



維奧生物科技控股有限公司
Vital BioTech Holdings Limited
(incorporated in the Cayman Islands with limited liability)

INTERIM REPORT 2002

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

Contents

2	Highlights
3	Chairman's Statement
11	Management Discussion and Analysis
23	Consolidated Profit and Loss Account
24	Consolidated Balance Sheet
26	Consolidated Cash Flow Statement
28	Notes to Consolidated Financial Statement
44	Other Information

Vital BioTech Holdings Limited
Interim Report 2002

Highlights

	For the six months ended 30 June 2002		
	Six months	This quarter	Last quarter
	in total		
	HK\$'000	HK\$'000	HK\$'000
Turnover	64,934	42,049	22,885
Profit attributable to shareholders	18,121	11,960	6,161
Basic earnings per share	HK1.57 cent	HK1.01 cent	HK0.56 cent

- The turnover of the Group was approximately HK\$65,000,000, representing an increase of approximately 23% year-on-year;
- Profit attributable to shareholders was approximately HK\$18,000,000, representing an increase of approximately 34% increase year-on-year;
- Basic earnings per share increased from HK1.40 cent recorded in the same period last year to HK1.57 cent this year;
- The Directors proposed to pay an interim dividend of HK1 cent per share; and
- Scrip dividend scheme: Shareholders may elect to receive dividend in the form of scrip share or in cash. In the case of scrip share, the holder of every 30 shares of the Company is entitled to 1 new share.



Chairman's Statement

BUSINESS REVIEW

I am pleased to announce that the unaudited interim results of the Company together with its subsidiaries (collectively the "Group") for the six months ended 30 June 2002 (the "Reporting Period"), continued to achieve satisfactory growth.

Products sales

During the period under review, the sales of the Group's major products, namely, "Osteoform" and "Opin" were satisfactory. Sales of Osteoform reached approximately HK\$50 million whereas sales of Opin was approximately HK\$10 million which together represented an increment of 23% year-on-year.

The number of Osteoform distributors with annual turnover reaching RMB1 million was around 180, while those with annual turnover reaching RMB500,000 was around 560. The number of general drug stores selling Osteoform increased from around 30,000 at the beginning of the year to around 40,000 in the reporting period, representing an increase of approximately 30%.



The number of Opin distributors with annual turnover reaching RMB1 million was around 10, while those with annual turnover reaching RMB500,000 was approximately 50.

Training of sales staff and marketing activities

This year, the Group will recruit additional staff and emphasize on professional training of marketing executives. Apart from employees of the Group, our intensive training schemes will also cover employees of major distributors. During the period under review, the Group organized a number of training activities in collaboration with, such as the Guangdong Institute of Professional Training (廣東專業技術培訓中心) on communication skills, self-management, customer resources management, business manner, negotiation skill, basic business management and preparation of over-the-counter (“OTC”) manual for sales executive of different levels.

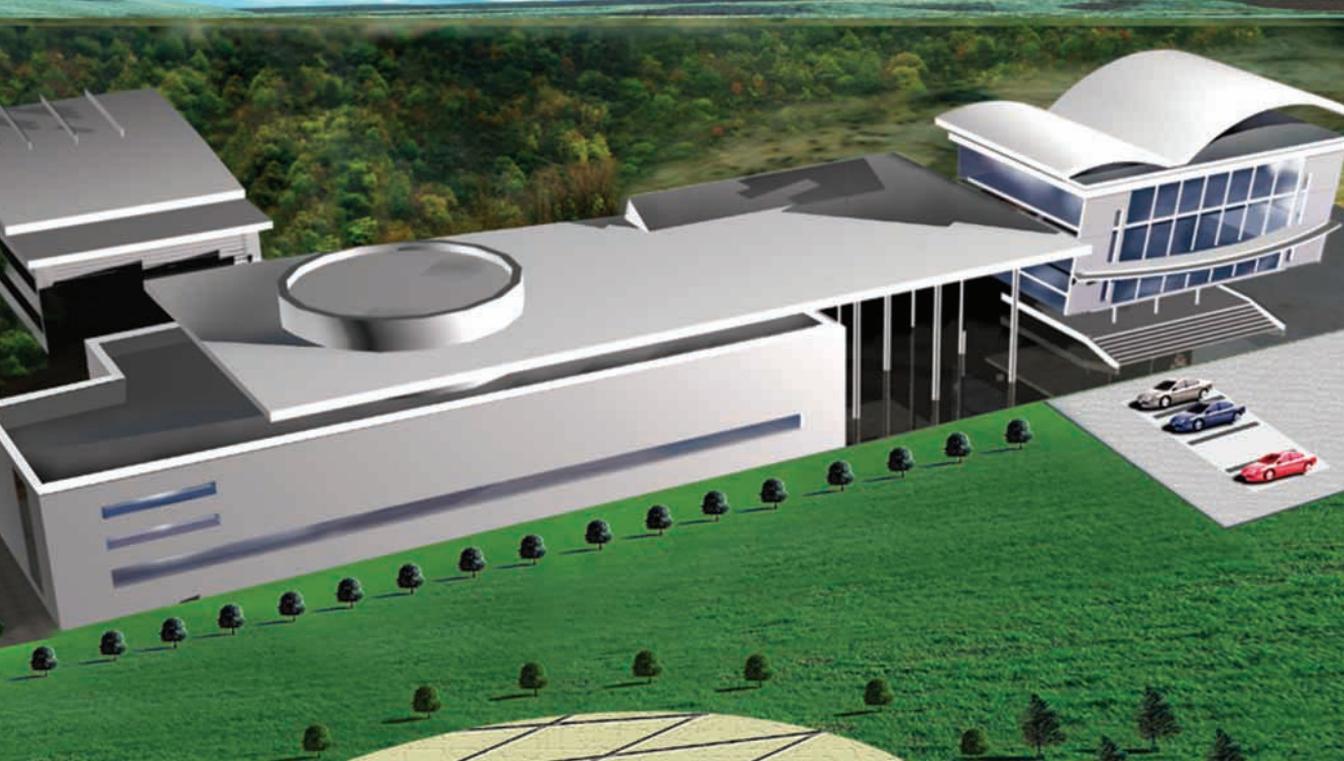
The number of representative office nationwide remained at 28. Sales activities have been extended to the region of Hainan, Xizang, Qinghai, Gansu, Qingdao and Dalian, the entire nation was essentially covered. A national product promotion and customer relationship seminar and 31 regional similar events were held during this period.

