ANNUAL REPORT 2007

Vital BioTech Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1164)

Contents

Financial Highlights

OPERATING RESULTS

	For the year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**507,494**	487,147	446,437	343,420	280,784
Operating profit	**77,576**	60,217	37,735	42,129	75,742
Finance costs & share of result of an associate	**(12,605)**	(13,201)	(11,255)	(4,236)	(4,680)
Profit before taxation	**64,971**	47,016	26,480	37,893	71,062
Income tax expense	**(14,512)**	(9,916)	(5,537)	(5,728)	(537)
Profit for the year	**50,459**	37,100	20,943	32,165	70,525
Attributable to:					
Equity holders of the Company	**50,622**	37,743	21,649	32,776	61,142
Minority interests	**(163)**	(643)	(706)	(611)	9,383
	50,459	37,100	20,943	32,165	70,525

FINANCIAL POSITION

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**741,037**	696,491	623,972	577,077	399,456
Total liabilities	**(236,995)**	(250,679)	(224,785)	(191,439)	(161,407)
	504,042	445,812	399,187	385,638	238,049
Equity attributable to equity holders of the Company	**503,453**	445,071	395,900	373,364	236,246
Minority interests	**589**	741	3,287	12,274	1,803
	504,042	445,812	399,187	385,638	238,049

Note:

The consolidated results of the Group for the two years ended 31 December 2007 and the assets and liabilities of the Group as at 31 December 2007 and 2006 have been extracted from the audited consolidated financial statements of the Group as set out on pages 36 to 38 of the Annual Report. Figures for year 2003 to 2004 had been restated due to the application of Hong Kong Financial Reporting Standards during the year ended 31 December 2005.

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.vitalbiotech.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

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
Strathvale House
North Church Street, George Town
Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

Chairman's Statement

On behalf of the board of directors (the "Board") of Vital BioTech Holdings Limited ("Vital" or the "Company") and its subsidiaries (collectively referred to as the "Group"), I hereby announce the audited consolidated results of the Group for the year ended 31 December 2007. During the year, the Group continues to diversify product development, expand and optimize product range and strengthen its branding strategies to consolidate its leading businesses and lay a more solid foundation for its future development.

CORPORATE GOVERNANCE

Since the adoption of the new corporate governance rules, Vital underwent reforms and implemented sound corporate governance practices and policies through a more organized governance structure. With transparency and openness enhanced, the reformed corporate governance structure discloses all aspects of its corporate governance practices to enable shareholders to judge whether the Group's various governance practices meet their expectation. In the coming year, we will continue to strengthen the Group's management and strictly examine the operational efficiency to consolidate the structure. We will also review the existing principles and practices on an ongoing basis, so as to respond to the ever-changing corporate governance practices and regulatory changes.

BUSINESS REVIEW

In 2007, our flagship product "Osteoform" achieved satisfactory sales after being awarded as a national famous trademark. This award and the Group's continuous effort in controlling our sales cost and selling and administrative expenses, together with the appreciation of RMB, the Group's profit before tax for the year surge to approximately HK$65 million, representing an increase of approximately 38% over last year.

Turnover of the Group increased from approximately HK$487 million to approximately HK$507 million, representing an increase of approximately 4%. Profit attributable to equity holders increased approximately 34%, from approximately HK$37.7 million to approximately HK$50.6 million. Due to fierce market competition and the launch of new products, the Group had to devote selling and distribution expenses to maintain its market reputation. While the Group endeavors to promote its products, it also closely monitors and controls its selling and distribution expenses. As a result, selling and distribution expenses as a proportion of turnover drop from approximately 36% in 2006 to approximately 33% in 2007.

FUTURE PLANS AND PROSPECTS

In the coming year, the acquisition of Sichuan Hengtai will, once successfully complete, lead the Group into a new era. If there are appropriate opportunities in the coming year, we will restructure our production base in the PRC, which may include integration and relocation of production base to save overhead expenses and centralize management, with an aim to increase production efficiency and reduce cost. The Group will devote more resources in expanding our sales and distribution network and concentrate on its sales network. On the other hand, we will continue to leverage on its competitive advantages, market experiences and sales network to explore and develop other pharmaceutical products and distribute foreign pharmaceutical products in the PRC, which will not only bring remarkable revenue to the Group, but also diversify the risk from reliance on single product.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express our heartfelt gratitude to our business partners, customers and shareholders for their relentless support. I would also like to thank all our staff for their dedicated efforts over the past year. It is my firm belief that, by sparing no efforts in adhering to and improving our corporate governance and transparency, and in exploring our business with our bountiful market experience and expertise in the industry, we have succeeded in laying a solid foundation. We are confident that we will create a prosperous future for the Company in the long run and bring about even better return for our shareholders.

