TRADING RECORD

The following is a summary of the combined results of the Group for the two years ended 31st December, 2000 and the six months ended 30th June, 2001, which, except for information relating to the earnings per share, have been extracted from the accountants' report set out in Appendix I to this prospectus. The combined results have been prepared on the basis of presentation set out in the same accountants' report.

	Year ended 31st December, 1999	2000	Six months ended 30th June, 2001
	HK$'000	*HK$'000*	*HK$'000*
Turnover *(Note 1)*	22,875	64,128	52,767
Cost of sales	(14,435)	(37,921)	(28,953)
Gross profit	8,440	26,207	23,814
Other revenues	10	28	58
Selling and distribution expenses	(1,084)	(1,452)	(1,333)
Administrative expenses	(2,546)	(5,504)	(5,427)
Other operating expenses (net)	(1,441)	(2,146)	(2,195)
Operating profit	3,379	17,133	14,917
Finance costs	(2,233)	(1,836)	(1,220)
Profit before taxation	1,146	15,297	13,697
Taxation	–	(15)	(25)
Profit after taxation	1,146	15,282	13,672
Minority interests	(545)	(743)	(188)
Profit attributable to shareholders	601	14,539	13,484
Earnings per share *(Note 2)*	HK0.06 cents	HK1.51 cents	HK1.40 cents

Notes:

(1) Turnover represents invoiced value of sales, net of returns, discounts allowed or sales taxes, where applicable, and consultancy fee income.

(2) The calculation of basic earnings per Share is based on the Group's profit attributable to shareholders for each of the two years ended 31st December, 2000 and the six months ended 30th June, 2001, and 960,000,000 Shares in issue and issuable, comprising 18,181,820 Shares in issue as at the date of this prospectus and 941,818,180 Shares to be issued pursuant to the Capitalisation Issue, throughout each of the respective financial periods on the assumption that the Group reorganisation had been completed on 1st January, 1999.

FINANCIAL PERIOD

The accountants' report has been prepared for each of the two years ended 31st December, 2000 and the six months ended 30th June, 2001. As this prospectus is issued shortly after 31st December, 2001, the accountants' report has not been prepared for the full year ended 31st December, 2001 as it would be extremely burdensome and onerous for the Company to do so.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and to the Securities and Futures Commission for a certificate of exemption from strict compliance with paragraphs 27 and 31 of The Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31st December, 2001 in this prospectus. A waiver has been granted by the Stock Exchange and a certificate of exemption has been granted by the Securities and Futures Commission.

Pursuant to Rule 11.11 of the GEM Listing Rules, the Company is required to include the financial results which must not have ended more than six months before the date of this prospectus. However, as the issue date of this prospectus had been postponed to 30th January, 2002, the financial period reported on had ended more than six months before the issue date of this prospectus.

As this prospectus includes the combined results of the Group covering each of the two years ended 31st December, 2000 and the six months ended 30th June, 2001 only, the Company has applied for and has been granted a waiver from strict compliance with Rule 11.11 of the GEM Listing Rules by the Stock Exchange.

The Company has confirmed that they have performed sufficient due diligence work on the Group to ensure that, save as disclosed in this prospectus, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of the Company or any of its subsidiaries since 30th June, 2001 which would materially affect the information as shown in the accountants' report as set out in Appendix I to this prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview of the combined results

The Group's primary business is the research and development, production and distribution of biopharmaceutical and conventional pharmaceutical products with a focus on down stream value added biotechnology processing system.

Revenue is recognised on the sales of goods when the significant risks and rewards of ownership have been transferred to the buyers.

Selling and distribution expenses consist primarily of salaries and commissions paid to the sales staff, advertising expenses, other external marketing related expenses and transportation.

Administrative expenses consist primarily of the salaries of administration staff, rental and electricity expenses.

Other operating expenses include principally amortisation of patent and goodwill, consumables, development costs and depreciation.

Depreciation relates primarily to land and buildings, motor vehicles and furniture, fixtures and other equipment which the Group has purchased in connection with its operations. Details of the Group's accounting policy on fixed assets and depreciation are set out in the accountants' report in Appendix I.

Particulars of the Group's property interests are set out in the paragraph headed "Property" under the section headed "Financial information" of this prospectus.

Finance costs primarily represent the interests charged on bank loans.

Year ended 31st December, 1999 compared with year ended 31st December, 2000

Turnover

The turnover of the Group increased from approximately HK$22.9 million for the year ended 31st December, 1999 to approximately HK$64.1 million for the year ended 31st December, 2000, representing an increase of approximately 179.9%. The increase was attributable to the enhancement of the sales and promotional efforts of the Group on the product Opin and the introduction of the new calcium supplement product, Osteoform, into the PRC market. The sales of Osteoform commenced in October 2000. For Opin, the sales increased from approximately HK$21.7 million for the year ended 31st December, 1999 to approximately HK$29.3 million for the year ended 31st December, 2000, accounting for an increase of approximately 35%. Sales of other products increased from approximately HK$1.2 million for the year ended 31st December, 1999 to approximately HK$2.2 million for the year ended 31st December, 2000. Such increase was mainly attributable to the trial product introduction of Spray-On Bandage to Thailand, Australia and Taiwan.

