維奧生物科技控股有限公司

Vital BioTech Holdings Limited

(incorporated in the Cayman Islands with limited liability)

MEDIKO

Annual Report 2002

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

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

The Exchange takes no responsibility for the contents of this annual 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 annual report.

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.

Contents

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 ("PSD"); and
- Skin Drug Delivery System technologies for chemical drugs ("SDDS").

By commercialising the two platform technologies, Vital BioTech improves, produces and distributes:

- Opin, which is an interferon-based gynecological drug;
- Spray-On Bandage, which is a first aid product that provides both physical protection and disinfection functions; and
- Osteoform, which is an advanced biological calcium supplement drug for the treatment and prevention of disease caused by calcium deficiency.

Our products are distributed in China through its strong and dedicated professional marketing team. At present, Opin is manufactured by Vital BioTech's subsidiary in Wuhan City, China. Spray-On Bandage is planned to be manufactured by forming a joint venture with a potential partner in China. Whereas Osteoform is manufactured by Vital BioTech's subsidiary in Chengdu City, China.

Vital BioTech has two strong arms performing research and development, one in Melbourne, Australia and the other in Chengdu City, China.

The Company was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 7th February, 2002.

Financial Highlights

OPERATING RESULTS

	For the year ended 31st December,		
	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*
Turnover	**167,969**	122,825	64,128
Operating profit	**54,210**	42,498	17,190
Finance costs	**(4,903)**	(3,399)	(1,893)
Profit before taxation	**49,307**	39,099	15,297
Taxation	**(988)**	(60)	(15)
Profit after taxation	**48,319**	39,039	15,282
Minority interests	**(7,727)**	(914)	(743)
Profit attributable to shareholders	**40,592**	38,125	14,539

FINANCIAL POSITION

	As at 31st December,		
	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	**113,819**	45,260	23,137
Current assets	**167,955**	69,866	54,643
Current liabilities	**(84,155)**	(46,089)	(60,095)
Non-current liabilities	**(9,528)**	(12,613)	–
Minority interests	**(11,532)**	(2,430)	(1,935)
Shareholders' funds	**176,559**	53,994	15,750

DIRECTORS

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

Independent Non-executive Directors
LUI Tin Nang
LEE Kwong Yiu

COMPANY SECRETARY
LAM Kai Cheung (AHKSA, FCCA)

AUDIT COMMITTEE
LUI Tin Nang *(Chairman)*
LEE Kwong Yiu

QUALIFIED ACCOUNTANT
LAM Kai Cheung (AHKSA, FCCA)

REGISTERED OFFICE
Century Yard, Cricket Square
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Grand Cayman, Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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303 Hennessy Road, Hong Kong

COMPANY WEBSITE
www.vitalbiotech.com

COMPLIANCE OFFICER
AU YEUNG Ping Yuen, Terence (B. App. Sc.)

AUTHORISED REPRESENTATIVES
TAO Lung
KO Sai Ying, Thomas

PRINCIPAL BANKERS
The Hong Kong and Shanghai Banking Corporation Limited
The Agriculture Bank of China
The Industrial and Commercial Bank of China

AUDITORS
PricewaterhouseCoopers

LEGAL ADVISERS ON HONG KONG LAW
Chiu & Partners

LEGAL ADVISERS ON THE CAYMAN ISLANDS LAW
Conyers Dill & Pearman, Cayman

LEGAL ADVISERS ON PRC LAW
Shu Jin & Co.

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

SPONSOR
Core Pacific – Yamaichi Capital Limited

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Ltd
Rooms 1712-1716, Hopewell Centre
183 Queen's Road East, Hong Kong

As the Chairman and on behalf of the Board of Directors (the "Board"), I am pleased to report the audited consolidated results of your Company, Vital BioTech Holdings Limited ("Vital BioTech") and its subsidiaries (together, the "Group") for the year ended 31st December, 2002.

FINANCIAL PERFORMANCE

In year 2002, your Group has achieved a very pleasing performance in all areas of sales, profit, products development and core scientific competence. Turnover has increased from HK$122 million to HK$167 million, an increase of 37%. Profit attributable to shareholders has increased from HK$38 million to HK$40 million, an increase of 6%. Your Board has recommended a final dividend per share of HK 1 cent and together with HK 1 cent interim dividend paid during the year, total dividends per share for the year are HK 2 cents.

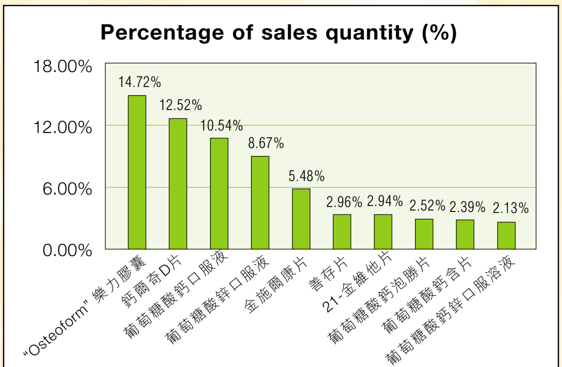
MARKETING & DISTRIBUTION IN CHINA

In year 2002, your Group's flagship product at present, Osteoform Capsule - a Calcium Amino Acid Chelate Capsule for prevention and treatment of Osteoporosis and calcium deficiency, has became a top selling product in similar category in China. (The report of the Chinese Pharmaceutical Retail Market October 2002 Issue 11) This is the result of diligent marketing effort since its inception and an effective advertising campaign this year. The additional funding for promotional activity has also resulted in an increase of retail outlet coverage from 30,000 approximately in year 2001 to 40,000 approximately in year 2002.

TECHNOLOGY AND RESEARCH DEVELOPMENT

In addition to our marketing focus in China, Vital BioTech also focuses on introducing its core technology on the global market.

Vital BioTech core scientific competence is based on drug delivery systems particularly in medications based on biologically active proteins. Vital BioTech focuses its funding and research effort in processing improvements and new product development based on known biological drug identities such as interferon, erythropoietin, enzymes, vaccines and probiotics.



Data source: The Report of the Chinese Pharmaceutical Retail Market October 2002 issue 11

This year, I am very pleased to report that Vital BioTech has achieved significant world class scientific breakthroughs based on application of the Protein Stabilisation and Delivery System ("PSD") technology. The Board believes these achievements will provide substantial and steady long term revenue. The technology breakthroughs also allow Vital BioTech to enter the lucrative US, European and Japan markets in alliances with multinational companies.

Here I list the three major projects involved with our core PSD technology.

1. Project Oral EPO Tablet (Sublingual Delivered Erythropoietin Tablet)

Erythropoietin (EPO) is a natural protein produced by our kidney to stimulate the body to produce red blood cells.

A subsidiary of the Group, Vitapharm Research Pty Ltd ("Vitapharm") in Australia, has successfully developed a Human recombinant Erythropoietin (rHuEPO) oral sublingual tablet using our PSD technology. The tablet was found to be equally effective with EPO injections in test animal models, with added advantages of room temperature stability and much more user friendly dosage form than injections. The product is expected to be much cheaper than the EPO injections. Currently there is no known rHuEPO oral sublingual tablet available in the market. Your Directors believe this is a very significant achievement. It is a significant example of delivery of a large biologically active protein through the oral (sublingual) route to systemic circulation. Your Directors confidently believe the new EPO tablet will gain substantial share of the EPO injection market in the near future. It will significantly benefit patients in the treatment of anaemia from chronic kidney failure, AIDS, cancer and other conditions.

Vital BioTech is currently in discussion with multinational companies to commercialise the project globally. Further clinical testing of the rHuEPO tablet is planned to commence in year 2003.

2. Project Room Temperature Stable Animal Vaccines

Vaccines are biological medications for prevention of diseases. In most cases, the costs of freeze drying and refrigerated transportation are the major factors for high product costs.

In the last 12 months, the two wholly-owned research arms of Vital BioTech in Chengdu, China and Melbourne, Australia have been working closely with one of the largest animal vaccine manufacturers in China to develop new and inexpensive processing methods based on Vital BioTech's PSD platform technology to enable current animal vaccines to be stable at ambient conditions around 25°C.

Using some of the most unstable chicken vaccines as test models and under close scrutiny of technical experts from China and Australia, Vital BioTech has successfully achieved the seemingly impossible commercial targets as required. Our vaccine manufacturer partner in China conducted the biological tests independently and concluded that the vaccines produced by Vital BioTech were biologically active, stable at temperature around 25ºC, much cheaper to produce and by passed the expensive and time consuming freeze drying process.

Your Directors are happy to report our achievement is another scientific breakthrough. Using our platform PSD technology advantage, Vital BioTech is able to enter the world vaccine market with solid commercial edges. We are currently actively in negotiation with our Chinese partner to commercialise the room temperature vaccine technology in China. In addition, the Group's subsidiary in Australia, Vitapharm, has initiated discussions with large multinational animal vaccine manufacturers in Europe and America.

Our PSD technology is also applicable to human vaccines. Your Directors will investigate this commercial opportunity in the near future.

3. Project Receptase for prevention and treatment of diarrhoea in pigs

According to the data available, for the year 2000/01, there were 1,057 million pigs slaughtered world wide. China accounted for more than half of the numbers standing at 559 million (Australian Pig Industry Handbook – pig stats 2001).

One of the major veterinary problems in pig farming is diarrhoea, particularly in young pigs. Traditional prophylactic in pigs farming practice is by incorporating broad spectrum antibiotics in the feed to control microbial population. However abusive application of antibiotic has resulted in excessive antibiotic residue in the meat. In addition, in recent years, commonly used antibiotics are becoming less effective because bacteria developed drug resistance to the antibiotics over time.

Receptase is one of the most advanced enzyme based oral biological medication for the treatment and prevention of intestinal infections in young pigs. The product contains stabilised biologically active enzyme utilising Vital BioTech's PSD technology. Receptase is a new generation "green farming" biological product that has very broad spectrum of activity, has no harmful residuals in the meat and will not cause drug resistance like antibiotic.

In year 2002, an extensive field studies were conducted in cooperation with our veterinary drug partner in China in an independent commercial farm in Beijing. Results demonstrated Receptase treated pigs have significantly less diarrhoea incidences and better weight gain as compared to antibiotic treated control group.

Our partner in China is currently negotiating with Vital BioTech to commercialise Receptase in China. Vitapharm in Australia is also negotiating with a multinational company to commercialise Receptase outside China. Negotiation and product registration are expected to be concluded in 2003/4 in China, then Australia and progressively also in other countries.

APPRECIATION

Finally, I wish to express my gratitude to the excellent performance last year of all our staff and directors. Please keep your efforts and add more value to the Group.

By Order of the Board

KO Sai Ying, Thomas
Chairman

Hong Kong, 28th February, 2003

BUSINESS AND OPERATION REVIEW

Product Sales

During the year, the consolidated turnover increased from HK$122 million to HK$167 million, an increase of about 37%. Sales of Osteoform increased strongly from roughly HK$80 million to HK$140 million, an increase of about 73%. Sales of Opin decreased from roughly HK$40 million to HK$24 million, a setback of about 37%. Total sales outlets of Osteoform and Opin grew steadily from about 30,000 at the beginning of the year to more than 40,000 by end of the year.