“Opin”

Clinical trial on Opin as a “Class 5” new drug for extended indication (第五類擴症) was completed and concluded in Shenzhen in January 2002. A report on the clinical trial has been submitted to the State Drug Administration (“SDA”) in April 2002. Pending approval, production permit is expected to be issued by the end of the year.

Even though sales of Opin only accounted for approximately 18% of Group's turnover, the extent of raw material overage was significantly reduced by the patented Protein Stabilisation Delivery (“PSD”) technology of the Group. As a result, production cost was substantially cut back by the improved production technique with further improvement of profit margin.





Chairman's Statement

Wuhan Tianao

The Group's existing Wuhan factory is not Good Manufacturing Practice ("GMP") compliant. To comply with the SDA requirements that all drug production plants must be GMP compliant by 30 June 2004 and to secure the Group's development in Central China region, the Group has decided to set up new production facility in Wuhan instead of Sichuan.

The proposed new Tianao GMP plant in Wuhan is located in the development zone of the Wuhan University with an area of approximately 30,000 m². Land surveying on the project was completed. GMP design proposal was inspected by the SDA Wubei Branch in June. Preparation of the land requisition agreement for signing, application for construction, tender for project management and other related matters are in progress.

The total budget for this designated project is estimated at RMB60,000,000. The gross floor area is approximately 10,000 m². This project is scheduled to have GMP approval by the end of November 2003.

Sichuan Weiao

The Group's production line in Chengdu, Sichuan Province was granted the GMP certificate in December last year. Production commenced this year. Last year, the packaging process of the Group's major product, Osteoform, was sub-contracted to a



pharmaceutical manufacturer in Hong Kong. The process has been handed over to the new production facility in Chengdu. The Group expects that such arrangements can effectively control costs and quality and also synchronize with marketing activity.

Business in Australia

The Group is very confident in its position in biotechnological research in Melbourne, Australia. To strengthen its position as an overseas technological collaboration centre, the Group plans to purchase an industrial building instead of leasing. This will be converted into an experimental pilot production plant. This plant has a land area of approximately 1,300 m² and a building floor area of approximately 1,800 m². Commissioning is expected to be by September 2004. The construction work will be conducted in two phases with a total budget of approximately AUD2,800,000 inclusive of the land cost.



BUSINESS OUTLOOK

Platform technologies

Development of Protein Stabilisation Delivery ("PSD") technology

During the year, the Group plans to co-operate with an animal vaccine manufacturer listed on the Shanghai Stock Exchange to conduct research on vaccine production with the Group's PSD technologies. Micro-capsulated samples of vaccines have been prepared and delivered to the manufacturer's laboratory for testing. Further experiments are planned pending on the results of this testing. This co-operation is not only lucrative but is also significant for the commercialization of the Group's platform technologies and its application on vaccines production.

Development of Skin Drug Delivery System ("SDDS")

The Group's "Mediko Spray-on Bandage" (美迪高創口噴霧劑) developed from its SDDS technology was approved by the Sichuan Health Bureau (四川省衛生廳) as a medical health care product. As the sales channels and target consumers of this product differ from the Group's existing products, the Group plans to seek partnership for further commercial development.



Development of new drugs

"Depile" is a Chinese herbal product for alleviating the symptoms of hemorrhoid. Final stage of clinical trial has been completed. Application for Class 3 new drug and production permit with the SDA are in progress, and are expected to be completed this year. Production and marketing campaigns are planned in the second half of this year.

The Group will be actively engaged in marketing and promoting "Osteoform" in the second half of this year, aiming to expand market and to increase sales volume. Publicity includes prime time TV commercials and extensive advertisements on public transport.

The Group is also confident in Eastern European and Russian market. Russian Health Department granted approval and registration of "Osteoform" in February 2002. In July 2002, the Group entered into an agreement with a Russian company. The first shipment of "Osteoform" is expected by the end of 2002. The product is expected to be well-received in these markets.



Development of "Opin"

Apart from setting up a GMP plant in Wuhan to increase future production capacity, the Group is also considering the feasibility of expanding into OTC market with a view to explore the retail market and boost up sales.

Investment in the magazine "Chinese Prescription Drug" (中國處方藥)

In the second half of the year, the Group will strategically invest in the magazine, "Chinese Prescription Drug" (中國處方藥) published by the SDA Institute of Economic and Medical Research in Southern China (國家藥監局南方醫藥經濟研究所) to enhance the Group's connections with medical organizations and academics in the PRC. As the magazine targets at professionals, it is an effective communication channel between the Group and Chinese medical academics and practitioners. It is also an effective channel for the Group to disseminate its latest medical studies to strengthen its image in the medical profession in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CURRENCY POLICY

During the period under review, the Group placed 240,000,000 shares. The net proceeds from the placing, less part of the listing and placing expenses, was approximately HK\$96,000,000.

As at 30 June 2002, the Group had outstanding borrowings of approximately HK\$61.8 million (at 31 December 2001: HK\$41.9 million), comprising long-term portion of approximately HK\$9.5 million (at 31 December 2001: HK\$14.3 million), short-term portion of approximately HK\$52.3 million (at 31 December 2001: HK\$23.4 million); and there are no bank overdrafts or trust receipt loans (at 31 December 2001: HK\$4.2 million).

All outstanding bank loans were borrowed by the Company's PRC subsidiaries and denominated in Renminbi with average interest rates at 6.5% per annum. The loans were secured by a bank deposit, certain fixed assets and corporate guarantees provided by the Company or its subsidiaries. In additions, the Hong Kong and Shanghai Banking Corporation Limited granted the Group HK\$12 million banking facilities at best lending rate. Such banking facilities were secured by a guaranteed fund and bank deposits.

The treasury strategy of the Group is to hedge borrowing currency against revenue currency to avoid foreign currency risks and as well to minimise the effects of domestic foreign exchange control. In the latter half of the year, the Group will set up a new pilot production R&D centre in Melbourne, Australia. During the period under review, the weakening of US dollar has inflated our cost. The Group will attend to exchange rate risks and hedging arrangements.

In June 2002, a subsidiary of the Group has entered into a revolving working capital loan agreement of RMB60 million with a major bank in the PRC. Interest is charged at the domestic floating interest rate and the facility is guaranteed by the Company. At the latest practicable date of this report, the annual floating interest rate of this facility was approximately 5.1%.

