維奧生物科技控股有限公司

Vital BioTech Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Interim Report 2003

HIGHLIGHT

	For the 6 months ended (Unaudited)	
	2003	2002
	HK$'000	*HK$'000*
Turnover	**125,312**	64,934
Profit attributable to shareholders	**24,956**	18,121
Basic earning per share	**HK2.01 cent**	HK1.57 cent
Interim dividend per share	**HK1 cent**	HK1 cent

- Turnover of the Group was approximately HK$125,312,000, representing an increase of approximately 93%;
- Profit attributable to shareholders was approximately HK$24,956,000, representing an increase of approximately 38%;
- Basic earning per share increased from HK1.57 cent to HK2.01 cent; and
- The Directors proposed to pay an interim dividend of HK1 cent per share with options for scrip share or partly in cash and partly in scrip share.

BUSINESS REVIEW

I am pleased to report that the Company's shares have been switched to the Main Board of The Stock Exchange of Hong Kong Limited for listing with effect from 4 August 2003. The unaudited interim results for the 6 months ended 30 June 2003 (the "Reporting Period") of Vital BioTech Holdings Limited (the "Company") together with its subsidiaries (collectively the "Group") and the progress of several research and development projects based on the Group's patent platform technology are listed below for your information:

Project Oral EPO Tablet (Sublingual Delivered Erythropoietin)

Erythropoietin (EPO) is a natural protein produced by our kidneys to stimulate the body to produce red blood cells. Current commercial EPO products are administered via injection mainly for treatment of anaemia from chronic kidney failure, AIDS drugs, cancer and other conditions. IMS Health, an international pharmaceutical market research company with headquarters in the US, reported that the market size of EPO was US$8.1 billion in 2002, growing by 18% as compared to 2001 (Source: IMS World Review 2003). The injection form of EPO is patented internationally and its supply is monopolized by multinational pharmaceutical companies. The international patent protection period is expiring and a number of generic products will emerge as expected.

The subsidiary of the Group in Australia, Vitapharm Research Pty. Ltd ("Vitapharm") has successfully developed a Human recombinant Erythropoietin (rHuEPO) oral sublingual tablet ("EPOTAB") using our PSD technology. The tablet was further tested and shown to be effective as EPO injections in test animal models concluded last year in our R & D center in Chengdu City. The added advantages of EPOTAB are: room temperature stability and not requiring refrigerated storage as injections, more patient friendly than injections and much cheaper to produce tablets. The use of EPOTAB is expected to be wider and to compliment the short comings of injection form. The market potential of EPOTAB is optimistic and likely to be among one of the first biological products to be delivered orally.

The Group is filing the fundamental data and preparing for the remaining preclinical and toxicology studies through animal testing. Moreover, various specialists are being consulted to plan for human clinical trials.

For commercialisation, the Group is seeking support from an EPO manufacturer and specialists in China to access the EPO market. For overseas, the Group is seeking a partnership with a major pharmaceutical company for international development of the product using the data from the encouraging preliminary animal testing.

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.

Last year, the Group's Chinese partner has completed independently a series of animal testing based on vaccines stabilised by the PSD technology. It was proven that the PSD stabilized vaccines has preserved biological activities, was stable at ambient conditions around 25°C and cheaper to produce when comparing to freeze drying process.

The Group continues to work with our Chinese partner for improvement in production technique, biological activity and efficacy.

Project for prevention and treatment of diarrhoea in pigs ("RECEPTORASE")

RECEPTORASE is an enzyme based oral biological medication for the treatment and prevention of intestinal infections in piglets. The product contains stabilised biologically active enzyme utilising the PSD technology. RECEPTORASE is a new generation "green farming" biological product that has a very broad spectrum of activity, has no harmful residuals in the meat and will not cause gradual drug resistance to antibiotics.

The Group has just finished an extensive field clinical trial with about 1,000 rabbits. The results were excellent. It was further confirmed that the product could stimulate the immunity of the animal against bacteria found in the local environment. In practical term, it will reduce the farm animal's reliance on antibiotics. Our next move is to enhance production techniques and preparing for pilot trial production.

At present, the Group is finalizing the data for product registration in China. For overseas, the Group is discussing partnership approaches with international veterinary companies using the data from the encouraging preliminary animal testing.

