



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

Third Quarterly Report  
**2002**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

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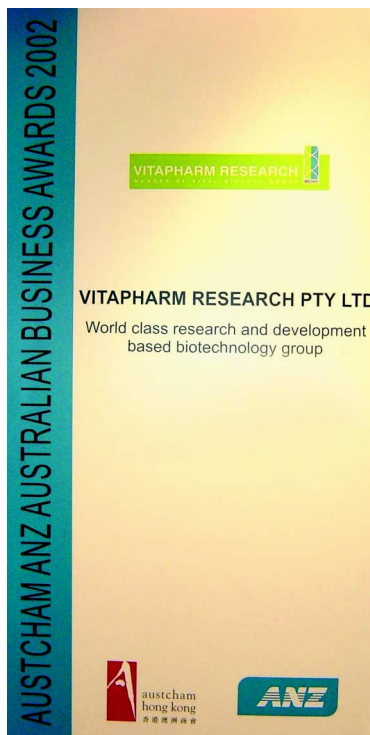
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# HIGHLIGHTS

For the Nine months ended 30 September 2002

	<b>Nine months in total</b>	<b>This quarter</b>	<b>Half year</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	106,522	41,588	64,934
Profit attributable to shareholders	24,097	5,976	18,121
Earnings per share	HK2.06 cent	HK0.49 cent	HK1.57 cent

- Turnover of the Group was approximately HK\$106 million (2001: HK\$79 million), representing an increase of approximately 34%;
- Profit attributable to shareholders amounted to approximately HK\$24 million (2001: 22 million), representing an increase of approximately 8%;
- Earnings per share was HK 2.06 cent (2001: HK 2.32 cent);
- The Board of Directors ("Board") did not recommend any interim dividend for this quarter.



# BUSINESS REVIEW AND OUTLOOK

## BUSINESS REVIEW

I am pleased to report that the unaudited interim results of the Company together with its subsidiaries (collectively the "Group") for the nine months ended 30 September 2002 (the "Reporting Period") continued to achieve satisfactory growth. In addition, I am proud to announce that in September, Vitapharm Research Pty Limited, the principal research and development arm of the Group was awarded "World Class Research and



Development Based Biotechnology Company Investing in China" by the Australian Chamber of Commerce in Hong Kong. The honour represented not only recognition from an official body on our contributions in research and development fields, it was in addition, a strong endorsement for all our devoted researchers in Melbourne, Australia.

## PRODUCT SALES

Sales of Osteoform was outstanding in the Reporting Period. Turnover reached HK\$90 million and a growth of 80% was recorded comparing to HK\$ 50 million last period. Turnover of Opin was around HK\$16 million and a drop of more than 40% was recorded comparing to HK\$ 30 million last period. The consolidated turnover was HK\$106 million and marked a growth of 34% on a year-to-year basis. During the period, the number of point of sales of both Osteoform and Opin was increasing steadily to about 40,000.

## ADVERTISING AND SALES PROMOTION

### "OSTEOFORM"

To expand the market of Osteoform, the Group has intensified penetrations through advertisement, publication and promotional sales. The relevant expenditure of this quarter was about HK\$ 9 million. The accumulated expenditure for the 9 months of the Reporting Period was almost HK\$ 12 million which approximately accounted for 90% of the Group's total advertising and promotional expenses.

Promotion campaigns included prime time TV commercials, public transport exterior posters and product gifts, etc. Commercials were placed with CCTV and local TV stations of regional cities of Central and Western China, eg. Shanxi, Zhongqing, Sichuan, Hubei, Yunnan and Guizhou. Moreover, the Group was the major sponsor of the 9th Sichuan Provincial Sports Game. The Group intended to culture a sense of belongings in Sichuan and to promote and enhance the image of Osteoform as a health supplement.

### “OPIN”

The Group altered the marketing strategy of Opin in the Reporting Period. The priority was to promote Osteoform this year. According to schedule, promotion of new packaging with an added new indication were expecting by late first half of year 2003 when the new indication as “Class 5 New Drug” of Opin should be granted. On 15 September 2002, China SDA made a major announcement on certain new policies about approval of new drug procedures. With the best estimation, the “Class 5 New Drug” of Opin would be granted before year end. The Group was waiting either until year end or after the new policy to be formalized into laws and regulations before modifying the current marketing strategy to comply with the latest drug regulations and above all, to achieve sales growth.

Although turnover was temporarily slackened as expected, gross profit and net profit margins of the product were comparable to that of last year. Profit after taxation was maintained almost same at HK\$8 million. Last year, Opin was manufactured with a rather expensive form of interferon as basic raw material. This year, the production process was modified to adapt to a much more economic form of interferon as raw material and marginal return was higher.

