



維奧生物科技控股有限公司
Vital BioTech Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report 2001



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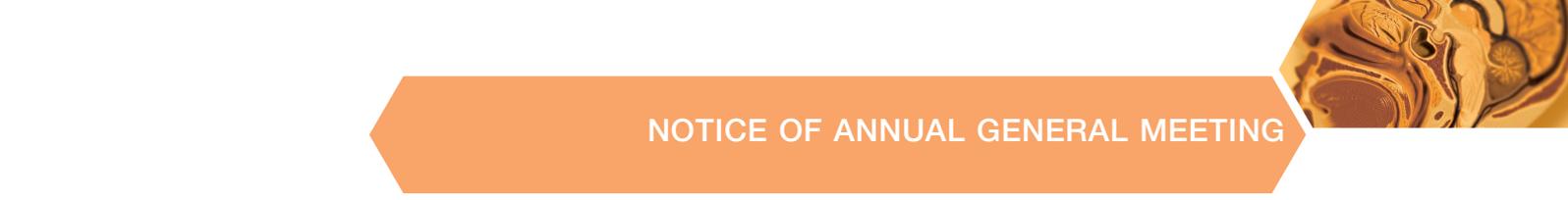
This annual report, for which the directors (the "Director") of Vital BioTech Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief: (1) the information contained in annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in annual report misleading; and (3) all opinions expressed in annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE PROFILE

Vital BioTech Holdings Limited (“Vital BioTech” or the “Company”) specialises in downstream value-added biotechnology processing systems. Led by a team of professional scientists, the Australian research and development centre has developed two proprietary platform technologies, namely Protein Stabilisation and Delivery for biotechnology therapeutic drugs and Skin Drug Delivery System technologies for chemical drugs. By commercialising the two platform technologies, Vital BioTech improves, produces and distributes Opin, which is an interferon-based gynecological drug; and Spray-On Bandage, which is a first aid product that provides both physical protection and disinfection functions; Osteoform, which is an advanced biological calcium supplement drug for the treatment and prevention of disease caused by calcium deficiency. These products are distributed in the PRC through its strong and dedicated professional marketing team. The Company was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 7th February, 2002.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Vital BioTech Holdings Limited (the “Company”) will be held at Chater Room III & IV, Basement 1, The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong, at 10:00 a.m. on 22nd April, 2002 for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and the auditors for the year ended 31st December, 2001.
2. To re-elect directors and to authorise the board of directors to fix their remuneration.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider, and if thought fit, pass the following resolutions as ordinary resolutions:

A. **“THAT:**

- (a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to a Rights Issue or the exercise of the subscription rights under the share option scheme of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.



Notice of Annual General Meeting

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the law of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

B. **“THAT:**

- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval be limited accordingly; and
- (c) for the purposes of this resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

- C. **“THAT** conditional upon resolution no. 4B above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in resolution no. 4B above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to resolution no. 4A above.”

By Order of the Board
KO Sai Ying, Thomas
Chairman

Hong Kong, 22nd March, 2002

Principal Office:
Rooms 1001–1002
Kwai Hung Holdings Centre
89 King’s Road
North Point
Hong Kong



Notice of Annual General Meeting

Notes:

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company's principal office in Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (2) The Register of Members of the Company will be closed from 15th April, 2002 to 19th April, 2002, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the forthcoming Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Central Registration Hong Kong Limited of Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 12th April, 2002.



FINANCIAL HIGHLIGHTS

PROFORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Year ended 31st December,		
	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000
Turnover	122,825	64,128	22,875
Operating profit	42,009	17,133	3,379
Finance costs	(2,910)	(1,836)	(2,233)
Profit before taxation	39,099	15,297	1,146
Taxation	(60)	(15)	—
Profit after taxation	39,039	15,282	1,146
Minority interests	(914)	(743)	(545)
Profit attributable to shareholders	38,125	14,539	601
Dividend	—	—	—

PROFORMA CONSOLIDATED ASSETS AND LIABILITIES

	As at 31st December,	
	2001	2000
	HK\$'000	HK\$'000
Non-current assets	45,260	23,137
Current assets	69,866	54,643
Current liabilities	(46,089)	(60,095)
Non-current liabilities	(12,613)	—
Minority interests	(2,430)	(1,935)
Shareholders' funds	53,994	15,750

Notes:

- (1) The Company was incorporated in the Cayman Islands on 30th May, 2001 and became the holding company of the companies now comprising the group (the "New Group") formed on 26th January, 2002 as a result of the group reorganisation.
- (2) The proforma consolidated results of the New Group, which is presented for information only, have been prepared on the basis that the structure and business activities of the New Group immediately after the completion of the group reorganisation had been in existence throughout the three years ended 31st December, 2001.
- (3) The proforma consolidated results for the year ended 31st December, 2001 have been extracted from the proforma consolidated profit and loss account as set out on page 47 of the proforma accounts.
- (4) The proforma consolidated results of the New Group for each of the two years ended 31st December, 2000 and 1999 presented above have been extracted from the Company's prospectus dated 30th January, 2002 when the listing of the Company's shares was sought on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
- (5) The proforma consolidated assets and liabilities of the New Group as at 31st December, 2001 and 2000 presented above have been prepared as if the group reorganisation had been completed on 1st January, 2000 and are set out on pages 48 to 49 of the proforma accounts.

DIRECTORS

Executive Directors

KO Sai Ying, Thomas (*Chairman*)
AU YEUNG Ping Yuen, Terence
LIU Jin, James
TAO Lung

Independent Non-executive Directors

LO Wa Kei
LEE Kwong Yiu

COMPANY SECRETARY

AU YEUNG Kwong Wah AHKSA, CPA(Aust.)

AUDIT COMMITTEE

LO Wa Kei (*Chairman*)
LEE Kwong Yiu

QUALIFIED ACCOUNTANT

AU YEUNG Kwong Wah AHKSA, CPA(Aust.)

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1001–1002
Kwai Hung Holdings Centre
89 King's Road
North Point
Hong Kong

COMPANY WEBSITE

www.vitalbiotech.com

COMPLIANCE OFFICER

AU YEUNG Ping Yuen, Terence

AUTHORISED REPRESENTATIVES

TAO Lung
KO Sai Ying, Thomas

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation
Limited
Main Branch
1 Queen's Road Central
Hong Kong

and

Mongkok Branch
2nd Floor, 673 Nathan Road
Mongkok, Kowloon
Hong Kong

HSBC Bank Australia Limited
Box Hill Branch
23 Carrington Road
Box Hill
Melbourne
VIC 3128
Australia

The Agriculture Bank of China
Wuhan Wuchang Sub-branch
247 Zi Yang Road
Wuhan, Hubei
The People's Republic of China

The Industrial and Commercial Bank of China
Chengdu Branch, Caoshi Sub-branch
64 Caoshi Street, Chengdu, Sichuan
The People's Republic of China

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

**LEGAL ADVISERS ON
HONG KONG LAW**

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Central
Hong Kong

**LEGAL ADVISERS ON THE
CAYMAN ISLANDS LAW**

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

LEGAL ADVISERS ON PRC LAW

Shu Jin & Co.
21st Floor, Dongfeng Building
Shennan Road Central
Shenzhen
The People's Republic of China

**CAYMAN ISLANDS PRINCIPAL SHARE
REGISTRAR AND TRANSFER OFFICE**

Bank of Bermuda (Cayman) Limited
36C Bermuda House
3rd Floor
P.O. Box 513 G.T.
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

**HONG KONG BRANCH SHARE AND
REGISTRAR AND TRANSFER OFFICE**

Central Registration Hong Kong Limited
Rooms 1901-5, 19th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

SPONSOR

Core Pacific - Yamaichi Capital Limited
30th Floor
Two Pacific Place
88 Queensway
Hong Kong



KO Sai Ying, Thomas
Chairman

On behalf of the Board of Directors (the “Board”), I am pleased to present to our shareholders the first annual report of Vital BioTech Holdings Limited (“Vital BioTech” or the “Company”) and its subsidiaries formed upon the completion of the group reorganisation on 26th January, 2002 (collectively the “New Group”) for the year ended 31st December, 2001.

RESULTS

In 2001, the New Group had achieved and exceeded the objectives of the year, sales of the New Group’s main products was buoyant resulting a significant improvement of the New Group’s turnover and profit attributable to shareholders. Turnover for the year ended 31st December, 2001 amounted to approximately HK\$122,825,000, representing an increase of 92% as compared with that for the previous year. Profit attributable to shareholders of the New Group amounted to approximately HK\$38,125,000 representing an increase of approximately 162%.

DIVIDEND

In order to reserve additional financial resources for future developments of the New Group, the Board has resolved not to recommend the payment of a final dividend for the year ended 31st December, 2001 (2000: HK\$Nil).

BUSINESS AND OPERATION REVIEW

The success of a company is largely related to the prosperity of the economy, the markets that it serves and its ability to produce premier products. Nowhere is this principle hold truer than for Vital BioTech. Year 2001 was a milestone for the New Group, not only because of the listing of the Company’s shares on GEM in February 2002 but also the ability to attain several important achievements which further strengthen the New Group’s international standing as a world-class research and development based biotechnology group in the pharmaceutical industry.

Products

Opin

Opin, an interferon-based drug for the treatment of chronic erosive cervicitis, is one of our commercial success of our Protein Stabilisation Delivery (“PSD”) technology. During the year under review, its turnover reached approximately HK\$38,442,000, 31% higher than that for the year ended 31st December, 2000.



When compared to the conventional methods for treating chronic erosive cervicitis, Opin offers a more distinct non-invasive features and functions. This enables it to capture a larger market share. Currently, as an interferon based gynecological medication, Opin has been monopolising the market of such product in the People's Republic of China (the "PRC") with almost 100% market share. Opin commands an approximately 5% market share when taking into account of other products which contain active ingredients other than interferon and which are for the treatment of erosive cervicitis.

The New Group has applied for a new indication for Opin as a "Class 5 new drug" for the treatment of genital herpes. Final phase of relevant clinical trials is on schedule, and Opin with new indication will be ready for the market by mid to late 2002. Given the large female population in the PRC, the New Group is confident that the sale of Opin will be more encouraging in the years to come.

Osteoform

Osteoform is a new generation of health supplement of biological calcium, trace minerals, vitamin D3 and vitamin C. It is formulated for the prevention and treatment of diseases caused by calcium deficiency. Osteoform has been approved by and registered with the State Drug Administration of the PRC (the "SDA") as an over-the-counter ("OTC") drug.

Osteoform will not only continue to serve as the foundation for establishing and developing the New Group's OTC product distribution network in the PRC, but also, provide a steady revenue stream to fund the New Group's future research and development.

The New Group holds an exclusive right to process and distribute this technologically more advanced calcium supplement product in the Asian market for a term of 20 years. Osteoform has captured an approximately 4% share of the market of rare elements, minerals, and other nutrients in dollar terms in the PRC. Turnover of Osteoform for the year ended 31st December, 2001 was approximately HK\$80,841,000, representing a substantial increase of approximately 151% as compared to last year. According to an investigation conducted in 1998, Chinese population has an average calcium level intake of 50% less than the recommended daily dose. With a population of approximately 1.3 billion, the market for calcium supplement in the PRC is immense.

During the year ended 31st December, 2001, total sales of Opin and Osteoform accounted for approximately 97% of the total turnover of the New Group. The Board believes that these two products will continue to contribute substantially to the New Group's profit and turnover in future.

Spray-On Bandage

The Spray-On Bandage was developed from the New Group's unique Skin Drug Delivery System ("SDDS") technology. This product is in liquid spray form. When the spray is applied to a wound, it forms a temporary skin membrane that contains antiseptics.

The Spray-On Bandage has been registered with the Australia TGA since April 1999. Registration in the PRC had just been approved by the SDA in February 2002. The New Group plans to allocate more resources to promote this product in the PRC which has an annual bandage market of approximately RMB100 million.

Apart from the Spray-On Bandage, more products such as anti-fungal, anti-inflammatory spray, can be developed through utilising the SDDS technology.

Proprietary Platform Technologies

PSD and SDDS Technologies

Traditionally, protein stability and protein drug delivery are two major obstacles which have made the commercialisation of biological products unviable or limited their market potential. The New Group's PSD technology utilises a micro bio-encapsulation process to achieve room temperature stabilisation and mucosal delivery of biological proteins. The encapsulated products can now be administered in a more convenient dose forms such as oral, mucosal, vaginal and nasal. This technical breakthrough allows the New Group tapping of new market by enhancing existing biotechnology based pharmaceutical products.

The polymer based SDDS technology is a convenient way to deliver drugs through topical application onto an intact skin surface. This technology is most effective for chemical pharmaceuticals. The system is based on sophisticated polymer membrane technology. The most significant feature of products developed from the SDDS technology is that it can deliver drug through the polymer membrane in a handy spray form. This system is highly convenient and user-friendly. There are no tablets or capsules to swallow, or injection given.

The New Group believes that the PSD and the polymer based SDDS technologies have high commercial value and potential.



PROSPECTS

Leveraging on its strength in research and development and its commitment to increase its bottom line, Vital BioTech will utilise its greatest endeavor to increase shareholders' value and to consistently achieve solid results in the years ahead.

Looking ahead, with the improvement in living standard, longer life expectancy, rapid advancement in biotechnology and the availability of data from the Human Genome Programme, the demand for effective and affordable biopharmaceutical and conventional pharmaceutical products worldwide will continue to grow. The New Group will continue to capitalise on its strength in research and development to cater for this increase in demand for quality medication. Resources will be allocated for the development of new medicinal products and the enhancement of existing products with the initial focus on expanding the current OTC market and prescription drug market for its flagship products.

