



維奧醫藥控股有限公司 Vital Pharmaceutical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1164)

Interim Report
2009





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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Tao Lung (Chairman)
Huang Jianming (Chief Executive Officer)
Shen Songqing
Liu James Jin
Xu Xiaofan
Guo Lin

Independent Non-executive Directors

Lui Tin Nang
Lee Kwong Yiu
Chong Cha Hwa

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Leung Wai Pong (CPA(Aust.), CPA)

AUDIT COMMITTEE

Lui Tin Nang (Chairman)
Lee Kwong Yiu
Chong Cha Hwa

REMUNERATION COMMITTEE

Lee Kwong Yiu (Chairman)
Lui Tin Nang
Chong Cha Hwa
Tao Lung
Xu Xiaofan

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE, HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 7, 31st Floor
Tower 1, Lippo Centre
89 Queensway
Hong Kong

COMPANY WEBSITE

www.vital-pharm.com

AUTHORISED REPRESENTATIVES

Tao Lung
Leung Wai Pong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
The Agriculture Bank of China
Bank of China Limited

AUDITORS

SHINEWING (HK) CPA Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Room 1901-02
Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

PROPERTIES HELD FOR INVESTMENT

Investment Properties

Location	Type of properties	Lease term
Office Unit Nos. 15–16 on 1st Floor to 3rd Floor and Office Unit Nos. 1, 3, 5–7 on 4th Floor of an office building known as “科技財富中心”, No. 318 Tianfuda Road North Section, within Gaoxin District Technology Incubate Park (高新區科技孵化園內), Chengdu City, Sichuan Province, the PRC	Office premises	Medium-term lease
No. 3, Keyuan South Road, High-Tech Industrial Development Zone, Chengdu City, Sichuan Province, the PRC	Office premises	Medium-term lease



HIGHLIGHTS

(unaudited)
Six months ended 30 June

	2009	2008
	HK\$'000	HK\$'000
Turnover	247,087	329,657
Profits attributable to owners of the Company	37,254	56,264
Basic earnings per share	HK2.40 cents	HK3.63 cents
Diluted earnings per share	HK2.40 cents	HK3.61 cents
Interim dividend per share	Nil	Nil

- Turnover of the Group was about HK\$247 million, a decrease of approximately 25%, year-on-year;
- Profits attributable to owners of the Company dropped by approximately 34% year-on-year to around HK\$37 million;
- Basic earnings per share was approximately HK2.40 cents;
- The Board would not recommend the payment of an interim dividend.



BUSINESS REVIEW

Results

I am pleased to announce the unaudited results of Vital Pharmaceutical Holdings Limited ("Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2009 ("period under review" or "reporting period"). During the period under review, the consolidated turnover of the Group decreased by 25% year-on-year to approximately HK\$247 million from HK\$330 million.

During the period under review, in regard to uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule", it may lead the Group cannot carry on its packing process and sale of "Osteoform calcium amino acid chelate capsule" in the PRC. Therefore, the Group had slowed down its marketing promotion and selling forces in the reporting period, and the Group had provided for amounted to approximately of HK\$30 million impairment of goodwill, which lead to a fall back of the consolidated results. The profits attributable to owners of the Company decreased by approximately HK\$19 million year-on-year basis to approximately HK\$37 million from HK\$56 million.

Product Sales

Our flagship product "Osteoform calcium amino acid chelate capsule" has suffered from uncertainties of renewing the import drug license, sales volume in the period under review were dropped. Its sales turnover was approximately HK\$213 million in the reporting period, which has contributed about 86% of the Group's sales turnover.

For the other house products: "Aotianping" Miglitol Tablets, Fenofibrate Tablet, Aceclofenac Tablet and 2 antibiotic products developed by the Group, the sales turnover for the reporting period was around HK\$4.1 million. It is slightly increased when compared to approximately HK\$3.2 million for the corresponding period.

For the overseas agency products, the Group is trading products of Madaus GmbH, Germany. Due to the reason that the Group was undergoing a reform on its distributors in the first quarter of 2009, the sales of its agency products were affected. Since the reform had been implemented and the sales in the second quarter has been picked up. The Group has recorded sales of approximately HK\$16.4 million in the reporting period. It had decreased by around 27% when compared to approximately HK\$22.5 million for the corresponding period.

"Osteoform Vitamins with minerals dispersible tablet", a compound vitamin product, for the prevention and treatment of disease caused by lack of vitamins and minerals, has been launched into the market during the second quarter of 2009. The sales turnover for the reporting period was around HK\$5.7 million.

BUSINESS REVIEW *(Continued)*

Selling and Distribution Expenses

The selling and distribution expenses for the period under review were approximately HK\$59.8 million, decreased by about 21% when compared to approximately HK\$75.5 million year-on-year. The Group had identified that high selling and distribution expenses is a business risk, and aimed at tightening the outflow in years ago, and has achieved a satisfactory outcome in recent years. The selling and distribution expenses to sales turnover ratios were maintained at a low level, the ratio for the reporting period was approximately 24%, whereas the ratios for the corresponding period and for the last whole year were around 23% and around 26% respectively.

The production base in Chengdu, Sichuan Province, China

Equipped with advanced production facilities and staffed with outstanding domestic experts, the highly effective drug manufacturing plant adopts innovative technology of drug production and manufactures drugs in accordance with the GMP standards. The plant produces principally the Group's product "Clarithromycin Capsules", "Azithromycin Capsules", "Aceclofenac Tablets" and "Aotianping" ("Miglitol Tablets") etc. The plant is also preparing the launching of a new drug to gynaecology called "Hongjinxiaojie Tablet".

