
Interest income	564	453	1,349	881

(4) Finance costs

	For the three months ended 30 June, 2003		For the six months ended 30 June, 2003	
	Unaudited HK\$'000	2002 Unaudited HK\$'000	Unaudited HK\$'000	2002 Unaudited HK\$'000
Interest on bank loans wholly repayable within one year	<u>625</u>	<u>416</u>	<u>865</u>	<u>752</u>

(5) Tax

	For the three months ended 30 June, 2003		For the six months ended 30 June, 2003	
	Unaudited HK\$'000	2002 Unaudited HK\$'000	Unaudited HK\$'000	2002 Unaudited HK\$'000
Hong Kong	-	-	-	-
PRC income tax	<u>3,963</u>	<u>4,076</u>	<u>7,233</u>	<u>6,746</u>
Total	<u>3,963</u>	<u>4,076</u>	<u>7,233</u>	<u>6,746</u>

No Hong Kong profits tax has been provided for in the three months and six months ended 30 June, 2003 as there was no assessable profit arising in or derived from Hong Kong during these periods (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 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 Enterprises" to 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 more years. These Foreign Investment Enterprises are qualified as "Advanced Technology Enterprises", they can extend three more years for 50% tax reduction, and the minimum tax rate should not be lower than 10%.

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

(6) Dividends

The Board of Directors has recommended an interim dividend of HK5 cents per ordinary share. The dividend will be paid on Monday, 15 September, 2003 to shareholders whose names appear on the Register of Members of the Company on Thursday, 4 September, 2003.

The Register of Members of the Company will be closed from Tuesday, 2 September, 2003 to Thursday, 4 September, 2003, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Waichai, Hong Kong by 4:00 p.m. on Monday, 1 September, 2003.

(7) Earnings per share

The calculation of the basic earnings per share is based on net profit attributable to shareholders for the three months and the six months ended 30 June, 2003 of HK\$23,793,000 (2002: HK\$22,235,000) and HK\$44,067,000 (2002: HK\$34,389,000) respectively and the weighted average of 331,469,613 (2002: 300,000,000) ordinary shares in issue during the period.

Diluted earnings per share for the three months and six months ended 30 June, 2003 is based on net profit attributable to shareholders for the three months and six months ended 30 June, 2003 of HK\$23,793,000 (2002: HK\$22,235,000) and HK\$44,067,000 (2002: HK\$34,389,000) and interest of HK\$163,800 (2002: Nil) and HK\$262,080 (2002: Nil) on convertible bonds respectively and 332,005,893 and 331,469,613 ordinary shares which were the weighted average number of ordinary shares in issue during the respective periods plus the weighted average number of 12,679,944 shares (2002: 19,844,465 shares) 11,942,013 shares (2002: 19,793,103 shares) deemed to be issued at average fair value if all outstanding options had been exercised during the respective periods and the weighted average of 27,368,421 ordinary shares (2002: Nil) assumed to have been issued at nil consideration on the deemed exercises of all convertible bonds during the respective periods.

(8) Fixed Assets

	Leasehold Buildings Unaudited HK\$'000	Land use rights Unaudited HK\$'000	Leasehold Improve- ments Unaudited HK\$'000	Plant and Machinery Unaudited HK\$'000	Motor Vehicles Unaudited HK\$'000	Furniture and Fixtures Unaudited HK\$'000	Construction in Progress Unaudited HK\$'000	Total Unaudited HK\$'000
Cost or valuation:								
At beginning of period	57,420	3,566	15,937	96,446	11,340	21,533	22,239	228,481
Additions	1,163	44	623	3,151	3,156	1,263	10,116	19,516
Disposals	(196)	-	-	(538)	-	(415)	-	(1,149)
Transfers in/(out)	6,488	-	6,529	2,564	-	633	(16,214)	-
At 30 June, 2003	64,875	3,610	23,089	101,623	14,496	23,014	16,141	246,848
Analysis of cost or valuation:								
At cost	32,475	3,610	23,089	101,623	14,496	23,014	16,141	214,448
At valuation	32,400	-	-	-	-	-	-	32,400
	64,875	3,610	23,089	101,623	14,496	23,014	16,141	246,848
Accumulated depreciation:								
At beginning of period	4,500	-	8,973	28,745	5,204	7,766	-	55,188
Provided during the period	1,702	46	477	4,450	883	1,559	-	9,117
Disposals	(114)	-	-	(432)	-	(328)	-	(874)
At 30 June, 2003	6,088	46	9,450	32,763	6,087	8,997	-	63,431
Net book value:								
At 30 June, 2003	58,787	3,564	13,639	68,860	8,409	14,017	16,141	183,417
At 1 January, 2003	52,920	3,566	6,964	67,701	6,136	13,767	22,239	173,293