Product Sales:

In the Reporting Period and on a year-on-year basis, the consolidated turnover increased from approximately HK$65 million to HK$125 million, an increase of about 93%. Sales of Osteoform increased from about HK$52 million to HK$115 million, an increase of about 120%. Sales of Opin decreased from about HK$12 million to HK$9 million, a setback of about 25%.

"Osteoform", a Compound Amino Acid Chelate Capsule

The promotion of Osteoform has turned into a consumer education process based on social activities in local communities. In the first two quarters, the Group has selectively employed social promoters with medical background for social promotion. Sales in the first quarter were outstanding and the product was amongst the best sellers in the mineral and nutritional product category. In the second quarter, local community activities were interrupted by the outbreak of Severe Acute Respiratory Syndrome. Promotional activities will return to normal in the third quarter.

"Opin", an interferon based vaginal suppository with indication for chronic viral cervicitis and viral vaginal infections

A new drug certificate with an extended indication for viral vaginal infections was granted by the State Food and Drug Authority in March 2003. The medical indication for Opin is now officially widened. The new packing of Opin will be on market before the first quarter of 2004 based on a broad advertising theme about the new drug certificate, the new medical indication and the commissioning of the new GMP compliant factory in Wuhan City.

In the Reporting Period, the GMP compliant factory was still under construction. Sales activities were dampened. To maintain a stable sales channel, the Group has been active with drug tender submissions to hospitals in various provinces as a remedial action.

Switching to the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for share listing

With effect from 4 August 2003, the share of the Company has been switched from GEM to Main Board of the Stock Exchange for listing. The new stock code is 1164. The total costs of this main board listing by way of introduction was around HK$4.5 million and has been written off to the profit and loss account.

The Directors recognised that the switching exercise has reduced profits by HK$4.5 million. To express its monetary support of that exercise, the Directors have resolved unanimously to waive the bonus payable to the executive directors based on a maximum amount calculated as 10% of the audited results of year 2002.

The R & D base in Melbourne, Australia

Last year, the Group purchased a new laboratory premises in Melbourne, Australia. The plan is to modify the facility to comply with GLP/GMP standards by phases. The premises occupies a site area of approximately 1,300 sq.m. In the first quarter of 2003, an office area of approximately 235 sq.m. was put into use. The first phase of the project have progressed satisfactorily and will be completed in the third quarter as scheduled. The R & D Centre will be up to GLP standard by the third quarter of 2004. The budget of the whole project comprising land and equipment costs is around AUD2.8 million.

The production base in Chengdu City, Sichuan, China

At present, the production base comprised the solid dosage workshop No. 1 for producing Osteoform, a Chinese herbal workshop preparing for raw materials of Depile, a staff amenity building occupied in March 2003, a raw material production line under construction for the Aceclofenac project and the solid dosage workshop No.2 which is also under construction. The total site area of the production base is about 86,000 sq.m. The existing occupied gross floor area is about 6,500 sq.m. Together with the Aceclofenac raw material workshop under construction, the base in Chengdu City will comply with 5 different GMP product standards.

The Group holds an 85% interest of the equity joint venture company. In the Reporting Period, the 15% minority interests had undergone share restructuring. The Group will watch closely the changes of the minority shareholdings.

The production base in Wuhan City, Hubei, China

The existing factory produces only Opin and is not GMP compliant. The Group is progressing for an early completion of the first phase of the new GMP compliant factory by the third quarter of 2003 and to obtain a GMP certificate by the first quarter of 2004. The whole investment amounts to approximately HK$40 million. The total site area is around 35,000 sq.m. and the total gross floor area of the first phase of the project is around 14,000 sq.m. The project design will cater for production of different biological drugs.

The R & D base in Chengdu City, Sichuan, China

The R & D base of the Group in Chengdu City handles experiment and technical registration. The completion of the R & D centre will be delayed to the fourth quarter of 2003. The total gross floor area of the centre is about 3,000 sq.m. The total construction and equipment cost is about HK$24 million.

PROSPECT

Platform Technologies

The development of Protein Stabilization and Delivery System ("PSD")

The Group's exclusive PSD technology has been applying on the manufacturing of Opin which uses interferon as the active ingredient. As a result, Opin has achieved a better stability at ambient conditions and the production cost was lowered. In the coming years, the Group will focus on exploring biological drugs such as, EPOTAB, RECEPTORASE and animal vaccines with the ambition to commercialise the PSD technology worldwide.