Tao Lung
Chairman

Hong Kong, 28 March 2008

Management Discussion and Analysis

BUSINESS REVIEW

During the year 2007, the Group recorded a turnover of approximately HK$507 million, an increase of approximately 4% as compared to HK$487 million last year. Profit attributable to equity holders increased by 34% to approximately HK$50.6 million. At tightened budget control, gross profit margin after selling and distribution expenses of the Group reached 30.7% against 30% last year. Basic earnings per share were HK3.27 cents (2006: HK2.45 cents). The Group's financial position remained strong, with approximately HK$107 million of bank balance and cash as at 31 December 2007.

Year 2007 witness the start of a new round of reform for the PRC pharmaceutical industry. On the one hand, the industry was still suffering from the adverse impact of the price cut on pharmaceutical products, while the emergence of OTC and tertiary end user market, change of end user sales model for prescription drugs, the merger and acquisition activities in the pharmaceutical industry, and the rising importance of research and development of pharmaceutical products within the production chain, have all presented more market opportunities.

During the year under review, the Group continues to diversify product development, expand and optimize product range, strengthen its branding strategies and accelerate the reform of quality control system in order to raise the competitiveness of our products. Our flagship product "Osteoform" was being awarded as a national famous trade mark (全國馳名商標). In view of the resource reallocation process undergoing in the PRC pharmaceutical industry, the structural change of market as a result of fierce competition as well as our own development trend, the Directors consider that, apart from promoting its own products, the Group has to take the initiatives to make changes. Accordingly, the Group further expands its business by acquiring quality downstream assets in the PRC, which is in line with our business development strategies.

On 6 November 2007, the Group and the shareholders of Sichuan Hengtai Pharmaceutical Company Limited ("Sichuan Hengtai") entered into an agreement in relation to the acquisition, details of which have been disclosed in the announcement dated 12 November 2007 and circular dated 30 November 2007. The Group and Sichuan Hengtai have their respective niche in the upstream and downstream of the industrial chain of the pharmaceutical industry in the PRC. Given the connection of both companies' operations, the complementarity of assets and the consistency in business strategies, the acquisition may lead to the creation of a market-oriented leading pharmaceutical company. The immediate direct effect of the acquisition is the significant synergies created in terms of financial performance, operation scale and industrial organization, which in turn enhances the Company's ability to withstand risks and realizes the Group's growth potential in the long run.

Our production base in Mainland China has already adopted a comprehensive quality control approach. By enhancing the quality control system and our various management policies, critical standards in respect of material sourcing, production craftsmanship and production environment are well under control. By focusing our production management firmly on the above issues, the Group has taken the primary responsibility for the safety of its pharmaceutical products. In addition, through the implementation of rationalization proposals and innovative initiatives, together with all the employees' participations in reducing production cost, our technical difficulties have been readily solved.

During the year under review, our GMP-compliance pharmaceutical factory in Hong Kong has commenced production in 2007 to leverage on the advantages brought by CEPA. This factory not only mitigates the impact of policy reform on the Group's products, but also ensures our future performance, which will provide steady and remarkable revenue for both the Company and its shareholders.

Sales of Product

During the year, the Group's consolidated turnover amounted to approximately HK$507 million, an increase of approximately 4% as compared with the consolidated turnover of approximately HK$487 million for the corresponding year.

Flagship product

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

Sales of our flagship product "Osteoform" increase steadily, with a turnover of approximately HK$461 million for the year 2007, representing a slightly increase of approximately 2% as compared with approximately HK$451 million for the corresponding period last year. The 60-capsule package recorded a turnover of approximately HK$54 million as compared with approximately HK$44 million for the corresponding period last year, an increase of approximately 23%. The Company anticipates that sale of "Osteoform" will continue to grow steadily in 2008.