The production base in Wuhan, Hubei Province, China

Major production in the reporting period included "Vital Fast" – a slow release flu medication, "Opin" – a gynaecology biological drug. A new product, medication for diabetes, "Glimepiride orally disintegrating tablets" has put into manufacturing and launched into the market during the reporting period.

Weiao (Chengdu) Pharmaceutical Co., Ltd. (維奧(成都)製藥有限公司)

The production facilities of the plant are now under maintenance and has not put into operation in the period under review. Solution for injection related products are pending for approval. Due to the plant has not put into operation since its completion, the excess office area had been leased out in first half of year 2009 to bring additional revenue to the Group.

Sichuan Hengtai Pharmaceutical

During the reporting period, Sichuan Hengtai has been striving for introducing new products to the market and has obtained the dealership for Taurolite® Tauroursodeoxycholic acid capsules, a medication for cholelithiasis, manufactured by Bruschetti S.r.l. Genova (Italy). Besides, since the launch of "Osteoform vitamins with minerals dispersible tablet" in the second quarter, has made impressive headway in sales and marketing, laying solid foundation for the implementation of our product diversification strategy.



BUSINESS OUTLOOK

In regard to uncertainties of renewing the import drug license of Osteoform calcium amino acid chelate capsule, it may lead the Group cannot carry on its packing process and sale of Osteoform calcium amino acid chelate capsule in the PRC. As at the date of this report, the Group has not yet received an outcome from the State Food and Drug Administration in the PRC. The Company is doing its best endeavours to assist with the renewal application and hopes that a successful renewal would follow as soon as possible. Inventory of Osteoform calcium amino acid chelate capsule had been sold out in third quarter of 2009. In view of the possible discontinuation of packing process and sale of Osteoform calcium amino acid chelate capsule, the Group intends to diversify its product range based on the Group's relevant experiences and expertise.

Riding on the Group's success of introducing Osteoform Vitamins with minerals dispersible tablet into the "Osteoform" family, the Group had launched new products into market in the third quarter of 2009. Including the dealership for Taurolite® Tauroursodeoxycholic acid capsule, which is a prescription medication capable of dissolving the cholesterol stones formed in the gallbladder and bile-duct. It cures and prevents such liver diseases as cholelithiasis and chronic bile stasis. In the case of cholesterol stone smaller than 2cm, sufferers may simply dissolve it by taking the medication without having to undergo operation. "Hongjinxiaojie Tablet", another new product of the Group, is a gynaecological medication with features like soothing the liver while channeling liver Qi (舒肝理氣), activating blood circulation while removing blood stasis (血瘀), eliminating tumescence while killing pain. It cures hyperplasia of the lobular mammary gland caused by Qi stagnation (氣滯) and blood stasis, cervical tumor and ovary tumor.

In the coming future, the Group will continue to expand its products portfolios, utilize the well-established national famous trademark "Osteoform" brand name to open up the health product market, optimize products categories, expand sales and distribution network, and identify acquisition opportunities which can create synergy effects for the Group's existing business, with an aim to lay a solid foundation to implement our future strategies. We will concentrate our resources on domestic sales and marketing efforts in the PRC. The Group will provide services and distribution network to foreign companies in the PRC in appropriate manner. By establishing an effective, fast and flexible marketing system to accommodate different needs of marketing solutions for different products, we will be able to deliver remarkable results to the Company and our shareholders.

FINANCIAL REVIEW

Capital structure

As at 30 June 2009, the Company had in issue 1,551,056,993 ordinary shares (31 December 2008: 1,551,056,993 shares). During the first half of year 2009, no new shares were issued (Year 2008: nil).

The market capitalization of the Company as at 30 June 2009 was approximately HK\$364 million (31 December 2008: approximately HK\$256 million).

Liquidity and financial resources

As at 30 June 2009, the Group has no bank borrowing (31 December 2008: approximately HK\$84 million, wholly short-term portion). Bank balances and cash amounted to approximately HK\$174 million (31 December 2008: approximately HK\$152 million), including pledged bank deposits of approximately HK\$56 million (31 December 2008: approximately HK\$4 million).

As at 30 June 2009, the Group has obtained banking facilities of approximately HK\$197 million (31 December 2008: HK\$319 million) from banks in China. Unutilised banking facilities amounted to approximately HK\$197 million (31 December 2008: HK\$235 million). The average cost of financing was around 6% per annum (Year 2008 average: 6.5% per annum). The Group has maintained sufficient financial resources for business operation purpose. The Group has no seasonality of borrowing requirement.

The Group adopts a conservative funding and treasury policies and objectives. The Group had repaid all banks borrowings during the reporting period. As at 30 June 2009, there was no bank borrowing (31 December 2008: HK\$59 million) denominated in Hong Kong dollars and was no bank borrowing (31 December 2008: HK\$25 million) denominated in RMB (31 December 2008: loans are repayable by 31 December 2009, of which 88% at fixed rate ranging from 5.35% to 7.84% per annum, the rest are at floating rate of HIBOR + 4.5% per annum).

In relation to cash and bank balances amounting to approximately HK\$174 million (31 December 2008: HK\$152 million), approximately 88% (2008: 87%) of which was denominated in RMB, approximately 9% (2008: 4%) was denominated in Hong Kong dollar and approximately 3% (2008: 9%) was denominated in other currencies, as at 30 June 2009.