The development of Skin Drug Delivery System ("SDDS")

In July 2003, the Group has cooperated with Qingdao Growful Pharmaceutical Group to form a cooperative joint venture, Qingdao Growful Vital Company Limited ("Growful Vital"). The Group will have an equity interest of 19.9% and the Chinese partner will have 80.1% in the Growful Vital joint venture. The total investment of the project is around RMB30 million. On the agenda, the Group will transfer to the joint venture the patent right of SDDS in China, the product right in China of both Spray-on-bandage and a new product "Anti-Fungal Dermal Spray" at an agreed price. Whereas the Chinese partner will inject to the joint venture the required factory premises, equipment, liquidity and several topical products. The agreed ultimate goal is to commercialise the SDDS technology and monetary returns are expected after 2006.

The development of new products:

Besides commercialization of the 2 platform technologies, other potential products are as follow:–

Project "Depile" capsule: an oral herbal capsule to relieve the symptoms of haemorrhoid. The class 6 new drug certificate and the required production permit are expected by the fourth quarter of 2003. Production will commence in the GMP compliant factory in Chengdu City and the product will be in the market before year end.

As an oral product, it has a distinct advantage over traditional creams, ointments or suppositories, simply from the standpoint of delivery method. The product is well received from preliminary market surveys both in China and overseas. The Group plans to extend internationally the China patent and to prepare for overseas promotion.

Fenofibrate Chewable Tablet: a fibric acid derivative drug for regulating blood lipids and is classified as state class 4 new drug. The Group expects to receive the production permit in the third quarter of 2003 and to commence production and sales before 2004 first quarter.

Aceclofenac is a product to relief soft tissue pain and inflammation and is classified as state class 2 new drug. The Group expects to receive the production permit in the fourth quarter of 2003 and to commence production and sales before 2004 first quarter.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND CURRENCY POLICY

As of 30 June 2003, the Company has issued a total of 1,277,462,169 ordinary shares. In May 2003, 50,114,901 new ordinary shares were issued as scrip share to pay for the 2002 final dividend of HK1 cent each.

As of 30 June 2003, the Group had bank loans of approximately HK$75.5 million (31 December 2002: approximately HK$68.9 million), comprising long-term portion of HK$4.7 million (31 December 2002: HK$9.5 million), short-term portion of HK$70.8 million (31 December 2002: HK$59.4 million). Cash on hand amounted to approximately HK$69 million (31 December 2002: approximately HK$66 million).

At present, the Group has obtained total banking facilities of approximately HK$160 million from banks in HK and China which is considered sufficient for the coming year. The cost of financing is around 7% per annum.

By pursuing an effective advertising and promotion policy, the market share of Osteoform increases. Average trade debtor turnover was about 77 days (year 2002, about 92 days). Average stock turnover (excluding raw materials in transit) increased to about 128 days (year 2002, about 71 days). The increase was mainly caused by a counter measure against any possible delay from the renewal of Osteoform import license due in March 2003. For strategically reason, the Group has gradually increased the purchase volume of Osteoform by end of 2002 to avoid any interruption of production schedule. The renewed 5 year license was issued in May 2003. The purchase volume and stock level will resume to normal schedule.

The Group was quite positive about the China market and invested about HK$16 million in plant and machinery for production and R & D facilities in the Reporting Period. Total assets of the Group was about HK$307 million (year 2002, HK$281 million) whereas total liabilities was HK$95 million (year 2002, HK$94 million). Net asset value was HK$199 million (year 2002, HK$177 million). Net asset value per share was HK$0.15 (year 2002, HK$0.14). The Group did not sacrifice a healthy gearing ratio to a fast growth rate. A debt-to-equity ratio (calculated as gross borrowings divided by shareholders' funds) was maintained at about 38% (year 2002, about 39%). A net debt-to-equity ratio (calculated as gross borrowings less cash on hand, divided by shareholders' funds) was only at about 3% (year 2002, about 2%).Our treasury policy is to strike a balance between investment opportunity and a healthy gearing.

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 arranged almost 60% of the total costs of acquiring and renovating our new R & D centre in Melbourne. 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 30 June 2003, the Group has approximately HK$6 million cash and HK$25 million fixed assets pledged to secure banking facilities.

PROPOSED DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Directors proposed to pay an Interim Dividend of HK1 cent per share to the shareholders whose names appeared on the register of member on 19 September 2003. The Interim Dividend will be payable on 28 October 2003. In addition, pursuant to a resolution of the Directors on 29 August 2003, shareholders may elect to receive the proposed interim dividend in the form of fully paid shares of the Company, or partly in shares and in cash. The holder of every 45 shares will be entitled to one fully paid share of the Company as scrip dividend. Details of the scrip dividend scheme will be sent in a separate circular to those qualified shareholders.