The PRC will remain as Vital BioTech's primary market, as it has always been over the past years. As the New Group continues to build its success story in the PRC, the New Group will explore new business opportunities and expand its distribution network in selected countries in the Asia Pacific and Europe. Initial marketing work has been commenced in Thailand, Taiwan, Singapore, Korea, the Philippines and Russia. Local agents will be appointed in these countries to tap the potential for the New Group's biopharmaceutical products.

The PRC's entry into World Trade Organisation will inspire the opening up of this huge potential market. Deep rooted in the PRC and the ability to expedite product development cycle, Vital BioTech is well poised to seize the opportunities to partner with leading global pharmaceutical companies with the intention of entering the PRC market.

A FINAL WORD OF THANKS

Finally, I would like to take this opportunity to extend my thanks to my fellow directors and staff for their loyalty and dedication to the New Group and to our shareholders for their support which make the listing of the New Group's a success. All your continued support is, and will always remain, the key ingredient for our growth and profitability.

KO Sai Ying, Thomas

Chairman

Hong Kong, 22nd March, 2002

TECHNOLOGY AND MARKETING ALLIANCE

The New Group is actively seeking opportunities to commercialise the two platform technologies, both in the PRC and the international market. Initial success of the New Group's marketing effort to expand its future income and revenue sources is evidenced by the New Group's entering into its first technology cooperative agreement with Jiangsu Hengrui Pharmaceutical Company Limited (江蘇恒瑞醫藥股份有限公司) ("Jiangsu Hengrui") in November 2001. Jiangsu Hengrui, a Shanghai listed company established in the PRC, is the largest anti-cancer drug researcher, manufacturer and distributor with sole production rights of three anti-cancer drugs in the PRC. Under the agreement, Vital BioTech and Jiangsu Hengrui will develop a value added anti-cancer drug with improved target delivery and minimal side effects for cancer patients. This alliance not only marks the cooperation between the two companies but also the milestone to the New Group to commercialise its proprietary drug delivery system technologies.

The agreement has brought to the New Group licence fee income of approximately HK\$2.83 million for the year ended 31st December, 2001.

The New Group will continue to seek cooperative partnerships and strategic alliances both domestically and internationally to accelerate the commercialisation of the New Group's platform technologies. Both technologies are in the process of going through international patent approval.

PRODUCTION FACILITIES

The New Group has a new production centre located at Chengdu City, Sichuan Province, the PRC ("Chengdu"). It obtained the Good Manufacturing Practice ("GMP") certification in December 2001. Full-scale production will commence during the first quarter of 2002. GMP certification is an official acknowledgement of the New Group's quality management in pharmaceutical production. It is believed that the compliance with the GMP standards of the New Group's production facilities will foster the customers' confidence towards the New Group's products. The packaging process of Osteoform is currently sub-contracted to a third party manufacturer. Following the completion of the construction of the New Group's production facilities in Chengdu, packaging of Osteoform will gradually be shifted back to the New Group itself. This change in business operation is expected to lead to a lower production cost and a better control over the supply pattern in the coming years.

SALES AND MARKETING

The establishment of an extensive and efficient distribution network is crucial to the successful commercialisation of pharmaceutical products. It is also important for a pharmaceutical company to maintain a strong revenue generating capability. The New Group has developed an extensive sales and marketing network to ensure the speedy distribution of its products. The number of marketing and liaison offices were increased from 5 at the end of 2000 to 22 at the end of 2001. This number is expected to grow to 39 shortly. These marketing and liaison offices will not only promote the New Group's products, but also provide after-sales services, improve customer acceptance, strengthen brand image, and increase the New Group's awareness in the pharmaceutical industry and market in the PRC. Currently, the New Group employs over 200 staff in its sales and marketing team. Members of the team pay regular visit to customers including distributors, hospitals, clinics and drug stores across the country to obtain feedbacks and follow up sales orders.

As the packaging process of Osteoform will be gradually shifted back to the New Group's production centre in Chengdu, thus enabling the New Group taking charge of its own distribution of Osteoform in the PRC. This will undoubtedly improve the efficiency of the New Group's distribution network and eventually enhance the corporate image of the New Group.

RESEARCH AND DEVELOPMENT

The New Group's research and development ("R&D") centre is situated in Melbourne, the State of Victoria, Australia. The New Group also proposed to construct another GLP standard R&D centre in Chengdu, and this new centre will be responsible for the later stage of product development and management of clinical trials for the New Group's new products. The Melbourne R&D centre will mainly be responsible for new product concept and new technology development work.

Currently, six products are under development. "Depile", which has an indication for the relief of symptoms of hemorrhoid, is undergoing the final stage of clinical trial in the PRC. It is expected that this product will be available for sale in the PRC market in mid to late 2002.

"Iron Orotate", is an iron supplement for chronic anemia. The active ingredient is chelated iron undergoing the stage of protocol preparation. It is expected to be launched in 2003.

"Interferon nasal spray", has an proposed indication for the relief of upper respiratory tract viral infections e.g. flu and cold. The New Group, is preparing for clinical trials and is expected to be launched in late 2003.

"Receptase", is an oral medicaton for farm animals, with enzyme as the active ingredient, is preparing for field trials. It is expected to be launched in late 2003.

"Probiotic", is an ingestable live beneficial bacteria product for healthy bowels with probiotic bacteria are the active ingredients. The product is undergoing stability testing and is expected to be launched in 2003-4.

"EPO", is tablets have an indication for increasing red blood cell count in chronic subclinical anemia. The product is undergoing animal testing and stability study. It is expected to be launched in 2004.

The R&D function of the New Group has laid down a solid foundation for the New Group's success in the past. The New Group will continue to commit substantial resources to strengthen the New Group's R&D capacity for the benefit of the well being of human kind.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2001, the New Group had outstanding borrowings of approximately HK\$42.2 million (2000: HK\$26.9 million), comprising long-term bank loans of approximately HK\$14.3 million (2000: HK\$Nil), short-term bank loans of approximately HK\$18.6 million (2000: HK\$17.3 million), other loans of approximately HK\$4.8 million (2000: HK\$6.0 million), trust receipt loans of approximately HK\$2.4 million (2000: HK\$3.6 million), bank overdrafts of approximately HK\$1.8 million (2000: HK\$Nil) and obligations under finance leases of approximately HK\$0.3 million (2000: HK\$Nil).

Long-term bank loans were secured by certain fixed assets of a subsidiary of the New Group.

Short-term bank loans of approximately HK\$12.6 million (2000: HK\$12.6 million) and approximately HK\$3.4 million (2000: HK\$Nil) were secured by properties of a related party and certain bank deposits of a subsidiary respectively. Short-term bank loans of approximately HK\$2.6 million (2000: HK\$2.8 million) were guaranteed by a related party. Other loan of approximately HK\$2.8 million (2000: HK\$2.8 million) was secured by the properties of a related party.

As at the date of this report, the relevant bank and lender had released the above guarantees and securities provided by the related party in exchange for corporate guarantees provided by the Company or a subsidiary.

The gearing ratio (total debts over equity) of the New Group as at 31st December, 2001 was 78.1% (2000: 170.4%).

Pursuant to the written resolutions of the shareholders of the Company dated 26th January, 2002, a share option scheme was approved and adopted.

The summary of the terms of the share option scheme has been set out in the prospectus in connection with the placing of the Company's shares dated 30th January, 2002.

MATERIAL ACQUISITIONS/DISPOSALS

The New Group had no material acquisitions/disposals for the year ended 31st December, 2001.

SEGMENTAL INFORMATION

All the New Group's revenues, expenses, results, assets and liabilities are primarily attributable to the trading and manufacturing of pharmaceutical products.

The New Group's principal market is China mainland.

EMPLOYEE INFORMATION

As at 31st December, 2001, the New Group had 436 employees, comprising 35 in research and development, 128 in production, 212 in sales and distribution, and 61 in general administration and finance. 421 of these employees were located in China mainland, 8 in Australia and 7 in Hong Kong.

None of the New Group's employees is represented by a labour union or is subject to a collective bargaining agreement, nor has the New Group experienced any work disruption during the year ended 31st December, 2001. The Directors believe its relationship with the employees is good.

CHARGES ON NEW GROUP'S ASSETS

As at 31st December, 2001, the New Group's fixed assets with an aggregate net book value of approximately HK\$31,277,000 (2000: HK\$Nil), were pledged as securities for the banking facilities granted to the New Group.

Bank deposits totalling approximately HK\$7,935,000 (2000: HK\$334,000) as at 31st December, 2001 have been pledged to certain short-term bank loans and trust receipt loans of the New Group.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed in the section "Statement of Business Objectives" of the prospectus issued by the Company on 30th January, 2002, the Directors do not have any future plans for material investment or capital assets.

FOREIGN EXCHANGE EXPOSURE

The New Group earns revenue and incurs costs and expenses mainly in RMB, HK\$, US\$ and AUD. The Company's accounts are stated in Hong Kong dollars and the payments of dividend (if any) are also in Hong Kong dollars. Taking into account the New Group's operational and capital requirements and the balanced portfolio of assets and liabilities denominated in the aforesaid currencies, the Directors do not consider the New Group will be subject to exchange rate risks in the event of the devaluation of RMB or fluctuation of the exchange rate of AUD. Moreover, the Directors believe that the Company has sufficient foreign exchange to meet its foreign currency liabilities when they become due.

CONTINGENT LIABILITIES

As at 31st December, 2001, the New Group did not have any significant contingent liabilities.

EXECUTIVE DIRECTORS

Mr. Ko Sai Ying, Thomas (高世英), aged 56, is the Chairman, an executive Director and a founder of the New Group. Mr. Ko is responsible for the overall strategic planning and business development of the New Group. Mr. Ko holds a bachelor's degree in pharmacy from the Victorian Institute of Colleges in Melbourne, the State of Victoria, Australia in 1968. In 1971, Mr. Ko established Vitapharm Pharmaceutical Pty. Ltd. in Melbourne. The company specialised in the research and development, production and distribution of a range of human and veterinary pharmaceutical products. Mr. Ko was the managing director of the company and was in charge of the research and development activities. The company was voluntarily liquidated in July 2001 owing to the possible conflict of interests with the New Group. His special interest is in drug delivery system and immunology. Mr. Ko is currently a member of Pharmaceutical Society of Australia and International Society of Interferon and Cytokine Research.

Under the leadership of Mr. Ko, the New Group's research and development team developed, among other products, an enteric immunity stimulant product based on enzymes for prevention and treatment of diarrhea in human beings and animals.

In 1992 Mr. Ko completed the development of the first generation interferon based anti-viral oral drug with the indication of alleviating the symptoms of viral hepatitis.

Mr. Au Yeung Ping Yuen, Terence (歐陽炳源), aged 49, is an executive Director and a founder of the New Group. Mr. Au Yeung is responsible for overseeing the implementation of the corporate strategy on research and development and the production of the New Group. Mr. Au Yeung obtained a bachelor's degree in Applied Science from Swinburne Institute of Technology in Melbourne, the State of Victoria, Australia. During the late 1970s, Mr. Au Yeung was a member of the technical staff of the Department of Pathology at the University of Hong Kong. In the early 1980s, he was the factory manager of Vitapharm Pharmaceutical Pty. Ltd. Since then, he has been involved as a technical consultant to various businesses covering the areas of food processing, printing and engineering. Mr. Au Yeung has accumulated over twenty years of business management experience.

Mr. Liu Jin, James (劉津), aged 39, is an executive Director and a founder of the New Group. Mr. Liu is responsible for the overall strategic planning on sales and marketing of the New Group. Mr. Liu holds a bachelor's degree in mechanical engineering from Chemistry Institute of Shandong in the PRC (中國山東化工學院). Mr. Liu has years of experience in production and sales of medical products. In early 1990s, he set up Shandong North-Marigold Medical Co., Ltd., one of the largest and most advanced medical product manufacturing plants in the PRC. Mr. Liu was the deputy chairman of the company and was responsible for overseeing the overall operations.

Mr. Tao Lung (陶龍), aged 45, is an executive Director and a founder of the New Group. Mr. Tao is responsible for overseeing the administration and finance functions of the New Group. Graduated from Chengdu Chinese Medicine Institute of the PRC (中國成都中醫學院) in 1983 with a bachelor's degree in Chinese medicine, Mr. Tao also obtained a Master's degree in Chinese medicine from Chengdu Chinese Medical University in 1989. After graduation, Mr. Tao was engaged as a doctor in an affiliated hospital of Chengdu Chinese Medical University, and a medical representative and a consultant of various companies in Hong Kong. Mr. Tao was an instructor of the Chinese Medicine Course of Baptist University and is a committee member of the Hong Kong Chinese Medical Society (香港中醫學會).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Kwong Yiu (李廣耀), aged 39, is an independent non-executive Director of the New Group. Mr. Lee has been a practicing solicitor in Hong Kong since 1994. Mr. Lee holds professional qualification as a solicitor of the High Court of Hong Kong and an associate of the Chartered Institute of Arbitrators. Mr. Lee is also a member of the advisory

committee to Caritas Lok Heep Club. Mr. Lee is the company secretary of Gay Giano International Group Limited and Millennium Sense Holdings Limited, and an independent non-executive director of Sun Hing Vision Group Holdings Limited. Mr. Lee was appointed as an independent non-executive Director of the New Group in January 2002.