Exposure to foreign exchange risk and Currency policy

During the reporting period and the corresponding period of last year, the sales receipts of the Group were mainly denominated in RMB. Purchases were denominated as to approximately 59% in RMB and approximately 41% in EURO (First half of year 2008: 57% in USD, 21% in RMB and 22% in EURO). Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 88% in RMB (First half of year 2008: 80%), others are in HKD, AUD, USD and Macau Pataca, etc. For the six months ended 30 June 2009, the Group did not enter into any forward contracts, interest or currency swaps, or other financial derivatives for hedging purpose. During the reporting period, the Group did not experience any material difficulty or negative effect on its operations or liquidity as a result of fluctuations on currency exchange rates.

FINANCIAL REVIEW (Continued)**Contingent liabilities**

As at 30 June 2009, the Group had no material contingent liabilities (2008: Nil).

Key financial figures and ratios**Income Statement item:**

During the reporting period, because of the selling and distribution expenses were kept at a low level, several income statement items and ratios were enhanced. The synergies effect on the corporate organisation since the acquisition of Sichuan Hengtai has enhanced the gross profit margin, and the Group had repaid all banks borrowings during the first half of 2009 which lead to a decrease on interest expense. Nevertheless, during the reporting period, the Group only received government grant amounted to approximately HK\$0.5 million (2008: HK\$9.8 million), in addition to the Group had provided for amounted to approximately of HK\$30 million impairment of goodwill, which lead to a fall back of the consolidated results. Profits attributable to owners of the Company to turnover ratio decreased to around 15%. Profits attributable to owners of the Company decreased to approximately HK\$37 million, representing a decrement of approximately 34% as compared to HK\$56 million for the corresponding period of year 2008.

Income Statement item:	6 months ended 30 June		12 months
	2009	2008	2008
Turnover (HK\$' million)	247.1	329.7	698.2
Gross profit margin	72%	60%	64%
Selling and distribution expenses (HK\$' million)	59.8	75.5	182.6
Gross profit margin after selling and distribution expense	48%	37%	38%
Profits attributable to owners of the Company/Turnover	15%	17%	9%
EBITDA (HK\$' million)	55.6	87.7	120.4
EBITDA/Turnover	22.5%	26.6%	17.2%

FINANCIAL REVIEW (Continued)**Key financial figures and ratios** (Continued)**Statement of financial position item:**

As of 30 June 2009, because of the Group had repaid all banks borrowings during the first half of 2009 which lead to a decrease on debt equity ratio (Borrowing/Net tangible assets) substantially to 0%. Since the Group had slowed down marketing promotion and selling forces of "Osteoform calcium amino acid chelate capsule" in the reporting period, average inventory turnover day were slightly longer than that at 31 December 2008. In relation to the average trade receivable turnover day, since the Group had granted a longer credit period to the customers for the new products and extended the use of bills receivable, average trade receivable turnover day was risen.

Statement of financial position item:

	As at 30 June 2009 HK\$' million	As at 31 December 2008 HK\$' million
Short-term bank loans	–	84.4
Long-term bank loans	–	–
Bank balances and cash	173.9	152.4
Net tangible assets	557.8	489.8
Debt equity ratio	0%	17.2%
Average trade receivable turnover day	95 days	63 days
Average inventory turnover day	125 days	123 days

As of 30 June 2009, the Group had approximately HK\$56.2 million bank balances and cash, HK\$16.5 million prepaid lease payment on land use rights, HK\$40.8 million property, plant and equipment, and HK\$39.7 million investment properties were pledged as collateral to banks.

For the 6 months ended 30 June 2009, return on equity (annualised) was on average of approximately 12%.

EMPLOYEE INFORMATION

As at 30 June 2009, the Group had 1,302 employees (31 December 2008: 1,494), comprising 4 in research and development, 167 in production, 966 in sales, and 165 in general administration and finance. 1,283 of these employees were located in China, and 19 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 (including director emolument, share base payment, and compensation on staff redundant) for the reporting period amounted to approximately HK\$44 million (First half of 2008: HK\$39 million).

DISCLOSURE OF INTERESTS

(a) The Directors' and chief executives' interests and short position in the shares, underlying shares and debentures of the Company or any associated corporation

As at 30 June 2009, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity	Number of ordinary shares of HK\$0.01 each ("Share") (Note 1)	Percentage Shareholding in the same class of securities
Mr. Tao Lung	Beneficial owner	20,891,648 (L)	1.35%
	Interest of a controlled corporation (Note 2)	522,526,940 (L)	33.69%
Mr. Liu James Jin	Beneficial owner	14,630,400 (L)	0.94%
Mr. Shen Song Qing	Beneficial owner	12,160,000 (L)	0.78%

Notes:

- The letter "L" stands for the Director's long position in the Shares.
- The interests in the shares are held by Perfect Develop Holding Inc. ("Perfect Develop"). The issued share capital of Perfect Develop is beneficially owned as to 58.28% by Mr. Tao Lung, 30.67% by Mr. Huang Jianming and 11.05% by Mr. Liu James Jin. Accordingly, Mr. Tao Lung is deemed to be interested in all the Shares held by Perfect Develop by virtue of the SFO.