Should all eligible shareholders elect to receive the interim dividend in cash or in the form of fully paid shares of the Group, the effect of the interim dividend herein would be payment of approximately HK$12,775,000 or an additional issue of 28,388,000 fully paid shares of the Company.

The Register of Members of the Company will be closed from 15 September 2003 to 19 September 2003, both days inclusive, during which period no transfer of shares will be effected. 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 11 September 2003 (Thursday).

EMPLOYEE INFORMATION

As at 30 June 2003, the Group had 1,222 employees, comprising 27 in research and development, 240 in production, 878 in sales and distribution, and 77 in general administration and finance. 1,200 of these employees were located in China, 7 in Australia, 15 in Hong Kong and Macau.

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 Reporting Period amounted to approximately HK$14 million. The Directors did not recommend a maximum bonus payable to the executive directors calculated as 10% of the audited results of year 2002.

UNAUDITED INTERIM RESULTS:

Condensed Consolidated Profit and Loss Account

	Notes	(Unaudited) Six months ended 30 June 2003 HK$'000	2002 HK$'000
Turnover	2	**125,312**	64,934
Cost of sales		**(36,517)**	(23,010)
Gross profit		**88,795**	41,924
Other revenues		**2,105**	522
Selling and distribution expenses		**(26,484)**	(5,412)
Administrative expenses		**(29,511)**	(14,907)
Operating profit	3	**34,905**	22,127
Finance costs		**(2,908)**	(1,582)
Profit before taxation		**31,997**	20,545
Taxation	4	**(306)**	(433)
Profit after taxation		**31,691**	20,112
Minority interests		**(6,735)**	(1,991)
Profit attributable to shareholders		**24,956**	18,121
Dividend	5	**HK1 cent**	HK1 cent
Earnings per share – basic	6	**HK2.01 cent**	HK1.57 cent
Earnings per share – diluted	6	**HK1.97 cent**	N/A

Condensed Consolidated Balance Sheet

	Note	(Unaudited) 30 June 2003 HK$'000	(Audited) 31 Dec 2002 HK$'000
Non-current assets			
Intangible assets	7	**7,815**	8,144
Fixed assets	8	**118,347**	101,775
Investment securities	9	**5,460**	3,900
		131,622	113,819
Current assets			
Inventories		**35,664**	21,933
Trade receivables, other receivables, prepayments and deposits	10	**70,800**	79,969
Other investment		**57**	94
Bank balances and cash			
– pledged		**6,005**	7,983
– non-pledged		**63,071**	57,976
		175,597	167,955
Current liabilities			
Trade payables, accrued charges and other payables	11	**19,055**	19,572
Amounts due to minority shareholders of subsidiaries		**–**	98
Value added tax payable		**533**	4,662
Tax payable		**111**	411
Current portion of long-term liabilities		**4,717**	2,867
Short-term bank loans		**66,038**	50,000
Other loans		**–**	2,830
Trust receipt loans		**–**	3,715
		90,454	84,155
Net current assets		**85,143**	83,800
Total assets less current liabilities		**216,765**	197,619
Representing:			
Share capital	12	**12,774**	12,273
Reserves	13	**173,402**	152,013
Proposed dividend	13	**12,774**	12,273
Shareholders' fund		**198,950**	176,559
Minority interests		**12,990**	11,532
Non-current liabilities			
Long-term liabilities		**4,717**	9,528
Deferred taxation		**108**	–
		216,765	197,619

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June 2003 HK$'000	30 June 2002 HK$'000
Net cash inflow/(outflow) from operating activities	**20,010**	(4,994)
Net cash used in investing activities	**(18,267)**	(45,017)
Net cash from in financing activities	**1,374**	107,152
Increase in cash and cash equivalents	**3,117**	57,141
Cash and cash equivalents at beginning of period	**65,959**	10,149
Cash and cash equivalents at end of period	**69,076**	67,290
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash – non-pledged	**63,071**	59,001
Pledged time deposits with original maturity of less than 3 months	**6,005**	8,289
	69,076	67,290