The gearing ratio of the Group was approximately 40%. Available cash and standby banking facilities amounting in total to approximately HK\$130 million were considered adequate to finance business and R&D activities of the Group for the second half year. The Group will pursue to lower its bank borrowings or to source cheaper funds to manage its operating costs.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the period under review, the Group had no material acquisitions or disposals of its subsidiaries and associated companies.

EMPLOYEE INFORMATION

As at 30 June 2002, the Group had 633 employees (at 31 December 2001: 436), comprising 50 in research and development (at 31 December 2001: 35), 180 in production (at 31 December 2001: 128), 320 in sales (at 31 December 2001: 212) and 83 in finance and administration (at 31 December 2001: 61). As an incentive, the Group's remuneration, bonus and share option scheme policies are granted based on the performance of individual employees. In respect to the training policy, the Company will provide employees with education subsidies in proportion to their respective salary levels. The Company subsidizes

employees to take courses relevant to their professions with the condition that they have to pass the related examinations. In addition, sale staff will receive priority to participate into courses organized by the Group and other professional training centres free of charge for the purpose to sharpen their skills in sales and customer service.

None of the Group's employees is represented by a labour union or is subject to a collective bargaining agreement, nor has the Group experienced any work disruption during the six months ended 30 June 2002. The Directors believed its relationship with the employees was good.

PROGRESS OF BUSINESS OBJECTIVES

Below is a comparison of the actual business progress of the Group during the period under review and the business objectives stated in the Group’s prospectus dated 30 January 2002:

	Statement in the Prospectus	Actual Business Progress during the Period under Review
A. Product development and enhancement		
a.	Interferon nasal spray with an indication for upper respiratory tract viral infections including treatment of flu and cold	Prepare for clinical trials. In discussion with the SDA to agree on clinical trial protocol with a view to fulfilling SDA requirement.
b.	Receptase, an enzyme-based oral medication in powder form for farm animals designed to prevent diarrhea	Prepare for field trials. Continue to prepare for clinical field trial and registration.
c.	Probiotics, live beneficial bacterial capsules for healthy bowels	Stability testing. Selecting proper bacterial strains and indications. Continue research to enhance stability and further testing.
d.	EPO tablets to increase red blood cells in chronic subclinical anemia	Animal testing and stability testing. Applying for patent registration with State Patent Office. Completed preliminary animal study and stability testing.

	Statement in the Prospectus	Actual Business Progress during the Period under Review
e.	Iron orotate, a chelated iron supplement for chronic anemia	Completed preliminary pilot production, applying for registration as a nutrition supplement with the authority.
f.	Depile, a herbal capsule for hemorrhoid	Clinical trial completed. Applying for Class 3 New Drug and Certificate of Production. Commenced small scale and intermediate pilot production.
B.	Forging strategic alliances for partnerships to pursue the marketing objective of platform technology transfer	
	Ways to commercialize the platform technologies:	
	1. Joint Venture.	
	2. Service fee for processing of stabilization of raw material.	
	3. Licence fee for use of technologies.	
	4. Royalty fee from manufacturers to use the Group's platform technologies.	
		<ul style="list-style-type: none"> • Tests on improving vaccine production with PSD technology for a large animal vaccine manufacturer listed on the Shanghai Stock Exchange. Micro-capsulated samples of various vaccines produced. Pending on further testing results. Planning for formulation, optimization and clinical trials. • The Group has liaised with other potential partners. Further cooperative discussion is in progress.

	Statement in the Prospectus	Actual Business Progress during the Period under Review
C. Strengthening marketing and distribution networks in the PRC with an emphasis on expanding into the OTC drug market	Expand the sales channels of OTC drugs from hospitals to supermarkets and general drug stores.	Sales channels for Opin and Osteoform expanded to general drug stores. The supermarket channel is yet to be developed. The number of retail distribution outlets of Osteoform increased from around 30,000 at the beginning of the year to the current number of around 40,000.
D. Expansion to international markets and development of markets in the Asia Pacific region and Europe	For the South East Asian region, initial marketing work has commenced. For the European market, initial marketing work has commenced in Russia.	Development of European markets is of first priority. Osteoform has obtained government approval and registration in Russia in February 2002. An agreement was entered into with a Russian company in July. The first shipment of Osteoform is expected at the end of 2002.
E. Research & development and production	Further expansion of production capacity and research & development capabilities, and further development of new products.	The Group's GMP plant in Chengdu was commissioned. Osteoform, the Group's major product, is now being entirely produced by the Chengdu plant.
F. Establishment of the Group's websites	Several websites are used for advertising and promotion. The medium-term objective is to develop the websites into sales channel and e-commerce platform.	Two PRC websites and one Australian website have been established. E-commerce platform development is under investigation.

	Statement in the Prospectus	Actual Business Progress during the Period under Review
G. Milestones of business objectives and future plans		
<p>a. Establishment of new production facilities of “Sichuan Weiao”</p> <p>(Revised to establish a new plant in Wuhan City)</p>	<ul style="list-style-type: none"> • Engagement of consultant to ascertain the plan before June 2002. • Complete planning, application of permit and commencement of construction before December 2002. • Complete structural phase of construction before June 2003. • Equipment installation, commissioning of GMP certification and commencement of production before December 2003. 	<ul style="list-style-type: none"> • Site selected in May 2002. • Land to be purchased before December 2002. • Civil construction to be completed in mid 2003. • Equipment installation and GMP certification by the end of 2003. • Commissioning expected in early 2004.

	Statement in the Prospectus	Actual Business Progress during the Period under Review
b. Phase 1 construction of Chengdu R&D Centre		
	<ul style="list-style-type: none"> • Construction <ul style="list-style-type: none"> • Complete planning and commence construction before June 2002. • Complete structural phase of construction before December 2002. • Complete internal phase of construction by June 2003. • Equipment <ul style="list-style-type: none"> • Turbo coater deposit and progress payment before June 2002. • Commissioning of turbo coater and confirm ordering of miscellaneous equipment before December 2002. • Commissioning of miscellaneous equipment before June 2003. 	<p>As planned.</p> <ul style="list-style-type: none"> • Turbo coater has been installed at Sichuan Weiao, the Group's subsidiary, instead of the Chengdu R&D Centre because of the pressing demand for the equipment while waiting for the construction of the Chengdu R&D Centre. • Miscellaneous equipment will be installed in the Chengdu R&D Centre for miscellaneous research.

