REVIEW OF BUSINESS OPERATIONS

Product Sales

During the year, consolidated turnover increased by about 60%, from HK$167 million to HK$280 million. Sales of Osteoform made a strong growth of 80%, from roughly HK$140 million to HK$250 million. Sales of Opin decreased by about 7%, from roughly HK$24 million to HK$23 million.

"Osteoform" Compound Calcium Amino Acid Chelate Capsule

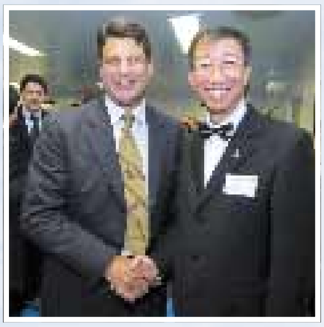
Besides media advertisements, the Group promoted Osteoform by means of consumer educations through social activities in local communities. The Group employed senior doctors in retirement and selected people with a medical background for these social promotions. Sales in the first quarter were outstanding 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 ("SARS"). In the third quarter, promotional activities resumed and sales continued to increase again. In the fourth quarter, the China SFDA new labelling regulations required Osteoform to have a new OTC label. A supplementary amendment application was made, but granting of the new permit has been delayed. To avoid any would-be confusion engendered by two differently packaged versions on sale in the market, the production and distribution of Osteoform have been slowed down to allow for stocks with the old label to be cleared.

"Opin" an interferon suppository for the treatment of chronic viral cervicitis and vaginitis

In 2003, the Group completed construction of the new GMP plant in Wuhan. The Group received the GMP certificate for the Opin production line in the fourth quarter. During the SARS outbreak in mid 2003, most research institutions intensified their research on interferon which can strengthen the human immune system against viral attack. This resulted in an acute shortage of interferon as raw material. The increased cost of interferon caused the overall gross profit margin of Opin to drop by a few percentage points. Later in the year, the price of interferon returned to a more reasonable level.

Research and Development Base in Melbourne, Australia

Vitapharm Research is a wholly owned subsidiary and the front end R&D institution of the Group. It targets on conceptual development of R&D projects and promotion of the Group's patented technologies to prominent international organizations in Australia, Europe and the US. In the third quarter of 2003, the phase 1 GLP/GMP laboratory was completed. In February 2004, the Group invited the Victorian Premier and the Mayor of Knox City to officially open the R&D centre. The event was an important marker of the Group's R&D achievements.



Production base in Chengdu, Sichuan, PRC

At present, the production base consists of a multi-purpose solid dosage workshop and a Chinese herb extraction workshop which prepares raw materials for Depile. A raw material synthesis plant for the Aceclofenac project and a second solid dosage workshop are under construction. Along with the Aceclofenac raw material plant under construction, the base in Chengdu City will comply with five different GMP dosage standards.

Next year, the Group plans to produce Depile, Aceclofenac, Fenofibrate and Pediatric Osteoform in the existing multi-purpose solid dosage workshop which complies with 4 different GMP dosage standards. The second solid dosage workshop will be occupied exclusively for Osteoform in order to maintain an efficient and steady production.

In the third quarter of 2003, the Group acquired the remaining 15% equity interest of the joint venture that owned the production base. The goodwill of approximately HK$33,480,000 generated there from is amortized to the consolidated profit and loss account over the estimated useful life. The acquisition should have a positive effect on the Group's future profits according to a conservative computation.

Production Base in Wuhan, Hubei, PRC

The Group has completed the construction and installation of the facilities in the multi-function factory in Wuhan. In December 2003, the Group entered into a packaging and distribution agreement with Madaus AG of Germany. The Group has the exclusive right to package and distribute two of Madaus AG's products in China. In the factory premises, we have commenced to install 3 production lines exclusively for products of Madaus AG. If the proposal of joint venture with Madaus AG is feasible, the Group may consider acquiring the remaining 5% minority interest of the factory before the next round of negotiation with the German.

Research and Development Center in Chengdu, Sichuan, PRC

The R&D base of the Group in Chengdu City handles various China projects including product testings, drug registration and technology patents. It also collaborates with the R&D center in Australia to develop the Group's patented technologies. The R&D centre has entered into an agreement with a pharmaceutical company in Qingdao, China, to transfer over the SDDS technology China patent rights, the Spray-On-Bandage and other related product rights in China. We expect the technology transfer to be completed in the first quarter of 2004.