Mr. Lo Wa Kei (盧華基), aged 30, is an independent non-executive Director of the New Group. Mr. Lo has eight years of experience in accounting and finance field. He is a practicing certified public accountant in Hong Kong. He is also a member of the Hong Kong Society of Accountants, a member of the Chartered Association of Certified Accountants and a member of the Hong Kong Securities Institute. Mr. Lo is also an independent non-executive director of Sun Hing Vision Group Holdings Limited. Mr. Lo was appointed as an independent non-executive Director of the New Group in January 2002.

SENIOR MANAGEMENT

Mr. Huang Jian Ming (黃建明), aged 38, is a general manager overseeing the New Group's business development in the PRC. He graduated from Sichuan Luzhou Chemical Engineering Institute in 1981. Mr. Huang was employed as a management staff of Sichuan Chengdu Fourth Pharmaceutical Plant (四川省成都市第四製藥廠) for eleven years since 1982 and participated in the planning of the construction of Hainan Huapu Pharmaceutical Factory (海南華埔製藥廠). Mr. Huang has accumulated over 15 years of management experience in the pharmaceutical industry. Mr. Huang joined the New Group since its establishment in April 1998. He is currently the legal representative of Wuhan Tianao Pharmaceuticals Co., Ltd. ("Tianao").

Mr. Au Yeung Kwong Wah (歐陽廣華), aged 37, is the financial controller and the company secretary of the Company. He joined the New Group in September 2001 and is responsible for overseeing the financial and the company secretarial functions of the Company. He has obtained a bachelor's degree in commerce from the Bond University in Australia and a master's degree in accountancy from the Chinese University of Hong Kong. Mr. Au Yeung is a member of the Australian Society of Certified Public Accountants and an associate member of the Hong Kong Society of Accountants.

Ms. Guo Lin (郭琳), aged 38, is the manager of the New Group's Investment Department and is responsible for its overall investment strategy of the New Group. She obtained a bachelor's degree in Economics from Hunan Finance and Economics Institute (湖南財經學院) in 1984 and a master's degree from Zhongnan Industrial University (中南工業大學) in 1993. Ms. Guo had been a lecturer in Hunan Finance and Economics Institute and Zhongnan Industrial University. She also worked as a manager of the investment banking division of Shenzhen Junshan Investment Limited (深圳市軍山投資有限公司) for over 3 years. Ms. Guo joined the New Group in June 2001.

Mr. Shen Song Qing (沈松青), aged 41, is the marketing manager in China mainland. He graduated from Chengdu Chinese Medicine Institute of the PRC (中國成都市中藥廠) in 1983. He has experience of sales and marketing of drugs for more than 18 years, including working as the sales director of China Chengdu Chinese Pharmaceutical Factory (中國成都中醫學院) and joined the New Group since its establishment in April 1998.

Mr. Jin Wei (金韋), aged 29, is the New Group's administration manager and is responsible for the general administrative functions of the New Group. He graduated from Nantong Industrial College (南通工業學院) in 1994. He has over 4 years of working experience in export trading business. Mr. Jin joined the New Group in May 1998.

Mr. So Wai Chiu, Tony (蘇偉超), aged 64, is the research and development director of Vitapharm Research Pty Ltd ("Vitapharm Research"). Mr. So holds a bachelor's degree of Pharmacy from Monash University. Before joining Vitapharm Research, Mr. So had been engaged as a deputy director of Pharmacy Services of Austin Hospital in Australia for 15 years, senior management member and research fellows of various pharmaceutical companies such as Enzacor Pty. Ltd., Pharma Pacific Pty. Ltd. and Soltec Research Pty. Ltd. in Australia. Mr. So holds professional

qualifications such as member of the Pharmaceutical Society of the State of Victoria, life member of the Society of Hospital Pharmaceutical Chemists of Australia and member of the Australian Society of Cosmetic Chemist. Mr. So joined Vitapharm Research in November 2000.

Dr. Wong Tuen Yee, Elizabeth (王端兒), aged 48, is the Principal Scientist of Vitapharm Research. She holds a Bachelor of Science (Biology) degree from Chinese University of Hong Kong in 1976 and a doctorate degree in Biochemistry from University of Louis Pasteur, Strasbourg, France (1980). Before joining the New Group, Dr. Wong was engaged as a research assistant in the Centre of Neurochemistry of CNRS in France, research fellow of Institute of Neurology in London, research fellow of the Department of Surgery of University of Queensland and Research and Development scientist of CSL Limited in Australia. She is the author and co-author of numerous publications in international scientific journals and she has been awarded with various international and national research grants. Dr. Wong specialises in the development of biological products according to GMP and GLP standards and is experienced in project management and development and implementation of quality systems. Dr. Wong joined Vitapharm Research in September 2000.

Mr. Wu Qing Jiang (吳慶江), aged 38, is the general manager of Sichuan Weiao Pharmacy Co., Ltd. (“Weiao”). Mr. Wu holds a bachelor’s degree in Chinese medicine from Chengdu Chinese Medical Institute in the PRC (中國成都中醫學院). Mr. Wu was engaged as a management staff in charge of the technical operations of Sichuan Jisheng Pharmaceutical Factory (四川省濟生製藥廠) for over eleven years since 1983, manager of Chengdu Tenth Pharmaceutical Factory (成都市製藥廠十廠), deputy general manager of Sichuan Jinhui Pharmaceutical Limited (四川金輝藥業有限公司). He has 17 years of experience in managing production quality control of drugs and is familiar with the regulations regarding management of drugs and development of new drugs. Mr. Wu joined the New Group in November 2000.

Mr. Guo Wei Ping (郭衛平), aged 43, is the general manager of Tianao. He graduated from Luzhou Industrial Chemical College (瀘州化工業專科學校) with a diploma in organic synthetics in 1982 and Huaxi Medical University (華西醫科大學) with a diploma in pharmacy. He worked for Chengdu Fourth Pharmaceutical Factory (成都製藥四廠) for almost 20 years since 1982 and the last position he held was deputy technical manager. He joined the New Group in October 1998.

Dr. Zhang Mei (張梅), aged 34, is the manager of Vital (Sichuan) Biotech Co., Ltd. (“Vital (Sichuan)”) responsible for overseeing the daily operations of Vital (Sichuan). She is a registered doctor in the PRC and graduated from Sichuan Western Medical College (四川西醫學院) in 1989. Dr. Zhang has 6 years experience in surgery. In 1994, Dr. Zhang was granted a bachelor’s degree of Business Administration in Xinan Communication University (西南交通大學). Dr. Zhang joined the New Group in March 2001.

Dr. Zhang Guo Feng (張國豐), aged 36 is the research fellow of Vital (Sichuan). Dr. Zhang obtained his Ph.D from (中國協和醫科大學) in 1994. He was then engaged in the research and development of drugs. Dr. Zhang is also the person-in-charge of the drug bio-chemistry laboratory and the vice president of the 藥物信息室 of Jiangzhong Pharmaceutical Group (江中製藥集團) and the research fellow of (西南證券有限責任公司研究發展中心行業公司部). While working for Jiangzhong Pharmaceutical Group, he was responsible for the research and development of drugs. Dr. Zhang joined the New Group in November 2000.

Mr. Liu Jia Jian (劉家健), aged 58, is the principal scientist of Vital (Sichuan). He graduated from the faculty of Chemistry in University of Sichuan. Mr. Liu Jia Jian has been a director of a major antibiotic research institute in Chengdu City, Sichuan Province, the PRC since 1974. He is mainly responsible for the research and development work of new drugs and the restructuring of the structure of antibiotics. Mr. Liu is also the mentor of doctorate candidate, a Committee Member of the National New Drug Approval Committee (國家新藥評審委員會), 省政協委員 and receives a life subsidy from the State Council of PRC by virtue of his expert status in drug research (國務院終身津貼專家). Mr. Liu joined the New Group in August 2001.

The directors of the Company (“the Directors”) have pleasure in submitting their first report together with the audited accounts for the year ended 31st December, 2001.

CHANGE OF NAME

The Company was incorporated in the Cayman Islands on 30th May, 2001 under the name of Vital*BioTech Holdings Limited as an exempted company with limited liability under the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 16th July, 2001, the Company changed its name to Vital BioTech Holdings Limited.

GROUP REORGANISATION

As at 31st December, 2001, the Company had four subsidiaries (collectively referred to as the “Group”), details of which are set out in note 12 to the accounts on pages 40 to 41. Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the group (the “New Group”) formed after the completion of the Group Reorganisation on 26th January, 2002. Details of the Group Reorganisation are set out in the prospectus (the “Prospectus”) issued by the Company dated 30th January, 2002.

Although the reorganised New Group did not legally exist until 26th January, 2002, the Directors consider that meaningful information is provided by treating the New Group as a continuing entity as if the current group structure had been in existence and thus to present the accounts on a proforma basis. Proforma accounts of the New Group, based on the group structure following the completion of the Group Reorganisation, are set out on pages 47 to 80 of the annual report.

The shares of the Company have been listed on GEM since 7th February, 2002.

PRINCIPAL ACTIVITY AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. It did not trade during the period from its date of incorporation on 30th May, 2001 to the date of the completion of the Group Reorganisation.

Particulars of the principal activities of the Company’s subsidiaries as at 31st December, 2001 are set out in note 12 to the accounts on page 40 to 41 of the annual report.

Particulars of the companies which became the Company’s subsidiaries on 26th January, 2002 are set out in note 30 to the proforma accounts on pages 78 to 79 of the annual report.

An analysis of the Group’s and the New Group’s performance for the period/year by business and geographical segments is set out in note 3 to the accounts and note 4 to the proforma accounts respectively.

RESULTS AND APPROPRIATIONS

The consolidated results of the Group for the period from 30th May, 2001 (date of incorporation) to 31st December, 2001 are set out in the consolidated profit and loss account on page 30 of the annual report.

The proforma results of the New Group for the year ended 31st December, 2001 are set out in the proforma consolidated profit and loss account on page 47 of the annual report.

DIVIDENDS

No dividends have been paid or declared by the Company since the date of its incorporation. The Directors do not recommend the payment of a final dividend.

The Register of Members of the Company will be closed from 15th April, 2002 (Monday) to 19th April, 2002 (Friday), both days inclusive, during which period no transfer of shares will be effected.

FINANCIAL SUMMARY

A summary of the proforma results and of the proforma assets and liabilities of the New Group is set out on pages 6 to 7 of the annual report.

RESERVES

Movements in the reserves of the Group and the New Group during the period/year are set out in note 16 to the accounts and note 23 to the proforma accounts respectively.

INTANGIBLE ASSETS

Details of the movement in intangible assets of the New Group are set out in note 12 to the proforma accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the New Group are set out in note 11 to the accounts and note 13 to the proforma accounts respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 15 to the accounts.

DIRECTORS

The Directors during the period and up to the date of this report were:

Executive Directors

Mr. Ko Sai Ying, Thomas (<i>Chairman</i>)	("Mr. Ko")	(appointed on 1st December, 2001)
Mr. Au Yeung Ping Yuen, Terence	("Mr. Au Yueng")	(appointed on 1st December, 2001)
Mr. Liu Jin, James	("Mr. Liu")	(appointed on 1st December, 2001)
Mr. Tao Lung	("Mr. Tao")	(appointed on 1st December, 2001)

Independent non-executive Directors

Mr. Lee Kwong Yiu	(appointed on 26th January, 2002)
Mr. Lo Wa Kei	(appointed on 26th January, 2002)

In accordance with articles 111 and 112 of the Company's articles of association, all Directors will retire, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Lee Kwong Yiu and Mr. Lo Wa Kei are independent non-executive Directors and were appointed for a term of two years expiring on 25th January, 2004.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ko, Mr. Au Yeung, Mr. Liu and Mr. Tao, being the executive Directors, has entered into a service contract with the Company for an initial term of two years commencing from 1st December, 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to a basic salary of HK\$720,000 (subject to an annual increment after 30th November, 2002 at the discretion of the Directors). In addition, the executive Directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company after 31st December, 2001 may not exceed 10% of the audited profit attributable to the shareholders of the New Group in respect of that financial year. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him.

The independent non-executive Directors have been appointed for a term expiring on 25th January, 2004. Save for directors' fees of HK\$120,000 per annum for each of the independent non-executive Directors, none of the independent non-executive Directors is expected to receive any other remuneration for holding an office as an independent non-executive Director.

Save as disclosed herein, there are no existing or proposed service contracts with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in other sections of the directors' report, no contracts of significance in relation to the Group's and New Group's business to which the Company, its subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws and there are no restrictions against such rights under the laws of the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period and up to the date of this report. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period and up to the date of this report.

SHARE OPTIONS

A summary of the principal terms of the share option scheme (the "Share Option Scheme") was passed by all shareholders of the Company on 26th January, 2002. As at the date of this report, no share option has been granted to any Directors, executives and employees under the Share Option Scheme.

The purpose of the Share Option Scheme is to enable the New Group to grant options to selected participants as incentives or rewards for their contribution to the New Group.

The Share Option Scheme is available to, at the absolute discretion of the directors, any employee or proposed employee of the Company or, any of its subsidiaries or any entity (“Invested Entity”) in which any member of the New Group holds an equity interest, including any executive directors of the Company, any of such subsidiaries or any Invested Entity; any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; any supplier or customer of the New Group or any Invested Entity; any person or entity that provides research, development or other technological support to the New Group or any Invested Entity; and any shareholder of any member of the New Group or any Invested Entity or any holder of any securities issued by any member of the New Group or any Invested Entity.

The maximum number of securities to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the New Group must not in aggregate exceed 30% of the relevant shares or securities of the Company (or the subsidiary) in issue from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the New Group must not in aggregate exceed 120,000,000 shares, representing 10% of the shares in issue upon completion of the placing and the capitalisation issue of the shares of the Company.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share scheme of the New Group to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the “Individual Limit”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to shareholders’ approval at general meeting of the Company with such participant and his associates abstaining from voting.