DISCLOSURE OF INTERESTS (Continued)**(a) The Directors' and chief executives' interests and short position in the shares, underlying shares and debentures of the Company or any associated corporation**
(Continued)

Directors' and Chief Executive's interests in underlying Shares and equity derivatives

As at 30 June 2009, the directors and chief executive of the Company had the following personal interests in options to subscribe for Shares of the Company granted under the share option scheme of the Company:

Name of Director	Date of grant	Exercisable period	Exercise price per Share (HK\$)	No. of Shares involved in the options outstanding at 30 June 2009
Mr. Tao Lung <i>(Executive director and Chairman)</i>	12 September 2005	1 January 2006 to 6 February 2012 <i>(Note 3)</i>	0.23	15,000,000
Mr. Huang Jianming <i>(Executive director and CEO)</i>	29 January 2008	1 October 2008 to 6 February 2012 <i>(Note 5)</i>	0.28	8,500,000
Mr Shen Songqing <i>(Executive Director)</i>	29 January 2008	1 October 2008 to 6 February 2012 <i>(Note 5)</i>	0.28	8,500,000
Mr. Xu Xiaofan <i>(Executive Director)</i>	12 September 2005	1 January 2006 to 6 February 2012 <i>(Note 3)</i>	0.23	15,000,000
Mr Liu James Jin <i>(Executive Director)</i>	29 January 2008	1 October 2008 to 6 February 2012 <i>(Note 5)</i>	0.28	8,500,000
Ms. Guo Lin <i>(Executive Director)</i>	29 September 2003	2 January 2004 to 6 February 2012 <i>(Note 4)</i>	0.51	3,000,000
	29 January 2008	1 October 2008 to 6 February 2012 <i>(Note 5)</i>	0.28	8,500,000
Mr. Chong Cha Hwa <i>(Independent Non-executive Director)</i>	29 January 2008	1 October 2008 to 6 February 2012 <i>(Note 5)</i>	0.28	1,500,000

DISCLOSURE OF INTERESTS *(Continued)***(a) The Directors' and chief executives' interests and short position in the shares, underlying shares and debentures of the Company or any associated corporation**
(Continued)

Directors' and Chief Executive's interests in underlying Shares and equity derivatives
(Continued)

Note:

3. Mr. Tao Lung and Mr. Xu Xiaofan can exercise their rights in two periods starting from 1 January 2006 to 6 February 2012. From 1 January 2006 to 31 December 2006, grantees can exercise up to 50% of their rights, and starting from 1 January 2007 to 6 February 2012, grantees can exercise any unexercised remaining rights.
4. Ms. Guo Lin can exercise her rights in two periods starting from 2 January 2004 to 6 February 2012. From 2 January 2004 to 1 July 2004, she can exercise up to 500,000 share options, and starting from 2 July 2004 to 6 February 2012, she can exercise any unexercised remaining rights. Ms. Guo Lin is appointed as an executive director of the Company from 1 January 2008. She had been granted share options since 29 September 2003.
5. Mr. Huang Jianming, Mr. Shen Songqing, Mr. Liu James Jin, Ms. Guo Lin and Mr. Chong Cha Hwa can exercise their rights in two periods starting from 1 October 2008 to 6 February 2012. From 1 October 2008 to 31 December 2008, grantees can exercise up to 30% of their rights, and starting from 1 January 2009 to 6 February 2012, grantees can exercise any unexercised remaining rights.

Save as disclosed above, none of the Directors and the chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS *(Continued)***(b) Substantial Shareholders' interest and short positions in the shares, underlying shares of the Company**

As at 30 June 2009, according to the register of members kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities, other than a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Company/ Name of Group member	Capacity	Number of shares (Note 6)	Approximate percentage of shareholding
Perfect Develop <i>(Note 7)</i>	Corporate	Beneficial owner	522,526,940 (L)	33.69%

Notes:

- The letter "L" denotes the person's/entity's long position in the shares.
- The issued share capital of Perfect Develop is beneficially owned as to 58.28% by Mr. Tao Lung, 30.67% by Mr. Huang Jianming and 11.05% by Mr. Liu James Jin. All of them are founders of the Group and executive directors of the Company.

Save as disclosed above, the Directors are not aware of any person as at 30 June 2009 who had an interest or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO SUBSCRIBE FOR SHARES

Save as disclosed in the interim report, none of the Company's directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares, warrants or debentures (if applicable) of the Company and its associated corporations (within the meaning of the SFO) during the six months ended 30 June 2009.

SHARE OPTION SCHEME

A share option scheme was adopted on 26 January 2002 ("2002 Share Option Scheme"). The 2002 Share Option Scheme was replaced by a new share option scheme adopted by the shareholders on 23 July 2003 ("2003 Share Option Scheme").

The Board of Directors of the Company may, at their discretion, grant option to the eligible participant including any employees, any non-executive directors, directors, suppliers, customers, advisors, consultants, joint venture partners and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the share option scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholder in a general meeting of the Company. Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding any independent non-executive director who is the grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

At 30 June 2009 and 31 December 2008, the number of shares of the Company in respect of which options had remained outstanding under the 2003 Share Option Scheme of the Company was 114,390,000, representing 7.37% of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options of the Company is HK\$1.00. The exercise period of the share options granted is determined by the Board of Directors.

No consideration was received by the Company during the six months ended 30 June 2009 from eligible participants for taking up the options as there was no share option granted during the period (2008: HK\$16).

SHARE OPTION SCHEME *(Continued)*

The exercise price of the share options is determined by the board of directors providing that the exercise price of the share options shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The 2003 Share Option Scheme will remain in force for a period of ten years commencing on 23 July 2003.

First phase:

On 21 June 2002, options were granted 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 2002 Share Option 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 16 August 2002 to 6 February 2012 as follows:

From 16 August 2002 to 6 February 2012	–	approximately 6,850,000 shares
From 1 January 2003 to 6 February 2012	–	approximately 8,280,000 shares
From 1 January 2004 to 6 February 2012	–	approximately 6,510,000 shares
From 1 January 2005 to 6 February 2012	–	approximately 8,360,000 shares

Second phase:

On 28 February 2003, options were granted to subscribe for an aggregate of 19,800,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2002 Share Option Scheme at HK\$0.24 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK\$0.21 per share. Those who were granted with the options can exercise their rights from 1 March 2003 to any time before expiry date on 6 February 2012.