	Statement in the Prospectus	Actual Business Progress during the Period under Review
<ul style="list-style-type: none"> • GLP certification 	<ul style="list-style-type: none"> • Engagement of consultant before June 2002. • Complete GLP documentation before December 2002. • Commence GLP implementation before June 2003. 	<p>Re-scheduled for the GLP to be implemented by June 2004.</p>
<p>c. Upgrading of the R&D Centre in Melbourne</p> <p>The plan to lease has been revised to purchase and to technically convert the plant into a pilot production line.</p>	<ul style="list-style-type: none"> • Lease of a GMP factory/ laboratory, GMP construction and ordering of equipment before June 2002. • GMP implementation and equipment commissioning before December 2002. 	<ul style="list-style-type: none"> • Site selected in June 2002. • A sales and purchase agreement was entered into in July 2002. • Design work to be completed before March 2003. • Phase 1 equipment installation to be finished before September 2003. • Commissioning before September 2004.

	Statement in the Prospectus	Actual Business Progress during the Period under Review
d. Product research and development	<ul style="list-style-type: none"> <li data-bbox="243 472 470 538">• Nasal Interferon Project <li data-bbox="508 472 826 643">• Establish study protocol, toxicology study, stability study and animal study before June 2002. <li data-bbox="508 681 817 814">• Finalize dossier registration and clinical trial before December 2002. <li data-bbox="508 852 803 986">• Complete registration, clinical trial and marketing plan before June 2003. <li data-bbox="508 1024 810 1090">• Launch product before December 2003. 	In good progress as planned.

	Statement in the Prospectus	Actual Business Progress during the Period under Review
<ul style="list-style-type: none"> • EPO Project 	<ul style="list-style-type: none"> • Complete technical and marketing feasibility study, sample preparation and establish study protocol before June 2002. • Complete toxicology study, stability study and animal study before December 2002. • Finalize dossier registration and clinical trial before June 2003. • Complete registration, clinical trial and marketing plan by December 2003. 	<p>In good progress as planned.</p>
<ul style="list-style-type: none"> • Probiotic Project <p>As the PRC authority has abolished the health supplement category, the product is to be registered as nutrition supplement.</p>	<ul style="list-style-type: none"> • Confirm formulation, technical feasibility study, toxicology study and stability study before June 2002. • Complete efficacy study before December 2002. • Finalize dossier registration before June 2003. • Complete registration as health supplement by December 2003. 	<p>In good progress as planned.</p>

	Statement in the Prospectus	Actual Business Progress during the Period under Review
<ul style="list-style-type: none"> Receptase Project 	<ul style="list-style-type: none"> Establish study protocol, toxicology study and stability study before June 2002. Finalize dossier registration and clinical trial before December 2002. Complete registration and marketing plan by June 2003. Launch product by December 2003. 	<p>In good progress as planned.</p>
<ul style="list-style-type: none"> Hemorrhoid Project 	<ul style="list-style-type: none"> Finalize dossier registration, clinical trial and marketing plan before June 2002. Launch product before December 2002. 	<ul style="list-style-type: none"> Conduct marketing plan before December 2002. Launch product in the first quarter of 2003.
<ul style="list-style-type: none"> Iron Orotate Project <p>As the PRC authority has abolished the health supplement category, the product is to be registered as nutrition supplement.</p>	<ul style="list-style-type: none"> Complete reliminary investigation, toxicology study, stability study and efficacy study before June 2002. Finalize dossier registration and submit application before December 2002. Complete registration as health supplement before June 2003. 	<p>In good progress. Registration as nutrition supplement is expected to be completed before December 2002.</p>

	Statement in the Prospectus	Actual Business Progress during the Period under Review
e. Market expansion		
<ul style="list-style-type: none"> • Network setup 	<ul style="list-style-type: none"> • Complete elementary staff training before June 2002. • Expand network of point of sales, local distributors, regional wholesalers and medical specialists before December 2002. • Conduct second staff training before June 2003. 	<ul style="list-style-type: none"> • Completed nationwide training on communication skills for sales staff and negotiation skills for managers. Technical training for sales staff in key provinces completed. Number of offices nationwide remained at 28. • Other items in progress as planned.
<ul style="list-style-type: none"> • Promotion to cover point of sales, local distributors and consumers 	<ul style="list-style-type: none"> • By December 2002. • By June 2003. • By December 2003. 	<p>The Group has around 700 existing distributors nationwide. Gradual progress adjustment will be made based on market sales.</p>
<ul style="list-style-type: none"> • Market survey 	<ul style="list-style-type: none"> • By December 2002. • By June 2003. • By December 2003. 	<p>As planned.</p>

THE USE OF PROCEEDS

The use of proceeds and the respective progress are as below:

Statement in the Prospectus	Payment and Implementation during the Period under Review		
	HK\$'000	HK\$'000	
• Establishment of new production lines in Chengdu City, Sichuan Province (Revised to the establishment of a GMP plant in Wuhan City)	18,000	14,000	Costs of land and equipment
• Construction of Phase 1 of the research and development center in Chengdu City, Sichuan Province	27,000	13,000	Costs of construction and equipment
• Research and development of biopharmaceutical and conventional pharmaceutical products	9,000	4,000	Joint venture on of new research and development pharmaceutical products.
• Construction of the GMP standard research and development center in Melbourne, Australia	11,000	—	Implementation in the second half of 2002.
Staff training before 30 June 2002	4,000	4,000	Nationwide training scheme in collaboration with the Guangdong Institute of Professional Training
Network setup, promotion and market survey in the second half of 2002	5,000	—	As planned.
Staff training, promotion and market survey in the first half of 2003	5,000	—	As planned.
Promotion and market research in the second half of 2003	5,000	—	As planned.

Statement in the Prospectus	Payment and Implementation during the Period under Review		
	HK\$'000	HK\$'000	
<ul style="list-style-type: none"> Total expenditure on marketing strategies such as expansion of distribution network, staff training and market survey 	19,000	4,000	
<ul style="list-style-type: none"> Remaining proceeds appropriated for working capital such as the new production lines in Chengdu City, Sichuan Province and the buffering expenses of HK\$7 million for staff recruitment 	12,000	12,000	Including a guaranteed fund of HK\$3,900,000 as collateral for banking facilities.
Fund raised/used	96,000	47,000	

To cope with fast growing business opportunities, the Group has adopted aggressive financial strategies during the period under review. Amid resources allocation in a planned manner, HK\$7 million was paid as deposit for the site of the GMP plant in Wuhan City; around HK\$8 million was paid for a turbo coater operating by Sichuan Weiao; HK\$3.9 million was allocated to a guaranteed fund as collateral for banking facilities and for better investment returns; and HK\$4 million was paid to purchase raw materials of Osteoform to meet growing market demands.