An option may be accepted by a participant at a nominal consideration of HK\$1 within 21 days from the date of the offer of grant of the options. The subscription price for shares under the Share Option Scheme will be a price determined by the Directors but shall not be less than the highest of (i) the closing price of shares on GEM as stated in the Stock Exchange’s daily quotation sheet for trades in one or more board lot of shares on the date of the offer of grant; or (ii) the average closing price of the shares on GEM as stated in the Stock Exchange’s daily quotation sheets for trades in one or more board lot of shares for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end and in any event not later than ten years from the date on which the offer for grant of the option is made subject to the provisions of early termination thereof.

The Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Share Option Scheme becomes unconditional.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Profile of Directors and senior management are set out on pages 18 to 20 of the annual report.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the New Group during the year ended 31st December, 2001 are disclosed in note 27 to the proforma accounts.

Related party transactions, which also constitute connected transactions under the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“Listing Rules”), required to be disclosed in accordance with Chapter 20 of the Listing Rules, are as follows:

- (1) Pursuant to a tenancy agreement dated 8th September, 2001, entered into between Mr. Tao as lessor and a subsidiary of the New Group as lessee, the New Group has agreed to lease office premises in Shenzhen, the People’s Republic of China, from Mr. Tao for a term of one year commencing from 8th September, 2001 at a monthly rental RMB30,684 (exclusive of management fee and all outgoings), totalling approximately RMB368,206. The property is occupied by the New Group as office.

Mr. Tao is an executive Director of the Company and, therefore, a connected person of the Company.

The tenancy agreement was negotiated on an arm’s length basis between the New Group and Mr. Tao. Furthermore, the Directors (including the independent non-executive Directors) have confirmed in the Prospectus that the connected transaction described above was entered into on normal commercial terms and in the ordinary and usual course of business of the New Group and is fair and reasonable so far as the shareholders of the Company, as a whole, are concerned.

In addition, Vigers Hong Kong Ltd., a firm of independent property valuers, has confirmed in the Prospectus that the connected transaction set out in the paragraph above is on normal commercial terms and on terms that are fair and reasonable.

Since the annual rental amount payable by the New Group is less than higher of the de-minimis threshold stipulated under Rule 20.25(3) of the Listing Rules, the transaction is therefore exempted from the reporting, announcement and shareholders’ approval requirements set out in Rules 20.34 to 20.36 of the Listing Rules.

- (2) As at 31st December, 2001, the New Group’s banking facilities of HK\$7,000,000 were jointly and severally guaranteed by Mr. Tao and Mr. Huang Jian Ming (a director of a subsidiary of the Company).

On 26th February, 2002, the New Group revised the above banking facilities with the relevant bank to a facility limit of HK\$12,000,000 and the security of the facility had been replaced by:

- (i) a corporate guarantee of HK\$25,000,000 of the Company; and
- (ii) 1% of each export bill proceeds.

The guarantee provided by Mr. Tao as mentioned above had been released by the bank.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at the date of this report, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”)) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the shares are listed or which will be required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, once the shares are listed, or pursuant to Rules 5.40 to 5.59 of the Listing Rules to be notified to the Company and the Stock Exchange once the shares are listed will be as follows:

Ordinary shares of HK\$0.01 each in the Company

Director	Number of shares				Total
	Corporate interests (note)	Personal interests	Family interests	Other interests	
Mr. Ko	—	48,422,400	—	—	48,422,400
Mr. Au Yeung	—	7,852,800	—	—	7,852,800
Mr. Liu	—	14,630,400	—	—	14,630,400
Mr. Tao	612,000,000	103,315,200	—	—	715,315,200

Note:

These shares are registered in the name of Perfect Develop Holding Inc. (“Perfect Develop”). Mr. Tao is the beneficial owner of 49% of the entire issued share capital of Perfect Develop. Under the SDI Ordinance, Mr. Tao is deemed to be interested in all the shares registered in the name of Perfect Develop.

At no time during the period from 7th February, 2002 (the “Listing Date”) to the date of this report was the Company or its holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The Company became a listed company on 7th February, 2002. The register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the issued share capital of the Company as at 7th February, 2002:

Name	Number of shares held	Approximate percentage of shareholding
Perfect Develop (note (1))	612,000,000	51.00%
Mr. Tao (note (2))	715,315,200	59.61%

Notes:

- (1) The entire issued share capital of Perfect Develop is owned as to 49% by Mr. Tao, 33% by Mr. Ko, 6% by Mr. Au Yeung and 12% by Mr. Liu respectively. All of Mr. Tao, Mr. Ko, Mr. Au Yeung and Mr. Liu are founders of the New Group.
- (2) Mr. Tao owns in aggregate 49 shares in, representing approximately 49% of the issued share capital of Perfect Develop. Accordingly, Mr. Tao is deemed, by virtue of the SDI Ordinance, to be interested in all the shares in which Perfect Develop is interested, amounting to 612,000,000 shares immediately after the placing and the capitalisation issue. Together with 103,315,200 shares registered in his own name, Mr. Tao is deemed, by virtue of the SDI Ordinance, to be interested in, 715,315,200 shares in aggregate, amounting to approximately 59.61% of the share in issue immediately after the placing and the capitalisation issue.

At no time during the period from the Listing Date to the date of this report, the Directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations (within the meaning of the SDI Ordinance).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales of the New Group for the year attributable to the New Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	43%
— five largest suppliers combined	80%

Sales

— the largest customer	35%
— five largest customers combined	80%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

ADVANCES TO AN ENTITY

According to Rules 17.15 and 17.17, a disclosure obligation arises where the relevant advance to an entity from the New Group exceeds 25% of the New Group's net tangible assets. As at 31st December, 2001, the amounts of HK\$4,169,880 and HK\$6,949,800 due from Shenzhen Foreign Trade Import and Export Transportation Company and Shanghai Pharmaceutical Company Limited respectively represent 9.2% and 15.3% of the proforma net tangible asset value of the New Group. The corresponding amounts as at 30th November, 2001, being the balance last disclosed, were HK\$1,368,900 and HK\$9,182,160 respectively which represent 1.0% and 6.7% of the adjusted net tangible asset value of the New Group (as calculated in the subsection headed "Adjusted net tangible assets" under the section headed "Financial Information" to the Prospectus). Both amounts are trade receivables which are unsecured, interest free and have normal terms of settlement.

BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in rules 5.28 to 5.39 of the Listing Rules since listed on GEM on 7th February, 2002.

AUDIT COMMITTEE

The Company has established an audit committee on 26th January, 2002. The audit committee has two members comprising Messrs. Lee Kwong Yiu and Lo Wa Kei, both of them are independent non-executive Directors. Mr. Lo Wa Kei has been appointed as chairman of the audit committee. The terms of reference of the audit committee have been established with regard to Rules 5.23, 5.24 and 5.25 of the Listing Rules. The primary duties of the audit committee are (i) to review the Company's annual reports and accounts, half-yearly and quarterly reports, (ii) to provide advice and comments thereon to the Board, and (iii) to review and supervise the financial reporting process and internal control procedures of the New Group. The audit committee has met 2 times since its establishment with the management to discuss and review the New Group's various issues with a view to further improve the New Group's corporate governance.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited (the "Sponsor"), as at the date of this report, neither the Sponsor nor any of its respective directors, employees or associates (as referred to in note 3 to Rule 6.35 of the Listing Rules) had any interests in the Company's shares.

Pursuant to the agreement dated 30th January, 2002 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from the Listing Date to the earlier of 31st December, 2004 or the date on which the agreement is terminated upon the terms and conditions as set out therein the agreement.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Directors believe that none of the Directors or the initial management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which causes or may cause any significant competition with the business of the New Group.

SUBSEQUENT EVENTS

Details of significant subsequent events are set out in note 20 to the accounts and note 31 to the proforma accounts respectively.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

KO Sai Ying, Thomas
Chairman

Hong Kong, 22nd March, 2002

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
VITAL BIOTECH HOLDINGS LIMITED**

(formerly known as Vital*BioTech Holdings Limited)

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 30 to 45 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and Auditors

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2001 and of the loss and cash flows of the Group for the period from 30th May, 2001 (date of incorporation) to 31st December, 2001 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22nd March, 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period from 30th May, 2001 (date of incorporation) to 31st December, 2001

	<u>Note</u>	<u>HK\$'000</u>
Turnover	3	—
Administrative expenses		(497)
Other operating expenses		<u>(112)</u>
Loss for the period and carried forward	4,16	<u>(609)</u>
Loss per share	9	<u>HK\$(9.6)</u>

No statement of recognised gains and losses is presented as loss for the period of HK\$609,000 shown above is the only component.

CONSOLIDATED BALANCE SHEET

As at 31st December, 2001

	Note	HK\$'000
Non-current assets		
Fixed assets	11	61
Current assets		
Other receivables, prepayments and deposits		447
Amounts due from related companies	13	3,076
Bank balances and cash		63
		3,586
Current liabilities		
Accrued charges and other payables		182
Amounts due to related companies	13	1,974
Amounts due to Directors	14	2,100
		4,256
Net current liabilities		(670)
Total assets less current liabilities		(609)
Representing:		
Share capital	15	—
Reserves	16	(609)
Shareholders' deficit		(609)

On behalf of the Board

KO Sai Ying, Thomas
Director

AU YEUNG Ping Yuen, Terence
Director

BALANCE SHEET

As at 31st December, 2001

	<u>Note</u>	<u>HK\$'000</u>
Non-current assets		
Investments in subsidiaries	12	<u>—</u>
Current assets		
Amount due from a related company	13	1,900
Bank balances and cash		<u>2</u>
		<u>1,902</u>
Current liabilities		
Accrued charges		54
Amount due to a related company	13	42
Amounts due to Directors	14	<u>2,100</u>
		<u>2,196</u>
Net current liabilities		<u>(294)</u>
Total assets less current liabilities		<u>(294)</u>
Representing:		
Share capital	15	—
Reserves	16	<u>(294)</u>
Shareholders' deficit		<u>(294)</u>

On behalf of the Board

KO Sai Ying, Thomas
Director

AU YEUNG Ping Yuen, Terence
Director

CONSOLIDATED CASH FLOW STATEMENT

For the period from 30th May, 2001 (Date of incorporation) to 31st December, 2001

	<u>Note</u>	<u>HK\$'000</u>
Net cash outflow from operating activities	17(a)	(670)
Net cash outflow from investing activities		
Purchase of fixed assets		<u>(65)</u>
Net cash outflow before financing		<u>(735)</u>
Financing		
Increase in net amount due from related companies		(1,102)
Increase in amounts due to Directors		<u>1,900</u>
Net cash inflow from financing		<u>798</u>
Increase in bank balances and cash		63
Bank balances and cash at the beginning of the period		<u>—</u>
Bank balances and cash at the end of the period		<u>63</u>

1. COMPANY'S BACKGROUND

The Company was incorporated in the Cayman Islands on 30th May, 2001 under the name of Vital*BioTech Holdings Limited as an exempted company with limited liability under the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 16th July, 2001, the Company changed its name to Vital BioTech Holdings Limited.

Following completion of a group reorganisation on 26th January, 2002, the Company's shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7th February, 2002.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accounts are set out below:

(a) Basis of preparation of the accounts

The accounts have been prepared on a going concern basis, notwithstanding that the Group and the Company has incurred losses since incorporation and had shareholders' deficit of HK\$609,000 and HK\$294,000 and net current liabilities of HK\$670,000 and HK\$294,000 respectively at 31st December, 2001, on the basis that the Company has raised gross proceeds from the placing of the Company's shares of approximately HK\$108 million subsequent to the balance sheet date. The Directors are satisfied that the Group will be able to meet in full its financial obligations when they fall due for the foreseeable future and to continue its business as a going concern.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(c) Fixed assets**

Fixed assets represent office equipment and are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at a rate of 10% to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account.

The carrying amount of a fixed asset is reviewed when there is an indication that an asset is impaired. An asset is considered to be impaired when its carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's net selling price and its value in use. The loss as a result of impairment is recognised in the consolidated profit and loss account.

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

(d) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated profit and loss account on a straight-line basis over the lease periods.

(e) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(f) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(g) Retirement benefit costs

The Group operates defined contribution scheme which is available to qualified employees. The assets of the scheme are held separately from those of the Group in independently administered funds. Monthly contributions made by the Group are calculated based on certain percentages of the applicable payroll costs or a fixed sum as stipulated under the relevant requirements, whichever is lower. Contributions under the defined contribution scheme are charged to the consolidated profit and loss account as incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(h) Research and development costs**

Research costs are expensed as incurred. Development costs are expensed as incurred, except where it is expected that the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. During the current period, all research and development costs incurred have been expensed to the consolidated profit and loss account as no such costs satisfied the criteria for capitalisation as an asset.

(i) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the consolidated profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in investment holding and research and development of pharmaceutical business. It did not derive any income during the period.

In accordance with the Group's internal financial reporting, the Group has determined that business segments is presented as the primary reporting format and geographical as the secondary reporting format. The Group's segment revenues, expenses, results, assets and liabilities are primarily attributable to the research and development of pharmaceutical products. The Group's principal market is China mainland.

4. LOSS FOR THE PERIOD

Loss for the period is stated after charging:

	30th May, 2001 (date of incorporation) to 31st December, 2001 HK\$'000
Auditors' remuneration	50
Depreciation	4
Research and development costs	107
Staff costs (including directors' emoluments)	325

5. TAXATION

No provision for taxation has been made in the accounts as the Company and the Group had no estimated assessable income for the period.

6. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$294,000.

7. RETIREMENT BENEFIT COSTS

30th May, 2001
(date of incorporation)
to 31st December, 2001
HK\$'000

Retirement benefit costs	4
--------------------------	---

The retirement benefit costs represent gross contributions paid and payable by the Group and the Company to the defined contribution scheme operated in Hong Kong (the "Retirement Scheme"). Contributions totalling HK\$4,000 payable to the Retirement Scheme as at 31st December, 2001 are included in accrued charges and other payables. There were no forfeited contributions throughout the period.

8. DIVIDENDS

The Directors do not recommend the payment of a dividend for the period from 30th May, 2001 (date of incorporation) to 31st December, 2001.

9. LOSS PER SHARE

Basic loss per share is calculated based on the loss for the period of HK\$609,000 and on the weighted average of 63,134 ordinary shares in issue during the period.

Diluted loss per share is not presented as the Company has no dilutive potential ordinary shares as at 31st December, 2001.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (i) Details of the emoluments paid and payable to the Directors during the period are as follows:

	30th May, 2001 (date of incorporation) to 31st December, 2001
	<u>HK\$'000</u>
Fees	—
Salaries, allowances and benefits in kind	240
Retirement scheme contributions	<u>4</u>
	<u>244</u>

Each of the four executive Directors of the Company received emoluments of HK\$60,000 for the period from 30th May, 2001 (date of incorporation) to 31st December, 2001.

No emoluments were paid to independent non-executive Directors of the Company during the period as they were not appointed until 26th January, 2002.

No share options have been granted to the Directors under the share option scheme approved and adopted by the written resolutions of the shareholders of the Company dated 26th January, 2002.

The emoluments of the Directors fall into the following bands:

	Number of Directors
	30th May, 2001 (date of incorporation) to 31st December, 2001
	<u>HK\$'000</u>
Emoluments bands	
Nil to HK\$1,000,000	<u>6</u>

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

- (ii) The five individuals whose emoluments were the highest in the Group for the period from 30th May, 2001 (date of incorporation) to 31st December, 2001 include four Directors of the Company whose emoluments are reflected in the analysis presented above. The five individuals whose emoluments were the highest in the Group were as follows:

	30th May, 2001 (date of incorporation) to 31st December, 2001
	HK\$'000
Directors	244
Employee	16
	<u>260</u>

- (iii) Details of the emoluments paid by the Group to the highest paid employee as mentioned in note 10(ii) above are as follows:

	30th May, 2001 (date of incorporation) to 31st December, 2001
	HK\$'000
Salaries, allowances and benefits in kind	<u>16</u>

The emoluments of the employee fall into the following bands:

	Number of individuals
	30th May, 2001 (date of incorporation) to 31st December, 2001
	HK\$'000
Emoluments bands	
Nil to HK\$1,000,000	<u>1</u>

- (iv) During the period, no emoluments have been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No Directors waived or agreed to waive any emoluments during the period.

11. FIXED ASSETS**Group**

	Office equipment HK\$'000
Cost	
Additions and at 31st December, 2001	65
Accumulated depreciation	
Charge for the period and at 31st December, 2001	(4)
Net book value	
At 31st December, 2001	<u>61</u>

12. INVESTMENTS IN SUBSIDIARIES

	At 31st December, 2001 HK\$
Unlisted shares, at cost	<u>33</u>

The following is a list of the subsidiaries at 31st December, 2001:

Name	Place of incorporation/ establishment	Place of operations	Principal activities	Particulars of issued share capital/ registered capital	Equity interest held
Direct subsidiaries					
Vital BioTech (Hong Kong) Limited	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Gainful Plan Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%
Ever Power Holding Inc.	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%

12. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operations	Principal activities	Particulars of issued share capital/ registered capital	Equity interest held
Indirect subsidiary					
Vital (Sichuan) Biotech Co., Ltd.	People's Republic of China (the "PRC")	PRC	Research and development	US\$1,400,000 (note)	100%

Note: As at 31st December, 2001, the capital of Vital (Sichuan) Biotech Co., Ltd. was paid to the extent of US\$210,000.

13. AMOUNTS DUE FROM/TO RELATED COMPANIES

Amounts due from/to related companies are unsecured, interest free and have no fixed terms of repayment. The related companies became the Company's subsidiaries pursuant to a group reorganisation completed on 26th January, 2002.

14. AMOUNTS DUE TO DIRECTORS

Included in amounts due to Directors were amounts of approximately HK\$1,900,000 as at 31st December, 2001 which were fully settled on 23rd January, 2002 by issuance of one share in the Company to one of the Directors pursuant to a group reorganisation (note 20(b)).

15. SHARE CAPITAL

	Number of shares of HK\$0.1 each	HK\$
Authorised:		
On incorporation at 30th May, 2001 and 31st December, 2001	3,900,000	390,000
Issued:		
Shares allotted and issued on 30th May, 2001 (note a)	1	0.1
Shares allotted and issued on 31st May, 2001 (note a)	2	0.2
Shares allotted and issued on 17th December, 2001 (note b)	1	0.1
Shares allotted and issued on 17th December, 2001 (note c)	909,087	—
At 31st December, 2001	909,091	0.4

15. SHARE CAPITAL (Continued)

Notes:

- (a) The Company was incorporated in the Cayman Islands on 30th May, 2001 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. On the same date, one share of HK\$0.10 each was allotted and issued for cash at HK\$0.10. On 31st May, 2001, two shares of HK\$0.10 each were allotted and issued for cash at par.
- (b) On 17th December, 2001, two shares of US\$1 each in Ever Power Holding Inc. and two shares of US\$1 each in Gainful Plan Limited were transferred by certain shareholders of the Company to the Company in consideration of and exchange for which the Company allotted and issued, credited as fully paid, one share, to one of these shareholders.

The share premium arising from the issue of the share amounted to HK\$31. The amount of share premium has not been disclosed as the amount was less than HK\$1,000 (note 16).

- (c) On 17th December, 2001, an aggregate of 909,087 new shares of HK\$0.10 each were issued and allotted nil paid.
- (d) At 31st December, 2001, the Company's issued and fully paid capital was HK\$0.40. The amount of issued share capital has not been disclosed as the amount was less than HK\$1,000.
- (e) Changes in the share capital of the Company subsequent to 31st December, 2001 are set out in note 20.

16. RESERVES

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group			
Loss for the period	—	(609)	(609)
Premium on issue of a share (note 15(b))	—	—	—
At 31st December, 2001	—	(609)	(609)
Company			
Loss for the period	—	(294)	(294)
Premium on issue of a share (note 15(b))	—	—	—
At 31st December, 2001	—	(294)	(294)

The Company had no distributable reserve available for distribution to shareholders as at 31st December, 2001.

19. COMMITMENTS (Continued)**(b) Commitments under operating leases — where a group company is the lessee**

At 31st December, 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	At 31st December, 2001 HK\$'000
Land and buildings	
Not later than one year	<u>43</u>

20. SUBSEQUENT EVENTS

In addition to those disclosed elsewhere in the accounts, the following significant events took place subsequent to 31st December, 2001:

- (a) On 23rd January, 2002, the shareholders of the Company transferred the entire share capital of Yugofoil Holdings Limited to the Company in consideration of and exchange for which the Company (i) allotted and issued, credited as fully paid, 909,090 new shares of HK\$0.10 each; and (ii) credited as fully paid at par the 909,087 nil paid shares of HK\$0.10 each held by the shareholders of the Company (note 15(c)).
- (b) On 23rd January, 2002, the Company allotted and issued one share of HK\$0.10 each, at the joint direction of three Directors who are also shareholders of the Company, to a Director of the Company for the settlement of amounts of AUD475,000 (approximately HK\$1,900,000) due to these three Directors (note 14).
- (c) On 26th January, 2002, an aggregate of 1,159,092 shares of HK\$0.10 each in the Company were transferred by certain shareholders of the Company to Perfect Develop Holding Inc. ("Perfect Develop") in consideration of and exchange for which Perfect Develop issued as fully paid an aggregate of 100 shares of US\$1 each in the capital of Perfect Develop to these shareholders. Since then, Perfect Develop became the ultimate holding company of the Company.
- (d) Pursuant to resolutions in writing passed by all shareholders of the Company on 26th January, 2002:
 - (i) the then issued and unissued shares having a par value of HK\$0.10 each in the capital of the Company were subdivided into ten shares of HK\$0.01 each.
 - (ii) the authorised share capital of the Company was increased by HK\$499,610,000 from HK\$390,000 to HK\$500,000,000 by the creation of additional 49,961,000,000 shares of HK\$0.01 each.
 - (iii) A total of 941,818,180 shares were allotted as fully paid at par to shareholders whose names appeared on the shareholders of register of the Company in proportion to their respective shareholdings at the close of business on 26th January, 2002 by way of capitalisation issue of the sum of HK\$9,418,182 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the placing of the Company's shares as (iv) below.

20. SUBSEQUENT EVENTS (Continued)

- (iv) the Company issued 240,000,000 new shares of HK\$0.01 each by way of placing at HK\$0.45 per share for cash. The excess over the par value of the shares was credited to the share premium account.
- (v) a share option scheme was approved and adopted.
- (e) Certain related companies became the Company's subsidiaries pursuant to a group reorganisation in preparation for a listing of the shares of the Company on GEM of the Stock Exchange. The Company's shares were listed on GEM on 7th February, 2002.

21. ULTIMATE HOLDING COMPANY

Following the group reorganisation as mentioned in note 20, the Directors regard Perfect Develop Holding Inc., a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Company.

22. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd March, 2002.

AUDITORS' REPORT TO THE DIRECTORS OF VITAL BIOTECH HOLDINGS LIMITED

(formerly known as Vital*BioTech Holdings Limited)

(incorporated in the Cayman Islands with limited liability)

We have audited the proforma accounts on pages 47 to 80 which have been prepared in accordance with the accounting policies set out in note 2 to the proforma accounts which comply with accounting principles generally accepted in Hong Kong, except that the effects of the group reorganisation entered into after the balance sheet date have been accounted for using merger accounting which is not in accordance with the requirements of Statement of Standard Accounting Practice 2.127 "Accounting for group reconstructions" ("SSAP 27") issued by the Hong Kong Society of Accountants. Although the group reorganisation meets the definition of a group reconstruction under SSAP 27, SSAP 27 specifies that accounts should not incorporate a combination which occurs after the date of the most recent balance sheet included in the accounts.

Respective responsibilities of Directors and Auditors

The Company's Directors are responsible for the preparation of proforma accounts which are properly prepared in accordance with the accounting policies set out in note 2 to the proforma accounts. In preparing such proforma accounts it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those proforma accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion, the proforma accounts for the year ended 31st December, 2001 have been properly prepared in accordance with the accounting policies set out in note 2 to the proforma accounts and the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22nd March, 2002

PROFORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December, 2001

	Note	2001 HK\$'000	2000 HK\$'000
Turnover	3	122,825	64,128
Cost of sales		(61,052)	(37,921)
Gross profit		61,773	26,207
Other revenues	3	129	28
Selling and distribution expenses		(3,157)	(1,452)
Administrative expenses		(13,021)	(5,504)
Other operating expenses (net)		(3,715)	(2,146)
Operating profit	5	42,009	17,133
Finance costs	6	(2,910)	(1,836)
Profit before taxation		39,099	15,297
Taxation	7	(60)	(15)
Profit after taxation		39,039	15,282
Minority interests		(914)	(743)
Profit attributable to shareholders	23	38,125	14,539
Proforma earnings per share	10	HK3.97 cents	HK1.51 cents

PROFORMA CONSOLIDATED BALANCE SHEET

As at 31st December, 2001

	Note	2001 HK\$'000	2000 HK\$'000
Non-current assets			
Intangible assets	12	8,712	8,963
Fixed assets	13	36,548	14,174
		45,260	23,137
Current assets			
Inventories	14	3,791	3,466
Trade receivables, other receivables, prepayments and deposits	15	51,680	45,983
Bank balances and cash			
— pledged	16	7,935	334
— unpledged		6,460	4,860
		69,866	54,643
Current liabilities			
Trade payables, accrued charges and other payables	17	14,663	18,862
Amounts due to minority shareholders of subsidiaries	18	320	6,797
Amounts due to Directors	19	200	3,570
Value added tax payable		1,268	4,016
Tax payable		75	15
Current portion of long-term liabilities	24	1,981	—
Short-term bank loans	20	18,585	17,274
Other loans	21	4,751	6,009
Trust receipt loans — secured	26	2,449	3,552
Bank overdrafts — secured	26	1,797	—
		46,089	60,095
Net current assets/(liabilities)		23,777	(5,452)
Total assets less current liabilities		69,037	17,685

Proforma Consolidated Balance Sheet

As at 31st December, 2001

	Note	2001 HK\$'000	2000 HK\$'000
Financed by:			
Share capital	22	182	182
Reserves	23	<u>53,812</u>	15,568
Shareholders' funds		53,994	15,750
Minority interests		2,430	1,935
Non-current liabilities			
Long-term liabilities	24	<u>12,613</u>	—
		<u>69,037</u>	17,685