Neither the business segment of the licencing of the Group's technology nor the geographical segment in other country are of a sufficient size to be reported separately.

Advertising, Promotion and Training Activities

The Group funded strategically in advertising and marketing promotion of **Osteoform**. During the year, the respective expenditure was more than HK$30 million. To strengthen the Group's distribution team, additional marketing staff has been recruited and equipped with professional training. Besides our staff, the training programs covered the staff of our major distributors. With these strategies, sales of Osteoform grew effectively and became one of the top selling brands among similar products in China.

OPIN

Clinical trial report on Opin as a "Class 5" new drug for extended indication was completed by the First Affiliated Hospital of Nanjing Medical University. In April, 2002, the Clinical Report was filed to the State Drug Authority of China ("SDA") for approval. As the SDA deferred all applications in the mid of launching new SDA Drug Administration Regulation in last quarter of 2002, the approval of Opin was delayed further beyond the year end. The production permit for the extended indication is expected to be ready by the first quarter of year 2003.

Because of the above delay, resources for a new marketing and promotion plan were held back and sales dropped accordingly.

Although sales were adjusted downward in the short run, both product margin and net profit were improved. The cost of interferon, a major raw material of Opin, dropped sharply during the year resulting from over supply and statutory price control over biotechnological products. In addition, the production process was modified to adapt to a much more economic form of interferon as raw material and the marginal return of the product was higher.

Vitapharm Research Pty Ltd ("Vitapharm")

Vitapharm, situated in Melbourne, Australia, is the front end R & D institution of the Group with missions for conceptual of R & D projects and promoting the Group's patented technologies to prominent international enterprises in Australia, Europe and the US. The company purchased a new site for upgrading by phases into GLP/GMP compliant laboratory and plant. Portion of the new site is expected to be occupied in the first quarter of year 2003. The whole project with land costs is about AUD 2,800,000. GLP/GMP upgrades are expected by the third quarter of year 2004.

Sichuan Weiao Pharmacy Co Ltd ("Sichuan Weiao")

The company is the manufacturing and distribution arms of Osteoform. In the first half of the year, the Group owned the company about 76.7%. During the year, the investment amount was increased. The interest of the minority shareholder was diluted because of insufficient funds for capital injection and the Group's interest was raised to 85%. The existing factory occupies a site of about 26,000 sqm and with a gross floor area of about 8,000 sqm. The production lines were tailored to be flexible for 4 different kinds of GMP licenses and production of 4 different products concurrently.

Wuhan Weiao Pharmaceuticals Co Ltd (formerly named as Wuhan Tianao Pharmaceuticals Co Ltd)

The Group holds the company 95% interest. The major activity of the company is manufacturing and distribution of Opin. During the year, the company commenced on the development of it's new GMP factory situated in Donghu Xinjishu Kaifaqu Wuda Kejiyuan. The factory will be completed by phases around year 2003/2004 with a site area of about 35,000 sqm. The total investment will be approximately HK$40 million, trimmed substantially down if possible from the original proposal of HK$60 million. The first phase of the factory accounts for a gross floor area of about 14,000 sqm.

Vital (Sichuan) Biotech Co Ltd

The company is the Group's R & D institution in China and is responsible for licence application and research and development activities. The new R&D centre is expecting to be completed at around June 2003. The new building will occupy a gross floor area of about 3,000 sqm with a total budget of construction and equipment costs around HK$24 million.

China Prescription Drug Magazine

The Group planned to participate in publishing the magazine. The objective is to use the magazine as a vehicle to expose the Company and its products to the medical professionals. This is to further strengthen its position in the Chinese medical society. The Group however decided to suspend the plan after due consideration because publication business in China was still strictly regulated and out of bound for foreign investment.

BUSINESS OUTLOOK

Platform Technologies

The development of PSD

The Group cooperated with a major Chinese animal vaccines manufacturer. Series of experiments have proven our objectives to use PSD technology to replace freeze drying and refrigeration process, and to preserve biological activity of the vaccines. The Group believes that the application of PSD on biological medications eg. animal vaccines, Receptase and EPO will succeed in long term commercial value. These projects are in good progress and the Group will joint-venture with prominent Chinese and foreign enterprises to extend the PSD technology application in these two years.

The development of SDDS

The Group has been granted a drug registration from the respective government health department for our Spray-On-Bandage that was built on our patented Skin Drug Delivery System ("SDDS"). We have reached preliminary understandings with a famous pharmaceutical company in Qingdao, China to manufacture and distribute Spray-On-Bandage and our new "Anti-fungal dermal spray" product. We plan to ally with this company to commercialize SDDS through its production capacity and its extensive market coverage in the PRC.

New Product Development

The Group expects to launch several new products to increase our product mix and intensify our sales activities in order to arrive at an economy of scale. Besides commercialization of the above 2 platform technologies:

Project Depile, an oral herbal product to relieve the symptoms of haemorrhoid (commonly known as pile). The product is an example of Vital BioTech's expertise in target drug delivery. As an oral product, it has a distinctive advantage over traditional creams, ointments or suppositories. The China SDA is processing the application of Depile as a class 6 new drug registration and the production permit. Launching of Depile is expected to be in the fourth quarter of 2003. The Group has received keen interest about Depile from Australia, America and Russia. We expect Depile to generate substantial export income in the near future.

Fenofibrate Chewable Tablet, a fibric acid derivative drug for regulating blood lipids classified as state class 4 new drug. China SDA is processing the product registration and production permit. The Group plans to extend the production lines in Sichuan Weiao and launch the product around the 3rd quarter of year 2003.

Aceclofenac belongs to the phenylacetate class of drug. It is a acetate derivative of sodium diclofenac. It is a product to relief soft tissue pain and inflammation. This new product has lesser side effect to human digestive system as compare to conventional pain killers. The China SDA is processing our application for class 2 new drug registration and production permit. We plan to extend the production lines in Sichuan Weiao and launch the product before the 4th quarter of year 2003.

Osteoform Pediatric formulation Chewable tablet, a complementary product of our Calcium Amino Acid Chelate Osteoform Capsule. We target this product at parents caring about the needs of calcium for their children at their growing stage. We obtained a health supplement product importing licence during the year and will extend the production lines in Sichuan Weiao. A product launch is planned at the 4th quarter of year 2003.

Trading Business: As economic growth in China is positive, the Group is optimistic about the China pharmaceutical market. With the success of Osteoform and the proven potential of our distribution network, the Group will cautiously expand our trading business in addition to promoting Osteoform in Russia. We wish to increase revenue by importing medical products with established label and distribute them through our existing network.

PROGRESS OF BUSINESS OBJECTIVES

Below is a comparison of the actual business progress of the Group for the year under review and the business objectives stated in the Group's prospectus dated 30th January, 2002 ("Prospectus"):

	Statement in the Prospectus	**Actual business progress for period ended 30th June, 2002**	**Actual business progress for year ended 31st December, 2002**
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	Continued preparation for clinical trial with a pharmaceutical institute in Beijing
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	Completed animal tests and experimental results tracking, preparing for clinical trial and start work on patent registration

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
c. Probiotics, live beneficial bacterial capsules for healthy bowels	Stability testing	Selecting proper bacterial strains and indications; and continue research to enhance stability and further testing	Selected bacterial strains, improve 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	Completed first group of animal testing, application for patent of invention at the preliminary stage; preparing for registration of new drug; expecting clinical trial permit by end of year 2004
e. Iron orotate, a chelated iron supplement for chronic anemia	Protocol preparation	Completed preliminary pilot production, applying for registration as a nutrition supplement with the authority	China patent office has accepted the application for patent registration
f. Depile, a herbal capsule for hemorrhoid	Clinical trial/Pilot production	Clinical trial completed; applying for class 3 new drug and certificate of production; commenced small scale and intermediate pilot production	China SDA has accepted application for new drug license and production permit
B. Forging strategic alliances for partnerships to pursue the marketing objective of platform technology transfer	Ways to commercialize the platform technologies: a. Joint Venture b. Service fee for processing of stabilization of raw material c. License fee for use of technologies d. Royalty fee from manufacturers to use the Group's platform technologies	• 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	The Group has liaised with other potential partners. Further cooperative discussion is in progress; Idea to commercialize PSD technology with a Shanghai Stock Exchange listed company will be formulated soon; understandings have been reached with a Qingdao company to commercialize SDDS technology

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
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	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; the supermarket channel is yet to be developed
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 2002; the first shipment of Osteoform is expected at end of 2002	The first shipment of Osteoform to Russia was effected; discussions to extend the business and about advertising and promotion are underway
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	To extend the production capacity of the GMP factory in Chengdu, will add 3 to 4 new products
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	E-commerce platform development is suspended at this moment for further investigation
G. Milestones of business objectives and future plans			
a. Establishment of new production facilities of "Sichuan Weiao"	• Engagement of consultant to ascertain the plan before June 2002	• Site selected in May 2002	• June 2002, site handover

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
(Revised to establish a new plant in Wuhan City because of the existing leased plant in Wuhan is not GMP compliant. SDA requirement is to have GMP certificate by June 2004)	• 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	• 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	• September 2002, obtained construction permit • Mid 2003, complete superstructure • End of 2003, complete installations and apply for GMP certificate • Production in early 2004
b. Phase 1 construction of Chengdu R&D Centre			
• Construction	• Finalise proposal • Complete planning and commence construction before June 2002 • Complete structural phase of construction before December 2002 • Complete internal phase of construction by June 2003	As planned	As planned
• Equipment	• Turbo coater deposit and progress payment before June 2002 • Finalise miscellaneous equipment list • Commissioning of turbo coater and confirm ordering of miscellaneous equipment before December 2002	• 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	• Nov 2002, Turbo Coater in operation and ordering other facilities • Other facilities to be operating by second half of year 2003

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
	• Commissioning of miscellaneous equipment before June 2003	• Miscellaneous equipment will be installed in the Chengdu R&D Centre for miscellaneous research	
• GLP certification	• Engagement of consultant before June 2002 • Complete GLP documentation before December 2002 • Commence GLP implementation before June 2003	Re-scheduled for GLP to be implemented by June 2004 because of delay of designing progress	Expecting GLP certificate by June 2004
c. Upgrading of the R&D Centre in Melbourne The plan to lease has been revised to purchase and to technically convert the plant into a pilot production line	• Lease of a GMP factory/ laboratory, GMP construction and ordering of equipment before June 2002 • GMP implementation and equipment commissioning before December 2002	• 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	• January 2003, finished designing • February 2003, signed construction contract • March 2003, relocate the office and laboratory • September 2003, complete phase 1 installations • 4th quarter 2004, normal operation
d. Product Research and Development			
• Nasal interferon project	• Establish study protocol, toxicology study, stability study and animal study before June 2002 • Finalize dossier registration and clinical trial before December 2002	In good progress as planned	• Consider clinical trial direction to comply with the latest drug registration regulations announced by China SDA

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
	• Complete registration, clinical trial and marketing plan before June 2003 • Launch product before December 2003		• December 2003, to agree with China SDA about the clinical trial protocol of the seemingly new PSD technology
• EPO Project	• 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	In good progress as planned	• July 2002, China Patent Office accepted patent application • 2004, apply for clinical trial • End of 2004, obtain clinical trial permit • Other tasks in good progress as planned
• Probiotic Project As the China authority has abolished the health supplement category, the product is to be registered as nutrition supplement	• 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	In good progress as planned	• re-selected bacterial strains before December 2002 • June 2003, complete stability study • Before December 2003, complete efficacy study • Before June 2004, finalize dossier registration • Before December 2004, obtain registration as health supplements

