Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, the Group focused on the distribution of pharmaceutical products in China, and continued to move towards product diversification. Other than promoting our own products, the group has also strengthened its overseas agency business.

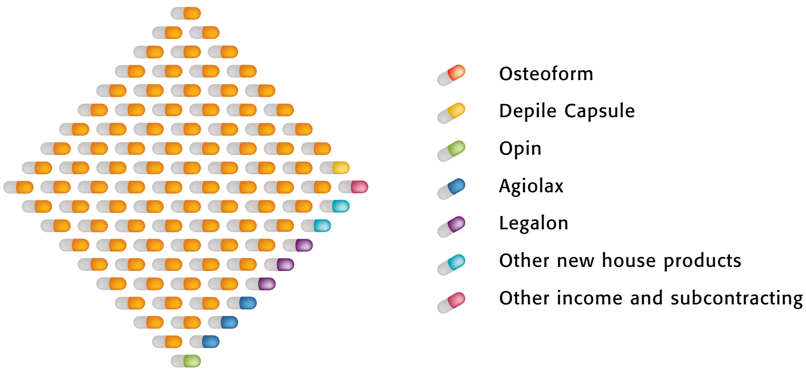
Recently, significant reform had been made to the pharmaceutical administration policy by the PRC government, and the industry landscape had been changed considerably, and changes in the pharmaceutical market and intensified competition thus came about. Therefore, other than reviewing and evaluating our operations and resources, the Group also made a detailed analysis of the market, which will lead to our introduction and distribution of quality overseas products, to be supplemented by our own developed products. For this purpose, the group has made a series of reforms in our management and strategy aiming at enhancing the effectiveness and transparency of our management. In doing so, we can follow the market trend closely and respond quickly, thereby increasing the flexibility of our competitiveness.

In respect of our R&D, having carefully assessed the risks and overall position, the Company intends to form strategic alliances with other R&D institutions in the researching and developing of products.

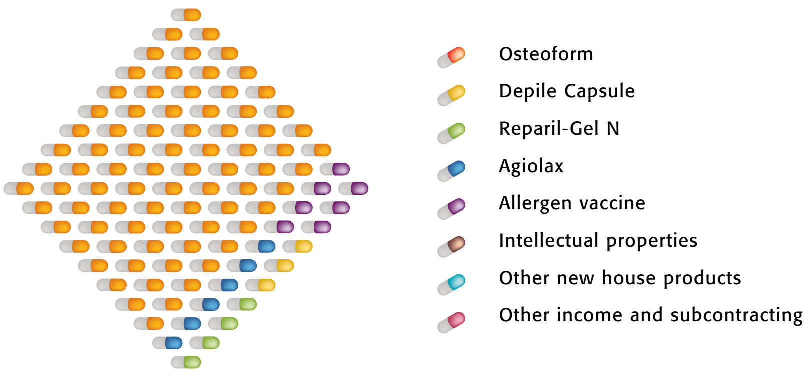
Sale of Products

During the year, our consolidated turnover amounted to HK$446 million, an increase of around 30% over HK$343 million of last year.

Turnover – By Product 2005



Turnover – By Product 2004



Flagship product

"Osteoform", a compound calcium amino acid chelate capsule for the treatment of osteoporosis and calcium deficiency

Sale of "Osteoform", our flagship product, had seen a steady increase with a turnover of approximately HK$390 million, compared with approximately HK$310 million of last year, an increase of over 25% was recorded. In 2006, the Company anticipated that sale of "Osteoform" will continue to enjoy a steady increase. The Group rolled out the 60-capsule package by the end of 2004 to cope with market demand and the needs of customers. In 2005, turnover of the 60-capsule package recorded approximately HK$21.8 million.

Other products

Several in-house products of the Group including "Depile Capsule", "Fenofibrat Tablets", "Aceclofenac Tablets" and two antibiotic products, namely "Clarithromycin Capsules" and "Azithromycin Capsules" generated an aggregate turnover of approximately HK$8.8 million.

"Legalon Silymarin Tablets", a product imported from Madaus AG, Germany brought in a turnover of approximately HK$15 million; and as for "Agiolax Granules", it claimed a turnover of approximately HK$16 million.

"Depile Capsules", an oral herbal drug that relieves symptoms of haemorrhoids
Turnover for 2005 amounted to approximately HK$3.6 million, an increase of approximately 22% over last year.

"Opin", an interferon suppository for the treatment of chronic viral cervicitis and vaginitis
"Opin" was launched into the market in the third quarter of 2005. As the product came in completely new package, the effect of marketing promotion will not be seen too soon. Its turnover in 2005 amounted to approximately HK$1.7 million.