On behalf of the Board

KO Sai Ying, Thomas
Director

AU YEUNG Ping Yuen, Terence
Director

PROFORMA CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash inflow from operating activities	25(a)	<u>27,719</u>	12,004
Return on investments and servicing of finance			
Interest received		46	28
Interest paid		(3,501)	(1,739)
Interest element of finance lease rental payments		<u>(14)</u>	—
Net cash outflow from returns on investments and servicing of finance		<u>(3,469)</u>	(1,711)
Investing activities			
Purchase of fixed assets		(22,774)	(9,626)
Proceeds from sale of fixed assets		40	—
Purchase of additional equity interests in a subsidiary	25(e)	(2,502)	—
Purchase of a subsidiary	25(d)	—	63
Development costs paid		<u>(462)</u>	—
Net cash outflow from investing activities		<u>(25,698)</u>	(9,563)
Net cash (outflow)/inflow before financing		<u>(1,448)</u>	730
Financing	25(b)		
Drawdown of short-term bank loans		3,386	—
Repayment of short-term bank loans		(2,075)	—
Drawdown of other loans		823	—
Repayment of other loans		(1,900)	—
Drawdown of long-term bank loans		14,338	—
Repayment of long-term bank loans		(19)	—
Capital element of finance lease payments		(23)	—
Repayment of loan from minority shareholder of a subsidiary	18	<u>(4,575)</u>	—
Net cash inflow from financing		<u>9,955</u>	—
Increase in cash and cash equivalents		8,507	730
Cash and cash equivalents at 1st January		<u>1,642</u>	912
Cash and cash equivalents at 31st December	25(g)	<u>10,149</u>	1,642

PROFORMA CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31st December, 2001

	Note	2001 HK\$'000	2000 HK\$'000
Exchange differences arising from translation of the accounts of a subsidiary	23	<u>119</u>	—
Gains not recognised in the proforma consolidated profit and loss account		119	—
Profit for the year	23	<u>38,125</u>	<u>14,539</u>
Total recognised gains		<u>38,244</u>	<u>14,539</u>

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 30th May, 2001 under the name of Vital*BioTech Holdings Limited as an exempted company with limited liability under the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 16th July, 2001, the Company changed its name to Vital BioTech Holdings Limited.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the subsidiaries (collectively the “New Group”), details of which are set out in note 30 to the proforma accounts. The Group Reorganisation was completed on 26th January, 2002 and the shares of the Company were listed on the Stock Exchange on 7th February, 2002.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the proforma accounts are set out below:

(a) Basis of preparation of proforma accounts

Although the current group structure resulting from the Group Reorganisation, as referred to in note 1 to the proforma accounts, did not legally exist until 26th January, 2002, the Directors consider that meaningful information is provided by treating the New Group as a continuing entity. Accordingly, the proforma accounts have been prepared on the basis of merger accounting as if the Company had been the holding company of the companies comprising the New Group throughout the two years ended 31st December, 2001, or from the respective dates of incorporation or acquisition, where this is a shorter period.

The proforma accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the accounting standards issued by the Hong Kong Society of Accountants (the “HKSA”) except for the adoption of merger accounting which is not in compliance with Statement of Standard Accounting Practice 2.127 “Accounting for group reconstructions” issued by the HKSA (“SSAP 27”) as described in note 2(b) below. The proforma accounts have been prepared under the historical cost convention.

(b) Basis of consolidation

The proforma consolidated accounts incorporate the accounts of the Company and its subsidiaries made up to 31st December, 2001.

The proforma consolidated accounts incorporate the effects of the Group Reorganisation completed on 26th January, 2002 (as described in note 2(a) above). For the purposes of the proforma accounts presentation, the Group Reorganisation has been accounted for on the basis of merger accounting. This treatment is not in accordance with SSAP 27 because, although the Group Reorganisation meets the definition of a group reconstruction under SSAP 27, SSAP 27 specifies that accounts should not incorporate a combination which occurs after the date of the most recent balance sheet included in the accounts.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

Subsidiaries are those entities in which the New Group controls the composition of the board of directors, control more than half the voting power or holds more than half of the issued share capital.

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Construction in progress

Construction in progress is investment in buildings where construction work has not been completed. The investment is carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses.

No depreciation is provided for construction in progress.

(d) Fixed assets

Fixed assets consist of construction in progress (note 2(c) above), land use rights and other tangible fixed assets.

Land use rights are stated at cost less accumulated impairment losses and are amortised over the unexpired period of rights granted on a straight-line basis.

Other tangible fixed assets are stated at cost less accumulated depreciation and impairment losses and are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are summarised as follows:

Leasehold improvements	20% or over lease term, whichever is shorter
Plant and machinery	6.67–12.5%
Motor vehicles	20%
Furniture and fixtures	10–20%
Office equipment	10–20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the proforma consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the New Group.

The carrying amount of a fixed asset is reviewed when there is an indication that an asset is impaired. An asset is considered to be impaired when its carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's net selling price and its value in use. The loss as a result of impairment is recognised in the proforma consolidated profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Fixed assets (Continued)

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

(e) Leases

(i) *Assets acquired under finance leases*

Leases that substantially transfer to the New Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included as liabilities. The finance charges are charged to the proforma consolidated profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) *Assets held for use under operating leases*

When the New Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the New Group's depreciation policies, as set out in note 2(d) above. Revenue arising from operating leases is recognised in accordance with the New Group's revenue recognition policies, as set out in note 2(m) below.

(iii) *Operating lease charges*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the proforma consolidated profit and loss account on a straight-line basis over the lease periods.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(f) Intangible assets****(i) Goodwill**

Goodwill represents the excess of cost of an acquisition over the fair value of the New Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition is included in intangible assets and is amortised using the straight-line method over its estimated useful life, which is generally 10 to 13 years.

(ii) Patent

Amount paid or payable on acquired patent is capitalised in the balance sheet and is amortised by equal annual instalments over the estimated useful life of fifteen years.

(iii) Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred, except where it is expected that the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised and included in intangible assets and are amortised on a straight-line basis over a period of not more than 8 years to reflect the pattern in which the related economic benefits are recognised. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iv) Impairment of intangible assets

The carrying amount of each intangible asset is reviewed when there is an indication that an asset is impaired. An asset is considered to be impaired when its carrying amount exceeds its recoverable amount. The loss as a result of impairment is recognised in the proforma consolidated profit and loss account.

(g) Inventories

Inventories mainly represent pharmaceutical products, which comprise stocks and work in progress, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank loans with original maturity less than three months.

(j) Provisions

Provisions are recognised when the New Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the New Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the New Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the proforma accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the New Group.

Contingent assets are not recognised but are disclosed in the notes to the proforma accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(l) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the proforma accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Revenue recognition

The New Group recognises revenues on the following bases:

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Revenue recognition (Continued)

- (ii) Consultancy fee income is recognised when the services are rendered.
- (iii) Licence fee income for granting a right to use of the New Group's technology is recognised when the New Group's obligations to perform are completed in accordance with the applicable performance requirements and contractual terms.
- (iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (v) Operating lease rental income is recognised on a straight-line basis over the period of each lease.

(n) Retirement benefit costs

The subsidiaries in Hong Kong and Australia operate defined contribution schemes which are available to qualified employees. The assets of the schemes are held separately from those of the subsidiaries in independently administered funds. Monthly contributions made by the subsidiaries are calculated based on certain percentages of the applicable payroll costs or fixed sum as stipulated under the relevant requirements, as appropriate. Contributions under defined contribution schemes are charged to the proforma consolidated profit and loss account as incurred.

Pursuant to the relevant regulations of the municipal governments in China mainland, the subsidiaries of the New Group in this country participate in respective government retirement benefit schemes (the "Schemes") whereby the subsidiaries are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated based on certain percentages of the applicable payroll costs, as stipulated under the requirements in China mainland. The municipal governments of China mainland are responsible for the entire pension obligations payable to the retired employees. The only obligation of the New Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to the proforma consolidated profit and loss account as incurred.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the proforma consolidated profit and loss account in the year in which they are incurred.

(p) Pre-operating costs

Pre-operating costs are expensed in the year in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**(q) Government grants**

Government grants in the form of monetary assets that become receivable as compensation for expenses or losses already incurred or for the purpose of providing financial assistance to the New Group with no further related costs are recognised as income in the period in which they became available.

The monetary assets received or receivable under the government grants are recorded as assets of the New Group at fair value at the date of the grants.

(r) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the proforma consolidated profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

3. REVENUES AND TURNOVER

The New Group is principally engaged in the trading and manufacturing of pharmaceutical products, the provision of consultancy services in connection with pharmaceutical business and licencing for granting a right to the use of the New Group's technology.

Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable, consultancy fee income and licence fee income. Revenues recognised during the year are as follows:

	2001	2000
	HK\$'000	HK\$'000
Turnover		
Sales of goods	119,995	63,725
Consultancy fee income	—	403
Licence fee income	2,830	—
	122,825	64,128
Other revenues		
Interest income	46	28
Rental income from hire of plant and machinery	83	—
	129	28
Total revenues	122,954	64,156

4. SEGMENTAL INFORMATION

In accordance with the New Group's internal financial reporting, the New Group has determined that business segments is presented as the primary reporting format and geographical as the secondary reporting format.

All the New Group's revenues, expenses, results, assets and liabilities are primarily attributable to the trading and manufacturing of pharmaceutical products.

The New Group's principal market is China mainland.

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2001	2000
	HK\$'000	HK\$'000
Crediting		
Grants and subsidies from governments (note)	451	16
Charging		
Amortisation of intangible assets	862	692
Auditors' remuneration	1,082	104
Cost of inventories sold	49,968	30,602
Depreciation and amortisation of fixed assets		
— leased fixed assets under finance leases	33	—
— owned fixed assets held for use under operating leases	37	—
— owned fixed assets	1,062	669
Loss on disposal of fixed assets	77	—
Operating lease rental expense on land and buildings	813	712
Provision for trade receivables	73	221
Provision for other receivables	95	286
Provision for inventories	311	259
Research and development costs	807	216
Staff costs (including directors' emoluments)	8,889	3,843

Note:

Included in grants and subsidies from governments during the year were subsidies of approximately HK\$142,000 and HK\$255,000 received from the People's Government of Wuhan City and Chengdu Municipal Finance Bureau, the People's Republic of China (the "PRC") respectively, in respect of reimbursement of part of the finance costs incurred by certain subsidiaries as assistance for the New Group's development of the pharmaceutical business in those regions.

The grants and subsidies have been deducted from other operating expenses.

Notes to the Proforma Accounts

6. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest expense on:		
— bank loans	1,649	1,289
— other loans wholly repayable within five years	181	313
— trade payables	191	165
— amount due to a minority shareholder of a subsidiary (note 18)	—	16
— loans due to staff	85	—
— trust receipt loans	1,395	69
— finance leases	14	—
	<hr/>	<hr/>
Total borrowing costs incurred	3,515	1,852
Less: interest capitalised on construction in progress	(605)	(16)
	<hr/>	<hr/>
Total borrowing costs charged to the proforma consolidated profit and loss account	2,910	1,836

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is between 6.63% and 18% per annum (2000: 7.56% per annum).

7. TAXATION

The amount of taxation charged to the proforma consolidated profit and loss account represents:

	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax	60	15

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the year.

The subsidiaries operating in China mainland have been granted tax exemption from income tax for two years starting from the first year of profitable operations after setting off accumulated losses brought forward, followed by a 50% reduction in income tax for the next three years. These subsidiaries were still under the tax holiday for the current and previous years.

No Australia income tax has been provided as the subsidiary operating in Australia had no estimated assessable profit for the current and previous years.

Deferred taxation in respect of timing differences between profit as computed for taxation purposes and profit as stated in the proforma accounts has not been accounted for as the effect of timing differences is not material (2000: HK\$Nil).

8. RETIREMENT BENEFIT COSTS

	2001	2000
	HK\$'000	HK\$'000
Retirement benefit costs	301	172

The retirement benefit costs represent gross contributions paid and payable by the New Group to the schemes operated by the municipal governments of China mainland and the defined contribution schemes operated in Hong Kong and Australia (collectively the "Retirement Schemes"). Contributions totalling HK\$81,000 (2000: HK\$90,000) payable to the Retirement Schemes as at 31st December, 2001 are included in accrued charges and other payables. There were no forfeited contributions throughout the current and previous years.

9. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2001 (2000: HK\$Nil).

10. PROFORMA EARNINGS PER SHARE

Basic proforma earnings per share is calculated based on the proforma profit attributable to shareholders of HK\$38,125,000 (2000: HK\$14,539,000) and 960,000,000 (2000: 960,000,000) shares in issue during the year, and on the assumption that the Group Reorganisation and the capitalisation issue of 941,818,180 shares of the Company had been effective on 1st January, 2000 (note 22).

Diluted proforma earnings per share is not presented as the Company has no dilutive potential ordinary shares as at 31st December, 2001 (2000: HK\$Nil).

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) Details of the emoluments paid and payable to the Directors during the year are as follows:

	2001	2000
	HK\$'000	HK\$'000
Fees	—	—
Salaries, allowances and benefits in kind	2,278	1,175
Retirement scheme contributions	141	76
	2,419	1,251

Each of the four executive Directors of the Company received individual emoluments for the year ended 31st December, 2001 of HK\$501,000 (2000: HK\$200,000), HK\$736,000 (2000: HK\$529,000), HK\$591,000 (2000: HK\$325,000) and HK\$591,000 (2000: HK\$197,000) respectively.

No emoluments were paid to independent non-executive Directors of the Company during the year.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

No share options have been granted to the Directors under the share option scheme approved and adopted by the written resolutions of the shareholders of the Company dated 26th January, 2002.