SHARE OPTION SCHEME *(Continued)***Third phase:**

On 29 September 2003, options were granted 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 2003 Share Option Scheme at HK\$0.51 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK\$0.50 per share. Those who were granted with the options can exercise their rights in two periods starting from 2 January 2004 to 6 February 2012 as follows:

- From 2 January 2004 to 6 February 2012 – approximately 8,990,000 shares
- From 2 July 2004 to 6 February 2012 – approximately 21,010,000 shares

Forth phase:

On 12 September 2005, options were granted to subscribe for an aggregate of 69,800,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2003 Share Option Scheme at HK\$0.23 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK\$0.23 per share. Those who were granted with the options can exercise their rights in two periods starting from 1 January 2006 to 6 February 2012 as follows:

- From 1 January 2006 to 6 February 2012 – approximately 34,900,000 shares
- From 1 January 2007 to 6 February 2012 – approximately 34,900,000 shares

Fifth phase:

On 29 January 2008, options were granted to subscribe for an aggregate of 67,500,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2003 Share Option Scheme at HK\$0.28 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK\$0.28 per share. Those who were granted the options can exercise their rights in two periods starting from 1 October 2008 to 6 February 2012 as follows:

- From 1 October 2008 to 6 February 2012 – approximately 20,250,000 shares
- From 1 January 2009 to 6 February 2012 – approximately 47,250,000 shares

SHARE OPTION SCHEME (Continued)

Movements of the share options during the year/period are set out below:

	Date of grant	Outstanding at 1 January 2008	Granted during the year	Outstanding at 31 December 2008	Granted, cancelled, lapsed and exercised during the period	Outstanding at 30 June 2009	Exercise price per share HK\$
Directors:							
Mr. Tao Lung	12 September 2005	15,000,000	–	15,000,000	–	15,000,000	0.23
Mr. Xu Xiaofan	12 September 2005	15,000,000	–	15,000,000	–	15,000,000	0.23
Mr. Huang Jianming	29 January 2008	–	8,500,000	8,500,000	–	8,500,000	0.28
Mr. Shen Songqing	29 January 2008	–	8,500,000	8,500,000	–	8,500,000	0.28
Mr. Liu James Jin	29 January 2008	–	8,500,000	8,500,000	–	8,500,000	0.28
Ms. Guo Lin	29 January 2008	–	8,500,000	8,500,000	–	8,500,000	0.28
Independent non-executive directors:							
Mr. Chong Cha Hwa	29 January 2008	–	1,500,000	1,500,000	–	1,500,000	0.28
Employees							
	21 June 2002	330,000	–	330,000	–	330,000	0.39
	29 September 2003	13,260,000	–	13,260,000	–	13,260,000	0.51
	12 September 2005	2,800,000	–	2,800,000	–	2,800,000	0.23
	29 January 2008	–	21,000,000	21,000,000	–	21,000,000	0.28
Other eligible participants							
	29 September 2003	500,000	–	500,000	–	500,000	0.51
	29 January 2008	–	11,000,000	11,000,000	–	11,000,000	0.28
		<u>46,890,000</u>	<u>67,500,000</u>	<u>114,390,000</u>	–	<u>114,390,000</u>	
Exercisable at the end of the year/period							
		<u>46,890,000</u>		<u>67,140,000</u>		<u>114,390,000</u>	



PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

DIVIDEND

The Board would not recommend the payment of an interim dividend for the six months ended 30 June 2009 (30 June 2008: Nil).

REVIEW OF INTERIM RESULTS

The unaudited interim financial report of the Group for the six months ended 30 June 2009 have been reviewed by the Company's audit committee and auditors, SHINEWING (HK) CPA Limited.

AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external and internal audit, internal controls and risk evaluation.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters with the management. The Group's financial statements for the six months ended 30 June 2009 have been reviewed and adopted by the Audit Committee, who is of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made. The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Lui Tin Nang (Audit Committee chairman), Mr. Lee Kwong Yiu and Mr. Chong Cha Hwa.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive directors, the chairman and an executive director of the Company, is responsible for reviewing and evaluating the remuneration packages of the executive directors and senior management and making recommendations to the board of directors from time to time.

MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the principle standards of securities transactions for directors of the Company. All directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the period.



CORPORATE GOVERNANCE

The Company is in compliance with all the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2009.

The Board as at the date of this report comprises six executive directors: Mr. Tao Lung, Mr. Huang Jianming, Mr. Shen Songqing, Mr. Liu James Jin, Mr. Xu Xiaofan and Madam Guo Lin, and three independent non-executive directors: Mr. Lui Tin Nang, Mr. Lee Kwong Yiu and Mr. Chong Cha Hwa.

On behalf of the Board

TAO Lung

Chairman

Hong Kong, 22 September 2009

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

To the Board of Directors of Vital Pharmaceutical Holdings Limited
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 22 to 38, which comprises the condensed consolidated statement of financial position of Vital Pharmaceutical Holdings Limited (the "Company") and its subsidiaries as at 30 June 2009 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibilities is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibilities towards or accept liabilities to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Ip Yu Chak

Practising Certificate Number: P04798

Hong Kong
22 September 2009

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Turnover	4	247,087	329,657
Cost of sales		(69,364)	(132,973)
Gross profit		177,723	196,684
Other operating income		4,631	12,828
Selling and distribution expenses		(59,804)	(75,450)
Administrative expenses		(48,839)	(57,417)
Impairment loss recognised in respect of goodwill	11	(29,982)	–
Finance costs		(679)	(8,878)
Profit before taxation		43,050	67,767
Income tax expense	5	(5,908)	(11,551)
Profit for the period	6	37,142	56,216
Attributable to :			
Owners of the Company		37,254	56,264
Minority interests		(112)	(48)
		37,142	56,216
Earnings per share	8		
Basic, for profit for the period attributable to the ordinary owners of the Company		HK2.40 cents	HK3.63 cents
Diluted, for profit for the period attributable to the ordinary owners of the Company		HK2.40 cents	HK3.61 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2009*