Besides, the Group also received a consultancy fee of HK$0.4 million from an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or any of their respective associates.

Osteoform is a capsule-based drug which has more advantages over traditional calcium supplement products. The Group owns the sole right to process and distribute this product in the Asian market, and has captured an approximately 0.4% share of the calcium supplements market in dollar term in the PRC. The introduction of Osteoform has provided a stable income stream to the Group. For the year ended 31st December, 2000, the turnover generated from the sales of Osteoform was approximately HK$32.2 million, representing approximately 50.2% of the total turnover of the Group.

Cost of sales

Cost of sales comprised direct materials, direct labour, other production overheads and sub-contracting charges. Cost of sales increased from approximately HK$14.4 million for the year ended 31st December, 1999 to approximately HK$37.9 million for the year ended 31st December, 2000, representing an increase of approximately 163.2%. The Directors consider that the increase in cost of sales was in line with the growth in turnover.

Direct materials represented a substantial portion which accounted for approximately 82.6% and 81.4% of the total cost of sales for the two years ended 31st December, 2000 respectively. The Group also sub-contracted the packaging process of Osteoform to an independent third party not connected with the Company, the Directors, the chief executive, Initial Management Shareholders and substantial shareholders of the Company or their respective associates during the year ended 31st December, 2000, which gave rise to a sub-contracting charge of approximately HK$4.4 million. Besides, saving on raw material costs was achieved by volume discount because of the increase in turnover. The Directors believe that costs of raw materials will continue to drop as a result of the intense competition among interferon suppliers.

Gross profit

The overall gross profit margin increased from approximately 36.9% for the year ended 31st December, 1999 to approximately 40.9% for the year ended 31st December, 2000. Gross profit margin for Opin increased from approximately 34.2% for the year ended 31st December, 1999 to approximately 44.8% for the year ended 31st December, 2000. Such increase was attributable to the increase in selling price and the reduction of the costs of raw materials consumed for production from approximately 52.1% to 48.4% of the total sales of the respective years. Gross profit margin for Osteoform, which was introduced in 2000, was approximately 38.6% for the year ended 31st December, 2000.

Selling and distribution expenses

The distribution and selling expenses of the Group increased from approximately HK$1.1 million for the year ended 31st December, 1999 to approximately HK$1.5 million for the year ended 31st December, 2000, representing an increase of approximately 36.4%. The increase was attributable to the new introduction of Osteoform to the PRC market and the increase in the advertising and promotion expenses incurred for promotion of Opin. The Directors consider that the increase in the distribution and selling costs of Osteoform was much smaller than its growth rate in turnover.

Administrative Expenses

The administrative expenses consisted mainly of staff's salaries, remuneration paid to the Directors, travelling, management fee and rental expenses. The administrative expenses of the Group increased from approximately HK$2.5 million for the year ended 31st December, 1999 to approximately HK$5.5 million for the year ended 31st December, 2000, representing an increase of approximately 120%. The Directors consider that such an increase was mainly due to the establishment of the Hong Kong office in the 2nd half of the year 2000 which incurred additional administrative expenses such as staff costs and rental expenses. Furthermore, additional remuneration paid to the Directors of the Group and additional staff costs incurred in Australia due to an increase of employees from one in 1999 to eight in 2000 was also attributable to the increase of administrative expenses.

Other Operating Expenses

The other operating expenses consisted mainly of amortisation of intangible assets, depreciation expenses and provision for bad debts. The other operating expenses of the Group increased from approximately HK$1.4 million for the year ended 31st December, 1999 to approximately HK$2.1 million for the year ended 31st December, 2000, representing an increase of approximately 50%. The Directors consider that such an increase was mainly attributable to the increase of research and development expenses of approximately HK$0.2 million, a provision for bad debt of approximately HK$0.2 million, and an increase of depreciation and amortisation expenses.

Finance Costs

The finance costs consisted mainly of the interests expenses on bank and other loans. The finance costs decreased from HK$2.2 million for the year ended 31st December, 1999 to HK$1.8 million for the year ended 31st December, 2000. The Directors considered that the decrease in finance costs was mainly due to the reduction of market interest rates.

Net profit

The net profit of the Group increased from approximately HK$0.6 million for the year ended 31st December, 1999 to approximately HK$14.5 million for the year ended 31st December, 2000, representing an increase of approximately 2,316.7%. The net profit margin also increased from approximately 2.6% to 22.7%. The increase in the net profit and the net profit margin was mainly due to the fact that the growth in turnover was at a much higher rate than the increase in distribution and selling costs as well as administrative and other operating expenses.