"Aceclofenac Tablets", a drug that relieve soft tissue pain and inflammation
"Aceclofenac Tablets" a drug that has been beyond the pre-marketing lead period, and it is expected that the product will be launched into the market in 2006.

"Biafine" (Irolamine Cream), a drug that prevent and for the treatment of radiodermatitis
"Biafine" was launched in mid 2005 with a turnover of approximately HK$3.7 million.

"Aotianping™" (Miglitol Tablets), a third generation alpha-glucosidase inhibitor, a drug for the treatment of diabetes in conjunction with dietary management
"Aotianping™" has been granted approval for production, and trial sale was conducted in 2005 with a turnover of approximately HK$0.24 million. The Company plans to launch a full scale promotion activities in the third quarter of 2006.

"Vital Fast™", a slow release flu medication formulated with loratadine, psuedophedrine sulphate and paracetamol
"Vital Fast™" has been granted a new drug certificate and approval for production by the State Food and Drug Administration Authority ("SFDA"), and will be launched into the market in 2006.

"Agiolax" (Plantain and Senna Granules), a drug to restore the functions of the intestines
Turnover of "Agiolax" in 2005 amounted to approximately HK$16 million, an increase of 75% over last year. However, with the keen competition of the market for similar products, it has not yet achieved what was expected. The Group has adjusted the market strategy in 2006, and with re-allocated resources, it is expected the product will achieve remarkable result.

The production base in Chengdu, Sichuan Province, China
In mid 2005, the newly constructed No. 2 compound workshop which produces the raw materials for "Aotianping™" ("Miglitol Tablets") obtained its GMP certification and has been in operation.

The production base in Wuhan, Hubei Province, China
At present, the factory has five GMP production lines, including the suppository line for "Opin" and the production lines for four dosage forms: granules, capsules, gel and tablets, which were built to process and package products from Madaus AG, Germany. In mid 2005, all 5 production lines had passed the review examination of the SFDA and obtained the "Five-year" validity certificate. By the end of the year, the factory has begun to process and re-package "Reparil-Gel N", a product from Madaus AG, Germany.

During the year, the production base had completed the registration certificate and approval for import of the bulk package and re-packaging of products from Madaus AG, Germany, including "Reparil-Gel N" and "Legalon Silymarin Tablets" as well as "Uralyt-U", and certificates had been obtained the SFDA, which paved the way for re-packaging products from Madaus AG, Germany in 2006.

Sichuan Vital San Jiang Pharmaceutical co., Ltd.

During the year, the Group had completed the acquisition, and Vital San Jiang became the wholly-owned subsidiary of the Company. Also, construction of the new workshop had been more or less completed and production permit for the dosage had been obtained. Moreover, the production permit for the injection type of Diammonium Glycyrrhizinate is expected to be obtained by mid 2006, and trial run of the production facilities will be completed in the quarters to follow with the State's GMP inspection to be passed by the end of the year. Vital Sanjiang is undergoing declaration of several products, such as Polyene Phosphatidylcholine Injection, Multi-trace Elements Injection and Leuprorelin Long Acting Injection.

Sichuan Chengdu export Supervised Warehouse Co., Ltd

In the third quarter of 2005, the 45% equity interest held by one of the shareholders of the Supervised Warehouse was transferred to the Group, whereby the Group became the controlling company with 85% of equity interest. In February 2006, the Group acquired the remaining 15% of equity interest, whereby it became the wholly-owned subsidiary of the Group.

In mid 2005, the Supervised Warehouse integrated the import and export resources of the Group and became a professional international trading and logistic company, which further saved the logistic cost of the Group.

BUSINESS PROSPECT

In the year to come, the Group will continue to pursue its existing marketing strategy of being an agent and distributor for the pharmaceuticals of famous overseas pharmaceutical company. Other than importing and trading products, the Group is also providing logistic service, processing semi-finished products and re-packaging, so as to become an agent acting as a platform for imported products, and in doing so it will bring in immense benefits for the Company and shareholders.

FINANCIAL REVIEW

Capital structure

As of 31 December 2005, the Company had in issue 1,541,706,993 ordinary shares (31 December 2004: 1,521,198,380 shares). During the year 2005, total 20,508,613 new ordinary shares were issued, in which 20,508,613 new shares issued per minimum issue price at HK$0.46 each to Harvest Time (H.K.) Limited ("Havest Time") as per the signed agreement for acquisition of the shares of Vital Pharmaceuticals (Sichuan) Co. Ltd. (the "Acquisition Agreement") in 2003.

The market capitalization of the Company as of 31 December 2005 was approximately HK$266 million (31 December 2004: HK$426 million).