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Profit for the period	37,142	56,216
Other comprehensive income		
Exchange differences on translation of foreign operations	(1,195)	21,714
Change in fair value of available-for-sale financial assets	1,285	468
Release of other reserve upon disposal of an available-for-sale financial investments	5	–
Other comprehensive income for the period, net of tax	95	22,182
Total comprehensive income for the period, net of tax	37,237	78,398
Attributable to:		
Owners of the Company	37,349	78,446
Minority interests	(112)	(48)
	37,237	78,398

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	Notes	30/6/2009 HK\$'000 (Unaudited)	31/12/2008 HK\$'000 (Audited)
Non-current assets			
Intangible assets	9	2,313	2,651
Property, plant and equipment	9	211,681	225,552
Investment properties	9	57,032	57,032
Prepaid lease payments on land use rights		39,017	39,511
Deposit for acquisition of property, plant and equipment		5,526	4,571
Available-for-sale investments	10	1,713	1,203
Goodwill	11	74,924	104,906
		392,206	435,426
Current assets			
Inventories		28,403	66,984
Trade and other receivables	12	155,107	131,660
Prepaid lease payments on land use rights		800	800
Income tax recoverable		8,091	6,031
Held-for-trading investment		2,500	1,667
Bank balances and cash			
– pledged		56,224	4,002
– unpledged		117,637	148,351
		368,762	359,495
Current liabilities			
Trade and other payables	13	109,476	76,008
Value added tax payable		3,570	17,522
Income tax payable		431	11,705
Obligations under finance leases			
– due within one year		114	114
Bank borrowings – due within one year	14	–	84,349
		113,591	189,698
Net current assets			
		255,171	169,797
		647,377	605,223

	<i>Notes</i>	30/6/2009 HK\$'000 (Unaudited)	31/12/2008 HK\$'000 (Audited)
Capital and reserves			
Share capital	15	15,511	15,511
Reserves		618,797	581,448
Equity attributable to owners of the Company		634,308	596,959
Minority interests		736	413
		635,044	597,372
Non-current liabilities			
Obligations under finance leases			
– due after one year		287	344
Other payables		4,556	–
Deferred tax liability		7,490	7,507
		12,333	7,851
		647,377	605,223

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Equity attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Exchange translation reserve HK\$'000	Share options reserve HK\$'000	Reserve fund HK\$'000 (/Note)	Enterprise development fund HK\$'000	Other reserve HK\$'000	Retained earnings HK\$'000	Properties revaluation reserve HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2008 (audited)	15,511	251,175	33,995	4,029	36,654	616	(54)	161,527	-	503,453	589	504,042
Total comprehensive income for the period	-	-	21,714	-	-	-	468	56,264	-	78,446	(48)	78,398
Recognition of equity-settled share based payment	-	-	-	3,227	-	-	-	-	-	3,227	-	3,227
At 30 June 2008 (unaudited)	15,511	251,175	55,709	7,256	36,654	616	414	217,791	-	585,126	541	585,667

	Equity attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Exchange translation reserve HK\$'000	Share options reserve HK\$'000	Reserve fund HK\$'000 (/Note)	Enterprise development fund HK\$'000	Other reserve HK\$'000	Retained earnings HK\$'000	Properties revaluation reserve HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2009 (audited)	15,511	251,175	57,319	9,891	45,593	616	(1,548)	213,683	4,719	596,959	413	597,372
Total comprehensive income for the period	-	-	(1,195)	-	-	-	1,290	37,354	-	37,349	(112)	37,237
Contribution from minority interests	-	-	-	-	-	-	-	-	-	-	435	435
At 30 June 2009 (unaudited)	15,511	251,175	56,124	9,891	45,593	616	(258)	250,937	4,719	634,308	736	635,044

Note: Subsidiaries in the People's Republic of China have appropriated 10% of the profit to reserve fund. The reserve fund is required to be retained in the accounts of the subsidiaries for specific purposes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2009*

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Net cash from operating activities	102,894	29,730
Net cash used in investing activities	(48,523)	(130,194)
Net cash (used in) from financing activities	(85,085)	73,980
Net decrease in cash and cash equivalents	(30,714)	(26,484)
Cash and cash equivalents at 1 January	148,351	106,525
Effect of foreign exchange rate changes	–	4,080
Cash and cash equivalents at 30 June	117,637	84,121

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2009

1. General

Vital Pharmaceutical Holdings Limited (the “Company”) is incorporated in the Cayman Islands as an exempted company with limited liabilities. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activities of the Company and its subsidiaries (the “Group”) are research and development, selling, distributing and manufacturing of pharmaceutical products.

2. Basis of Preparation

The condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

3. Principal Accounting Policies

The condensed consolidated interim financial information have been prepared under the historical costs basis except for certain investment properties and financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Cost
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-INT 13	Customer Loyalty Programmes
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate

3. Principal Accounting Policies (Continued)

HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidation financial statements, and has resulted in a number of changes in presentation and disclosure.

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised 2008)	Business Combinations ¹
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-INT 18	Transfers of Assets from Customers ⁴

¹ Effective for annual periods beginning on or after 1 July 2009.