Unaudited Consolidated Profit and Loss Account

As at 30 June 2002, the unaudited consolidated profit and loss account is as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	4	42,049	40,241	64,934	52,767
Cost of sales		(15,540)	(21,905)	(23,010)	(28,953)
Gross profit		26,509	18,336	41,924	23,814
Other revenues	4	449	40	522	58
Selling and distribution expenses		(4,198)	(792)	(5,412)	(1,333)
Administrative expenses		(8,788)	(3,877)	(14,907)	(7,622)
Operating profit	5	13,972	13,707	22,127	14,917
Finance costs	6	(760)	(716)	(1,582)	(1,220)
Profit before taxation		13,212	12,991	20,545	13,697
Taxation	7	(62)	(17)	(433)	(25)
Profit after taxation		13,150	12,974	20,112	13,672
Minority interests		(1,190)	(60)	(1,991)	(188)
Profit attributable to shareholders		11,960	12,914	18,121	13,484
Earnings per share — basic and diluted	8	HK1.01 cent	HK1.35 cent	HK1.57 cent	HK1.40 cent

Unaudited Consolidated Balance Sheet

As at 30 June 2002, the unaudited consolidated balance sheet is as follows:

	Notes	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Non-current assets			
Long-term investment	9	3,900	—
Intangible assets	10	8,268	8,712
Fixed assets	11	76,965	36,548
		89,133	45,260
Current assets			
Inventories	12	8,324	3,791
Trade receivables, other receivables, prepayments and deposits	13	78,357	51,680
Bank balances and cash			
— pledged	14	8,289	7,935
— unpledged	14	59,001	6,460
		153,971	69,866
Current liabilities			
Trade payables, accruals and other payables	15	17,027	14,663
Value added tax payable		1,697	1,268
Tax payable		284	75
Current portion of long-term liabilities	16	2,969	1,981
Short-term bank loans	17	46,604	18,585
Other loan	18	2,830	4,751
Amounts due to minority shareholders of subsidiaries		—	320
Amount due to a Director		—	200
Trust receipt loans — secured		—	2,449
Bank overdrafts — secured		—	1,797
		71,411	46,089

Unaudited Consolidated Balance Sheet

	Notes	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Net current assets		82,560	23,777
Total assets less current liabilities		171,693	69,037
Financed by:			
Share capital	19(A)	12,000	182
Reserves	19(B)	145,405	53,812
Shareholders' funds		157,405	53,994
Minority interests		4,420	2,430
Long-term liabilities	16	9,868	12,613
		171,693	69,037

Unaudited Consolidated Cash Flow Statement

As at 30 June 2002, the unaudited consolidated cash flow statement is as follows:

	Notes	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Net cash (outflow)/inflow from operating activities	(a)	(4,994)	14,448
Investing activities			
Purchase of fixed assets		(41,117)	(12,600)
Purchase of additional equity interests in a subsidiary		—	(2,054)
Purchase of a long-term investment		(3,900)	—
Net cash outflow from investing activities		(45,017)	(14,654)
Net cash outflow before financing		(50,011)	(206)
Financing activities			
Short-term bank loans		28,019	3,292
Repayment of long-term bank loans		(1,757)	—
Drawdown of long-term bank loans		—	14,151
Repayment of other loans		(1,921)	—
Interest paid		(2,447)	(1,628)
Proceeds from issuance of new shares		108,000	—
Share issuance expenses		(22,742)	—
Net cash inflow from financing		107,152	15,815
Increase in cash or cash equivalents		57,141	15,609
Balance of cash or cash equivalents at the beginning of the period		10,149	1,642
Balance of cash or cash equivalents at the end of the period		67,290	17,251

Unaudited Consolidated Cash Flow Statement

Notes	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Analysis of cash or cash equivalents		
Bank balances and cash	67,290	21,045
Trust receipt loans	—	(3,794)
	67,290	17,251

Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating profit to net (outflow)/inflow from operating activities:

	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Profit from operation	22,127	14,917
Depreciation and amortization	1,596	468
Amortization of intangible assets	444	416
Increase in inventories	(4,533)	(2,432)
Increase in trade receivables, other receivables, prepayments and deposits	(26,677)	(12,541)
Increase in trade payables, accruals and other payables	2,364	13,952
Decrease in amounts due to minority shareholders	(320)	(670)
Increase in amounts due to a related company	—	210
(Decrease)/Increase in amounts due to a director	(200)	1,202
Increase/(Decrease) in value added tax payable	429	(1,074)
Cash generated from operations	(4,770)	14,448
Income tax paid	(224)	—
Net cash (outflow)/inflow from operating activities	(4,994)	14,448

1. GROUP REORGANIZATION

Pursuant to a group reorganization (the “Group Reorganization”) to rationalize the group structure in preparation for the listing of the Company’s shares on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) the Company became the holding company of the subsidiaries (collectively the “Group”). The Group Reorganization was completed on 26 January 2002 and the shares of the Company were listed on the Stock Exchange on 7 February 2002.

2. BASIS OF PREPARATION OF THE ACCOUNTS

The interim report of the Group was unaudited. The interim financial statements of the Group have been reviewed by the audit committee of the Group.

The interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of the Securities on the Growth Enterprise Market of the Stock Exchange. Principal accounting policies adopted in these financial statements, except for the adoption of new/revised statements of standard accounting practices effective from 1 January 2002 and the basis of consolidation below, are the same as those adopted in preparing the 2001 annual financial statements.

Adoption of new/revised Statements of Standard Accounting Practice

Effective 1 January 2002, the following Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants have been adopted:

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 25 (revised):	Interim financial report
SSAP 33:	Discontinued operations
SSAP 34:	Employee benefits

The adoption of the above new/revised SSAPs had no material effect on the amounts reported in the prior year.

3. BASIS OF CONSOLIDATION

The group reorganization of the Company was completed on 26 January 2002. According to the provisions of SSAP No. 27 "Accounting for the group reconstructions" issued by the Hong Kong Society of Accountants, the structure of the Group can be regarded as in existence in the past.

