VITAL BIOTECH HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT
YEAR ENDED 31ST DECEMBER, 2002

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

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted 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.

This announcement, for which the directors of Vital BioTech Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

	For the year ended 31st December,	
	2002	**2001**
	HK$'000	*HK$'000*
Turnover	167,969	122,825
Profit attributable to shareholders	40,592	38,125
Basic earnings per share	HK3.43 cents	HK3.97 cents

- The turnover of the Group was approximately HK$167,969,000, representing an increase of approximately 37% from last year;
- Profit attributable to shareholders was approximately HK$40,592,000, representing an increase of approximately 6% increase from last year;
- The Directors proposed to pay a final dividend of HK1 cent per share and together with HK1 cent interim dividend paid during the year, total dividends per share for the year are HK2 cents; and
- Scrip dividend scheme: Shareholders may elect to receive dividend in the form of scrip share or in cash. In the case of scrip share, the holder of every 20 shares of the Company is entitled to 1 new share.

CHAIRMAN STATEMENT

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%. Net 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 PRC

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.

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 market in alliances with multinational companies.

Here I listed 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, 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 deliveries 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 25ºC.

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 560 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 antibiotic 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 compare 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.

DIVIDENDS

The Directors proposed to pay a final dividend of HK1 cent per share to the shareholders whose names appear on the register of member 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 to 10th April, 2003, 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 (Friday) 4th April, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

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 outlet 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, 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, situates 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 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 selling 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 the 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 research and development activities in PRC. 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 proved 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 distinct 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, 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, 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 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

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
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
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

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
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
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; 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

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
E. Research & development and production	Further expansion of production capacity and research & development capabilities, and further development of new products	The Group's GMP plant in Chengdu was commissioned; Osteoform, the Group's major product, is now being entirely produced by the Chengdu plant	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" (Revised to establish a new plant in Wuhan City)	• Engagement of consultant to ascertain the plan before June 2002 • Complete planning, application of permit and commencement of construction before December 2002 • Complete structural phase of construction before June 2003 • Equipment installation, commissioning of GMP certification and commencement of production before December 2003	• Site selected in May 2002 • Land to be purchased before December 2002 • Civil construction to be completed in mid 2003 • Equipment installation and GMP certification by the end of 2003 • Commissioning expected in early 2004	• June 2002, site handover • September 2002, obtained construction permit • Mid 2003, complete superstructure • End of 2003, complete installations and apply for GMP certificate • Production in early 2004

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
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 • Commissioning of miscellaneous equipment before June 2003	• Turbo Coater has been installed at Sichuan Weiao, the Group's subsidiary, instead of the Chengdu R&D Centre because of the pressing demand for the equipment while waiting for the construction of the Chengdu R&D Centre • Miscellaneous equipment will be installed in the Chengdu R&D Centre for miscellaneous research	• Nov 2002, Turbo Coater in operation and ordering other facilities • Other facilities to be operating by second half of year 2003
• 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

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
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. Production 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 • Complete registration, clinical trial and marketing plan before June 2003 • Launch product before December 2003	In good progress as planned	• Consider clinical trial direction to comply with the latest drug registration regulations announced by China SDA • December 2003, to agree with China SDA about the clinical trial protocol of the seemingly new PSD technology

	Statement in the Prospectus	Actual business progress for period ended 30th June, 2002	Actual business progress for year ended 31st December, 2002
• 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 license 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 implemention	
	In the Prospectus	At 30th June, 2002	At 31st December, 2002
	HK$'000	*HK$'000*	*HK$'000*
• Establishment of new production lines in Chengdu City, Sichuan Province (Revised to the establishment of a GMP plant in Wuhan City)	18,000	14,000	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 the 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.

SHARE OPTIONS

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

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.

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 at a nominal consideration of HK$1 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 sheet 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 which 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 of the grant of the options but shall and in any event not later than ten years from the date on which the offer for grant of the option 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 subjected to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

Among the grantees in this grant of share options, 108 of them are full-time employees of the Company and an aggregate of 21,100,000 shares were granted to them; 29 of them are staff of major customers of the Company and an aggregate of 8,900,000 shares are granted to them. As at 31st December, 2002, no grantees had exercised any of the options.

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

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 corporation, (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** *Notes*	**Other interests**	**Total**
Mr. Ko Sai Ying, Thomas	48,914,480	–	–	–	48,914,480
Mr. Au Yeung Ping Yuen, Terence	8,114,560	–	–	–	8,114,560
Mr. Liu Jin, James	15,118,080	–	–	–	15,118,080
Mr. Tao Lung	103,315,200	–	630,400,000	–	733,715,200

Notes:

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

At no time during the year, 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 (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 issue share capital:

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

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

2. Mr. Tao owns in aggregate 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors, the management shareholders of the Company and their respective associates (as defined in the 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.

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.

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.

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.

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.

The audited consolidated results of the Group for the year ended 31st December, 2002 together with the comparative figures for the year ended 31st December, 2001 are as follows:

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		40,592	38,125
Transfer to other reserves		–	(1,783)
Dividends	7	24,273	–
Earnings per share	8		
Basic		HK3.43 cents	HK3.97 cents
Diluted		N/A	N/A

Notes:

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"). The Group Reorganisation was completed on 26th January, 2002 and the shares of the Company were listed on the Stock Exchange on 7th February, 2002.

2. BASIS OF PRESENTATION

(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 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 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 Reorganisation referred to in note 1 above has been reflected in the accounts by regarding the Group as a continuing group. Accordingly, the consolidated accounts have been prepared on the merger basis as if the Company had been the holding company of the other 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.

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 *HK$'000*	2001 *HK$'000*
Crediting		
Amortisation of intangible assets (included in other operating expenses) – negative goodwill	24	–
Grants and subsidies from governments (included in other operating expenses) *(note)*	1,841	451
Charging		
Amortisation of intangible assets (included in other operating expenses)		
– goodwill	644	644
– patents	213	189
– development costs	58	29
Auditors' remuneration	808	1,082
Cost of inventories sold	48,869	49,968
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 9)*	15,558	9,190
Write-off of inventories	1,703	–

Note:

Included in grants and subsidies from governments during the year were subsidies of approximately HK$1,841,000 (2001: HK$397,000) received and/or receivable by certain subsidiaries from relevant authorities of the People's Republic of China (the "PRC") as assistance for the Group's development of the pharmaceutical business in the relevant regions.

5. FINANCE COSTS

	2002 *HK$'000*	2001 *HK$'000*
Interest expenses on:		
– bank loans	3,425	1,649
– other loans wholly repayable within five years	142	181
– trade payables	53	191
– loans due to staff	–	85
– trust receipt loans	446	1,395
– 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 on 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: 6.6% and 18.0%) per annum.

6. TAXATION

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

	2002 *HK$'000*	2001 *HK$'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. The tax credit for the year represented the write-back of over provision for profits tax in prior years. Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits for the year ended 31st December, 2001.

In accordance with the approval documents of 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 (2001: HK$Nil).

7. DIVIDENDS

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

Notes:

(a) The interim dividends were partially settled by scrip dividends of HK$8,204,000 (2001: HK$Nil).

(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.

8. 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 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 during the year ended 31st December, 2002 was greater than the average market price of the Company's share, there was no dilution effect on earnings per share for the year ended 31st December, 2002. There was no dilutive instruments outstanding for the year ended 31st December, 2001.

9. 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.

By Order of the Board
KO Sai Ying, Thomas
Chairman

Hong Kong, 28th February, 2003

This announcement will remain on the "Latest Company Announcement" page of the GEM website for at least 7 days from its date of publication.