Management Discussion and Analysis

Liquidity and financial resources

As of 31 December 2005, the Group has bank loans of approximately HK$151 million (31 December 2004: approximately HK$122.8 million), comprising long-term portion of HK$50.7 million (31 December 2004: HK$6.6 million), short-term portion of HK$100.3 million (31 December 2004: HK$116.2 million). Bank balances and cash amounted to approximately HK$60.2 million (31 December 2004: approximately HK$110.1 million).

As of 31 December 2005, the Group has obtained banking facilities of approximately HK$170 million from banks in HK, Macau and China. Unutilised banking facilities amounted to approximately HK$20 million. The cost of financing was around 7% per annum. The Group has maintained sufficient financial resources for business operation purpose.

Currency policy

The sales receipts of the Group were mainly denominated in RMB. Purchases were denominated as to approximately 52% in USD, 21% in EURO, 3% in HKD and 24% in RMB. Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 20% in HKD, 78% in RMB and 2% in AUD. For the year 2005, the Group was required to settle the purchase in EURO and entered into forward contracts to hedge against foreign currency fluctuation. Moving forward, the Group will increase its purchases denominated in EURO and will be exposed to a higher foreign currency risk. Cautiously, the Group will enter into forward contract to hedge against foreign currency fluctuation.

Key financial figures and ratios

In the year 2005, several profit and loss items and ratios were worsened by a higher level of selling and distribution expenses. Compared with last year, product range has diversified and slow moving inventory written off, the overall gross profit margin was dropped by 4% as comparable to last year. Both gross profit margin after selling and distribution expenses and profit attributable to equity holders of the Company margin were dropped by 4% and 5% respectively. Also, an investment in the Southeast Asia is being loss making, the Group has recognised an impairment loss of approximately HK$10.16 million. In addition, the Group has carried out the strategy adjustment to the R&D business, therefore, in early 2006, the Group has disposed its property, plant and equipments in Melbourne, Australia at a consideration of AUD1.8 million which close to the net book value, and the relevant patent written off was approximately HK$1.55 million. Finally, one of the subsidiaries of the Group is at the loss making position, the Group had recognised the impairment of goodwill which approximately HK$3.29 million. The Group has sold its office premises in Hong Kong and has recorded a profit of about HK$5 million which was classified under other operating income in current year.

	Year 2005	Year 2004
Profit and loss item:		
Turnover (HK$' million)	**446.4**	343.4
Gross profit margin	**66%**	70%
Selling and distribution expenses (HK$' million)	**174.6**	134.8
Gross profit margin after selling and distribution expenses	**27%**	31%
Profit attributable to equity holders/turnover	**5%**	10%
EBITDA (HK$ million)	**56.2**	58.4
EBITDA/Turnover	**12.6%**	17%

Balance sheet item: Gross debt equity ratio was slightly higher than 40% and net debt equity ratio was increase to 25.3%. Caused by the longer credit periods of the new products, the average trade receivable turnover day was increased to 4 months. Inventory (excluding goods in transit) average turnover day was maintained at about 3.4 months. The longer inventory turnover day was mainly attributable to the relative slow sales momentum of Agiolax since the launch of the product in mid 2004. As of 31 December 2005, the net value of Agiolax products amounted to HK$7.5 million after slow-moving inventory written off amounted to HK$5.54 (2004: the total cost of Agiolax amounted to HK$16 million) which represented about 13% of the total inventory values of HK$56 million as of 31 December 2005. Should the sales of Agiolax Granules gather momentum in 2006, its overstock situation will improve and the overall inventory turnover day will be softened.

During the year, the Group was restructuring its loan structure and reached an agreement with the banker to draw down long-term loan which financing medium and long term investment and releasing short-term repayment pressure.

	As at 31 December 2005 HK$ million	As at 31 December 2004 HK$ million
Balance sheet item:		
Short-term bank loans	**100.2**	116.2
Long-term bank loans	**50.6**	6.6
Bank balances and cash	**60.2**	110.1
Bank loans net of cash on hand	**90.6**	12.7
Net tangible assets	**357.1**	334.2
Debt equity ratio (gross)	**42.7%**	36.7%
Debt equity ratio (net)	**25.3%**	3.8%
Average trade receivable turnover day	**119 days**	91 days
Average inventory turnover day	**101 days**	102 days

As at 31 December 2005, the Group had HK$8.1 million in bank balances and cash, HK$5.6 million in investment securities and HK$25.6 million in fixed assets pledged as collateral to banks.

For year 2005, return on equity was on average 6%.

EMPLOYEE INFORMATION

As at 31 December 2005, the Group had 464 employees, comprising 13 in research and development, 251 in production and 200 in general administration and finance. 434 of these employees were located in China, 3 in Australia, 27 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. The Group encourages employees to participate in external training programmes to develop themselves on a continuous basis, so as to improve staff quality to meet future challenges and gain a competitive edge. Total staff costs for the year 2005 amounted to approximately HK$36.8 million.