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January, 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. Turnover and Segment Information

Turnover represents amount received and receivable from sales of pharmaceutical products net of returns, discounts allowed and sales related taxes during the period. On the first-time adoption of HKFRS 8 "Operating segments", the Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 Segment Reporting. The Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the sales, distributing and manufacturing of pharmaceutical products. The directors of the Company consider that there is only one operating segment for the Group.

5. Income Tax Expense

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Overseas income tax		
– current period	5,925	10,598
– under provision in prior year	–	962
	5,925	11,560
Deferred taxation	(17)	(9)
	5,908	11,551

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period ended 30 June 2009 and 2008.

Hong Kong Profits Tax has not been provided for in the condensed consolidated Interim Financial Information for the period ended 30 June 2009 as there was no estimated assessable profit derived from Hong Kong in that period.

For the period ended 30 June 2008, no tax was provided on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

The Hong Kong Profits Tax amounting in total to approximately HK\$6,031,000 of a subsidiary of the Company for the two financial years 2000 and 2001 are under inquiries by the Hong Kong Inland Revenue Department ("IRD"). The subsidiary had lodged an objection against the assessments and the IRD has held over the payment of the profits tax and the equal amount of Tax Reserve Certificates was purchased and recorded as tax recoverable as at 30 June 2009 and 31 December 2008.

5. Income Tax Expense (Continued)

During the period ended 30 June 2009, the HKIRD further issued protective profits tax assessments of approximately HK\$1,760,000 to that subsidiary of the Company relating to the year of assessment 2002/2003, that is, for the financial year ended 31 December 2002. The Group lodged objections with the HKIRD against the protective assessments and purchase a tax reserve certificate of approximately HK\$1,760,000 during the period ended 30 June 2009 as demanded by the HKIRD.

The Group had received an advice from a tax expert that, the profits of that subsidiary for the financial years 2000 and 2001 were neither arisen in nor derived from Hong Kong. The directors of the Company believes that that subsidiary has a reasonable likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, are not subject to Hong Kong Profits Tax and since that subsidiary's operation has remained unchanged during the financial year 2000 to 2002, Accordingly, no provision for profits tax is required.

During the period ended 30 June 2009, the HKIRD issued protective profits tax assessments of approximately HK\$599,000 to another subsidiary of the Company relating to the year of assessment 2002/2003, that is, for the financial year ended 31 December 2002. The Group lodged objections with the HKIRD against the protective assessments. The HKIRD agreed to hold over the tax claim subject to the purchasing of a tax reserve certificate of approximately HK\$300,000, the Group purchased the tax reserve certificate during the period ended 30 June 2009 as demanded by the HKIRD.

The directors of the Company believes that that subsidiary has a reasonable likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, are not subject to Hong Kong Profits Tax. Accordingly, no provision for profits tax is required.

In accordance with the relevant regulations, approval from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, one subsidiary operating in the PRC are entitled to exemption from PRC enterprise income tax in the first profit-making year, followed by a 50% reduction of PRC enterprise income tax for the next three years (the "Tax Exemption"). During the period ended 30 June 2009, the Tax Exemption period has been expired and this subsidiary has obtained approval from the relevant tax bureau and are qualified as a High and New Technology Enterprise which is subject to a tax rate of 15%.

One subsidiary obtained approval from the relevant tax bureau and are qualified as a High and New Technology Enterprises which is subject to a tax rate of 15%.

Certain PRC subsidiaries were either in loss-making position for the current period and the previous years or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the period and accordingly did not have any assessable income.

6. Profit for the Period

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Amortisation of intangible assets		
– development costs	737	1,161
Amortisation of prepaid lease payments on land use rights	494	457
Depreciation of property, plant and equipment	10,668	9,478
Exchange (gain) loss	(495)	1,539
Impairment loss recognised in respect of trade receivables	1,243	4,202
Impairment loss recognised in respect of other receivables	1,501	3,333
Loss on disposal of property, plant and equipment	140	87
Provision for compensation of staff redundant	6,666	–
Research and development costs	507	608
Loss (gain) on disposal of available-for-sale investments	5	(2,030)
Bank interest income	(106)	(283)
Government subsidies income	(541)	(9,793)

7. Interim Dividend

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (30 June 2008: Nil).

8. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	37,254	56,264
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,551,056,993	1,551,056,993
Effect of dilutive ordinary shares in respect of share options	—	5,303,645
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,551,056,993	1,556,360,638

For the six months ended 30 June 2009, the computation of diluted earnings per share did not assume the exercise of the Company's outstanding share options as the exercise prices of those options were higher than the average market prices for the period.

9. Movements in Intangible Assets, Property, Plant and Equipment and Investment Properties

During the period, the Group spent approximately HK\$429,000 (2008: Nil) and HK\$1,244,000 (2008: approximately HK\$4,500,000) for the acquisition of intangible assets, motor vehicles and furniture and fixtures, respectively.

The directors of the Company considered the carrying amounts of the Group's investment properties as at 30 June 2009 did not differ significantly from their fair values. Consequently, no change in fair value has been recognised in both periods.

10. Available-for-sale Investments

	30/6/2009 HK\$'000 (Unaudited)	31/12/2008 HK\$'000 (Audited)
Listed investment in equity securities listed elsewhere (<i>Note a</i>)	1,713	428
Unlisted investments in certificates of deposits, at fair value	–	775
Unlisted equity security, at cost (<i>Note b</i>)	7,072	7,072
Less: Impairment loss recognised (<i>Note c</i>)	(7,072)	(7,072)
	1,713	1,203

Notes:

- (a) The above listed equity securities represent investments in listed securities in Australia. The fair values of these securities are based on quoted market price.
- (b) The above unlisted equity securities represents investment in a private entity incorporated in the PRC and is measured at cost less impairment at the end of each reporting date because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that their fair values cannot be measured reliably.
- (c) The directors of the Company had reviewed the carrying values of the unlisted equity securities and considered that in light of the recurring operating losses of these investments and the current market conditions, total impairment losses of approximately HK\$7,072,000 (2008: HK\$7,072,000) had been recognised. The directors of the Company were of the opinion that the impairment was made based on their best estimation with reference to the market situation and circumstances of the equity securities.