	Statement in the Prospectus	**Actual business progress for period ended 30th June, 2002**	**Actual business progress for year ended 31st December, 2002**
• Receptase Project	• 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	In good progress as planned	• December 2002, accomplished further intensive animal tests • Before end of 2003, finalize dossier registration and clinical trial • Before December 2003, obtain dossier registration and marketing plan • June 2004, launch new product
• Hemorrhoid Project	• Finalize dossier registration, clinical trial and marketing plan before June 2002 • Launch product before December 2002	• Conduct marketing plan before December 2002 • Launch product in the first quarter of 2003	• January 2003, China SDA has accepted application for new drug licence and production permit • 4th quarter 2003, launch product
• Iron Orotate Project As the PRC authority has abolished the health supplement category, the product is to be registered as nutrition supplement	• Complete preliminary 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	• Registration as nutrition supplement is expected to be completed before December 2002 • In good progress	• December 2002, patent application was accepted • June 2003, complete registration as nutrition supplement

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
e. Market Expansion			
• Network setup	• 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	• 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	As planned
• Promotion to cover point of sales, local distributors and consumers	• By December 2002 • By June 2003 • By December 2003	• The Group has around 700 existing distributors nationwide; gradual progress adjustment will be made based on market sales	• The Group has around 700 distributors nationwide divided into primary and secondary tiers; gradual progress adjustment will be made based on market sales
• Market survey	• By December 2002 • By June 2003 • By December 2003	As planned	As planned

THE USE OF PROCEEDS

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

		Payment and implementation	
	In the Prospectus *HK$'000*	**At 30th June, 2002** *HK$'000*	**At 31st December, 2002** *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	18,000
• Construction of Phase 1 of the research and development center in Chengdu City, Sichuan Province	27,000	13,000	16,000
• Research and development of biopharmaceutical and conventional pharmaceutical products	9,000	4,000	9,000
• Construction of GLP/GMP standard research and development center in Melbourne, Australia	11,000	0	4,300
Staff training before 30th June, 2002	4,000	4,000	4,000
Network setup, promotion and market survey in the second half of 2002	5,000		5,000
Staff training, promotion and market survey in the first half of 2003	5,000		
Promotion and market research in the second half of 2003	5,000		
• Total expenditure on marketing strategies such as expansion of distribution network, staff training and market survey	19,000	4,000	9,000
• 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	12,000
Net fund raised/used	96,000	47,000	68,300

To cope with fast growing business opportunities, the Group has adopted aggressive financial strategies during the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year under review, the Group placed 240,000,000 ordinary shares by an initial public offering. The net proceeds from the placing, less part of the listing and placing expenses, was approximately HK$96,000,000 at the time of completion of the placing.

As at the year end date, the Group had outstanding borrowings of approximately HK$68.9 million (at 31st December, 2001: HK$42.2 million), comprising long-term portion of approximately HK$9.5 million (at 31st December, 2001: HK$12.6 million), short-term portion of approximately HK$59.4 million (at 31st December, 2001: HK$27.8 million); and there were no bank overdrafts (at 31st December, 2001: HK$1.8 million); cash on hand amounted to approximately HK$65.9 million (at 31st December, 2001: HK$14.4 million).

At present, the Group has obtained total banking facilities of approximately HK$188 million from banks in HK and China which is considered sufficient for the coming year. Interest rates are around 7%.

By pursuing an effective advertising and promotion policy, sales turnover of the Group increased. However, controls on stock and trade debtors were not sacrificed. Average stock turnover (excluding raw materials in transit) was about 71 days (year 2001, about 22 days). Average trade debtor turnover was about 92 days (year 2001, about 104 days). The Group considered that, at this level of sales volume, both ratios were acceptable.

The Group was quite positive about the China market and invested more than HK$60 million in plant and machinery for production and R & D facilities this year. Total assets of the Group increased to about HK$281 million (year 2001, about HK$115 million) whereas total liabilities were about HK$94 million (year 2001, about HK$59 million). The Group did not sacrifice a healthy gearing ratio to a fast growth rate. A debt-to-equity ratio (calculated as gross borrowings before netting off cash on hand divided by shareholders' funds) was maintained at about 39% (year 2001, about 78%). For year 2003, our treasury policy is to maintain a healthy gearing ratio of below 50%.

At present, the Group's currency policy is to finance local activities by local currency loans to hedge against exchange rate fluctuation. As Renminbi seems to be getting stronger, the Group will examine the costs and benefits by borrowing HK Dollars in China to gain a lower interest rate.

We have paid up almost half of the total costs of acquiring and renovating our new R & D centre in Melbourne, Australia at very favorable exchange rates by buying in advance the required Australian Dollars. For the rest of the funds, we shall consider to raise a local currency loan if the borrowing terms and tax incentives are good enough.

As at 31st December, 2002, the Group has approximately HK$8 million cash and HK$44.5 million fixed assets pledged to secure banking facilities. As for contingent liability, bills discounted with recourse amounted to approximately HK$37.7 million.

EMPLOYEE INFORMATION

As at 31st December, 2002, the Group had 766 employees, comprising 29 in research and development, 229 in production, 397 in sales and distribution, and 111 in general administration and finance. 744 of these employees were located in China mainland, 7 in Australia and 15 in Hong Kong.

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 year ended 31st December, 2002. The Directors believe its relationship with the employees is good.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to market rate. Total staff costs for the year amounted to approximately HK$15.5 million.

EXECUTIVE DIRECTORS

Mr. Ko Sai Ying, Thomas, aged 57, is a founder, the chairman and an executive director of the Group. Mr. Ko is responsible for the overall strategic planning and business development of the Group. Mr. Ko holds a bachelor's degree in pharmacy from the Victorian Institute of Colleges of Australia in 1968 and focuses himself in drug delivery system and immunology. He is a member of the Pharmaceutical Society of Australia and the International Society of Interferon and Cytokine Research. Mr. Ko has been in the pharmaceutical and biotechnology industries for over 30 years.

Mr. Terence, Au Yeung Ping Yuen, aged 50, is a founder, the vice chairman, an executive director and compliance officer of the Group. He oversees the implementation of the corporate strategy on research and development and the production of the Group. Mr. Au Yeung obtained a bachelor's degree in Applied Science from Swinburne Institute of Technology in Melbourne, the State of Victoria, Australia. Mr. Au Yeung was a member of the technical staff of the Department of Pathology at the University of Hong Kong. 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 over twenty years of business management experience.

Mr. Liu Jin, James, aged 40, is a founder and executive director of the Group. He is responsible for the overall strategic planning and investment of the Group. Mr. Liu holds a bachelor's degree in mechanical engineering from Chemistry Institute of Shandong in China (now renamed as China Qingdao University of Technology). He 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 plant at that time in China.

Mr. Tao Lung, aged 46, is a founder and an executive director of the Group. Mr. Tao is responsible for overseeing the administration, overseas procurement and finance functions of the Group. Graduated from Chengdu Chinese Medicine Institute of China in 1983 with a bachelor degree in Chinese medicine, Mr. Tao also holds a Master degree in Chinese medicine from Chengdu Chinese Medical University in 1989. After graduation, Mr. Tao was a doctor in the affiliated hospital of the university. He was a consultant to several medical companies and an instructor of the Chinese Medicine Course of Baptist University. He is a committee member of the Hong Kong Chinese Medical Society.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Kwong Yiu, aged 40, is 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. He was appointed as an independent non-executive director of the Group in January 2002.

Mr. Lo Wa Kei, aged 31, was appointed as an independent non-executive director of the Group in January 2002 and tendered his resignation at July 2002 for reason of personal career development.

Mr. Lui Tin Nang, aged 45, is a qualified Accountant. Mr. Lui has obtained a Bachelor of Science degree from University of Leeds and a master degree in business administration from University of Bradford in United Kingdom. Mr. Lui is a member of the Hong Kong Society of Accountants, member of the Chartered Institute of Management Accountant and the Institute of Chartered Accountants in England & Wales. Prior to his sole proprietorship, he worked for several professional service companies and private enterprises. He is experienced in accounting, auditing, taxation and corporate financing. He was appointed as an independent non-executive director of the Group in July 2002.

SENIOR MANAGEMENT

Mr. Huang Jian Ming, aged 39, is a general manager overseeing the Group's business in China. Mr. Huang graduated from Sichuan Luzhou Chemical Engineering Institute in 1981. Mr. Huang was employed as a management staff of Sichuan Chengdu Forth Pharmaceutical Plant for eleven years since 1982. He has accumulated over 15 years of management experience in the pharmaceutical industry. He joined the Group since its establishment in April 1998.

Mr. Au Yeung Kwong Wah, aged 38, was the financial controller and company secretary of the Group. He joined the Group in September 2001 and tendered his resignation at July 2002 for reason of personal career development.

Miss Guo Lin, aged 39, is the manager of the Group's Investment Department and is responsible for overall investment strategy of the Group. She holds a bachelor degree in Economics from Hunan Finance and Economics Institute in 1984 and a master degree from Zhongnan Industrial University in 1983. Ms. Guo was a lecturer in Hunan Finance and Economics Institute and Zhongnan Industrial University. She also worked as a manager of an investment bank. She joined the Group in June 2001.

Mr. Shen Song Qing, aged 42, is the marketing manager of the Group in China. He graduated from Chengdu Chinese Medicine Institute of China in 1983. He has experience of sales and marketing of drugs for more than 18 years, including working as a sales director of China Chengdu Chinese Pharmaceutical Factory. He joined the Group since its establishment in April 1998.

Mr. Jin Wei, aged 30, was originally the administration manager of our Shenzhen office. The Shenzhen office was terminated in the year due to reallocation of resources and Mr. Jin is appointed deputy general administration manager in China. He graduated from Nantong Industrial College in 1994. He has over 4 years experience of export trading. Mr. Jin joined the Group in May 1998.

Mr. Tony Wai Chiu So, aged 64, is the R & D Director of Vitapharm Research Pty Ltd. Mr. So holds a Bachelor Degree of Pharmacy from Monash University. Before joining the Group, Mr. So was a deputy director of Pharmacy Services of Austin Hospital in Australia for 15 years, senior management member and research fellows of various pharmaceutical companies. Mr. So is a member of the Pharmaceutical Society of the State of Victoria, Australia, permanent member of the Society Hospital Pharmaceutical Chemists of Australia and member of the Australian Society of Cosmetic Chemist. Mr. So joined the Group in November 2000.

Dr. Wong Tuen Yee, aged 49, is the principal scientist of Vitapharm Research Pty Ltd. 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). Dr. Wong was a researcher of various international research institutes. She is the author and co-author of numerous publications in international scientific journals and she has been awarded with international and national research grants. Dr. Wong joined the Group in September 2000.