BUSINESS OUTLOOK

Switching the listing status to the main board in 2003 was a historical milestone of the Group. Our strategy has drawn the attention of investors and foreign industry enterprises, leading to the achievement of several business development and corporate finance objectives. Our product portfolio and financial position have since benefited significantly. Our goal for next year is to consolidate and exploit further our present accomplishments.

Platform Technology

Development on Protein Stabilization and Delivery System ("PSD")

In the coming years, the Group will focus on exploring biological drugs such as EPOTAB, Receptorase and animal vaccines. Our mission is to commercialize the PSD technology worldwide.

Development on Skin Drug Delivery System ("SDDS")

In July 2003, the Group has entered into an agreement with Qingdao Growful Pharmaceutical Group to form a joint venture, Qingdao Growful Vital Pharmaceutical Company Limited ("Growful Vital"). The Group will transfer the China patent rights of SDDS technology and the China product rights of both Spray-On-Bandage and a new product "Anti-Fungal Dermal Spray" to the joint venture at an agreed price. The Chinese partner will contribute the required factory premises, equipment, capital and several topical products to the joint venture. The ultimate goal we have agreed upon is to commercialize the SDDS technology and realize gradual financial returns after 2004.

Business Development

In the past, the Group lacked product diversity and focused only on the PRC market. The management understands the importance of product and market diversification. We have been actively developing house products, including Depile, Aceclofenac, Fenofibrate and Pediatric Osteoform, and we have accelerated our expansion into overseas markets. At the end of 2003, the Group started product registration and set up branch offices in Russia and Taiwan. The Group intends to penetrate Southeast Asia markets in 2004 through co-operation with our partner in the region.

As a result of China's accession to WTO, China's pharmaceutical regulations are gradually conforming to international standards. More and more foreign enterprises are eager to penetrate China's huge market. The Osteoform project is a very successful venture in China. In combination, the Australian element of the Group, the diverse cultural background of our management team and the use of western management styles have facilitated the articulation of several Sino-foreign ventures. Based on the success story of Osteoform, the Group has grasped the opportunity to partner with several foreign companies. Typically, the parties agree to distribute the products in China in the initial stage. The mutual consensus is that if sales volume increases, we shall start local manufacturing at a later stage. This will in return lower the product costs, increase sales volume and maximize profit.

New Product Development

Depile Project: The Depile capsule is a herbal capsule for convenient oral consumption, which relieves the symptoms of hemorrhoids. The class 6 new drug certificate and the required production permit were granted in the fourth quarter of 2003. Production has commenced in the GMP-compliant factory in Chengdu. Marketing activities have begun and the product was launched in December 2003. For the overseas market, the Group has already identified potential partners in Australia and Southeast Asia. The Group plans to register the product in overseas in 2004.

Fenofibrate Project: The Fenofibrate chewable tablet is a product which regulates blood lipids and is classified as a state class 4 new drug. The Group received the production permit in the third quarter in 2003 and will commence production and sales in the first quarter of 2004.

Aceclofenac Project: Aceclofenac is a product to relieve soft tissue pain and inflammation. It is classified as a state class 2 new drug in China. Due to delay of commissioning of the new raw material workshop, the Group expects to receive the new drug certificate and production permit in the first quarter of 2004. Production and sales will commence in the first quarter as scheduled.

Pediatric Osteoform Project: Osteoform Pediatric formulation chewable tablet is a complementary product to our Calcium Amino Acid Chelate Osteoform Capsule. A health supplement product import license has been granted. In line with the result of market surveys conducted in 2003, we shall improve the product to a better, chewable and soft candy form with production techniques introduced from Australia. The product launch will be deferred after mid 2004.

FINANCIAL REVIEW

Capital structure

As of 31 December 2003, the Company had in issue 1,314,876,127 ordinary shares (31 December 2002: 1,227,347,268 shares). During the year 2003, 74,328,859 new ordinary shares were issued as scrip share for the 2002 final dividend and 2003 interim dividend of both HK1 cent each; and 13,200,000 new ordinary shares were issued for share option exercised.