Condensed Consolidated Statement of Changes in Equity

	Unaudited Six months ended 30 June 2003 HK$'000	30 June 2002 HK$'000
Total equity as at 1 January	**176,559**	53,994
Exchange differences arising on translation of the accounts of subsidiaries not recognised in the consolidated profit and loss account	**(315)**	32
Profit for the period	**24,956**	18,121
Dividends	**(12,273)**	–
Issue of shares by placement	**–**	108,000
Share issue expenses	**–**	(22,742)
Issue of shares for scrip dividend	**10,023**	–
Total equity as at 30 June	**198,950**	157,405

NOTES TO THE CONDENSED ACCOUNTS

1. Basis of Preparation and Principal Accounting Policies

The unaudited consolidated accounts for the six months ended 30 June 2003 have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants (the "HKSA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The principal accounting policies and methods of computation used in the preparation of the consolidated accounts 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.

Certain comparative figures have been reclassified to conform with the current period's presentation.

2. Turnover

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

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

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

3. Operating Profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2003	2002
	HK$'000	*HK$'000*
Crediting:		
Amortisation of negative goodwill	**19**	–
Foreign exchange differences, net	**1,783**	–
Charging:		
Amortisation of goodwill	**321**	321
Amortisation of patents	**117**	94
Amortisation of developments costs	**28**	29
Depreciation of fixed assets	**4,519**	1,596
Research and development costs	**1,797**	1,042
Foreign exchange differences, net	**–**	234

4. Taxation

	Six months ended 30 June	
	2003	2002
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**–**	35
Mainland China taxation	**198**	398
Deferred taxation	**108**	–
	306	433

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 6 months ended 30 June 2002.

In accordance with the approval documents of relevant local tax bureaus, two subsidiaries operating in mainland China 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 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.

The subsidiary operating in Macao is exempt from income tax in Macao.

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

5. Dividend

The Board proposed an interim dividend of HK1 cent for the Reporting period (Six months ended 30 June 2002: HK1 cent). The shareholders can opt to receive scrip share , or partly in scrip share and partly in cash.

6. Earnings Per Share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of approximately HK$24,956,000 (2002: HK$18,121,000) and weighted average of approximately 1,240,084,000 (2002: 1,150,939,000) shares in issue during the period.

As at 30 June 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 30 June 2003. The calculation of diluted earnings per share is based on the profit attributable to shareholders of approximately HK$24,956,000 and 1,268,560,000 shares which are the weighted average number of 1,277,462,169 shares in issue plus the weighted average of shares deemed to be issued at no consideration if all outstanding dilutive share options had been exercised during the period. Diluted earnings per share for the six months ended 30 June 2002 is not presented as there were no dilutive potential shares in existence during that period.

7. Intangible Assets

	Goodwill	Negative Goodwill	Patents	Development costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net book value, as at 1 Jan 2003	5,748	(158)	2,179	375	8,144
Additions	–	–	118	–	118
Amortisation for the period	(321)	19	(117)	(28)	(447)
Net book value, as at 30 June 2003	**5,427**	**(139)**	**2,180**	**347**	**7,815**

8. Additions to Fixed Assets

During the period, the Group spent approximately HK$16 million (2002: HK$70,833,000) on additions to fixed assets to upgrade its manufacturing capacities, and constructing new manufacturing plant and R & D centers.

9. Investment Securities

	As at 30 June 2003	As at 31 Dec 2002
	HK$'000	*HK$'000*
Unlisted investments in guaranteed funds, at cost	**5,460**	3,900

10. Trade Receivables, Prepayment, Deposits and Other Receivables

The Group's sales for the period are on open account terms while the Group's sales for the previous period 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.

The ageing analysis of the trade receivable is as follows:

	As at 30 June 2003 ***HK$'000***	As at 31 Dec 2002 *HK$'000*
Trade receivables		
Within 30 days	**22,626**	27,714
31-60 days	**13,052**	21,772
61-90 days	**11,289**	6,375
Over 90 days	**3,339**	870
	50,306	56,731
Prepayment, deposits and other receivables	**20,494**	23,238
	70,800	79,969

11. Trade Payable, Accrued Charges and Other Payables

The ageing analysis of the trade payable is as follows:

	As at 30 June 2003 ***HK$'000***	As at 31 Dec 2002 *HK$'000*
Trade payables		
Within 30 days	**2,736**	5,327
31-60 days	**1,893**	1,437
61-90 days	**584**	1,118
Over 90 days	**792**	1,647
	6,005	9,529
Accrued charges and other payables	**13,050**	10,043
	19,055	19,572