Mr. Wu Qing Jiang, aged 39, is the general manager of Sichuan Weiao Pharmacy Co Ltd. Mr. Wu holds a bachelor's degree in Chinese medicine from Chengdu Chinese Medical Institute of China. Mr. Wu was a management staff in charge of the technical operations of Sichuan Jisheng Pharmaceutical Factory for over eleven years since 1983, manager of Chengdu Tenth Pharmaceutical Factory, deputy general manager of Sichuan Jinhui Pharmaceutical Limited. He has 17 years of experience in production and quality control of drugs and is familiar with the regulations about drug administration and new drug development. Mr. Wu joined the Group in November 2000.

Mr. Guo Wei Ping, aged 44, is the general manager of Wuhan Weiao Pharmaceuticals Co Ltd. He graduated from Luzhou Industrial Chemical College with a diploma in organic synthetics in 1982 and Huaxi Medical University with a diploma in pharmacy. He worked for Chengdu Forth Pharmacy for almost 20 years since 1982 and the last position he held was deputy technical manager. He joined the Group in October 1998.

Dr. Zhang Mei, aged 35, is the general manager of Vital (Sichuan) BioTech Co Ltd. She is a registered doctor in China and graduated from Sichuan Western Medical College in 1989. In 1994, Dr. Zhang obtained a bachelor degree of business administration in Xinan Communication University. Dr. Zhang joined the Group in March 2001.

Dr. Zhang Guo Feng, aged 37, is a research fellow of Vital (Sichuan) Biotech Co Ltd. Dr. Zhang obtained his Ph.D from China Xiehe Medical University (中國協和醫科大學) in 1994 and was then engaged in the research and development of drugs. Dr. Zhang was in charge of the drug bio-chemistry laboratory and a vice president of the drug information bureau of Jiangzhong Pharmaceutical Group (江中製藥集團) and a research fellow of a security investment company (西南證券有限責任公司). Dr. Zhang joined the Group in November 2000.

Mr. Liu Jia Jian, aged 59, is the principal scientist of Vital (Sichuan) Biotech Co Ltd. He graduated from the faculty of chemistry in University of Sichuan. Mr. Liu has been a director of major antibiotic research institute in Chengdu City, Sichuan, China for 27 years. Mr. Liu is a mentor of doctorate candidate, a Committee Member of the National New Drug Approval Committee (國家新藥評審委員會). He is appointed 省政協委員 and receives a life-time subsidy from the State Council of China (國務院終身津貼) by virtue of his expertise in drug research. Mr. Liu joined the Group in August 2001.

Mr. Lam Kai Cheung, aged 40, is the qualified accountant, company secretary and financial controller of the Group. Mr. Lam joined the Group in May 2002. He is experienced in auditing and financial management of private and listed companies. Mr. Lam is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants of United Kingdom.

Mr. Huang Ze Min, aged 42 and with university education standard, joined Sichuan Weiao Pharmacy Co Ltd in January 2003 as sales manager at deputy general manager grade. Mr. Huang is responsible for coordinating sales activities of the Group. He has been selling pharmaceutical products for years with exposure broadly across China and was experienced particularly in the South-Western regions. Before joining the Group, Mr. Huang was the general manager of a major customer of the Group.

The Directors have pleasure in submitting their report together with the audited accounts of Vital BioTech Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31st December, 2002.

GROUP REORGANISATION AND LISTING OF SHARES

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 formed after the completion of the Group Reorganisation on 26th January, 2002.

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in research and development, trading and manufacturing of pharmaceutical products.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS

The results of the Group for the year are set out in the consolidated profit and loss account on page 35.

DIVIDENDS

The Directors have declared an interim dividend of HK1 cent, with options of 1 scrip share for every 30 shares or in cash, totalling HK$12,000,000. On 18th September, 2002, the interim dividend was settled by cash of HK$3,796,000 and by scrip dividend of HK$8,204,000.

The Directors proposed to pay a final dividend of HK1 cent per share to the shareholders whose names appear on the register of members on 7th April, 2003. The dividend will be payable on 16th May, 2003. In addition, pursuant to a resolution of the Directors on 28th February, 2003, shareholders may elect to receive the proposed final dividend in the form of fully paid shares of the Company, in cash or partly in shares and in cash. The holder of every 20 shares will be entitled to one fully paid share of the Company as final dividend.

Should all eligible shareholders elect to receive the dividend in cash or in the form of fully paid shares of the Company, the effect of the final dividend herein would be payment of HK$12,273,473 or an additional issue of 61,367,363 fully paid shares of the Company.

The register of members of the Company will be closed from 7th April, 2003 (Monday) to 10th April, 2003 (Thursday), both days inclusive, during which period no transfer of shares will be elected. In order to be qualified for the above-mentioned dividend, 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. on 4th April, 2003 (Friday) .

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the years ended 31st December, 2000, 2001 and 2002 is set out on page 3 of the annual report.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the accounts.

INTANGIBLE ASSETS AND FIXED ASSETS

Details of the movements in intangible assets and fixed assets of the Group are set out in notes 12 and 13 to the accounts respectively.

SUBSIDIARIES

Details of the subsidiaries of the Company are set out in note 34 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 26 to the accounts.

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors

Mr. Ko Sai Ying, Thomas *(Chairman)*	("Mr. Ko")
Mr. Au Yeung Ping Yuen, Terence *(Vice Chairman)*	("Mr. Au Yeung")
Mr. Liu Jin, James	("Mr. Liu")
Mr. Tao Lung	("Mr. Tao")

Independent non-executive directors

Mr. Lee Kwong Yiu	
Mr. Lui Tin Nang	*(appointed on 2nd July, 2002)*
Mr. Lo Wah Kei	*(resigned on 2nd July, 2002)*

In accordance with article 108 of the articles of association of the Company, Mr. Tao will retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election.

In accordance with article 112 of the articles of association of the Company, Mr. Lui Tin Nang will retire at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election.

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 on 1st December, 2001 and will continue thereafter until terminated by not less than three months' notice in writing served by either party to 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 Group in respect of that financial year. An executive directors may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him.

The independent non-executive directors, Mr. Lui Tin Nang and Mr. Lee Kwong Yiu have been appointed for a term of two years expiring on 25th January, 2004 and 1st July, 2004 respectively. Save for a director fee of HK$120,000 per annum for each of them, the independent non-executive directors are not entitled to any other remuneration.

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

No contracts of significance in relation to the Group's business to which the Company or its holding company was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 23 to 25 of the annual report.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December, 2002 amounted to HK$149,107,000.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's by-laws and there was no restriction 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 year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTIONS

A share option scheme was approved by shareholders of the Company on 26th January, 2002 (the "Scheme").

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

The 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 in which the Group holds an equity interest ("Invested Entity"), any non-executive Directors of the Group or any Invested Entity, any supplier or customer of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of the Group or Invested Entity or any holder of any securities issued by the Group or 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 Scheme must not in aggregate exceed 30% of the relevant shares of securities of the Company 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 Scheme must not in aggregate exceed 120,000,000 shares representing about 9.8% of the share in issue at the date of this report.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the options. The subscription price for shares under the 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 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 but shall and in any event be not later than ten years from the date on which the offer is made subject to the provisions of early termination thereof.

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

On 21st 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 16th August, 2002 to 6th February, 2012 as below:

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

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:

1. Using the annual Exchange Fund Notes interest rate of 1.57% as the risk-free interest rate;

2. The expected life is 9.5 years;

3. The expected volatility is 60.16% during the period from 7th February, 2002, being the listing day of the Company, to 20th June, 2002;

4. No expected dividend as the Company is newly listed.

Note: The value of the share options is subject 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. As at 31st December, 2002, no grantees had exercised any of the options and no option was cancelled during the year. Any share options forfeited before expiry will be cancelled.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY SECURITIES

As at 31st December, 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 recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Ordinary shares of HK$0.01 each in the Company

	Number of shares				
	Personal interests	**Family interests**	**Corporate interests** *Note*	**Other interests**	**Total**
Mr. Ko	48,914,480	–	–	–	48,914,480
Mr. Au Yeung	8,114,560	–	–	–	8,114,560
Mr. Liu	15,118,080	–	–	–	15,118,080
Mr. Tao	103,315,200	–	630,400,000	–	733,715,200

Note:

These shares are registered in the name of Perfect Develop Holdings 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 year, 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 (or warrants or debentures, if applicable) of the Company and its associated corporations (within the meaning of the SDI Ordinance).

At no time during the year was the Company or its holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 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:

Name	**Number of shares held**	**Approximate percentage of shareholding**
Perfect Develop *(note 1)*	630,400,000	51.36%
Mr. Tao *(note 2)*	733,715,200	59.78%

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 Group.

2. Mr. Tao owns in aggregate 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 630,400,000 shares of the Company as at 31 December, 2002. 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 733,715,200 shares in aggregate, amounting to approximately 59.78% of the share in issue.

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 year.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	55%
– five largest suppliers combined	76%
Sales	
– the largest customer	52%
– five largest customers combined	96%

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.

RELATED PARTY TRANSACTIONS

A summary of related party transactions during the year was disclosed in note 30 to the accounts.

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 26th 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 held four meetings during the current financial year.

SPONSORS' INTERESTS

As notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY"), as at 31st December, 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 30th January, 2002 entered into between the Company and CPY, CPY will receive a fee for acting as the Company's retained sponsors for the period from the date of listing to 31st December, 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause any significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

SUBSEQUENT EVENT

The Directors are not aware of any material subsequent event.

ADVANCES TO AN ENTITY

According to Rules 17.15 and 17.17 of the GEM Listing Rules, a disclosure obligation arises where the relevant advance to an entity from the Group exceeds 25% of the Group's net tangible assets. As at 31st December, 2002, there was no such amount required to be disclosed.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes are set out in note 10 to the accounts.

USE OF PROCEEDS

Details of the use of proceeds of the Company are set out in page 21 of the annual report.

