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

(incorporated in the Cayman Islands with limited liability)

First Quarterly Report

2003

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

HIGHLIGHTS

	For the 3 months ended 31 March	
	2003	**2002**
	HK$'000	*HK$'000*
Turnover	65,003	22,885
Profit attributable to shareholders	11,322	6,161
Basic earnings per share	HK0.92 cent	HK0.56 cent

- Turnover of the Group was approximately HK$65.0 million (2002: HK$22.9 million), representing an increase of approximately 184%;
- Profit attributable to shareholders amounted to approximately HK$11.3 million (2002: HK$6.1 million), representing an increase of approximately 83%;
- Basic earnings per share was HK0.92 cent (2002: HK0.56 cent) representing an increase of approximately 64%;
- The Board of Directors (the "Board") did not recommend any interim dividend for this quarter.

BUSINESS REVIEW

I am pleased to report the unaudited interim results of Vital BioTech Holdings Limited ("the Company" or "Vital BioTech") together with its subsidiaries (collectively the "Group") for the 3 months ended 31 March 2003 (the "Reporting Period"). Besides the remarkable growth in areas of product sales and profit, the Group has achieved encouraging progress in several research and development projects based on the Group's patent platform technology – Protein Stabilisation and Delivery System ("PSD").

Research and Development Project

Project Oral EPO Tablet (Sublingual Delivered Erythropoietin Tablet):

In the Reporting Period, a pre-clinical animal study was concluded on the efficacy of non-injection sublingual delivery of recombinant human erythropoietin (rHuEPO). Our PSD stablised rHuEPO was found to be effective against anaemia caused by acute renal failure, chronic renal failure and chronic anaemia due to blood lost. In addition, a close dose-response relationship was established. The Group has placed the project in high priority and is now actively screening for potential joint venture partners. In these respects, we are now discussing with a leading Chinese pharmaceutical company about technical and commercial cooperation.

Project Room Temperature Stable Animal Vaccines:

The laboratories of the Group have completed 7 series of tests and have identified several vaccines for chicken as target testing model. The results confirmed that our PSD technology did not have any adverse effect on the vaccine activities. In vivo experiments on chicken indicated the efficacy of our vaccines were comparable with that of freeze-dry vaccine. Further tests are now in progress.

With the initial success on this project, we have commenced commercial negotiation with our partner. High-level discussion between Vital Biotech and the potential Chinese joint venture partner was conducted in March in Australia. At present, A framework for cooperation was proposed and is now pending for a detailed examination.

Project Receptase for prevention and treatment of diarrhea in pigs:

Receptase for prevention against diarrhea in piglet was well proven in successful field experiments. After treatment by Receptase, less cases of diarrhea were found in piglets. On the other hand, treated piglets with diarrhea would recover after 2 to 3 days without medical intervention. Currently, we are planning further field experiments on small animal.

Product Sales:

For the Reporting Period under review, the consolidated turnover was approximately HK$65 million. A growth rate of 184% was achieved when compared with approximately HK$22.9 million on a year-on-year basis. Sales of Osteoform were on a steady up-trend and arrived at about HK$60.5 million. Comparing to HK$18 million of the same period last year, a 236% growth rate was achieved. As for Opin, sales were about HK$4 million and have resulted in a decrease of around 11% when compared to HK$4.5 million of the same period in last year.

Osteoform

Traditionally, Osteoform was better received in Central and South-western China. The South-eastern regions were relatively slow in sales. Our strategy this year was to penetrate the South-eastern regions to extend our market share. From these respects, we have launched an extensive OTC staff training program in Southern and Eastern China and have kicked off our OTC market campaign in Hainan Province.

The major sales channel of Osteoform has been steered to OTC market. Advertising strategies were pin-pointing at regional consumers through large scale social promotional campaigns. In the International Women's Festival held on 8 March 2003, we have taken the opportunity to launch advertising activities covering almost the whole mainland China to increase the exposure of our product to the female customer group.

Opin

The original indication for Opin was chronic erosive cervicitis. In March 2003, the Group has obtained a Class 5 new drug certificate from the State Food and Drug Administration Bureau ("SFDA") with extended indications for treatment of viral vaginal infections. The Group expected that the marketing potential of Opin should be strengthened by the extended indications.