(9) Inventories

	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
Raw materials	15,716	19,022
Work in progress	9,412	6,909
Finished goods	27,850	17,389
Spare parts and consumables	1,435	1,931
	54,413	45,251

No inventories were carried at net realisable value at the balance sheet dates.

(10) Trade receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
Current to 90 days	74,387	49,430
91 days to 180 days	1,602	1,985
Over 180 days	2,951	252
	<u>78,940</u>	<u>51,667</u>

(11) Other receivables

	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
Advances to suppliers	518	3,265
Other receivables	4,141	4,638
Prepaid expenses	5,110	734
	<u>9,769</u>	<u>8,637</u>

(12) Cash and cash equivalents

	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
Cash and bank balances	102,650	141,983
Time deposits	192,901	138,542
	<u>295,551</u>	<u>280,525</u>

(13) Trade payables

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is as follows:

	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
Current to 90 days	20,407	22,721
91 days to 180 days	246	1,073
Over 180 days	1,417	643
	<u>22,070</u>	<u>24,437</u>

(14) Taxes payable other than profits tax	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
Value added tax	7,290	11,166
Individual income tax	3,231	2,859
Property tax	187	322
Stamp duties	4	–
	<u>10,712</u>	<u>14,347</u>
(15) Other payables and accruals		
	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
Advances from customers	108	726
Accrued payroll	3,777	11,686
Other payables	62,430	18,588
Accrued expenses	33,519	26,757
Housing fund	2,399	2,973
Staff welfare and bonus fund	9,333	16,899
Interim dividend payable to minority interests	16,600	–
	<u>128,166</u>	<u>77,629</u>
(16) Bank and other borrowings		
	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
Interest-bearing bank loans repayable within one year:		
– secured	–	–
– unsecured	–	4,712
	<u>–</u>	<u>4,712</u>
(17) Share capital		
	30 June, 2003 Unaudited HK\$'000	31 December, 2002 Audited HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.1 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
332,000,000 ordinary shares of HK\$0.1 each (2002: 320,000,000 ordinary shares of HK\$0.1 each)	<u>33,200</u>	<u>32,000</u>

(18) Reserves

During the period, the Group's reserves had the following movements:

- (i) Transfer of HK\$16,359,000 (2002: HK\$9,089,000) from retained earnings to statutory reserve funds; and
- (ii) On 8 January, 2003, an aggregate of 12,000,000 share options of HK\$0.1 each has been exercised at HK\$0.74, the proceeds before expenses amounted to HK\$8,880,000 and the share premium account was increased by HK\$7,680,000.

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

As at 30 June, 2003, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings by directors as referred to Rule 5.40 the GEM Listing Rules, were as follows:

Long position in shares

Name of director	Capacity/Nature of Interest		Total number of shares in the Company	Approximate percentage of issued share capital of the Company
	Beneficial owner	Interest of controlled corporations		
Mr. Tse Ping	3,000,000	231,120,000 (Note 1)	234,120,000	70.52%
Mr. Wang Jinyu	–	8,880,000 (Note 2)	8,880,000	2.67%
Mr. Tao Huiqi	400,000	–	400,000	0.12%

Notes:

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

Long position in underlying shares

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 19 September, 2000, certain Directors, being Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu, were granted options on 2 January, 2001 to subscribe for 7,500,000 shares, 1,000,000 shares and 1,000,000 shares of the Company, respectively, at a subscription price of HK\$0.74 per share exercisable during the period from 3 January, 2003 to 1 January, 2007 (both days inclusive). On 8 January, 2003, Mr. Tse Ping, Mr. Tao Huiqi and Mr.