11. Goodwill

The amount represents goodwill in relation to the acquisition of the entire equity interest in Sichuan Hengtai Pharmaceutical Company Limited and its subsidiary ("Hengtai Group") in 2008.

At 30 June 2009, the management of the Group assessed the recoverable amount of Hengtai Group with reference to the value-in-use and determined that goodwill was further impaired by approximately HK\$29,982,000 (for the year ended 31 December 2008: HK\$7,500,000). The main factor contributing to the impairment of the cash generating unit was due to the uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule" (the "Capsule"), it may lead the Group cannot carry on its packing process and sale of the Capsule in the PRC. The basis of calculating the recoverable amount and the principal underlying assumptions are summarised as below:

That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 14.53% (2008: 15.3%). Cash flows beyond the 5-year period has been extrapolated using a steady 3% growth rate (2008: 3%).

The growth rate and budgeted gross margin are determined based on the unit's past performance and management's expectations for the market development.

12. Trade and Other Receivables

	30/6/2009 HK\$'000 (Unaudited)	31/12/2008 HK\$'000 (Audited)
Trade and bills receivables	148,195	132,647
Less: Impairment loss recognised in respect of trade receivables	(12,458)	(11,215)
Prepayments and deposits	135,737	121,432
Payments for pharmaceutical projects	18,785	7,698
Other receivables	21,253	21,253
	4,120	4,564
Less: Impairment loss recognised for payments for pharmaceutical projects	179,895	154,947
Impairment loss recognised in respect of other receivables	(20,509)	(20,509)
	(4,279)	(2,778)
	155,107	131,660

The Group's sales are on open account terms. The Group normally grants to its customers credit periods ranging from 90 days to 180 days which are subject to periodic review by management.

At the end of reporting date, the aging analysis of the trade and bills receivables net of impairment loss recognised was as follows:

	30/6/2009 HK\$'000 (Unaudited)	31/12/2008 HK\$'000 (Audited)
Within 30 days	45,859	46,842
31 – 60 days	50,099	28,192
61 – 90 days	22,977	31,297
Over 90 days	16,802	15,101
	135,737	121,432

13. Trade and Other Payables

At the end of reporting date, the aging analysis of the trade and bills payables was as follows:

	30/6/2009 HK\$'000 (Unaudited)	31/12/2008 HK\$'000 (Audited)
Trade and bills payables		
Within 30 days	954	274
31 – 60 days	55,643	114
61 – 90 days	–	6
Over 90 days	1,106	11,515
	57,703	11,909
Accrued expenses and other payables	51,773	64,099
	109,476	76,008

14. Bank Borrowings

During the period ended 30 June 2009, the Group repaid all the bank borrowings amounting to approximately HK\$84,349,000.

15. Share Capital

Ordinary share of HK\$0.01 each	Number of shares	Amount HK\$'000
<i>Authorised:</i>		
At 1 January 2008, 31 December 2008 and 30 June 2009	50,000,000,000	500,000
<i>Issued and fully paid:</i>		
At 1 January 2008, 31 December 2008 and 30 June 2009	1,551,056,993	15,511

16. Share Option

The Company has a share option scheme for eligible directors and employees of the Group. Details of the share options outstanding are as follows:

	Number of share options	
	Six months ended 30 June	
	2009	2008
Outstanding at the beginning of the period	114,390,000	46,890,000
Granted during the period	–	67,500,000
Outstanding at the end of the period	114,390,000	114,390,000

No share options were granted during the six months ended 30 June 2009.

The Group recognised an amount of approximately HK\$5,862,000 (2009: Nil) as expenses for the period ended 30 June 2008 in relation to the share options granted by the Company.

17. Related Party Transactions

The Group has significant related party transactions carried out in the normal course of the Group's business:

- A tax indemnity dated 30 January 2002 was entered into by the controlling shareholders of the Company, the Company and its subsidiaries whereby the controlling shareholders provide indemnities on a joint and several basis in respect of, among other matters, taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before 7 February 2002.
- The remuneration of key management during the period was as follows:

	Six months ended 30 June	
	2009	2008
	HK\$000	HK\$000
	(unaudited)	(unaudited)
Short-term benefits	1,490	5,044
Post-employment benefits	52	72
Share-based payment expenses	–	2,056
	1,542	7,172

18. Commitments

At the end of reporting date, the Group had the following commitments:

(a) *Capital commitments for the acquisition of property, plant and equipment*

	30/6/2009 HK\$'000 (Unaudited)	31/12/2008 HK\$'000 (Audited)
Contracted but not provided for	4,053	5,356

(b) *Commitments for the development of new products and / or technologies*

	30/6/2009 HK\$'000 (Unaudited)	31/12/2008 HK\$'000 (Audited)
Contracted but not provided for	10,810	10,877

19. Pledge of Assets

At the end of reporting date, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

	30/6/2009 HK\$'000 (Unaudited)	31/12/2008 HK\$'000 (Audited)
Property, plant and equipment	40,833	40,862
Investment properties	39,700	39,700
Bank balances and cash	56,224	4,002
Prepaid lease payments on land use rights	16,459	16,647
	153,216	101,211