AUDITORS

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

By Order of the Board

Au Yeung Ping Yuen, Terence
Vice Chairman

Hong Kong, 28th February, 2003

AUDITORS' REPORT TO THE SHAREHOLDERS OF
VITAL BIOTECH HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 35 to 64 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, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28th February, 2003

Consolidated Profit and Loss Account

For the year ended 31st December, 2002

	Note	2002 HK$'000	2001 HK$'000
Turnover	3	**167,969**	122,825
Cost of sales		**(50,572)**	(61,052)
Gross profit		**117,397**	61,773
Other revenues	3	**439**	129
Selling and distribution expenses		**(34,609)**	(3,157)
Administrative expenses		**(24,923)**	(13,021)
Other operating expenses (net)		**(4,094)**	(3,226)
Operating profit	4	**54,210**	42,498
Finance costs	5	**(4,903)**	(3,399)
Profit before taxation		**49,307**	39,099
Taxation	6	**(988)**	(60)
Profit after taxation		**48,319**	39,039
Minority interests		**(7,727)**	(914)
Profit attributable to shareholders	7, 27	**40,592**	38,125
Dividends	8	**24,273**	–
Earnings per share	9		
Basic		**HK3.43 cents**	HK3.97 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31st December, 2002

	Note	**2002**	2001
		HK$'000	*HK$'000*
Non-current assets			
Intangible assets	12	**8,144**	8,712
Fixed assets	13	**101,775**	36,548
Investment securities	15	**3,900**	–
		113,819	45,260
Current assets			
Inventories	16	**21,933**	3,791
Receivables and prepayments	17	**79,969**	51,680
Other investment	18	**94**	–
Bank balances and cash	20		
– pledged		**7,983**	7,935
– unpledged		**57,976**	6,460
		167,955	69,866
Current liabilities			
Trade and other payables	21	**19,572**	14,663
Amounts due to minority shareholders of subsidiaries	22	**98**	320
Amount due to a Director	23	**–**	200
Value added tax payable		**4,662**	1,268
Tax payable		**411**	75
Current portion of long-term liabilities	28	**2,867**	1,981
Bank loans and overdrafts	24	**53,715**	22,831
Other loans	25	**2,830**	4,751
		84,155	46,089
Net current assets		**83,800**	23,777
Total assets less current liabilities		**197,619**	69,037

As at 31st December, 2002

	Note	**2002** **HK$'000**	2001 HK$'000
Representing:			
Share capital	26	**12,273**	182
Reserves	27	**152,013**	53,812
Proposed dividend	27	**12,273**	–
Shareholders' funds		**176,559**	53,994
Minority interests		**11,532**	2,430
Non-current liabilities			
Long-term liabilities	28	**9,528**	12,613
		197,619	69,037

On behalf of the Board

TAO Lung
Director

AU YEUNG Ping Yuen, Terence
Director

Balance Sheet

As at 31st December, 2002

	Note	2002 HK$'000	2001 HK$'000
Non-current assets			
Fixed assets	13	**73**	–
Investments in subsidiaries	14	**140,935**	–
Investment securities	15	**3,900**	–
		144,908	–
Current assets			
Prepayments	17	**5,818**	–
Amount due from a related company	19	**–**	1,900
Bank balances and cash		**11,423**	2
		17,241	1,902
Current liabilities			
Other payables	21	**769**	54
Amount due to a related company	19	**–**	42
Amounts due to Directors	23	**–**	2,100
		769	2,196
Net current assets/(liabilities)		**16,472**	(294)
Total assets less current liabilities		**161,380**	(294)
Representing:			
Share capital	26	**12,273**	–
Reserves	27	**136,834**	(294)
Proposed dividend	27	**12,273**	–
		161,380	(294)

On behalf of the Board

TAO Lung
Director

AU YEUNG Ping Yuen, Terence
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2002

	Note	**2002** **HK$'000**	2001 HK$'000
Shareholders' equity as at 1st January		**53,994**	15,750
Exchange differences arising on translation of the accounts of subsidiaries not recognised in the consolidated profit and loss account	27	**(89)**	119
Profit for the year	27	**40,592**	38,125
Dividends	27	**(12,000)**	–
Issue of shares by placement	26, 27	**108,000**	–
Share issue expenses	27	**(22,142)**	–
Issue of shares for scrip dividends	26, 27	**8,204**	–
Shareholders' equity as at 31st December		**176,559**	53,994

Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	Note	2002 HK$'000	2001 HK$'000
Operating activities			
Net cash inflow from operations	29(a)	**20,359**	28,208
Hong Kong profits tax paid		**(15)**	–
China mainland taxation paid		**(637)**	–
Net cash inflow from operating activities		**19,707**	28,208
Investing activities			
Amounts paid for registration of certain patents		**(505)**	–
Purchase of fixed assets		**(70,504)**	(22,774)
Government grants and subsidies received		**594**	–
Proceeds from sale of fixed assets		**613**	40
Purchase of investment securities		**(3,900)**	–
Purchase of other investment		**(94)**	–
Purchase of additional equity interest in a subsidiary	29(c)	**–**	(2,502)
Interest received		**348**	46
Development costs paid		**–**	(462)
Increase in pledged bank balances		**(48)**	(7,601)
Net cash outflow from investing activities		**(73,496)**	(33,253)
Net cash outflow before financing		**(53,789)**	(5,045)
Financing activities	29(b)		
Issue of ordinary shares		**108,000**	–
Share issue expenses		**(22,142)**	–
Dividends paid		**(3,796)**	–
Draw down of short-term bank loans		**50,000**	3,386
Repayment of short-term bank loans		**(18,585)**	(2,075)
Draw down/(repayment) of trust receipt loans		**1,266**	(1,103)
Draw down of other loans		**–**	823
Repayment of other loans		**(1,921)**	(1,900)
Draw down of long-term bank loans		**–**	14,338
Repayment of long-term bank loans		**(1,924)**	(19)
Capital element of finance lease payments		**(275)**	(23)
Interest element of finance lease rental payments		**(67)**	(14)
Finance costs paid		**(5,011)**	(3,990)
Repayment of loan from a minority shareholder of a subsidiary		**–**	(4,575)
Capital contribution from a minority shareholder of a subsidiary		**1,557**	–
Net cash inflow from financing		**107,102**	4,848
Increase/(decrease) in cash and cash equivalents		**53,313**	(197)
Cash and cash equivalents at 1st January		**4,663**	4,860
Cash and cash equivalents at 31st December	29(e)	**57,976**	4,663

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 "Group"), details of which are set out in note 34 to the accounts. The Group Reorganisation was completed on 26th January, 2002 and the shares of the Company have been listed on the Stock Exchange since 7th February, 2002.

2. *PRINCIPAL ACCOUNTING POLICIES*

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

(a) Basis of preparation of the accounts

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 (the "HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, other investment is stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

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

The adoption of these new or revised accounting standards did not have material impact to the accounts for the year ended 31st December, 2002 except for the reclassification of cash flows presented in the consolidated cash flow statement into operating, investing and financing activities and the presentation of consolidated statement of changes in equity.

(b) Basis of consolidation

The Group resulting from the Group Reorganisation referred to in note 1 above is regarded as a continuing entity. Accordingly, the consolidated accounts have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group throughout the two years ended 31st December, 2002 and 2001, or from the respective dates of incorporation/establishment or dates of effective acquisition by the Group, where this is a shorter period. In the opinion of the Directors, the consolidated accounts prepared on the above basis present more fairly the results, cash flows and state of affairs of the Group as a whole.

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December on the basis set out above. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

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 dividend income.

(c) Fixed assets

(i) Construction in progress

Construction in progress comprises land use rights and buildings on which construction work has not been completed. Construction in progress is carried at cost which includes cost of acquisition of land use rights, development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. On completion, the construction in progress is transferred to appropriate categories of other fixed assets.

(ii) Other fixed assets

Freehold land is stated at cost less accumulated impairment losses. Other fixed assets, comprising land use rights, buildings, leasehold improvements, plant and machinery, motor vehicles and furniture, fixtures and office equipment, are stated at cost less accumulated amortisation/depreciation and impairment losses.

2. *PRINCIPAL ACCOUNTING POLICIES* (Continued)

(c) Fixed assets (Continued)

(iii) Depreciation

No depreciation is provided for construction in progress and freehold land.

Land use rights are amortised over the unexpired period of rights granted on a straight-line basis.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives to their respective residual values estimated by the directors on a straight-line basis. The principal annual rates are summarised as follows:

Buildings	2.5%
Leasehold improvements	20% or over lease term, whichever is shorter
Plant and machinery	6.67-20%
Motor vehicles	20%
Furniture and fixtures and office equipment	10-27%

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

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are 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) Leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases.

(i) Assets acquired under 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 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 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 Group's depreciation policies, as set out in note 2(c)(iii) above. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(m)(iv) below.

(iii) Operating lease charges

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) Intangible assets

(i) Goodwill/negative goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the 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.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those assets of 5 years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the consolidated profit and loss account immediately.

2. ***PRINCIPAL ACCOUNTING POLICIES*** (Continued)

(e) Intangible assets (Continued)

(ii) Patents

Amounts paid or payable on acquired patents are capitalised in the balance sheet and are amortised by equal annual instalments over the estimated useful life of fifteen years. Patents are not revalued as there is no active market for these assets.

(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. As 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 consolidated profit and loss account.

(f) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities is reduced to its fair value. The impairment loss is recognised as an expense in the consolidated profit and loss account. This impairment loss is written back to the consolidated profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the consolidated profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the consolidated profit and loss account as they arise.

(g) Inventories

Inventories mainly represent pharmaceuticals 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.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from the date of investments and bank overdrafts.

(j) 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.

2. *PRINCIPAL ACCOUNTING POLICIES* (Continued)

(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 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 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 Group.

Contingent assets are not recognised but are disclosed in the notes to the 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 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 Group recognises revenue on the following bases:

(i) Revenue from the sales 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.

(ii) License fee income for granting a right to use of the Group's technology is recognised when the Group's obligations to perform are completed in accordance with the applicable performance requirements and contractual terms.

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iv) Operating lease rental income is recognised on a straight-line basis over the period of each lease.

(n) Employee benefits

(i) Retirement benefit costs

The subsidiaries in Hong Kong and Australia operate defined contribution schemes which are available to eligible 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 sums as stipulated under the relevant requirements, as appropriate. Contributions under defined contribution schemes are charged to the consolidated profit and loss account as incurred.

Pursuant to the relevant regulations of the municipal governments in China mainland, the subsidiaries of the 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 Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to the consolidated profit and loss account as incurred.

(ii) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(iii) Equity compensation benefits

Share options are granted to Directors and employees. No compensation cost is recognised in the consolidated profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

2. *PRINCIPAL ACCOUNTING POLICIES* (Continued)

(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 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.

(q) Government grants and subsidies

Government grants and subsidies that become receivable as compensation for expenses or losses already incurred or for the purpose of providing financial assistance to the Group with no further related costs are recognised as income in the year in which they become available.

Government grants and subsidies are initially recognised as deferred income when there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants and subsidies will be received. Such grants and subsidies relating to income are recognised in the consolidated profit and loss account on a systematic basis to match with the related costs which they are intended to compensate.

Government grants and subsidies relating to the purchase of fixed assets are deducted from the carrying amount of the asset. The grants and subsidies are recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

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

(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 consolidated profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date whilst their profit and loss accounts expressed in foreign currencies are translated at average exchange rates during the year. Exchange differences are dealt with as a movement in reserves.

In the previous year, the profit and loss accounts of subsidiaries expressed in foreign currencies were translated at closing rates. This represents a change in accounting policy. However, the translation of the profit and loss accounts of subsidiaries expressed in foreign currencies in the previous year has not been restated as the effect of this change is not material to the consolidated accounts.

3. *REVENUES, TURNOVER AND SEGMENT INFORMATION*

The Group is principally engaged in the trading and manufacturing of pharmaceutical products and licencing for granting a right to the use of the Group's technology in pharmaceutical business.

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

	2002	2001
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**165,139**	119,995
Licence fee income	**2,830**	2,830
	167,969	122,825
Other revenues		
Interest income	**348**	46
Rental income from hire of plant and machinery	**91**	83
	439	129
Total revenues	**168,408**	122,954

The Group's revenues, expenses, assets, liabilities and capital expenditure are primarily attributable to the trading and manufacturing of pharmaceutical products. The Group's principal market is in China mainland.

Neither the business segment of the licencing of the Group's technology nor the geographical segment in other country are of a sufficient size to be reported separately.