Wang Jinyu exercised part of their respective share options and subscribed 3,000,000 shares, 400,000 shares and 400,000 shares of the Company, respectively. As at 30 June, 2003, 4,500,000 shares, 600,000 shares and 600,000 shares remained issuable upon the exercise in full of all the respective share options of Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu granted under the Scheme which were yet to be exercised.

Save as disclosed above, as at 30 June, 2003, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings by directors as referred to Rule 5.40 the GEM Listing Rules.

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

As at 30 June, 2003, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have, interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long position in shares

Name of shareholder	Capacity/Nature of Interest	Number of shares of the Company	Approximate percentage of issued share capital
Conspicuous Group Limited	Beneficial owner	108,000,000 (Note)	32.53%
Remarkable Industries Limited	Beneficial owner	57,317,760 (Note)	17.26%
Validated Profits Limited	Beneficial owner	65,802,240 (Note)	19.82%

Note: Each of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited is an investment holding company wholly owned by Mr. Tse Ping who is a Director.

Long position in underlying shares under equity derivatives

Name of shareholder	Capacity/Nature of Interest	Number of underlying shares of the Company	Approximate percentage of issued share capital
Jian Kang Ltd.	Beneficial owner	27,368,421	8.24%
Aria Investment Partners, L.P.	Interest of a controlled corporation	27,368,421 (Note 1)	8.24%
CLSA Private Equity Management Limited	Investment manager	27,368,421 (Note 2)	8.24%

Name of shareholder	Capacity/Nature of Interest	Number of underlying shares of the Company	Approximate percentage of issued share capital
CLSA (S.E.A.) Limited	Interest of a controlled corporation	27,368,421 (Note 3)	8.24%
Credit Lyonnais Securities Asia BV	Interest of a controlled corporation	27,368,421 (Note 4)	8.24%
Credit Lyonnais Capital Markets Asia BV	Interest of a controlled corporation	27,368,421 (Note 5)	8.24%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation	27,368,421 (Note 6)	8.24%
Credit Lyonnais S.A.	Interest of a controlled corporation	27,368,421 (Note 7)	8.24%

Notes:

1. Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Jian Kang Ltd. and is deemed or taken to be interested in the 27,368,421 underlying shares in which Jian Kang Ltd. has declared an interest for the purpose of the SFO.
2. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P.
3. CLSA (S.E.A.) Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
4. Credit Lyonnais Securities Asia BV is indirectly interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
5. Credit Lyonnais Capital Markets Asia BV is beneficially interested in 65% of the share capital of Credit Lyonnais Securities Asia BV and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 4 above.
6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets Asia BV and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4 and 5 above.
7. Credit Lyonnais S.A. is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 27,368,421 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 4, 5 and 6 above.

Save as disclosed above, as at 30 June, 2003, none of the Directors knows of any person (not being a Director or chief executive of the Company) who had an interest or short position in shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

SHARE OPTION SCHEME

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

Outstanding share options

As at 30 June, 2003, options to subscribe for an aggregate of 18,000,000 shares (which include the options granted to Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu, as disclosed above) of the Company granted pursuant to the Scheme were outstanding. Details are as follows:

Number of share options	Number of employees	Subscription price per share <i>HK\$</i>	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.

COMPETING INTERESTS

As at 30 June, 2003 and as disclosed in the prospectus issued by the Company on 22 September, 2000, Mr. Tse Ping owned controlling interests or investment interests in Xian C.P. Pharmaceutical Co., Ltd. ("CT Xian"), Ankaung Chia Tai Pharmaceutical Co., Ltd. ("CT Ankaung"), 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 Ankaung is principally engaged in the production and distribution of medicine reducing blood-fat level, gynaecomastia medicines, medicines for treating cardiovascular disease and other chemical medicines. CT Ankaung acquired a PRC pharmaceutical company which has one product for the treatment of cardiovascular namely, Puerarin Injections which may compete with an existing product namely, Spring (Puerarin glucose Injections) produced by the Group. 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.

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) or Mr. Tse Ping's Companies 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.

The Group's unaudited interim report for the six months ended 30 June, 2003 has been reviewed by the Committee, which was of the opinion that the preparation of the results complied with the applicable accounting standards and adequate disclosures have been made.

BOARD PRACTICES AND PROCEDURES

During the period, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the period from 1 January, 2003 to 30 June, 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

Hong Kong, 8 August, 2003