4. REVENUES AND TURNOVER

The Group is principally engaged in biotechnology research, manufacturing and trading of pharmaceutical products. Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable. Revenues recognized during the period are as follows:

	Three months ended 30 June 2002 HK\$'000	Three months ended 30 June 2001 HK\$'000	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Turnover				
Sales of goods	42,049	40,241	64,934	52,767
Other revenues				
Interests income	206	10	234	20
Rental income from hire of machinery	23	30	45	38
Advertising sponsorship, net	220	—	243	—
	449	40	522	58
Total revenues	42,498	40,281	65,456	52,825

No segmental information analyzed by principal activity is separately presented as the Group's segment revenues, expenses, results, assets and liabilities are primarily attributable to the trading and manufacturing of pharmaceutical products.

No segmental information analyzed by geographical area is separately presented as the Group's principal market is in the PRC.

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Three months ended 30 June 2002 HK\$'000	Three months ended 30 June 2001 HK\$'000	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Crediting				
Grants and subsidies from Government	—	200	—	200
Charging				
Amortization of intangible assets	237	208	444	416
Auditors' remuneration	608	80	623	94
Cost of inventories sold	14,781	17,357	20,649	23,534
Depreciation and amortization of fixed assets	1,144	339	1,596	468
Foreign exchange loss, net	145	6	234	14
Operating lease rental expenses	405	307	729	405
Provision for trade receivables	9	—	66	—
Provision for other receivables	—	—	—	95
Provision for inventories	—	—	—	292
Research and development costs	783	235	1,042	534
Staff costs (including directors' emoluments)	3,401	2,048	6,736	4,267

6. FINANCE COSTS

	Three months ended 30 June 2002 HK\$'000	Three months ended 30 June 2001 HK\$'000	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Interest expenses on:				
Amount due to a minority shareholder of a subsidiary	—	255	—	255
Bank financing	1,161	663	2,284	1,167
Other loans wholly repayable within 5 years	47	153	94	153
Trade payables	—	—	52	—
Loans due to staff	—	53	—	53
Finance leases	12	—	17	—
Total borrowing costs incurred	1,220	1,124	2,447	1,628
Less: interest capitalized on construction in progress	(460)	(408)	(865)	(408)
Total borrowing costs charged to the consolidated profit and loss account	760	716	1,582	1,220

The capitalization rate applied to funds borrowed generally and used for construction in progress is between 6.3% and 7% per annum (2001: between 6.6% and 18% per annum).

7. TAXATION

	Three months ended 30 June 2002 HK\$'000	Three months ended 30 June 2001 HK\$'000	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Hong Kong profits tax	20	17	35	25
PRC income tax	42	—	398	—
	62	17	433	25

Hong Kong profits tax has been provided at the rate of 16% (2001:16%) on the estimated assessable profits for the period.

The subsidiaries of the Group in the PRC have been granted income tax exemption 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 coming three years. A subsidiary, Wuhan Tianao Pharmaceuticals Co., Ltd., was entitled to tax exemption up to Year 2001 and is chargeable to income tax at 7.5% starting from Year 2002. Other subsidiaries were either under the tax holiday or having net losses in the current and the previous period.

No Australian income tax has been provided as the subsidiary operating in Australia was entitled to tax losses brought forward to offset estimated assessable profit for the period.

Deferred taxation in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts has not been accounted for as the effect of timing differences was not material (2001: nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit attributable to shareholders of approximately HK\$18,121,000 (2001:HK\$13,484,000) and on weighted average of approximately 1,150,939,000 (2001: 960,000,000) ordinary shares that issued in the year, and on the assumption that the Group Reorganization had been completed on 1 January 2001 (note 19).

8. EARNINGS PER SHARE (continued)

Diluted earnings per share is not presented for the six months ended 30 June 2002 and 30 June 2001 as the share options granted on 21 June 2002 are not exercisable at 30 June 2002, and thus there is no dilutive potential ordinary shares during the period.

The basic earnings per share of the Company as reported in the First Quarterly Report dated 10 May 2002 for the period ended 31 March 2002 and 31 March 2001 have been restated. For the periods, the weighted average number of shares based on the assumption that the Group Reorganization had been completed on 1 January 2001 was restated from 1,200,000,000 (2001: 1,200,000,000) shares to 1,101,333,000 shares (2001: 960,000,000 shares). Accordingly, the basic earnings per share based on the profits attributable to shareholders of HK\$6,161,000 (2001: HK\$570,000) was restated from HK0.513 cent (2001: HK0.0475 cent) to HK0.56 cent (2001: HK0.06 cent).

9. LONG-TERM INVESTMENT

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Guaranteed fund — pledge as security for the banking facilities to a subsidiary	3,900	—

Long-term investment represented a greater China guaranteed fund operated and guaranteed by The Hong Kong and Shanghai Banking Corporation Limited (“HSBC”). Market value as at 30 June 2002 was approximately HK\$3,706,000. As the fund was held for long term purpose and guaranteed by HSBC, no provision for impairment in value was necessary.

10. INTANGIBLE ASSETS

	Goodwill		Patent		Development costs		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cost								
At 1 January	7,960	7,811	2,831	2,831	462	—	11,253	10,642
Additions	—	149	—	—	—	462	—	611
At 30 June 2002/ 31 December 2001	7,960	7,960	2,831	2,831	462	462	11,253	11,253
Accumulated amortization								
At 1 January	1,568	924	944	755	29	—	2,541	1,679
Charge for the period/year	321	644	94	189	29	29	444	862
At 30 June 2002/ 31 December 2001	1,889	1,568	1,038	944	58	29	2,985	2,541
Net book value At 30 June 2002/ 31 December 2001	6,071	6,392	1,793	1,887	404	433	8,268	8,712

The goodwill arose from the acquisitions of subsidiaries by the 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 (an immediate holding company of the minority shareholder of a subsidiary), upon establishment of the subsidiary in 1996. The cost of patent to the Group was determined by reference to a valuation conducted by Wuhan Zhong Hua Certificated Public Accountants.

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

11. FIXED ASSETS

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Cost		
At 1 January	40,543	17,095
Exchange translation differences	—	(79)
Additions	42,013	23,677
Disposals	—	(150)
At 30 June 2002/31 December 2001	82,556	40,543
Accumulated depreciation		
At 1 January	3,995	2,921
Exchange translation differences	—	(25)
Charge for the period/year	1,596	1,132
Disposals	—	(33)
At 30 June 2002/31 December 2001	5,591	3,995
Net book value		
At 30 June 2002/31 December 2001	76,965	36,548

- (a) The Group's land use rights are held outside Hong Kong under leases of 10 to 50 years.
- (b) At 30 June 2002, the net book value of the Group's fixed assets pledged as security for the Group's long-term bank loans amounted to approximately HK\$25,880,000 (2001: HK\$31,277,000).
- (c) At 30 June 2002, the aggregate cost and accumulated depreciation of the Group's plant and machinery held for use under operating leases amounted to approximately HK\$344,000 (2001: HK\$344,000) and HK\$217,000 (2001: HK\$187,000) respectively.
- (d) At 30 June 2002, the aggregate net book value of the Group's fixed assets held under finance leases amounted to approximately HK\$459,000 (2001: HK\$307,000).