The emoluments of the Directors fall into the following bands:

	Number of Directors	
	2001	2000
Emoluments bands		
Nil to HK\$1,000,000	6	6

- (ii) The five individuals whose emoluments were the highest in the New Group for the year ended 31st December, 2001 include four (2000: four) Directors of the Company whose emoluments are reflected in the analysis presented above. The five individuals whose emoluments were the highest in the Group were as follows:

	2001	2000
	HK\$'000	HK\$'000
Directors	2,419	1,251
Employee	571	209
	2,990	1,460

- (iii) Details of the emoluments paid by the New Group to the highest paid employee as mentioned in note 11(ii) above are as follows:

	2001	2000
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	547	209
Retirement scheme contributions	24	—
	571	209

The emoluments of the employee fall into the following bands:

	Number of individuals	
	2001	2000
Emoluments bands		
Nil to HK\$1,000,000	1	1

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

- (iv) During the year, no emoluments have been paid by the New Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the New Group, or as compensation for loss of office. No Directors waived or agreed to waive any emoluments during the year.

12. INTANGIBLE ASSETS

	Goodwill		Patent		Development costs		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cost								
At 1st January	7,811	6,007	2,831	2,831	—	—	10,642	8,838
Additions	149	1,804	—	—	462	—	611	1,804
At 31st December	7,960	7,811	2,831	2,831	462	—	11,253	10,642
Accumulated amortisation								
At 1st January	924	421	755	566	—	—	1,679	987
Charge for the year	644	503	189	189	29	—	862	692
At 31st December	1,568	924	944	755	29	—	2,541	1,679
Net book value								
At 31st December	6,392	6,887	1,887	2,076	433	—	8,712	8,963

The goodwill arose from the acquisitions of subsidiaries by the New Group.

The patent represented the right in respect of knowledge knowhow and related manufacturing process of a pharmaceutical product acquired from Wuhan Institute of Virology, The Chinese Academy of Sciences (“Wuhan Institute of Virology”), an immediate holding company of the minority shareholder of a subsidiary, upon establishment of the subsidiary in 1996. The cost of the patent to the New Group was determined by reference to a valuation conducted by Wuhan Zhong Hua Certified Public Accountants.

Development costs represented payments for experimental testing of a product in connection with the application of licences for sales of the product.

Notes to the Proforma Accounts

13. FIXED ASSETS

	Construction in progress HK\$'000	Land use rights HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Total HK\$'000
Cost								
At 1st January, 2001	7,169	3,527	877	3,131	1,553	563	275	17,095
Exchange translation differences	—	—	—	(77)	—	(2)	—	(79)
Additions	16,253	4,472	1,102	174	866	416	394	23,677
Disposals	—	—	(92)	—	—	(39)	(19)	(150)
At 31st December, 2001	23,422	7,999	1,887	3,228	2,419	938	650	40,543
Accumulated depreciation								
At 1st January, 2001	—	—	707	1,051	876	273	14	2,921
Exchange translation differences	—	—	—	(24)	—	(1)	—	(25)
Charge for the year	—	144	142	379	297	94	76	1,132
Disposals	—	—	(19)	—	—	(10)	(4)	(33)
At 31st December, 2001	—	144	830	1,406	1,173	356	86	3,995
Net book value								
At 31st December, 2001	23,422	7,855	1,057	1,822	1,246	582	564	36,548
At 31st December, 2000	7,169	3,527	170	2,080	677	290	261	14,174

Notes:

- The New Group's land use rights are held outside Hong Kong under leases of 10 to 50 years.
- At 31st December, 2001, the net book value of the New Group's fixed assets pledged as security for the New Group's long-term bank loans amounted to approximately HK\$31,277,000 (2000: HK\$Nil).
- The aggregate cost and accumulated depreciation of the New Group's plant and machinery held for use under operating leases as at 31st December, 2001 amounted to approximately HK\$344,000 (2000: HK\$Nil) and HK\$187,000 (2000: HK\$Nil) respectively.
- At 31st December, 2001, the aggregate net book value of the New Group's fixed assets held under finance leases amounted to approximately HK\$307,000 (2000: HK\$Nil).

14. INVENTORIES

	2001	2000
	HK\$'000	HK\$'000
Raw materials	2,547	2,444
Work in progress	—	318
Finished goods	1,235	629
Packing materials	9	75
	3,791	3,466

At 31st December, 2001 and 2000, all inventories were carried at cost.

15. TRADE RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2001	2000
	HK\$'000	HK\$'000
Trade receivables	27,836	42,102
Prepayments and deposits	21,044	2,416
Other receivables	2,800	1,465
	51,680	45,983

The New Group's turnover is either on letter of credit, documents against payment or open account.

At 31st December, 2001, the age analysis of the trade receivables was as follows:

	2001	2000
	HK\$'000	HK\$'000
Within 30 days	15,253	24,734
31–60 days	5,211	10,171
61–90 days	4,551	3,369
Over 90 days	2,821	3,828
	27,836	42,102

16. BANK BALANCES AND CASH

Included in bank balances and cash as at 31st December, 2001 were deposits of approximately HK\$3,571,000 (2000: HK\$Nil) and HK\$4,364,000 (2000: HK\$334,000) pledged as collateral for short-term bank loans (note 20(a)) and trust receipt loans (note 26) respectively.

Included in bank balances and cash as at 31st December, 2001 were amounts of approximately HK\$2,411,000 (2000: HK\$3,869,000) denominated in Renminbi not freely convertible to other currencies.

17. TRADE PAYABLES, ACCRUED CHARGES AND OTHER PAYABLES

	2001	2000
	HK\$'000	HK\$'000
Trade payables	8,753	14,448
Accrued charges and other payables	5,910	4,414
	14,663	18,862

At 31st December, 2001, the age analysis of the trade payables was as follows:

	2001	2000
	HK\$'000	HK\$'000
Within 30 days	3,446	8,106
31–60 days	1,513	511
61–90 days	2,643	2,892
Over 90 days	1,151	2,939
	8,753	14,448

18. AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

Amounts due to minority shareholders of subsidiaries are unsecured, interest free and have no fixed terms of repayment except for a loan of approximately HK\$4,575,000 due to a minority shareholder as at 31st December, 2000 which bore interest at a rate of 7.56% per annum and was fully repaid during the year. The minority shareholder has agreed not to charge any interest for the year.

19. AMOUNTS DUE TO DIRECTORS

Amounts due to Directors are unsecured, interest free and have no fixed terms of repayment.

20. SHORT-TERM BANK LOANS

	2001	2000
	HK\$'000	HK\$'000
Short-term bank loans		
— secured (note a)	15,943	12,557
— unsecured (note b)	2,642	4,717
	18,585	17,274

Notes:

- (a) At 31st December, 2001, short-term bank loans of approximately HK\$12,547,000 (2000: HK\$12,557,000) and approximately HK\$3,396,000 (2000: HK\$Nil) were secured by properties of a related party and certain bank deposits of a subsidiary respectively.
- (b) At 31st December, 2001, short-term bank loans of approximately HK\$2,642,000 (2000: HK\$2,830,000) were guaranteed by a related party. Short-term bank loans of approximately HK\$1,887,000 as at 31st December, 2000 were guaranteed by an intermediate holding company of the minority shareholder of a subsidiary.
- (c) As at the date of approval of proforma accounts, the relevant bank has released the above guarantee and security provided by the related party in exchange for corporate guarantees provided by a subsidiary.

21. OTHER LOANS

	2001	2000
	HK\$'000	HK\$'000
Other loans		
— secured (note)	2,830	2,830
— unsecured	1,921	3,179
	4,751	6,009

Note:

As at 31st December, 2001, other loan of approximately HK\$2,830,000 (2000: HK\$2,830,000) was secured by properties of a related party and was wholly repayable within one year.

As at the date of approval of proforma accounts, the relevant lender of other loan has released the above security provided by the related party in exchange for a corporate guarantee provided by the Company.

22. SHARE CAPITAL

For the purpose of the presentation of the proforma accounts, the balance of the share capital shown in the proforma consolidated balance sheet as at 31st December, 2001 and 2000 respectively represented the proforma share capital of the Company as if the Group Reorganisation and capitalisation issue had been completed on those dates.

	Number of shares	Par value per share HK\$	Paid up amount HK\$
Shares allotted and issued upon incorporation (note a)	3	0.10	0.30
Shares allotted and issued for acquisition of subsidiaries pursuant to the Group Reorganisation (note b)	1,818,178	0.10	181,817.80
Shares allotted and issued for capitalisation of amounts due to Directors pursuant to the Group Reorganisation (note c)	1	0.10	0.10
Share split (note d (i))	<u>16,363,638</u>		<u>—</u>
	18,181,820	0.01	181,818.20
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the placing of Company's shares (note d (iii))	<u>941,818,180</u>	0.01	<u>—</u>
Proforma share capital at 31st December, 2001 and 2000	<u>960,000,000</u>	0.01	<u>181,818.20</u>

Notes:

- (a) The Company was incorporated in the Cayman Islands on 30th May, 2001 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. On the same date, one share of HK\$0.10 each was allotted and issued for cash at HK\$0.10. On 31st May, 2001, two shares of HK\$0.10 each were allotted and issued for cash at par.
- (b) On 17th December, 2001, two shares of US\$1 each in Ever Power Holding Inc. and two shares of US\$1 each in Gainful Plan Limited were transferred by certain shareholders of the Company to the Company in consideration of and exchange for which the Company allotted and issued, credited as fully paid, one share of HK\$0.10, to one of these shareholders.
- On 17th December, 2001, an aggregate of 909,087 new shares of HK\$0.10 each were also issued and allotted nil paid to then shareholders.
- On 23rd January, 2002, the shareholders of the Company transferred the entire share capital of Yugofoil Holdings Limited to the Company in consideration of and exchange for which the Company (i) allotted and issued, credited as fully paid, 909,090 new shares of HK\$0.10 each; and (ii) credited as fully paid at par the 909,087 nil paid shares of HK\$0.10 each held by shareholders of the Company.
- (c) On 23rd January, 2002, the Company allotted and issued one share of HK\$0.10 each, at the joint direction of three Directors, to a Director of the Company for the settlement of amounts of AUD475,000 (approximately HK\$1,900,000) due to these three Directors.
- (d) Pursuant to resolution in writing passed by all shareholders of the Company on 26th January, 2002:
- (i) the then issued and unissued shares having a par value of HK\$0.10 each in the capital of the Company were subdivided into ten share of HK\$0.01 each.
- (ii) the authorised share capital of the Company was increased by HK\$499,610,000 from HK\$390,000 to HK\$500,000,000 by the creation of additional 49,961,000,000 shares of HK\$0.01 each.

22. SHARE CAPITAL (Continued)

- (iii) A total of 941,818,180 shares were allotted as fully paid at par to shareholders whose names appeared on the register of shareholders of the Company in proportion to their respective shareholdings at the close of business on 26th January, 2002 by way of capitalisation issue of the sum of HK\$9,418,182 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the placing of the Company's shares, as detailed in (note 22(d)(iv)) below.
- (iv) the Company issued 240,000,000 new shares of HK\$0.01 each by way of placing at HK\$0.45 per share for cash. The excess over the par value of the shares was credited to the share premium account.

Share option scheme

Pursuant to the written resolutions of the shareholders of the Company dated 26th January, 2002, a share option scheme ("Share Option Scheme") was approved and adopted.

Under the Share Option Scheme, the Directors may, at their sole discretion, grant to any employee of the New Group to take up options at HK\$1 per option to subscribe for shares of the Company at the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant; or (ii) the average closing price of the shares on GEM as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

The maximum number of securities to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the New Group must not in aggregate exceed 30% of the relevant shares or securities of the Company (or the subsidiary) in issue from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the New Group must not in aggregate exceed 120,000,000 shares, representing 10% of the shares in issue upon completion of the placing and the capitalisation issue of the shares of the Company.

As at the date of approval of proforma accounts, no options had been granted under the Share Option Scheme.

Notes to the Proforma Accounts

23. RESERVES

	Merger reserve (note (a)) HK\$'000	Exchange reserve HK\$'000	Reserve fund HK\$'000	Enterprise development fund HK\$'000	(Accumulated losses)/ retained profits HK\$'000	Total HK\$'000
At 1st January, 2000	1,719	—	—	—	(690)	1,029
Transfer (note (b))	—	—	42	22	(64)	—
Profit for the year	—	—	—	—	14,539	14,539
At 31st December, 2000	1,719	—	42	22	13,785	15,568
At 1st January, 2001	1,719	—	42	22	13,785	15,568
Transfer (note (b))	—	—	1,189	594	(1,783)	—
Exchange translation differences	—	119	—	—	—	119
Profit for the year	—	—	—	—	38,125	38,125
At 31st December, 2001	1,719	119	1,231	616	50,127	53,812

Notes:

- (a) The merger reserve of the New Group represents the difference between the nominal value of the shares of the subsidiaries that would have been acquired and amounts due to directors that would have been capitalised pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange therefor.
- (b) In accordance with the relevant government regulations and the articles of association of a subsidiary in the PRC, it is required to appropriate at each year end 10% and 5% respectively of the profit for the year after setting off accumulated losses brought forward (based on figures reported in the statutory accounts) to reserve fund and enterprise development fund respectively. These reserves are required to be retained in the accounts of the subsidiary for specific purposes.

24. LONG-TERM LIABILITIES

	2001	2000
	HK\$'000	HK\$'000
Wholly repayable within five years		
Bank loans — secured	14,319	—
Obligations under finance leases	275	—
	14,594	—
Current portion of long-term liabilities	(1,981)	—
	12,613	—

At 31st December, 2001, the New Group's long-term bank loans were repayable as follows:

	2001	2000
	HK\$'000	HK\$'000
Within one year	1,923	—
In the second year	2,867	—
In the third to fifth years inclusive	9,529	—
	14,319	—

The loans were secured by certain fixed assets of a subsidiary (note 13(b)).