4. *OPERATING PROFIT*

Operating profit is stated after crediting and charging the following:

	2002	2001
	HK$'000	*HK$'000*
Crediting		
Amortisation of negative goodwill	**24**	–
Grants and subsidies from governments	**1,841**	451
Charging		
Amortisation of intangible assets		
– goodwill	**644**	644
– patents	**213**	189
– development costs	**58**	29
Auditors' remuneration	**808**	1,082
Depreciation and amortisation of fixed assets		
– leased fixed assets under finance leases	**101**	33
– owned fixed assets held for use under operating leases	**31**	37
– other owned fixed assets	**4,282**	1,062
Loss on disposal of fixed assets	**77**	77
Operating lease rental expense on land and buildings	**1,893**	813
Provision for trade receivables	**208**	73
Provision for other receivables	**–**	95
Provision for inventories	**–**	311
Research and development costs	**3,217**	807
Staff costs *(note 10)*	**15,558**	9,190
Write-off of inventories	**1,703**	–

5. FINANCE COSTS

	2002	2001
	HK$'000	*HK$'000*
Interest expenses on:		
– bank loans and overdrafts	**3,871**	3,044
– other loans wholly repayable within five years	**142**	181
– trade payables	**53**	191
– loans due to staff	**–**	85
– finance leases	**67**	14
– discounted bills of exchange	**668**	–
Other incidental borrowing costs	**431**	489
Total borrowing costs incurred	**5,232**	4,004
Less: interest capitalised in construction in progress	**(329)**	(605)
Total borrowing costs charged to the consolidated profit and loss account	**4,903**	3,399

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is 7.0% (2001: between 6.6% and 18.0%) per annum.

6. TAXATION

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

	2002	2001
	HK$'000	*HK$'000*
Hong Kong profits tax		
– current year charge	**–**	60
– over provision in prior years	**(60)**	–
China mainland taxation	**1,048**	–
	988	60

No Hong Kong profits tax has been provided for the year as there was no estimated assessable profit. Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits for the previous year.

In accordance with the approval from relevant local tax bureaus, two subsidiaries operating in China mainland are entitled to the exemption from enterprise income tax in the first two years from the first profit-making year and 50% reduction in the subsequent three years. One subsidiary was on the first year of 50% reduction while the other subsidiary was on the first year of tax exemption for the current year. Another subsidiary in China mainland was in loss-making position for the current and the previous years and accordingly did not have any taxable income.

No Australia income tax has been provided as the subsidiaries 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 consolidated accounts has not been accounted for as the effect of timing differences is not material.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$24,676,000 (2001: loss of HK$294,000).

8. DIVIDENDS

	2002 HK$'000	2001 HK$'000
Interim dividend, paid, of HK1 cent, with options of 1 scrip share for every 30 shares or in cash (2001: HK Nil cent) per ordinary share *(note (a))*	**12,000**	–
Final dividend, proposed, of HK1 cent, with options of 1 scrip share for every 20 shares or in cash (2001: HK Nil cent) per ordinary share *(note (b))*	**12,273**	–
	24,273	–

Notes:

(a) The interim dividend was partially settled by scrip dividend of HK$8,204,000.

(b) At a meeting held on 28th February, 2003, the Directors declared a final dividend of HK1 cent per share for the year ended 31st December, 2002. The dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December, 2003.

9. EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to shareholders of HK$40,592,000 and on the weighted average number of 1,183,538,255 shares in issue during the year.

The comparative basic earnings per share is calculated based on the profit attributable to shareholders of HK$38,125,000 and on an aggregate of 960,000,000 shares, comprising 3 shares issued immediately after incorporation of the Company, 1,818,179 shares issued upon the Group Reorganisation together with 16,363,638 shares issued as a result of the share split and 941,818,180 shares issued pursuant to the capitalisation issue for the then shareholders of the Company upon completion of the Group Reorganisation, which were deemed to have been in issue since 1st January, 2001.

As the exercise price of the share options granted during the year was greater than the average market price of the Company's share, there was no dilution effect on earnings per share for the year. There were no dilutive instruments outstanding for the previous year.

10. STAFF COSTS

	2002 HK$'000	2001 HK$'000
Wages and salaries (including Directors' emoluments)	**14,874**	8,889
Unutilised annual leave	**76**	–
Retirement benefit costs	**608**	301
	15,558	9,190

The retirement benefit costs represent gross contributions paid and payable by the 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$53,000 payable to the Retirement Schemes as at 31st December, 2002 (2001: HK$81,000) are included in accrued charges and other payables. There were no forfeited contributions throughout the current and previous years.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2002 HK$'000	2001 HK$'000
Fees	**222**	–
Salaries, allowances and benefits in kind	**3,401**	2,278
Retirement benefit costs	**48**	141
	3,671	2,419

The four executive Directors of the Company received emoluments for the year ended 31st December, 2002 of HK$1,004,000 (2001: HK$736,000), HK$886,000 (2001: HK$591,000), HK$807,000 (2001: HK$591,000) and HK$752,000 (2001: HK$501,000) respectively.

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

(a) Directors' emoluments (Continued)

Directors' fees of HK$222,000 (2001: HK$Nil) were paid to independent non-executive Directors during the year.

During the year, no share options (2001: not applicable) have been granted to any Directors of the Company 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	
	2002	2001
Emoluments bands		
Nil to HK$1,000,000	**6**	6
HK$1,000,001 – HK$1,500,000	**1**	–
	7	6

(b) Senior management's emoluments

The five individuals whose emoluments were the highest in the Group for the year ended 31st December, 2002 include four (2001: 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:

	2002	2001
	HK$'000	*HK$'000*
Directors	**3,449**	2,419
Employee	**677**	571
	4,126	2,990

(c) Details of the emoluments paid by the Group to the highest paid employee as mentioned in note 11(b) above are as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**665**	547
Retirement benefit costs	**12**	24
	677	571

The emoluments of the employee fall into the following bands:

	Number of individuals	
	2002	2001
Emoluments bands		
Nil to HK$1,000,000	**1**	1

(d) During the year, 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 year.

12. INTANGIBLE ASSETS

Group

	Goodwill		**Negative goodwill**		**Patents**		**Development costs**		**Total**	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cost										
At 1st January	**7,960**	7,811	**–**	–	**2,831**	2,831	**462**	–	**11,253**	10,642
Additions	**–**	149	**(182)**	–	**505**	–	**–**	462	**323**	611
At 31st December	**7,960**	7,960	**(182)**	–	**3,336**	2,831	**462**	462	**11,576**	11,253
Accumulated amortisation										
At 1st January	**1,568**	924	**–**	–	**944**	755	**29**	–	**2,541**	1,679
Charge for the year	**644**	644	**(24)**	–	**213**	189	**58**	29	**891**	862
At 31st December	**2,212**	1,568	**(24)**	–	**1,157**	944	**87**	29	**3,432**	2,541
Net book value										
At 31st December	**5,748**	6,392	**(158)**	–	**2,179**	1,887	**375**	433	**8,144**	8,712

The goodwill/negative goodwill arose from the acquisitions of subsidiaries by the Group.

The patents included 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. Additions during the year represented amounts paid for registration of certain patents in certain countries.

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

13. *FIXED ASSETS*

Group

	Construction in progress HK$'000	Land use rights HK$'000	Freehold land HK$'000	Buildings HK$'000	Leasehold improve– ments HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture, fixtures and office equipment HK$'000	Total HK$'000
Cost									
At 1st January, 2002	23,422	7,999	–	–	1,887	3,228	2,419	1,588	40,543
Exchange translation differences	–	–	–	–	–	157	–	19	176
Additions	47,991	–	979	3,390	60	13,474	2,980	1,959	70,833
Transfer	(34,971)	–	–	–	–	34,971	–	–	–
Government grant	–	–	–	–	–	(594)	–	–	(594)
Disposals	–	–	–	–	(69)	(687)	–	–	(756)
At 31st December, 2002	**36,442**	**7,999**	**979**	**3,390**	**1,878**	**50,549**	**5,399**	**3,566**	**110,202**
Accumulated depreciation									
At 1st January, 2002	–	144	–	–	830	1,406	1,173	442	3,995
Exchange translation differences	–	–	–	–	–	77	–	7	84
Charge for the year	–	147	–	–	446	2,673	673	475	4,414
Disposals	–	–	–	–	(12)	(54)	–	–	(66)
At 31st December, 2002	**–**	**291**	**–**	**–**	**1,264**	**4,102**	**1,846**	**924**	**8,427**
Net book value									
At 31st December, 2002	**36,442**	**7,708**	**979**	**3,390**	**614**	**46,447**	**3,553**	**2,642**	**101,775**
At 31st December, 2001	23,422	7,855	–	–	1,057	1,822	1,246	1,146	36,548

Company

	Office equipment HK$'000
Cost	
Additions during the year and at 31st December, 2002	84
Accumulated depreciation	
Charge for the year and at 31st December, 2002	(11)
Net book value	
At 31st December, 2002	**73**

13. *FIXED ASSETS* (Continued)

(a) The Group's land use rights are held outside Hong Kong under leases of 10 to 50 years. Freehold land is held outside Hong Kong.

(b) At 31st December, 2002, the net book value of the Group's fixed assets pledged as security for the Group's long-term and short-term bank loans amounted to approximately HK$44,538,000 (2001: HK$31,277,000).

(c) The aggregate cost and accumulated depreciation of the Group's plant and machinery held for use under operating leases as at 31st December, 2002 amounted to approximately HK$344,000 (2001: HK$344,000) and HK$218,000 (2001: HK$187,000) respectively.

(d) At 31st December, 2002, the aggregate net book value of the Group's fixed assets held under finance leases amounted to HK$Nil (2001: HK$307,000).

(e) At 31st December, 2002, the construction in progress included accumulated interest expenses capitalised of approximately HK$329,000 (2001: HK$621,000).

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**53,036**	–
Amounts due from subsidiaries	**87,906**	–
Amount due to a subsidiary	**(7)**	–
	140,935	–

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayments.

Details of the subsidiaries of the Company are set out in note 34 to the accounts.

15. INVESTMENT SECURITIES

	Group and Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted investments in guaranteed funds, at cost	**3,900**	–

16. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials		
– in transit	**5,936**	–
– on hand	**193**	2,547
Work in progress	**8,890**	–
Finished goods	**5,815**	1,235
Packing materials	**1,099**	9
	21,933	3,791

All inventories were carried at cost.

17. RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**56,731**	27,836	**–**	–
Prepayments and deposits	**19,212**	21,044	**5,818**	–
Other receivables	**4,026**	2,800	**–**	–
	79,969	51,680	**5,818**	–

The Group's sales for the year are on open account terms while the Group's sales for the previous year were also on letters of credit or documents against payment.

The Group normally grants to its customers credit period ranging from 90 days to 120 days. These are subject to periodic review by management.

At 31st December, 2002, the age analysis of the trade receivables is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within 30 days	**27,714**	15,253
31-60 days	**21,772**	5,211
61-90 days	**6,375**	4,551
Over 90 days	**870**	2,821
	56,731	27,836

18. OTHER INVESTMENT

	Group	
	2002	2001
	HK$'000	*HK$'000*
Unlisted investment, at fair value	**94**	–

19. AMOUNTS DUE FROM/TO RELATED COMPANIES

Amounts due from/to related companies of the Company as at 31st December, 2001 were unsecured, interest free and had no fixed terms of repayment. The related companies became the Company's subsidiaries following the completion of the Group Reorganisation as referred to in note 1.