12. INVENTORIES

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Raw materials	6,409	2,547
Work in progress	508	—
Finished goods	678	1,235
Packing materials	729	9
	8,324	3,791

All inventories were carried at cost.

13. TRADE RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Trade receivables, net	49,295	27,836
Other receivables	6,536	2,800
Prepayments and deposits	22,526	21,044
	78,357	51,680

The Group's trade receivables comprise letter of credit, document at sight and open account. The Group allows a credit period ranging from 90 days to 120 days. At 30 June 2002, the age analysis of trade receivables, net of provision was as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Within 30 days	23,094	15,253
31–60 days	15,747	5,211
61–90 days	4,724	4,551
Over 90 days	5,730	2,821
	49,295	27,836

14. BANK BALANCES AND CASH

Included in bank balances and cash as at 30 June 2002 were deposits of approximately HK\$3,571,000 (2001:HK\$3,571,000) and HK\$4,718,000 (2001: HK\$4,364,000) pledged as collateral for short-term bank loans (note 17) and trust receipt facilities respectively.

Included in bank balances and cash as at 30 June 2002 were amounts of approximately HK\$19,554,000 (2001: HK\$2,411,000) denominated in Renminbi not freely convertible to other currencies.

15. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Trade payables	6,357	8,753
Accruals and other payables	10,670	5,910
	17,027	14,663

At 30 June 2002, the age analysis of trade payables was as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Within 30 days	3,599	3,446
31–60 days	1,765	1,513
61–90 days	653	2,643
Over 90 days	340	1,151
	6,357	8,753

16. LONG-TERM LIABILITIES

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Secured bank loans wholly repayable within five years	12,419	14,319
Obligations under finance leases	418	275
	12,837	14,594
Current portion of long-term liabilities	(2,969)	(1,981)
	9,868	12,613

At 30 June 2002, the long-term bank loans were repayable as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Within one year	2,867	1,923
In the second year	4,754	2,867
In the third to fifth years, inclusive	4,798	9,529
	12,419	14,319

The long-term loans were secured by certain fixed assets of a subsidiary.

17. SHORT-TERM BANK LOANS

As at 30 June 2002, the short-term bank loans of approximately HK\$4,873,000 (2001: HK\$12,547,000) and approximately HK\$3,396,000 (2001: HK\$3,396,000) were secured by certain fixed assets of the Group and deposit at bank of a subsidiary respectively.

The remaining loans were secured by corporate guarantees provided by the Company and subsidiaries of the Company.

18. OTHER LOAN

Other loan was secured by guarantee provided by the Company's subsidiary and was wholly repayable within one year, interest rate of which was calculated at approximately 6% per annum (2001: approximately 6%).

19. CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

A. Share capital

Authorized Share Capital

	Number of shares	Par value per share HK\$	Authorized amount HK\$
As at 31 December 2001	3,900,000	0.1	390,000
As at 30 June 2002 (note d)	50,000,000,000	0.01	500,000,000

Issued and fully paid

	Number of shares	Par value per share HK\$	Paid up amount HK\$
As at 1 January 2001			
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 Reorganization (note b)	1,818,178	0.10	181,817.80
As at 31 December 2001 and 1 January 2002	1,818,181	0.10	181,818.10
Shares allotted and issued for capitalization of amounts due to Directors pursuant to the Group Reorganization (note c)	1	0.10	0.10
Share split (note d (i))	16,363,638		—
Capitalization 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))	941,818,180	0.01	9,418,181.80
Placing of new shares (note d (iv))	240,000,000	0.01	2,400,000.00
As at 30 June 2002	1,200,000,000	0.01	12,000,000.00

19. CONSOLIDATED STATEMENT OF CHANGE IN EQUITY (continued)**A. Share capital (continued)**

Notes:

- (a) On 30 May 2001, the Company was incorporated in the Cayman Islands with an authorized 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 31 May 2001, two shares of HK\$0.10 each were allotted and issued for cash at par.
- (b) On 17 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 17 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 23 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 23 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 26 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 authorized 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 register of shareholders of the Company in proportion to their respective shareholdings at the close of business on 26 January 2002 by way of capitalization 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 19 (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, less share issuance expenses, was credited to the share premium account.

19. CONSOLIDATED STATEMENT OF CHANGE IN EQUITY (continued)

B. Reserves

	Share premium HK'000	Merger reserve HK'000	Foreign exchange reserve HK'000	Reserve fund HK'000	Enterprise development fund HK'000	(Accumulated losses)/ retained profits HK'000	Total HK'000
At 1 January 2000	—	1,719	—	—	—	(690)	1,029
Transfer	—	—	—	42	22	(64)	—
Profits for the year	—	—	—	—	—	14,539	14,539
At 31 December 2000 and 1 January 2001	—	1,719	—	42	22	13,785	15,568
Transfer	—	—	—	1,189	594	(1,783)	—
Exchange translation differences	—	—	119	—	—	—	119
Profits for the year	—	—	—	—	—	38,125	38,125
At 31 December 2001 and 1 January 2002	—	1,719	119	1,231	616	50,127	53,812
Transfer	1,719	(1,719)	—	—	—	—	—
Premium arising on issue of shares	105,600	—	—	—	—	—	105,600
Share issuance expenses	(25,080)	—	—	—	—	—	(25,080)
Overprovision of share issuance expenses	2,338	—	—	—	—	—	2,338
Share capitalization	(9,418)	—	—	—	—	—	(9,418)
Exchange translation differences	—	—	32	—	—	—	32
Profits for the period	—	—	—	—	—	18,121	18,121
At 30 June 2002	75,159	—	151	1,231	616	68,248	145,405

20. COMMITMENTS**(a) Capital commitments for construction in progress and purchase of fixed assets**

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Contracted but not provided for	35,604	9,187
Authorized but not contracted for	21,698	—
	57,302	9,187

(b) Commitments under operating leases

At 30 June 2002, total future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Not later than one year	1,258	803
Later than one year and not later than five years	1,208	950
Later than five years	191	156
	2,657	1,909

21. SIGNIFICANT RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2002, a subsidiary of the Group purchased raw materials from a related company, which was carried out in the normal course of business, amounted approximately HK\$12,567,000 (30 June 2001: HK\$11,221,000). Raw materials were purchased 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.