During the Reporting Period, the Group has stressed on extending the sales channel via hospital. The Group has added about 30 new hospital customers and has distributed the first lot of doctor handbook for Opin. Earlier this year, when the Group was negotiating for new sales contract with hospitals, certain hospitals required the manufacturers to be GMP compliant. As for Opin, the old production line was not GMP compliant and the new GMP factory was only under construction. This had weakened its position to take sales order and had accounted for the main reason for drop of sales. The Group has taken remedial actions to expedite the construction works of the new GMP factory and has arranged customer visits to the new site in order to retain these customers.

In view of the changes of the state policy and to add Opin to the list of acceptable drugs for more hospitals, the Group will attend hospital tenders in various cities and provinces only after the new factory in Wuhan has obtained a GMP certificate.

Application for listing on the main board of The Stock Exchange of Hong Kong Limited (the "Main Board")

In March 2003, the Group has applied for a listing on the Main Board and such application is currently being processed by the Stock Exchange. For the Reporting Period, the Group has charged legal and professional fees amounting to approximately HK$2.9 million in connection with this task to the profit and loss account.

BUSINESS OUTLOOK

PLATFORM TECHNOLOGIES

PROSPECT OF PROTEIN STABILIZATION AND DELIVERY SYSTEM ("PSD")

The vaccine project is about using PSD technology to replace the conventional freeze drying process and to preserve biological activities of vaccines. In April, the Group has discussed in details about joint venture cooperation with our potential Chinese partner covering the area of amount of investment and technology transfer. Tentatively, the Group expected that both parties could come to an agreement after June 2003.

In connection with the oral EPO sublingual tablet project, the Group has identified a partner in China and expected to arrive at an agreement after June if everything goes smoothly. Internationally, our experts in Melbourne were assigned to contact biotech companies in the United States and South Korea for possible commercial exploration. Specimen of the PSD treated EPO tablets and non-confidential data were provided to those companies for evaluation.

In connection with Receptase, the Group was planning for small animal experiment and would expect further cooperation with our potential Chinese animal vaccine partner in preparation for clinical trial and product registration.

PROSPECT OF SKIN DRUG DELIVERY SYSTEM ("SDDS")

Last year, the Group has signed a letter of intent with a well known pharmaceutical company in Qingdao City about commercialising our Spray on Bandage and our new anti-fungal dermal spray which were both developed by the SDDS platform technology. In April, both parties have reached further common understandings and expected to sign joint venture agreements after June. The plan calls for commercialisation in later half of the year.

NEW PRODUCT DEVELOPMENT:

Besides commercialization of the 2 platform technologies, other commercial products are foreseen as follow:

Project Depiles: An oral herbal capsule to relieve the symptoms of hemorrhoids (commonly known as piles). A class 6 new drug certificate and production permit were expected to be granted after mid year in our favour. If the permits are to be issued earlier than our schedule, production in our existing GMP factory will be commenced in the 4th quarter. New product will be on the market before year end of 2003.

Fenofibrate Chewable Tablet: Fenofibrate is a fibric acid derivative for regulating blood lipids. The proposed product was classified as class 4 new drug. The required permits were expected to be released in our favour after mid year. The Group planned to launch the new product initially through out-source manufacturing before commissioning of the new production line in our existing GMP factory in Chengdu City.

Aceclofenac: Aceclofenac is a phenylacetate class of drug for relieving soft tissue pain and inflammation. The new product is classified as state class 2 new drug. Tentatively, the required permits were expected to be released in our favour after mid year. The Group planned to launch the new product initially through out-source manufacturing before commissioning of the new production line in our existing GMP factory in Chengdu City.

Osteoform Pediatric formulation Chewable tablet: It is a complementary product of our Calcium Amino Acid Chelate Osteoform Capsule. The Group has obtained a health supplement product import licence and has planned to install a new production line in our existing GMP factory in Chengdu City. Our plan at this moment is to put the product into market in the 4th quarter of 2003.

Project Interferon Nasal Spray: This is a product with an indication for respiratory tract viral infections including treatment of flu and cold. The project is an innovation and has not arrived at a conclusion about clinical trial protocol with SFDA last year. In these months, there were increasing number of cases about respiratory tract viral infections spreading globally. The SFDA authority was quite conscientious about the efficacy of Interferon. We expected that the project could achieve breakthroughs to certain extent in the next few months.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

The unaudited consolidated profit and loss account for the 3 months ended 31 March 2003, together with the unaudited comparative figures for the same period in 2002, is as follows:

	Notes	2003 HK$'000	2002 HK$'000
Turnover	2	65,003	22,885
Cost of sales		(19,518)	(7,470)
Gross profit		45,485	15,415
Other revenues		74	73
Selling and distribution expenses		(8,306)	(1,214)
Administrative expenses		(16,612)	(4,984)
Other operating expenses (net)		(2,908)	(1,135)
Operating profit		17,733	8,155
Finance costs		(1,455)	(822)
Profit before taxation		16,278	7,333
Taxation	3	(242)	(371)
Profit after taxation		16,036	6,962
Minority interests		(4,714)	(801)
Profit attributable to shareholders		11,322	6,161
Dividend	4	–	–
Earnings per share – basic	5	HK0.92 cent	HK0.56 cent
Earnings per share – diluted	5	HK0.92 cent	N/A

NOTES

1. BASIS OF PREPARATION

The unaudited consolidated profit and loss account for the three months ended 31 March 2003 (the "consolidated profit and loss account") has 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").

The principal accounting policies and methods of computation used in the preparation of the consolidated profit and loss account are consistent with those used in the annual accounts of the Group for the year ended 31 December 2002 except for the adoption of Statement of Standard Accounting Practice 2.112 (revised), "Income taxes", issued by the HKSA ("SSAP 12 (revised)") which is effective for accounting period commencing on 1 January 2003.

The Group does not have significant deferred tax assets or liabilities which have to be recognised in accordance with SSAP 12 (revised) and which have to be adjusted to the retained profits as at 1 January 2003.

The consolidated profit and loss account should be read in conjunction with the 2002 annual accounts.

2. TURNOVER

The Group is principally engaged in manufacturing and trading of pharmaceutical products. Turnover represents invoiced sales net of return goods, discounts allowed, sales taxes or value added taxes, where applicable. The Group's principal market is in mainland China.

3. TAXATION

	3 months ended 31 March	
	2003	**2002**
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	–	15
Mainland China taxation	134	356
Deferred taxation	108	–
	242	371

No Hong Kong profits tax has been provided for the period as there was no estimated assessable profit. Hong Kong profits tax was provided at 16% on the estimated assessable profit for the three months ended 31 March 2002.

In accordance with the approval documents of relevant local tax bureaus, two subsidiaries operating in mainland China are entitled to 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 in the second year of 50% reduction while the other subsidiary was in the second year of tax exemption for the Reporting Period.

Another subsidiary in mainland China was in loss-making position for the current and the previous periods 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 periods.

4. DIVIDEND

The Board did not recommend any interim dividend for this quarter (2002: Nil).

5. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK$11,322,000 (2002: HK$6,161,000) and weighted average of 1,227,347,268 (2002: 1,101,333,000) shares in issue during the period.

At 31 March 2003, the Board has allotted share options to subscribe for 49,800,000 ordinary shares of the Company. The grantees are entitled to subscribe for 34,930,000 shares as at 31 March 2003. The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK$11,322,000 and 1,233,947,268 shares which are the weighted average number of 1,227,347,268 shares in issue plus the weighted average of shares deemed to be issued at no consideration if all outstanding dilutive options had been exercised during the period. Diluted earnings per share for the three months ended 31 March 2002 is not presented as there were no dilutive potential ordinary shares in existence during that period.

As per the announcement made on 7 August 2002, the weighted average number of shares on the published first quarterly report of 2002, based on the assumption that the reorganisation of the group had been completed on 1 January 2001, should be restated from 1,200,000,000 shares to 1,101,333,000 shares. Accordingly, the basic earnings per share, as shown on the published first quarterly report of 2002, based on the profit attributable to shareholders of HK$6,161,000, should be restated from HK0.513 cent to HK0.56 cent.

6. MOVEMENTS IN RESERVES

	Share premium	Merger reserve	Exchange translation reserve	Reserve fund	Enterprise development fund	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002	–	1,719	119	1,231	616	50,127	53,812
Premium on issue of shares	105,600	–	–	–	–	–	105,600
Capitalisation issue	(9,418)	–	–	–	–	–	(9,418)
Share issuing expenses	(25,080)	–	–	–	–	–	(25,080)
Profit for the period	–	–	–	–	–	6,161	6,161
At 31 March 2002	71,102	1,719	119	1,231	616	56,288	131,075
At 1 January 2003	81,971	1,719	30	1,231	616	78,719	164,286
Profit for the period	–	–	–	–	–	11,322	11,322
At 31 March 2003	81,971	1,719	30	1,231	616	90,041	175,608
Representing:							
Reserves	81,971	1,719	30	1,231	616	77,768	163,335
2002 proposed final dividend *(Note)*	–	–	–	–	–	12,273	12,273
	81,971	1,719	30	1,231	616	90,041	175,608