12. SHARE CAPITAL

Authorised:

	Number of share	Par value per share HK$	Amount HK$'000
As at 31 Dec 2002 and 30 June 2003	50,000,000,000	0.01	500,000

Issued and fully paid:

	Number of share	Par value per share HK$	Amount HK$'000
As at 1 Jan 2003	1,227,347,268	0.01	12,273
Issue of shares for scrip dividends	50,114,901	0.01	501
As at 30 June 2003	**1,277,462,169**		**12,774**

13. MOVEMENTS IN RESERVES

	Share premium HK$'000	Merger reserve HK$'000	Exchange translation reserve HK$'000	Reserve fund HK$'000	Enterprise development fund HK$'000	Retained profits HK$'000	Total 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	(22,142)	–	–	–	–	–	(22,142)
Exchange translation difference	–	–	(89)	–	–	–	(89)
2002 interim dividend	–	–	–	–	–	(12,000)	(12,000)
Premium on issue of scrip share	7,931	–	–	–	–	–	7,931
Profit for the period	–	–	–	–	–	40,592	40,592
At 31 December 2002	81,971	1,719	30	1,231	616	78,719	164,286
At 1 January 2003	81,971	1,719	30	1,231	616	78,719	164,286
Exchange translation difference	–	–	(315)	–	–	–	(315)
Premium on issue of scrip share	9,522	–	–	–	–	–	9,522
2002 final dividend *(Note a)*	–	–	–	–	–	(12,273)	(12,273)
Profit for the period	–	–	–	–	–	24,956	24,956
At 30 June 2003	**91,493**	**1,719**	**(285)**	**1,231**	**616**	**91,402**	**186,176**
Representing:							
Reserves	91,493	1,719	(285)	1,231	616	78,628	173,402
2003 proposed interim dividend *(Note b)*	–	–	–	–	–	12,774	12,774
	91,493	1,719	(285)	1,231	616	91,402	186,176

Note (a): The 2002 final dividend of approximately HK$12,273,000 was settled partly by cash of HK$2,250,000 and partly by scrip shares of HK$10,023,000.

Note (b): In the Directors Meeting held on 29 August 2003, the Directors have resolved the payment of a interim dividend of HK1 cent for the six months ended 30 June 2003 to the shareholders whose names appeared on the register of members on 19 September 2003.

14. CONTINUING CONNECTED TRANSACTIONS

A subsidiary of the Group purchased raw materials from Pharmco International Inc. ("Pharmco") amounted to approximately HK$28,758,000 during the six months ended 30 June 2003 (six months ended 30 June 2002: HK$12,567,000), 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.

As at 30 June 2003, short term bank loans of approximately HK$4,717,000 (31 December 2002: HK$18,868,000) of Vital Pharmaceuticals (Sichuan) Co., Ltd., a 85% owned subsidiary of the Company, were guaranteed by Wuhan Weiao Pharmaceuticals Co., Ltd., a 95% owned subsidiary of the Company. At the same date, short term bank loan of approximately HK$2,830,000 (31 December 2002: HK$2,830,000) of Wuhan Weiao Pharmaceuticals Co., Ltd. were guaranteed by Vital Pharmaceuticals (Sichuan) Co., Ltd..

15. COMMITMENTS

Capital commitments for construction in progress and fixed assets are as follow:

	As at 30 June 2003	As at 31 Dec 2002
	HK$'000	*HK$'000*
Authorised but not contract for	**24,347**	38,998
Contracted but not provide for	**25,969**	17,067
	50,316	56,065

16. CHARGES ON ASSETS

As at 30 June 2003, the net book values of the fixed assets pledged as security for the Group's long term and short term bank loans amounted to approximately HK$24,879,000 (31 December 2002: HK$44,538,000). Bank balances of the Group approximately HK$6,005,000 (31 December 2002: HK$7,983,000) was pledged as collateral, together with corporate guarantees of the Company, for credit facility granted by banks. Such facilities were utilised to the extent of approximately HK$24,609,000.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTEREST IN SHARES OF LISTED CORPORATION

The interests and short positions of the Directors in the share capital of the Company and its associated corporations (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, are as follows:

Ordinary shares of HK$0.01 each in the Company:

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities *(Note 1)*	Percentage shareholding in the same class of securities
Mr. Ko Sai Ying, Thomas ("Mr. Ko")	Company	Beneficial owner	51,362,600 (L)	4.02%
Mr. Au Yeung Ping Yuen, Terence ("Mr. Au Yeung)	Company	Beneficial owner	8,507,200 (L)	0.67%
Mr. Liu Jin, James ("Mr. Liu")	Company	Beneficial owner	15,849,600 (L)	1.24%
Mr. Tao Lung ("Mr. Tao")	Company	Beneficial owner	108,480,960 (L)	8.49%
	Company	Interest of a controlled corporation *(Note 2)*	641,525,370 (L)	50.22%
	Perfect Develop Holding Inc. ("Perfect Develop")	Beneficial owner	49 ordinary shares of US$1 each (L)	49%

Notes:

1. The letter "L" stands for the Director's long position in such securities.

2. The interest in the shares are held by Perfect Develop. The entire issued share capital of Perfect Develop is beneficially owned as to 33% by Mr. Ko, 6% by Mr. Au Yeung, 12% by Mr. Liu and 49% by Mr. Tao. Accordingly, Mr. Tao is deemed to be interested in all the Shares which Perfect Develop is interested by virtue of the SFO.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO SUBSCRIBE FOR SHARES

As at 30 June 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 SFO).

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 employees of the Group and two customers 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 30 June 2003, the above share options have not been exercised, cancelled or lapsed.

Second phase:

On 28 February 2003, the Board allotted share options to three directors of certain subsidiaries of the Group 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.

During the Reporting period, the above share options have not been exercised, cancelled or lapsed.

Valuations of the options granted under the Share Option Scheme

The Company adopted Black-Scholes Options Pricing Model to calculate the value of share options.

For share options to subscribe for 30,000,000 Shares granted on 21 June 2002 with an exercise price of HK$0.39 each, the fair value of the share 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 7 February 2002, being the date of the listing of the Shares on GEM Board of the Stock Exchange of Hong Kong Limited ("GEM"), to 20 June 2002; and

4. no expected dividend as the Company is newly listed on GEM.

For share options to subscribe for 19,800,000 Shares granted on 28 February 2003 with an exercise price of HK$0.24 each, the fair value of the share options was HK$0.15 at the date of grant with assumptions as follows:

1. using the annual Exchange Fund Notes interest rate of 1.9% as the risk-free interest rate;

2. the expected life is 9 years;

3. the expected volatility is 54.66% during the period from 7 February 2002, being the date of the listing of the Shares on GEM, to 28 February 2003; and

4. no expected dividend as the Company has a track record of dividends for only 1 year.

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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, according to the register of members kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly, or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Company/Name of Group member	Capacity	Number of shares *(Note 1)*	Approximate percentage of shareholding
Perfect Develop *(Note 2)*	Company	Beneficial owner	641,525,370 (L)	50.22%
Mr. Tao *(Note 3)*	Company	Beneficial owner	108,480,960 (L)	8.49%
		Interest of a controlled corporation	641,525,370 (L)	50.22%
Ms. Li Chun Yi *(Note 4)*	Company	Interest of spouse	750,006,330 (L)	58.71%

Notes:

1. The letter "L" denotes the person's/entity's long position in the shares.

2. 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.

3. Mr. Tao owns in aggregate 49 shares in, representing approximately 49% of the issued share capital of Perfect Develop. Accordingly, Mr. Tao is deemed, by virtue of the SFO, to be interested in all the Shares in which Perfect Develop is interested, amounting to 641,525,370 Shares. Together with 108,480,960 Shares in his own name, Mr. Tao is deemed, by virtue of the SFO, to be interested in, 750,006,330 Shares in aggregate, amounting to approximately 58.71% of the issued share capital of the Company as at 30 June 2003.

4. Ms. Li Chun Yi is the wife of Mr. Tao and is taken to be interested in the Shares in which Mr. Tao is interested by virtue of the SFO.

AUDIT COMMITTEE

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters with the management. The Group's financial statements for the six months ended 30 June 2003 have been reviewed by the audit committee, who are of the opinion that such statements comply with the applicable accounting standards, and the Rules Governing the Listing of Securities (the "Listing Rules") of the Hong Kong Stock Exchange and legal requirements, and that adequate disclosures have been made. At present, the Committee has two members, Messrs. Lui Tin Nang and Lee Kwong Yiu, both of them are independent non-executive directors.

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

The Board of Directors confirms that for the six months ended 30 June 2003, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

On behalf of the Board
KO Sai Ying, Thomas
Chairman

Hong Kong, 29 August 2003