For the six months ended 30th June, 2001

Turnover

For the six months ended 30th June, 2001, the Group's total turnover amounted to approximately HK$52.8 million, of which approximately 36.3% and 63.3% were attributable to the respective sales of Opin and Osteoform. The turnover for the six months ended 30th June, 2001 was almost as high as 82.3% of the total turnover for the whole year ended 31st December, 2000. The Directors consider that the increase in popularity of Opin and Osteoform reflected a high market demand for these products, which resulted in a substantial growth in the Group's turnover. The Group intended to concentrate its promotional resources in the PRC market, hence, sales of Spray-On Bandage to Thailand and Taiwan, which might require more substantial promotional efforts, was terminated for the six months ended 30th June, 2001. This termination resulted in a decrease of sales of other products from approximately HK$2.2 million for the year ended 31st December, 2000 to approximately HK$0.2 million for the six months ended 30th June, 2001.

Cost of sales

The total cost of sales for the six months ended 30th June, 2001 was approximately HK$29.0 million. The cost of sales/turnover ratio was approximately 54.9% which was lower than the approximately 59.1% for the whole year ended 31st December, 2000. The Directors consider that such decrease was attributable to the faster pace of growth rate in turnover than in the cost of sales. Direct materials continued to be the major element of the total cost of sales accounted for approximately 82.3% of the total cost of sales for the six months ended 30th June, 2001.

Gross profit

For the six months ended 30th June, 2001, the gross profit of the Group was approximately HK$23.8 million, representing an overall gross profit margin of approximately 45.1%. Osteoform was well-received in the PRC market. The unit cost of production was constant during the six months ended 30th June, 2001. The increase in the overall gross profit margin was mainly attributable to the increase in the selling price of Osteoform by approximately 17% from approximately HK$9.36 to HK$10.92 per box.

Selling and distribution expenses

For the six months ended 30th June, 2001, the selling and distribution expenses of the Group were approximately HK$1.3 million which was similar to that for the whole year ended 31st December, 2000. The increase was mainly attributable to the establishment of 16 new marketing and liaison offices in the PRC aiming to improve the sales and marketing activities during the period.

Administrative Expenses

The administrative expenses for the six months ended 30th June, 2001 amounted to approximately HK$5.4 million which consisted mainly of staff's salaries, remuneration paid to the Directors, travelling, entertainment and rental expenses.

Other Operating Expenses

The other operating expenses consisted mainly of amortisation of intangible assets, depreciation expenses and research and development costs. The other operating expenses of the Group for the six months ended 30th June, 2001 was approximately HK$2.2 million which was close to the amounts incurred for the whole year ended 31st December, 2000. The Directors consider that such an increase was mainly attributable to the increase of research and development cost.

Finance Costs

The finance costs consisted mainly of the loan interest expenses on bank and other loans. The finance costs for the six months ended 30th June, 2001 was approximately HK$1.2 million. As the Group commenced to distribute Osteoform since October 2000, the Directors hence consider that the incurrence of more finance costs was in line with the increase of the Group's turnover.

Net Profit

During the six months period, the Group's net profit was approximately HK$13.5 million, representing a net profit margin of approximately 25.6%. Such an increase, as compared to approximately 22.7% for the year ended 31st December, 2000, was again because of the increase in turnover at a much higher rate than the increase in distribution and selling costs as well as administrative and other operating expenses.

TAX

For the year ended 31st December, 2000 and the six months ended 30th June, 2001, Hong Kong profits tax of HK$15,000 and HK$25,000 respectively has been provided for Yugofoil. The Hong Kong profits tax rate has been provided at the rate of 16% on its assessable profit for these periods. No Hong Kong profits tax was provided for the year ended 31st December, 1999 as the Group had no estimated assessable profit for that year.

No Australian income tax has been provided for Vitapharm Research as it had no estimated assessable profit for the two years ended 31st December, 2000 and for the six months ended 30th June, 2001.

No provision for any income tax has been made for the other subsidiaries of the Group in China mainland as these subsidiaries are entitled to exemptions from PRC income tax for two years commencing from their first year of profitable operations after setting off accumulated losses brought forward and thereafter, they are entitled to a 50% relief from PRC income tax for the following three years. Tianao reported its first year of retained profits in 2000 and therefore it is under the tax exemption period as at 30th June, 2001. Weiao has accumulated loss up to 30th June, 2001 and therefore the tax exemptions period of Weiao has not yet commenced.

The Group did not have significant unprovided deferred tax in respect of the Track Record Period.

DIVIDENDS

No dividend was paid or declared by the Company or its subsidiaries during the Track Record Period.