In January 2004, 7,280,000 new ordinary shares were issued for share option exercised. In February 2004, 170,000,000 new ordinary shares were placed to institutional investors at HK$0.72 each (the "Placement"). At end of February 2004, the Company had in issue a total of 1,492,156,127 ordinary shares.

The market capitalization of the Company as of 31 December 2003 was about HK$1,038 million (31 December 2002: HK$340 million). After the Placement and at end of February 2004, the market capitalization increased to around HK$1,283 million.

Liquidity and financial resources

As of 31 December 2003, the Group has bank loans of approximately HK$90.5 million (31 December 2002: approximately HK$68.9 million), comprising long-term portion of HK$11.7 million (31 December 2002: HK$9.5 million), short-term portion of HK$78.8 million (31 December 2002: HK$59.4 million). Cash on hand amounted to approximately HK$71.7 million (31 December 2002: approximately HK$66 million).

As of 31 December 2003, the Group has obtained banking facilities of approximately HK$140 million from banks in HK and China. Unutilised banking facilities amounted to approximately HK$50 million. The cost of financing was around 4% per annum. In February 2004, the Company received net proceeds from the Placement of approximately HK$119 million. The Group has maintained sufficient financial resources for business operation purpose.

Currency policy

The sales receipts of the Group were denominated in RMB. Purchases were denominated as to 45% in USD, 19% in EURO and 36% in RMB. Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 36% in HK$, 58% in RMB and 6% in AUD. For the year 2003, the Group's exposure to foreign currency (currency besides HK$ and RMB) risk was not significant. Moving forward, the Group will increase its purchases denominated in EURO and Singapore Dollar 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 year 2003, all major profit and loss items and ratios were quite stable. The gross profit margin was merited by the expanded production and sales volume of Osteoform. Certain production costs were fixed and comparatively gross profit margin moved up. On the other hand, both gross profit margin after selling and distribution expenses and net profit margin dropped by single digit percentage. In 2003, the Group has increased its marketing expenditure to gain market share of its products. Selling and distribution expenses amounted to 26% (2002: 21%) of sales turnover and in return, Osteoform was among the top selling products in the market. In addition, the Group spent approximately HK$5 million for switching from the GEM board to the main board of the Stock Exchange for listing which has reduced the net profit margin by almost 2%.

	Year 2003	Year 2002
Profit and loss item:		
Turnover (HK$' million)	**280.8**	167.9
Gross profit margin	**72%**	70%
Selling and distribution expenses (HK$' million)	**73.0**	34.6
Gross profit margin after selling and distribution expenses	**46%**	49%
Net profit margin	**22%**	24%
EBITDA (HK$'000)	**86.0**	57.0
EBITDA/Turnover	**31%**	34%

Balance sheet item: Gross debt equity ratio was controlled below 50% and net debt equity ratio was below 10%. The Company rated risk management as equally important as sales growth. The average trade receivable turnover day improved from 3 months to 2.5 months. Inventory (excluding goods in transit) average turnover day increased from 2 months to less than 3 months. The increase in inventory turnover day was mainly attributable to the long logistics lead time involving importing, production and distribution of Osteoform as sales volume built up. We foresee that the logistics lead time will be shortened in mid 2004 when the tax free zone in Chengdu City is expected to be in operation where our factory is also based.

	As at 31 December 2003 HK$ million	As at 31 December 2002 HK$ million
Balance sheet item:		
Short-term bank loans	78.8	59.4
Long-term bank loans	11.7	9.5
Cash on hand	71.7	65.9
Bank loans net of cash on hand	18.7	3
Net tangible assets	194.2	168.4
Debt equity ratio (gross)	46.6%	40.9%
Debt equity ratio (net)	9.6%	1.8%
Average trade receivable turnover day	76 days	92 days
Average inventory turnover day	84 days	64 days

For 2003, return on equity was on average 33%. After the Placement, the gross debt equity ratio was reduced to 29%. To conclude, the Group has maintained a healthy financial position and has provided a reasonable return to the shareholders.

EMPLOYEE INFORMATION

As at 31 December 2003, the Group had 1,342 employees, comprising 32 in research and development, 254 in production, 924 in sales and distribution, and 132 in general administration and finance. 1,317 of these employees were located in China, 8 in Australia, 17 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 year 2003 amounted to approximately HK$32.9 million. The Directors recommended a bonus of HK$2 million payable to the executive directors for year 2003.