During the six months ended 30 June 2002, rental expense paid to a related party, Wuhan Institute of Virology, which is a minority shareholders of a subsidiary, amounted to approximately HK\$113,000 (30 June 2001: HK\$113,000).

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period's presentation. The Directors considered that the separate classification of "Other operating expenses (net)" in the Consolidated Profit and Loss Account for the previous period was no longer appropriate for the current period. Corresponding amount of HK\$2,195,000 (2002: HK\$2,924,000 approximately) has been reclassified under Administration Expenses in the Consolidated Profit and Loss Account.

PROPOSED DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Directors proposed to pay an Interim Dividend of HK1 cent per share to the shareholders whose names appeared on the register of member on 28 August 2002. The Interim Dividend will be payable on 18 September 2002. In addition, pursuant to a resolution of the Directors on 9 August 2002, shareholders may elect to receive the proposed interim dividend in the form of fully paid shares of the Company, in cash or partly in shares and in cash. The holder of every 30 shares will be entitled to one fully paid share of the Company as interim dividend.

Should all eligible shareholders elect to receive the interim dividend in cash or in the form of fully paid shares of the Group, the effect of the interim dividend herein would be payment of HK\$12,000,000 or an additional issue of 40,000,000 fully paid shares of the Company.

The Register of Members of the Company will be closed from 23 August 2002 to 28 August 2002, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the above-mentioned dividend or shares, all transfers accompanied with relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. (Thursday) on 22 August 2002.

DIRECTORS' INTEREST IN SHARES

As at 30 June 2002, the interest in the Shares of the Directors and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as required to be recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Ordinary shares of HK\$0.01 each in the Company

Name of Director	Corporate interests	Number of shares			Total shareholding
		Personal interests	Family interests	Other interests	
	(Note)				
KO Sai Ying, Thomas	—	48,422,400	—	—	48,422,400
AU YEUNG Ping					
Yuen, Terence	—	7,852,800	—	—	7,852,800
LIU Jin, James	—	14,630,400	—	—	14,630,400
TAO Lung	612,000,000	103,315,200	—	—	715,315,200

Note: These shares are registered in the name of Perfect Develop Holdings Inc. ("Perfect Develop"). Mr. TAO Lung ("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.

DIRECTORS' RIGHT TO ACQUIRE SHARES

During the period under review, none of the Directors or their associates was granted options to subscribe for the Shares, nor had exercised such rights.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders of the Company dated 26 January 2002, a share option scheme (the "Scheme") was adopted. The Directors may grant options to the eligible employees for subscription of shares of the Company. The limit of the Scheme is 120,000,000 shares, representing 10% of the total number of shares in issue upon completion of the placing of the shares of the Company. On 21 June 2002, the Directors granted options to subscribe for an aggregate of 30,000,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the Scheme at HK\$0.39 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK\$0.37 per share. Those who were granted with the options can exercise their rights in multiple periods starting from 16 August 2002 to 6 February 2012.

The Company adopted Black-Scholes Options Pricing Model to calculate the value of share options. The fair value of the options was HK\$0.25 at the date of grant with assumptions as follows:

- a. Using the annual Exchange Fund Notes interest rate of 1.57% as the risk-free interest rate;
- b. The expected life is 9.5 years;
- c. The expected volatility is 60.16% during the period from 7 February 2002, being the listing day of the Company, to 20 June 2002;
- d. No expected dividend as the Company is newly listed.

Note:

The value of the share options is subjected to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

Among the grantees in this grant of share options, 108 of them are full-time employees of the Company and an aggregate of 21,100,000 shares were granted to them; 29 of them are staff of major customers of the Company and an aggregate of 8,900,000 shares are granted to them.

Save as disclosed above, this grant of options did not involve any persons which have to be disclosed under the provisions of Rules 23.07 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(l) 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 7 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 Sai Ying, Thomas ("Mr. Ko"), 6% by Mr. Au Yeung Ping Yuen, Terence ("Mr. Au Yeung") and 12% by Mr. Liu Jin, James ("Mr. Liu") respectively. All of Mr. Tao, Mr. Ko, Mr. Au Yeung and Mr. Liu are founders of the 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 immediate after the placing and the capitalization 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 capitalization issue.

As at 30 June 2002, none of the Directors and chief executives (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, warrants or debentures (if applicable) of the Company and its associated corporations (within the meaning of the SDI Ordinance).

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the businesses of the Group.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Core Pacific - Yamaichi Capital Limited ("CPY"), as at 30 June 2002, Core Pacific-Yamaichi International (H.K.) Limited, an associate (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) of CPY, held 1,930,000 shares in the Company. Save as disclosed herein, neither CPY nor its directors, employees or associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company.

Pursuant to the agreement dated 30 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 31 December 2004 or the date on which the agreement is terminated upon the terms and conditions as set out therein.

APPOINTMENT AND RESIGNATION OF DIRECTORS

On 2 July 2002 the Company appointed Mr. Lui Tin Nang as an independent non-executive director of the Company. On the even date, Mr. Lo Wah Kei resigned as an independent non-executive director of the Company because he was too busy to cope with his duties. The Directors hereby welcomed Mr. Lui Tin Nang to join the Company and thanked Mr. Lo Wa Kei for his contributions to the Company.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 26 January 2002 in accordance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the Committee are (i) to review the Company's annual reports and accounts, half year 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 Group.

Mr. Lo Wa Kei, the former chairman of the Committee, resigned on 2 July 2002. On the even date, Mr. Lui Tin Nang was appointed chairman of the Committee. At present, the Committee has two members comprising Messrs. Lui Tin Nang and Lee Kwong Yiu, both of them are independent non-executive directors.

The Committee has reviewed the unaudited interim results for the six months ended 30 June 2002.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Reporting Period, the Company had not purchased, sold or redeemed any of the shares.

COMPLIANCE WITH BOARD PRACTICE AND PROCEDURES

During the period under review, the Company complied with the board practice and procedures as set out in Rules 5.28 to 5.39 (if applicable) of the Rules Governing the Listing of the Securities on the Growth Enterprise market of The Stock Exchange of Hong Kong Limited.

On behalf of the Board
KO Sai Ying, Thomas
Chairman

Hong Kong, 9 August 2002