### R & D IN AUSTRALIA

The group took over possession of a new factory site in Melbourne, Australia for future upgrade of the current R&D facility in October 2002. A pharmaceutical engineering specialist consultant was engaged for the design work. The re-development blue print was submitted to local government and was waiting for approval. Occupation was expected in the first quarter of year 2003. The whole project would be implemented in stages. The first phase budget was trimmed down to AUD 700,000. GLP/GMP certification was expecting by September 2004. For the complete project of an up-to-standard laboratory and experimental pilot production plant, the total capital expenditure was leveled at AUD 2.8 million inclusive of land. In details, the plan included a laboratory for chemical and biological testing, pilot scale process room and isolated laboratories for handling biohazard, infectious or toxic materials. The new site would allow production of a wide range of biopharmaceutical and conventional pharmaceutical products for clinical trial.

### WUHAN TIANO PHARMACEUTICALS

The new GMP factory site situated at the development zone of Wuhan University. The site area was approximately 30,000 sqm and the gross floor area was approximately 13,000 sqm. At present, the development permit and construction permit were granted and foundation works were completed. GMP certificate was expecting by end of year 2003.

### **SICHUAN WEIAO PHARMACY**

The GMP compliant production line has commenced production in early year 2002. The debut inventory Osteoform capsule was the factory's major production. For the Reporting Period, 5 million bottles of Osteoform were produced.

### **VITAL (SICHUAN) BIOTECH**

The bare structure and portion of the partitioning wall of the R & D building were completed. The foundation works of route and path were almost finished. Technical designs were awaiting approval from provincial SDA and other facilities and landscape designs were fixed. The plan was to implement GLP certification by June 2003.

### **BUSINESS OUTLOOK**

#### *PLATFORM TECHNOLOGIES*

#### **– PROSPECT OF PROTEIN STABILIZATION AND DELIVERY SYSTEM (“PSD”)**

The Group has commenced a technology cooperation project with a Chinese animal vaccine manufacturer to produce animal vaccines using the Group's patented PSD technology. A series of experimental results confirmed the objective of replacing the traditional freeze dry process and retaining activity. The next step of the project is to prepare for in house clinical field trials. Both parties had high expectation on the project and were working closely to ensure a steady progress. The Group expected that the project would be a break through in traditional vaccine production techniques with potential significant cost savings.

#### **– PROSPECT OF SKIN DRUG DELIVERY SYSTEM (“SDDS”)**

The Group endeavored to develop various products using the SDDS platform technology. The next project was to develop a preparation for fungal dermal infection. The preliminary concept was formulated and preparation works for clinical trial were in progress.

### DEVELOPMENT OF NEW DRUG

**EPO** project: An animal anaemic model was established for the project. Pre-clinical trial documentations were in preparation according to China SDA guidelines.

**Depile** project: Applications were submitted to China SDA for Class 3 New Drug and Production Permit.

At present, the Group's plant in Sichuan mainly produced Osteoform. There was capacity to expand the scale of production and to increase source of income. The Group had feedbacks from the China market that there would be pressing demand for products specialized in the reduction of human blood lipid level and control of soft tissue pain and inflammation. The Group was exploring their marketing prospects with those research specialists in China.

**Osteoform:** In the Reporting Period, the Group has intensified promotion and resulted in a higher market recognition on the product. The Group had committed to raise both production capacity and turnover. At the same time, the Group has planned to develop a new Osteoform calcium supplement formulation suitable for growing children in order to achieve a more comprehensive market coverage.

The first shipment of Osteoform to Russia was shipped in early October and the second shipment was expecting by end of this year. In addition, a rational logistics arrangement would improve profit margin. By early 2003, the Group would expect to finalize a long term logistics solution to maintain a smooth operation in this area.



# UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 2003

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

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	41,588	26,430	106,522	79,197
Cost of sales		(13,665)	(13,107)	(36,675)	(42,060)
Gross profit		27,923	13,323	69,847	37,137
Other revenues		93	36	615	94
Selling and distribution expenses		(10,741)	(560)	(16,153)	(1,893)
Administrative expenses		(9,819)	(3,316)	(24,726)	(10,938)
Operating profit		7,456	9,483	29,583	24,400
Finance cost		(604)	(671)	(2,186)	(1,891)
Profit before taxation		6,852	8,812	27,397	22,509
Taxation	3	(287)	(13)	(720)	(38)
Profit after taxation		6,565	8,799	26,677	22,471
Minority interests		(589)	(16)	(2,580)	(204)
Profit attributable to shareholders		5,976	8,783	24,097	22,267
Dividend	4	–	–	12,000	–
Earnings per share – basic and diluted	5	HK0.49 cent	HK0.92 cent	HK2.06 cent	HK2.32 cent

# UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 2003

## NOTES TO THE ACCOUNTS

### 1. GROUP REORGANIZATION AND BASIS OF PREPARATION OF THE ACCOUNTS

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.

According to the provisions of SSAP No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants, the structure of the Group can be regarded as in existence in the past.