Note: In the Annual General Meeting held on 11 April 2003, the shareholders presented have resolved the payment of a final dividend of HK 1 cent for the year 2002 to the shareholders whose names appeared on the register of members by 10 April 2003. Pursuant to a circular to the shareholders dated 14 April 2003, the qualified shareholders are entitled to elect to receive the dividend wholly in cash, wholly in new ordinary shares for 1 scrip share of every 20 shares held or partly in cash and partly in scrip shares. The cash dividend and scrip share will be both distributed on 16 May 2003 to the qualified shareholders.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTEREST IN SHARES OF THE COMPANY

At 31 March 2003, the interest of the Directors and chief executive of the Company in ordinary shares of the Company or any associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as required to be entered into the register of interests 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				
Name of Director	**Corporate interests** *(Note)*	**Personal interests**	**Family interests**	**Other interests**	**Total**
KO Sai Ying, Thomas	–	48,941,480	–	–	48,941,480
AU YEUNG Ping Yuen, Terence	–	8,114,560	–	–	8,114,560
LIU Jin, James	–	15,118,080	–	–	15,118,080
TAO Lung	619,315,370	103,315,200	–	–	722,630,570

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

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO SUBSCRIBE FOR SHARES

During the period under review, none of the Directors or chief executive or their respective spouse and children under 18 of age was granted any options to subscribe for shares of the Company, nor had exercised such rights.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders of the Company dated 26 January 2002, a share option scheme (the "Scheme") was adopted. The Directors may grant options to the eligible person for subscription of shares of the Company. The limit of the Scheme is 120,000,000 shares.

First phase:

On 21 June 2002, the Board allotted share options to subscribe for 30,000,000 shares of the Company at an exercise price of HK$0.39 each.

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

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

As at 31 March 2003, the above share options have not been exercised.

Second phase:

On 28 February 2003, the Board allotted share options to subscribe for 19,800,000 shares of the Company at an exercise price of HK$0.24 each. The grantees are entitled to exercise the subscription rights on or before 6 February 2012.

As at 31 March 2003, the above share options have not been exercised.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the register of substantial shareholders maintained by the Company pursuant to SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the issued share capital of the Company.

Name	Number of shares held	Approximate percentage of shareholding
Perfect Develop *(note (1))*	619,315,370	50.46%
Mr. Tao *(note (2))*	722,630,570	58.87%

Notes:

(1) The entire issued share capital of Perfect Develop is owned as to 49% by Mr. Tao, 33% by Mr. Ko Sai Ying, Thomas ("Mr. Ko"), 6% by Mr. Au Yeung Ping Yuen, Terence ("Mr. Au Yeung") and 12% by Mr. Liu Jin, James ("Mr. Liu") respectively. All of Mr. Tao, Mr. Ko, Mr. Au Yeung and Mr. Liu are founders of the Group.

(2) Mr. Tao owns 49% of the issued share capital of Perfect Develop. Accordingly, Mr. Tao is deemed, by virtue of the SDI Ordinance, to be interested in all the shares of Perfect Develop. Together with 103,315,200 shares registered in his own name, Mr. Tao is deemed, by virtue of the SDI Ordinance, to be interested in 722,630,570 shares in aggregate, amounting to approximately 58.87% of the shares in issue.

As at 31 March 2003, none of the Directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares, warrants or debentures (if applicable) of the Company and its associated corporations (within the meaning of the SDI Ordinance).

COMPETING INTERESTS

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

SPONSOR'S INTERESTS

As notified by the Company's sponsor, Core Pacific – Yamaichi Capital Limited ("CPY"), as at 31 March 2003, Core Pacific – Yamaichi Securities Co., Ltd., an associate (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) of CPY, held 1,930,000 shares in the Company. Save as disclosed herein, neither CPY nor its directors, employees or associates had any interest in the share capital of the Company.

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

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 26 January 2002 with written terms of reference 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 director.

The Committee has reviewed the unaudited first quarterly report for the 3 months ended 31 March 2003.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

COMPLIANCE WITH BOARD PRACTICE AND PROCEDURES

During the period under review, the Company complied with the board practice and procedures as set out in Rules 5.28 to 5.39 (if applicable) of the GEM Listing Rules.

On behalf of the Board
KO Sai Ying, Thomas
Chairman

Hong Kong, 9 May 2003