20. BANK BALANCES AND CASH

Included in bank balances and cash of the Group as at 31st December, 2002 were deposits of approximately HK$5,983,000 (2001: HK$4,364,000) and HK$Nil (2001: HK$3,571,000) pledged as collateral for the trust receipt loan and bank overdraft facilities and the short-term bank loans respectively.

Included in bank balances and cash of the Group as at 31st December, 2002 was a deposit of approximately HK$2,000,000 (2001: HK$Nil) pledged as collateral for credit facility granted to a subsidiary by a bank.

Included in bank balances and cash of the Group as at 31st December, 2002 were amounts of approximately HK$24,607,000 (2001: HK$2,411,000) denominated in Renminbi not freely convertible to other currencies.

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**9,529**	8,753	**–**	–
Accrued charges and other payables	**10,043**	5,910	**769**	54
	19,572	14,663	**769**	54

21. *TRADE AND OTHER PAYABLES* (Continued)

At 31st December, 2002, the age analysis of the trade payables is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within 30 days	**5,327**	3,446
31-60 days	**1,437**	1,513
61-90 days	**1,118**	2,643
Over 90 days	**1,647**	1,151
	9,529	8,753

22. *AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES*

Amounts due to the minority shareholders of subsidiaries of the Group are unsecured, interest free and have no fixed terms of repayment.

23. *AMOUNTS DUE TO DIRECTORS*

Amounts due to Directors of the Group and the Company as at 31st December, 2001 were unsecured, interest free and had no fixed terms of repayment.

Amounts due to Directors of the Company as at 31st December, 2001 included HK$1,900,000 which were fully settled on 23rd January, 2002 by issuance of one share of the Company to one of the Directors pursuant to the Group Reorganisation (note 26(c)).

24. *BANK LOANS AND OVERDRAFTS*

	Group	
	2002	2001
	HK$'000	*HK$'000*
Short-term bank loans		
– secured *(note a)*	**4,717**	3,396
– unsecured *(note b)*	**45,283**	15,189
	50,000	18,585
Trust receipt loans – secured *(note 20)*	**3,715**	2,449
Bank overdrafts – secured *(note 20)*	**–**	1,797
	53,715	22,831

Notes:

(a) At 31st December, 2002, short-term bank loans of approximately HK$4,717,000 (2001: HK$Nil) were secured by certain fixed assets of the Group (note 13(b)). Short-term bank loans as at 31st December, 2001 of approximately HK$3,396,000 were secured by certain bank deposits of a subsidiary.

(b) At 31st December, 2001, short-term bank loans of approximately HK$12,547,000 and HK$2,642,000 were secured by properties of a related party and guaranteed by a related party respectively, which were subsequently replaced by corporate guarantees provided by a subsidiary.

25. *OTHER LOANS*

	Group	
	2002	2001
	HK$'000	*HK$'000*
Other loans – unsecured *(note)*	**2,830**	4,751

Note:

Other loan of approximately HK$2,830,000 as at 31st December, 2001 was secured by properties of a related party. The security was replaced by a corporate guarantee provided by a subsidiary during the year. The loan is repayable on 7th May 2003. Interest is charged on the outstanding balance at 5.025% (2001: 5.025%) per annum.

26. SHARE CAPITAL

Authorised:

	Number of shares	Par value per share *HK$*	Amount *HK$'000*
At 1st January, 2001	–	–	–
Upon incorporation *(note a)*	3,900,000	0.1	390
At 31st December, 2001	3,900,000	0.1	390
At 1st January, 2002	3,900,000	0.1	390
Subdivision of 1 share to 10 shares *(note d (i))*	35,100,000	0.01	–
Increase in authorised share capital *(note d (ii))*	49,961,000,000	0.01	499,610
At 31st December, 2002	**50,000,000,000**	**0.01**	**500,000**

Issued and fully paid:

	Number of shares	Par value per share *HK$*	Amount *HK$'000*
At 1st January, 2001	–	–	–
Shares allotted and issued upon incorporation *(note a)*	3	0.10	–
Share allotted and issued for acquisition of subsidiaries pursuant to the Group Reorganisation *(note b)*	909,088	0.10	–
At 31st December, 2001	909,091	0.10	–
At 1st January, 2002	909,091	0.10	–
Shares allotted and issued for acquisition of subsidiaries pursuant to the Group Reorganisation *(note c)*	909,090	0.10	182
Shares allotted and issued for capitalisation of amounts due to Directors pursuant to the Group Reorganisation *(note c)*	1	0.10	–
Share split *(note d (i))*	16,363,638	0.01	–
Capitalisation issue *(note d (iii))*	941,818,180	0.01	9,418
Issue of shares by placement *(note d (iv))*	240,000,000	0.01	2,400
Issue of shares for scrip dividends	27,347,268	0.01	273
At 31st December, 2002	**1,227,347,268**	**0.01**	**12,273**

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 was allotted and issued for cash at par. 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 Holdings 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 shares of HK$0.10 each were also issued and allotted nil paid to then shareholders.

(c) 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.

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.

26. *SHARE CAPITAL* (Continued)

(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 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 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 26(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.

(e) For the purpose of the preparation of the accounts, the comparative of share capital shown in the consolidated balance sheet represented 18,181,820 shares of HK$0.01 each in the share capital of the Company upon completion of the Group Reorganisation.

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 Director, employee, supplier, customer or other relevant business partner and shareholder of the Group to take up options at 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 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 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.

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 but shall and in any event be not later than ten years from the date on which the offer 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 the date on which the Share Option Scheme becomes unconditional.

On 21st 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 Share Option 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 16th August, 2002 to 6th February, 2012 as follows:

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

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 were granted to them.

Movements in the number of share options outstanding during the year are as follows:

Number of share options				
As at 1st January, 2002	Granted during the year	Lapsed	Exercised	**As at 31st December, 2002**
–	30,000,000	–	–	**30,000,000**

26. SHARE CAPITAL (Continued)

Share option scheme (Continued)

Share options outstanding at 31st December, 2002 have the following terms:

	Expiry date	Exercise price HK$	2002 Number of options	2002 Vested percentages
Employees of the Company	6th February, 2012	0.39	**21,100,000**	**18.0%**
Employees of the customers	6th February, 2012	0.39	**8,900,000**	**4.8%**
			30,000,000	**22.8%**

27. RESERVES

Group

	Share premium HK$'000	Merger reserve HK$'000 (note (a))	Exchange translation reserve HK$'000	Reserve fund HK$'000	Enterprise development fund HK$'000	Retained profits HK$'000	Total HK$'000
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
At 1st January, 2002	–	1,719	119	1,231	616	50,127	53,812
Exchange translation differences	–	–	(89)	–	–	–	(89)
Premium on issue of shares by placement	105,600	–	–	–	–	–	105,600
Capitalisation issue	(9,418)	–	–	–	–	–	(9,418)
Share issue expenses	(22,142)	–	–	–	–	–	(22,142)
Profit for the year	–	–	–	–	–	40,592	40,592
2002 interim dividends *(note 8)*	–	–	–	–	–	(12,000)	(12,000)
Premium on issue of shares for scrip dividends	7,931	–	–	–	–	–	7,931
At 31st December, 2002	**81,971**	**1,719**	**30**	**1,231**	**616**	**78,719**	**164,286**
Representing:							
Reserves	81,971	1,719	30	1,231	616	66,446	152,013
2002 final dividend proposed *(note 8)*	–	–	–	–	–	12,273	12,273
	81,971	1,719	30	1,231	616	78,719	164,286

Notes:

(a) The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired together with amounts due to Directors capitalised pursuant to the Group Reorganisation as referred to in note 1 above and the nominal value of the Company's shares issued in exchange therefor.

(b) A subsidiary in the PRC has appropriated 10% and 5% respectively of the profit for 2001 after setting off accumulated losses brought forward to reserve fund and enterprise development fund respectively. These reserves are required to be retained in the accounts of the subsidiary for specific purposes.

27. ***RESERVES*** (Continued)

Company

	Share premium HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1st January, 2001	–	–	–
Loss for the period	–	(294)	(294)
At 31st December, 2001	–	(294)	(294)
At 1st January, 2002	–	(294)	(294)
Premium on issue of shares for acquisitions of subsidiaries and capitalisation of amounts due to Directors pursuant to the Group Reorganisation *(note a)*	54,754	–	54,754
Issue of shares by placement	105,600	–	105,600
Capitalisation issue	(9,418)	–	(9,418)
Share issue expenses	(22,142)	–	(22,142)
Profit for the year	–	24,676	24,676
2002 interim dividends *(note 8)*	–	(12,000)	(12,000)
Issue of shares for scrip dividends	7,931	–	7,931
At 31st December, 2002	**136,725**	**12,382**	**149,107**
Representing:			
Reserves *(note b)*	136,725	109	136,834
2002 final dividend proposed *(note 8)*	–	12,273	12,273
	136,725	12,382	149,107

Note:

(a) The premium on issue of shares for acquisitions of subsidiaries and capitalisation of amounts due to Directors pursuant to the Group Reorganisation represents the excess of the consolidated net asset value of the subsidiaries acquired together with amounts due to Directors capitalised pursuant to the Group Reorganisation as referred to in note 1 above over the nominal value of the Company's shares issued in exchange therefor.

(b) Pursuant to the Companies Law of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the shareholders. At 31st December, 2002, in the opinion of the Directors, the Company's reserves available for distribution to shareholders comprising share premium account and retained profits, amounted to HK$149,107,000 (2001: HK$Nil).

28. ***LONG-TERM LIABILITIES***

	Group	
	2002	2001
	HK$'000	*HK$'000*
Wholly repayable within five years		
Bank loans – secured	**12,395**	14,319
Obligations under finance leases	**–**	275
	12,395	14,594
Current portion of long-term liabilities	**(2,867)**	(1,981)
	9,528	12,613

28. LONG-TERM LIABILITIES (Continued)

At 31st December, 2002, the Group's long-term bank loans were repayable as follows:

	2002 HK$'000	2001 HK$'000
Within one year	**2,867**	1,923
In the second year	**4,754**	2,867
In the third to fifth years inclusive	**4,774**	9,529
	12,395	14,319

The long-term bank loans of HK$12,395,000 (2001: HK$14,319,000) and short-term bank loans of HK$4,717,000 (2001: HK$Nil) were secured by certain fixed assets of the Group (note 13(b)).