24. LONG-TERM LIABILITIES (Continued)

At 31st December, 2001, the New Group's finance lease liabilities were repayable as follows:

	2001	2000
	HK\$'000	HK\$'000
Within one year	87	—
In the second year	87	—
In the third to fifth years inclusive	169	—
	343	—
Future finance charges on finance leases	(68)	—
Present value of finance lease liabilities	275	—

The present value of finance lease liabilities is as follows:

Within one year	58	—
In the second year	66	—
In the third to fifth years inclusive	151	—
	275	—

25. NOTES TO THE PROFORMA CONSOLIDATED CASH FLOW STATEMENT
(a) Reconciliation of operating profit to net cash inflow from operating activities:

	2001 HK\$'000	2000 HK\$'000
Operating profit	42,009	17,133
Interest income	(46)	(28)
Depreciation and amortisation	1,132	669
Loss on disposal of fixed assets	77	—
Amortisation of intangible assets	862	692
Increase in inventories	(325)	(1,624)
Increase in trade receivables, other receivables, prepayments and deposits	(5,697)	(17,834)
Decrease in amount due from a related company	—	4,290
Decrease in amount due from a director	—	319
(Decrease)/increase in trade payables, accrued charges and other payables	(4,199)	1,396
Increase in amounts due to minority shareholders of subsidiaries	32	2,408
(Decrease)/increase in amounts due to directors	(3,370)	3,070
(Decrease)/increase in value added tax payable	(2,748)	1,513
Effect of foreign exchange rate changes	(8)	—
Net cash inflow from operating activities	27,719	12,004

(b) Analysis of changes in financing during the year

	Minority interests		Long-term bank loans		Short-term bank loans		Other loans		Obligations under finance leases	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1st January	1,935	(240)	—	—	17,274	17,274	6,009	6,009	—	—
Exchange differences	—	—	—	—	—	—	(181)	—	—	—
Acquisition of a subsidiary (note 25(c))	—	1,432	—	—	—	—	—	—	—	—
Acquisition of additional equity interest in a subsidiary (note 25(e))	(419)	—	—	—	—	—	—	—	—	—
Minority interests' in share of profits less losses of subsidiaries	914	743	—	—	—	—	—	—	—	—
Inception of finance leases (note 25(f))	—	—	—	—	—	—	—	—	298	—
Cash inflow/(outflow) from financing	—	—	14,319	—	1,311	—	(1,077)	—	(23)	—
At 31st December	2,430	1,935	14,319	—	18,585	17,274	4,751	6,009	275	—

25. NOTES TO THE PROFORMA CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Purchase of a subsidiary

	2000 <u>HK\$'000</u>
Net liabilities acquired	
Fixed assets	2,480
Inventories	401
Trade receivables	96
Prepayments and deposits	421
Bank balances and cash	910
Trade and other payables	(434)
Amount due to a minority shareholder	(2,455)
Amount due to a former holding company	(943)
Value added tax payable	(1)
Minority shareholder's interests	<u>(1,432)</u>
	(957)
Goodwill	<u>1,804</u>
Consideration	<u>847</u>
Satisfied by:	
Cash	<u>847</u>

The subsidiary acquired in 2000 contributed HK\$70,000 to the New Group's net operating cash flows and utilised HK\$8,639,000 for investing activities.

(d) Analysis of net cash inflow in respect of the purchase of a subsidiary

	2000 <u>HK\$'000</u>
Cash consideration	(847)
Bank balances and cash acquired	<u>910</u>
Net cash inflow in respect of the purchase of a subsidiary	<u>63</u>

25. NOTES TO THE PROFORMA CONSOLIDATED CASH FLOW STATEMENT (Continued)**(e) Purchase of additional equity interest in a subsidiary**

	2001
	HK\$'000
Share of net assets acquired	419
Goodwill	149
	568
Satisfied by:	
Cash	568

In 1999, the New Group purchased additional interests in a subsidiary at total considerations of approximately HK\$1,934,000. The considerations payable of approximately HK\$1,934,000 was still outstanding as at 31st December, 2000. The payments of HK\$1,934,000 together with an amount of HK\$568,000 for purchase of additional equity interest in the subsidiary as described above, totalling HK\$2,502,000, were made during the current year.

(f) Major non-cash transaction

During the year, the New Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of approximately HK\$298,000 (2000: HK\$Nil).

(g) Analysis of balances of cash and cash equivalents

	2001	2000
	HK\$'000	HK\$'000
Bank balances and cash		
— pledged	7,935	334
— unpledged	6,460	4,860
Bank overdrafts	(1,797)	—
Trust receipt loans	(2,449)	(3,552)
	10,149	1,642

26. BANKING FACILITIES

A subsidiary of the New Group had aggregate banking facilities for overdrafts and trust receipt loans of HK\$7,000,000 (2000: HK\$3,120,000) as at 31st December, 2001. The facilities were secured by the following:

- (i) a corporate guarantee of HK\$10,000,000 of the Company;

26. BANKING FACILITIES (Continued)

- (ii) an unlimited joint and several guarantee of a Director of the Company and a director of a subsidiary;
- (iii) 5% of gross receipts from trade receivables as deposits pledged to a bank (the deposit pledged was approximately HK\$4,364,000 (2000: HK\$334,000) at 31st December, 2001 (note 16)); and
- (iv) all export documentary credits of the subsidiary.

On 26th February, 2002, the New Group revised the banking facilities for overdrafts and trust receipt loans with the relevant bank to a facility limit of HK\$12,000,000 and the security of the facility has been replaced by:

- (i) a corporate guarantee of HK\$25,000,000 of the Company; and
- (ii) 1% of each export bill proceeds as deposits pledged to the bank.

27. RELATED PARTY TRANSACTIONS

In addition to those transactions with related parties disclosed elsewhere in the proforma accounts, the following significant related party transactions were carried out in the normal course of the New Group's business:

	2001	2000
	HK\$'000	HK\$'000
Rental expense paid to Wuhan Institute of Virology (note a)	226	226
Rental and renovation expenses paid to a related company (note b)	166	329
Raw materials purchased from a related company (note c)	21,258	12,928
Management fee paid to Wuhan Institute of Virology (note d)	—	425
Purchase of motor vehicles from a minority shareholder of a subsidiary (note e)	216	—
Rental expense paid to a director of the Company (note f)	116	—

Notes:

- (a) Rental expense was paid to Wuhan Institute of Virology at a lump sum of RMB240,000 (approximately HK\$226,000) per annum for the year ended 31st December, 2000 as set out in an agreement entered into between a subsidiary and Wuhan Institute of Virology dated 26th January, 1997. Rental expense was paid to Wuhan Institute of Virology at a lump sum of RMB240,000 (approximately HK\$226,000) per annum for the year ended 31st December, 2001 as set out in an agreement entered into between the subsidiary and Wuhan Institute of Virology dated 20th December, 2000 and an addendum dated 20th January, 2001.
- (b) Pursuant to agreements entered into between a subsidiary and Wuhan Maxin Industrial Company Limited ("Wuhan Maxin"), a company of which one of its directors is also the director of the subsidiary, rental expenses of RMB30,680 (approximately HK\$29,000) and renovation expenses of RMB666,400 (approximately HK\$629,000) were paid to Wuhan Maxin for the two years ended 31st December, 2000. The total expenses incurred as aforementioned of approximately HK\$658,000 was amortised on a straight-line basis over the lease term during 1999 and 2000.

Rental expense was paid to Wuhan Maxin at an amount of RMB13,800 (approximately HK\$13,000) per month for a term of six years commencing on 1st January, 2001 as set out in an agreement entered into between the subsidiary and Wuhan Maxin dated 15th March, 2001. The rental expense for the year ended 31st December, 2001 was HK\$166,000.

27. RELATED PARTY TRANSACTIONS (Continued)

- (c) A subsidiary of the New Group purchased raw materials from Pharmco International Inc., a company wholly owned by the minority shareholders of a subsidiary, at prices and terms as set out in the agreement entered into between the subsidiary and Pharmco International Inc.
- (d) Management fee was paid to Wuhan Institute of Virology at a lump sum of RMB450,000 (approximately HK\$425,000) per annum as set out in an agreement entered into between the subsidiary and Wuhan Institute of Virology dated 26th January, 1997 for the period from February 1997 to December 2000. No management fee was charged by Wuhan Institute of Virology for the year ended 31st December, 2001.
- (e) During the year, a subsidiary purchased two motor vehicles from the minority shareholder of a subsidiary at total considerations of approximately HK\$216,000.
- (f) Pursuant to a tenancy agreement entered into between the New Group and Mr. Tao Lung ("Mr. Tao"), a Director of the Company, on 8th September, 2001, the New Group has agreed to lease office premises from Mr. Tao for a term of one year commencing from 8th September, 2001 at a monthly rental of RMB30,684 (approximately HK\$28,947), exclusive of management fee and all outgoings.
- (g) On 26th December, 2000, a subsidiary of the New Group purchased a trademark of Osteoform from Pharmco International, Inc. at a consideration of US\$1.

28. COMMITMENTS**(a) Capital commitments for construction in progress and other fixed assets**

	2001 HK\$'000	2000 HK\$'000
Contracted but not provided for	8,108	9,187

(b) Commitments under operating leases — where a group company is the lessee

At 31st December, 2001, the New Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2001 HK\$'000	2000 HK\$'000
Land and buildings		
Not later than one year	400	803
Later than one year and not later than five years	2,547	950
Later than five years	—	156
	2,947	1,909

29. FUTURE OPERATING LEASE INCOME

At 31st December, 2001, the New Group had total future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2001 HK\$'000	2000 HK\$'000
Plant and machinery		
Not later than one year	91	—
Later than one year and not later than five years	8	—
	99	—

30. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries held by the Company as at 31st December, 2001, on the assumption that the Group Reorganisation had been effective as of that date, are as follows:

Name	Place of incorporation/ establishment	Place of operations	Principal activities	Particulars of issued share capital/paid up capital	Equity interest held
Direct subsidiaries:					
Ever Power Holding Inc.	British Virgin Islands (“BVI”)	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%
Farthinghoe Enterprises Limited (note a)	BVI	Australia	Investment holding	3 ordinary shares of US\$1 each	100%
Gainful Plan Limited	BVI	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%
Yugofoil Holdings Limited	BVI	Hong Kong	Investment holding and provision for management services	100 ordinary shares of US\$1 each	100%
Vital BioTech (Hong Kong) Limited (note b)	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%
Indirect subsidiaries:					
Beshabar Trading Limited	BVI	Hong Kong	Investment holding	1 ordinary share of US\$1	100%
Beshabar Trading Limited (formerly Wise Shine Limited)	Hong Kong	PRC	Trading of pharmaceutical products	100 ordinary shares of HK\$1 each	100%
Maxsun International Limited	Hong Kong	Hong Kong	Investment holding	100 ordinary shares of HK\$1 each	51%

30. PARTICULARS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operations	Principal activities	Particulars of issued share capital/paid up capital	Equity interest held
Indirect subsidiaries					
(Continued):					
Sichuan Weiao Pharmacy Co., Ltd. (formerly Sichuan Kangbai Pharmacy Co., Ltd) (note c)	PRC	PRC	Manufacturing and trading of pharmaceutical products in the PRC	RMB9,000,000	76.7%
Wuhan Tianao Pharmaceuticals Co., Ltd (note d)	PRC	PRC	Manufacturing and trading of pharmaceutical products in the PRC	RMB7,140,000	95%
Vitapharm Research Pty Ltd (note a)	Australia	Australia	Research and development of pharmaceutical products in Australia	20 ordinary shares of AUD1 each	100%
Vital (Sichuan) Biotech Co., Ltd.	PRC	PRC	Research and development of pharmaceutical products in the PRC	US\$1,400,000 (note e)	100%

Notes:

- (a) Farthinghoe Enterprises Limited and Vitapharm Research Pty. Ltd. were acquired by the New Group through a share exchange with certain shareholders of the Company on 23rd January, 2002.
- (b) Vital BioTech (Hong Kong) Limited was acquired by the New Group on 19th June, 2001.
- (c) Sichuan Weiao Pharmacy Co., Ltd. was acquired by the New Group on 16th November, 2000.
- (d) Equity interests of 70%, 10%, 10% and 5% in Wuhan Tianao Pharmaceuticals Co., Ltd. were acquired by the New Group on 10th November, 1998, 3rd November, 1999, 27th December, 1999 and 1st April, 2001 respectively.
- (e) As at 31st December, 2001 the capital of Vital (Sichuan) Biotech Co., Ltd. was paid to the extent of US\$210,000.

31. SUBSEQUENT EVENTS

In addition to those disclosed elsewhere in the proforma accounts, the following significant events took place subsequent to 31st December, 2001 :

- (a) On 26th January, 2002, an aggregate of 1,159,092 shares of HK\$0.10 each in the Company were transferred by certain shareholders of the Company to Perfect Develop Holding Inc. (“Perfect Develop”) in consideration of and exchange for which Perfect Develop issued as fully paid an aggregate of 100 shares of US\$1 each in the capital of Perfect Develop to these shareholders. Since then, Perfect Develop became the ultimate holding company of the Company.
- (b) On 26th January, 2002, the Company became the holding company of the New Group pursuant to a group reorganisation in preparation for a listing of the shares of the Company on GEM of the Stock Exchange. The Company’s shares were listed on GEM on 7th February, 2002.

32. ULTIMATE HOLDING COMPANY

Following the group reorganisation mentioned in note 31, the directors regard Perfect Develop Holdings Inc., a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Company.

33. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd March, 2002.