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

### 2. TURNOVER

The Group is principally engaged in biotechnology research, manufacturing and trading of pharmaceutical products. Turnover represents invoiced sales net of return goods, discounts allowed, sales taxes or value added taxes, where applicable.

### 3. TAXATION

	Three months ended 30 September 2002 HK\$'000	Three months ended 30 September 2001 HK\$'000	Nine months ended 30 September 2002 HK\$'000	Nine months ended 30 September 2001 HK\$'000
Hong Kong profits tax	49	13	84	38
PRC income tax	238	—	636	—
	<u>287</u>	<u>13</u>	<u>720</u>	<u>38</u>

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.

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.

Other subsidiaries were either under the tax holiday or having net losses in the current and previous period.

# UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 2003

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).

## 4. DIVIDEND

The Board did not recommend the payment of an interim dividend for the quarter ended 30 September 2002 (2001: nil).

## 5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the nine months ended and three months ended 30 September 2002 are based on the profit attributable to shareholders of approximately HK\$24,097,000 (2001: HK\$22,267,000) and HK\$5,976,000 (2001: HK\$8,783,000) respectively, and weighted average of approximately 1,168,775,000 (2001: 960,000,000) and approximately 1,203,864,000 (2001: 960,000,000) ordinary shares in issue during the period respectively, and with the assumption that the Group Reorganization had been completed on 1 January 2001.

On 21 June 2002, the Board granted share options to subscribe for 30,000,000 ordinary shares of the Company. The grantees are entitled to exercise portion of the share options commencing 16 August 2002 to 6 February 2012 to subscribe for approximately 6,850,000 shares. The dilution effect of such ordinary shares to earnings per share for the 9 months ended 30 September 2002 is not material and no diluted earnings per share (2001: nil) is presented.

## 6. MOVEMENT OF RESERVES

	Share premium HK\$'000	Merger reserve HK\$'000	Foreign exchange reserve HK\$'000	Reserve fund HK\$'000	Enterprise development fund HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	-	1,719	-	42	22	13,785	15,568
Profits for the period	-	-	-	-	-	22,267	22,267
At 30 September 2001	-	1,719	-	42	22	36,052	37,835
At 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)
Over provision of share issuance expenses	2,338	-	-	-	-	-	2,338
Share capitalization	(9,418)	-	-	-	-	-	(9,418)
Exchange translation differences	-	-	(126)	-	-	-	(126)
Profits for the period	-	-	-	-	-	24,097	24,097
Scrip share/(Dividend)	7,931	-	-	-	-	(12,000)	(4,069)
At 30 September 2002	83,090	-	(7)	1,231	616	62,224	147,154

## OTHER INFORMATION

### INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES

As at 30 September 2002, the interests of the Directors and chief executives in the Shares of the Company 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	Number of shares				
	Corporate interests <i>(Note)</i>	Personal interests	Family interests	Other interests	Total shareholding
KO Sai Ying, Thomas	-	50,036,480	-	-	50,036,480
AU YEUNG Ping Yuen, Terence	-	8,114,560	-	-	8,114,560
LIU Jin, James	-	15,118,080	-	-	15,118,080
TAO Lung	632,400,000	103,315,200	-	-	735,715,200

*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 SUBSCRIBE SHARES

During the period under review, none of the Directors, chief executives or their spouse and children under 18 of age was granted any options to subscribe for shares of the Company, 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. 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.

## OTHER INFORMATION

Those who were granted with the options can exercise their rights in multiple periods where applicable commencing 16 August 2002 to 6 February 2012 as follow:–

- From 16 August 2002 to 6 February 2012 – approximately 6,850,000 shares
- From 1 January 2003 to 6 February 2012 – approximately 8,280,000 shares
- From 1 January 2004 to 6 February 2012 – approximately 6,510,000 shares
- From 1 January 2005 to 6 February 2012 – approximately 8,360,000 shares

### SUBSTANTIAL SHAREHOLDERS

At 30 September 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.

Name	Number of shares held	Approximate percentage of shareholding
Perfect Develop ( <i>note (1)</i> )	632,400,000	51.53%
Mr. Tao ( <i>note (2)</i> )	735,715,200	59.94%

*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 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 of Perfect Develop. Together with 103,315,200 shares of the Company registered in his own name, Mr. Tao is deemed, by virtue of the SDI Ordinance, to be interested in 735,715,200 shares in aggregate, amounting to approximately 59.94% of the share in issue.

As at 30 September 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).

## OTHER INFORMATION

### COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (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 September 2002, Core Pacific – Yamaichi Securities, Tokyo, 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 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 and the date on which the agreement is terminated upon the terms and conditions as set out therein.

### 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. At present, the Committee has two members, Messrs. Lui Tin Nang and Lee Kwong Yiu, both of them are independent non-executive directors.

The Committee has reviewed the unaudited third quarter results for the nine months ended 30 September 2002.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## OTHER INFORMATION

### 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, 8 November 2002