The Group's finance lease liabilities were repayable as follows:

	2002 HK$'000	2001 HK$'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
Within one year	–	58
In the second year	–	66
In the third to fifth years inclusive	–	151
	–	275

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK$'000	2001 HK$'000
Operating profit	**54,210**	42,498
Interest income	**(348)**	(46)
Depreciation	**4,414**	1,132
Loss on disposal of fixed assets	**77**	77
Amortisation of intangible assets (net)	**891**	862
Operating profit before working capital changes	**59,244**	44,523
Increase in inventories	**(18,142)**	(325)
Increase in receivables and prepayments	**(28,289)**	(5,697)
Increase/(decrease) in trade and other payables	**4,755**	(4,199)
(Decrease)/increase in amounts due to minority shareholders of subsidiaries	**(222)**	32
Decrease in amounts due to Directors	**(200)**	(3,370)
Increase/(decrease) in value added tax payable	**3,394**	(2,748)
Effect of foreign exchange rate changes	**(181)**	(8)
Net cash inflow from operating activities	**20,359**	28,208

29. *NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT* (Continued)

(b) Analysis of changes in financing during the year

	Minority interests	**Long–term bank loans**	**Short–term bank loans**	**Trust receipt loans**	**Other loans**	**Obligations under finance leases**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2001	1,935	–	17,274	3,552	6,009	–
Exchange translation differences	–	–	–	–	(181)	–
Acquisition of additional equity interest in a subsidiary *(note 29 (c))*	(419)	–	–	–	–	–
Minority interests' in share of profits less losses of subsidiaries	914	–	–	–	–	–
Inception of finance leases *(note 29 (d))*	–	–	–	–	–	298
Cash inflow/(outflow) from financing activities	–	14,319	1,311	(1,103)	(1,077)	(23)
At 31st December, 2001	2,430	14,319	18,585	2,449	4,751	275

	Dividends payable	**Share capital (including share premium)**	**Minority interests**	**Long–term bank loans**	**Short–term bank loans**	**Trust receipt loans**	**Other loans**	**Obligations under finance leases**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2002	–	182	2,430	14,319	18,585	2,449	4,751	275
Minority interests' in share of profits less losses of subsidiaries	–	–	7,727	–	–	–	–	–
Acquisition of additional interest in a subsidiary *(note 29 (c))*	–	–	(182)	–	–	–	–	–
Dividends	12,000	–	–	–	–	–	–	–
Issue of shares for scrip dividends	(8,204)	8,204	–	–	–	–	–	–
Cash inflow/(outflow) from financing activities	(3,796)	85,858	1,557	(1,924)	31,415	1,266	(1,921)	(275)
At 31st December, 2002	**–**	**94,244**	**11,532**	**12,395**	**50,000**	**3,715**	**2,830**	**–**

(c) Purchase of additional equity interest in a subsidiary

	2002	2001
	HK$'000	*HK$'000*
Share of net assets acquired	**2,142**	419
(Negative goodwill)/goodwill	**(182)**	149
	1,960	568
Satisfied by:		
Cash *(note 29 (d))*	**1,960**	568

In 1999, the Group purchased additional interests in a subsidiary at total considerations of approximately HK$1,934,000. The payments of HK$1,934,000 together with an amount of HK$568,000 for purchase of additional equity interest in the subsidiary in 2001 as described above, totalling HK$2,502,000, were settled in 2001.

29. *NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT* (Continued)

(d) Major non-cash transactions

The purchase of the additional equity interest in a subsidiary during the year (note 29(c)) was by way of capital contribution through cash injection into the subsidiary.

In 2001, the 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.

(e) Analysis of balances of cash and cash equivalents

	2002	2001
	HK$'000	*HK$'000*
Bank balances and cash – unpledged	**57,976**	6,460
Bank overdrafts	**–**	(1,797)
	57,976	4,663

30. *RELATED PARTY TRANSACTIONS*

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

	2002	2001
	HK$'000	*HK$'000*
Rental expense to Wuhan Institute of Virology *(note a)*	**226**	226
Rental expense to a related company *(note b)*	**156**	156
Raw materials purchased from a related company *(note c)*	**37,072**	21,258
Purchase of motor vehicles from a minority shareholder of a subsidiary *(note d)*	**–**	216
Rental expense to a Director of the Company *(note e)*	**44**	116

Notes:

(a) Rental expense was charged by Wuhan Institute of Virology at a lump sum of RMB240,000 (equivalent of approximately HK$226,000) (2001: RMB240,000 (equivalent of approximately HK$226,000)) per annum for the year ended 31st December, 2002 as set out in an agreement for a term of six years commencing on 1st January, 2001 entered into between the subsidiary and Wuhan Institute of Virology date 20th December, 2000 and an addendum dated 20th January, 2001.

(b) Pursuant to an agreement dated 15th March, 2001 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 expense was charged by Wuhan Maxin at an amount of RMB13,800 (equivalent of approximately HK$13,000) per month for a term of six years commencing on 1st January, 2001. The rental expense for the year ended 31st December, 2002 was RMB166,000 (equivalent of approximately HK$156,000) (2001: RMB166,000 (equivalent of approximately HK$156,000)).

(c) A subsidiary of the Group purchased raw materials from Pharmco International Inc ("Pharmco"), a company wholly owned by the minority shareholders of another subsidiary, at prices and terms as set out in the agreement entered into between the subsidiary and Pharmco.

(d) In last year, a subsidiary purchased two motor vehicles from the minority shareholder of a subsidiary at total considerations of approximately RMB229,000 (equivalent of approximately HK$216,000).

(e) Pursuant to a tenancy agreement entered into between the Group and Mr. Tao Lung ("Mr. Tao"), a Director of the Company, on 8th September, 2001, the Group leased office premises from Mr. Tao for a term of one year commencing from 8th September, 2001 at a monthly rental of RMB30,684 (equivalent of approximately HK$28,947), exclusive of management fee and outgoings. The lease agreement was terminated on 15th February, 2002. The rental expense for the year ended 31st December, 2002 amounted to approximately RMB46,640 (equivalent of HK$44,000).

(f) At 31st December 2001, the Group's trust receipt loan and bank overdraft facilities were secured by an unlimited joint and several guarantee of a Director and a director of a subsidiary. On 26th February, 2002, such guarantee was replaced by the corporate guarantee of the Company.

(g) At 31st December, 2002, the Group prepaid approximately HK$2,642,000 to a third party for acquisition of the production technology of a product pursuant to an agreement dated 10th April, 2002 (the "Technology Agreement"). Wuhan Maxin has provided a guarantee to reimburse the prepaid amount together with interest costs to the Group if the third party fails to comply the terms and conditions of the Technology Agreement.

31. COMMITMENTS

(a) Capital commitments for construction in progress and other fixed assets

	Group	
	2002	2001
	HK$'000	*HK$'000*
Authorised but not contracted for	**38,998**	–
Contracted but not provided for	**17,067**	8,108
	56,065	8,108

(b) Commitments under operating leases

At 31st December, 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Land and buildings		
Not later than one year	**1,393**	400
Later than one year and not later than five years	**1,758**	2,547
Later than five years	**850**	–
	4,001	2,947

(c) Commitments for developments of new products and/or technologies

Pursuant to agreements entered into between the Group and third parties, the Group has outstanding commitments contracted but not provided for of approximately HK$603,000 (2001: HK$Nil) for the development of new products and/or technologies.

32. FUTURE OPERATING LEASE INCOME

At 31st December, 2002, the Group had total future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Plant and machinery		
Not later than one year	**8**	91
Later than one year and not later than five years	**–**	8
	8	99

33. CONTINGENT LIABILITIES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees for banking facilities of subsidiaries	**–**	–	**38,317**	–
Bills of exchange discounted with recourse	**37,736**	–	**37,736**	–
	37,736	–	**76,053**	–

The Directors anticipate that no material liabilities will arise from the above bank guarantees and discounted bills of exchange which arose in the ordinary course of business.

34. *PARTICULARS OF SUBSIDIARIES*

Details of the subsidiaries held by the Company as at 31st December, 2002 are as follows:

	Name	Place of incorporation/ establishment	Place of operations	Principal activities	Particulars of issued share capital/paid up capital	Equity interest held 2002	2001
	Direct subsidiaries:						
*	Ever Power Holding Inc.	British Virgin Islands ("BVI")	Hong Kong	Investment holding	2 ordinary shares of US$1 each	**100%**	100%
*	Gainful Plan Limited	BVI	Hong Kong	Investment holding	2 ordinary shares of US$1 each	**100%**	100%
*	Yugofoil Holdings Limited *(note a)*	BVI	Hong Kong	Investment holding and provision for management services	103 ordinary shares of US$1 each	**100%**	100%
*	Vital BioTech (Hong Kong) Limited *(note b)*	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of HK$1 each	**100%**	100%
*	Sino Lion Capital Inc	BVI	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	–
	Indirect subsidiaries:						
*	Beshabar Trading Limited	BVI	Hong Kong	Investment holding	1 ordinary share of US$1	**100%**	100%
*	Beshabar (Macao) Commercial Offshore Limited	Macao	Macao	Trading of pharmaceutical products	1 quota of MOP100,000 each	**100%**	–
*	Beshabar Trading Limited	Hong Kong	PRC	Trading of pharmaceutical products	100 ordinary shares of HK$1 each	**100%**	100%
*	Darsawye Pty Ltd.	Australia	Australia	Property holding	12 shares of AUD1 each	**100%**	–
*	Farthinghoe Enterprises Limited *(note a)*	BVI	Australia	Investment holding	3 ordinary shares of US$1 each	**100%**	100%
*	Maxsun International Limited	Hong Kong	Hong Kong	Investment holding	100 ordinary shares of HK$1 each	**51%**	51%
#	Sichuan Weiao Pharmacy Co., Ltd. *(note c)*	PRC	PRC	Manufacturing and trading of pharmaceutical products	RMB25,000,000	**85%**	76.7%
#	Wuhan Weiao Pharmaceuticals Co., Ltd (formerly Wuhan Tianao Pharmaceuticals Co., Ltd) *(note d)*	PRC	PRC	Manufacturing and trading of pharmaceutical products	RMB18,000,000	**95%**	95%

34. 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 2002	Equity interest held 2001
	Indirect subsidiaries (Continued)**:**						
*	Vitapharm Research Pty Ltd. *(note a)*	Australia	Australia	Research and development of biotechnology	20 ordinary shares of AUD1 each	**100%**	100%
##	Vital (Sichuan) BioTech Limited *(note e)*	PRC	PRC	Research and development of biotechnology	US$1,400,000	**100%**	100%
*	Wide Triumph Limited	Hong Kong	Hong Kong	Management services	100 ordinary shares of HK$1 each	**100%**	–

* *Companies limited by shares*
\# *Equity joint ventures*
\## *Wholly owned foreign enterprise*

Notes:

(a) On 23rd January, 2002, Yugofoil Holdings Limited ("Yugofoil"), a subsidiary of the Group, acquired the entire share capital of Farthinghoe Enterprises Limited ("Farthinghoe"), which directly holds a 100% interest in Vitapharm Research Pty Ltd, through a share exchange of Yugofoil's shares to Mr. Ko Sai Ying ("Mr. Ko"), Mr. Au Yeung Ping Yuen, Terence ("Mr. Au Yeung") and Mr. Liu Jin, James ("Mr. Liu"), shareholders of Farthinghoe. Mr. Ko, Mr. Au Yeung and Mr. Liu are Directors and initial management shareholders of the Company.

(b) Vital BioTech (Hong Kong) Limited was acquired by the Group on 19th June, 2001.

(c) Equity interests of 76.67% and 8.33% in Sichuan Weiao Pharmacy Co., Ltd. were acquired by the Group on 16th November, 2000 and 8th May, 2002 respectively.

(d) Equity interests of 70%, 10%, 10% and 5% in Wuhan Weiao Pharmaceuticals Co., Ltd. were acquired by the Group on 10th November, 1998, 3rd November, 1999, 27th December, 1999 and 1st April, 2001 respectively.

(e) As at 31st December, 2002, the capital of Vital (Sichuan) BioTech Limited was paid up to the extent of US$1,400,000. (2001: US$210,000).

35. ULTIMATE HOLDING COMPANY

The Directors regard Perfect Develop Holdings Inc., a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Company.

36. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 28th February, 2003.