Since the introduction of "Osteoform" to the PRC market in 1997, the Group never stops its brand building process. By continuous advertising campaigns, featured academic promotion and community marketing by building up effective and interactive model with consumers, we have received general recognition and acceptance from consumers and the public and have built up the brand image of "Osteoform".

"The 500 Most Valuable Trademarks" (《最有價值商標500强》) has assessed the trademark value of different brands mainly for research purpose and provides comparable data for reference to the corporations to realize the value of their own trademarks and other trademarks. The assessment data is derived from the financial reports of the listed companies, industry organizations or governmental statistic data. Its reliability is highly recognized in the industry. On 10 January 2008, the China Brand Research Institute (中國品牌研究院) announced the "Third 500 Most Valuable Trademarks" in the PRC. According to the ranking, the "Osteoform" trademark of Vital Pharmaceuticals (Sichuan) Co., Ltd. was among the 45 most valuable pharmaceutical products trademarks with trademark value of RMB707 million. The "Osteoform" trademark was ranked number 495 in the "Third 500 Most Valuable Trademarks".

Facing the economic strengthen and resource advantage of numerous large corporations and enterprises, Osteoform is still able to rank among the 500 Most Valuable Trademarks and is only one of the two Sichuan pharmaceuticals companies' trademarks being given the award. This achievement is primary attributable to our long term emphasis on brand building, brand management and branding strategies, and it also reflects the brand value of Osteoform.

Other Product

"Legalon" (Silymarin), a drug that protecting liver

"Legalon", a product imported from Madaus, Germany brought in a turnover of approximately HK$12.6 million, a decrease of approximately 16% when compared to corresponding year.

"Depile Capsules", an oral herbal drug that relieves symptoms of haemorrhoids

Turnover for 2007 amounted to approximately HK$6.5 million, an increase of approximately 27% over last year.

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

Turnover of "Opin" for 2007 amounted to approximately HK$2.3 million, an increase of approximately 100% over last year.

"Aceclofenac Tablets", a drug that relieve soft tissue pain and inflammation
"Aceclofenac Tablets" a drug that has been completed the pre-marketing lead period in year 2005, and it had been launched into the market in 2006, and contribute a sales turnover of approximately HK$2.1 million in 2007, a decrease of around 26% when compare with last year.

"Clarithromycin Capsules", a new generation of broad-spectrum marolide antibiotic drug
Turnover for 2007 amounted to approximately HK$2.5 million, an increase of approximately 8% over last year.

"Vital Fast", a slow release flu medication formulated with loratadine, psuedophedrine sulphate and paracetamol
"Vital Fast" had been granted a new drug certificate and approval for production by the State Food and Drug Administration Authority ("SFDA"), and had been launched into the market in 2006. Turnover during the year 2007 was approximately HK$2.9 million, representing a growth of over 400% over last year.

"Agiolax" (Plantain and Senna Granules), a drug to restore the functions of the intestines
The Group is unable to conclude the adjustment on the market strategy and re-appoint product agent in 2007. Due to the reason that Agiolax had not been sold in year 2007, the Group had recognized an impairment of inventory of approximately HK$3.8 million.

The production base in Chengdu, Sichuan Province, the PRC
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 flagship products "Osteoform", "Depile Capsule", "Clarithromycin Capsules", "Azithromycin Capsules", "Aceclofenac Tablets" and "Aotianping" ("Miglitol Tablets").

The production base in Wuhan, Hubei Province, the PRC
Major production during the year under review included "Vital Fast" – a slow release flu medication, "Opin" – a gynaecology biological drug, processing and packaging of "Uralyt U" granules and certain processing subcontracting works.

Weiao (Chengdu) Pharmaceutical Co., Ltd. (維奧(成都)製藥有限公司)
SFDA has implemented the site inspection in June 2007 on the workshop of freeze-dried powder for injection, and the relevant GMP certificate had been granted. In the second half of 2007, "Sterile water for injection" production permit had been obtained.

The pharmaceutical factory in Hong Kong, China
In 2006, the Group established a new pharmaceutical factory in Hong Kong that complies with GMP standards, in order to proactively cope with the changes in the pharmaceutical management policy in the PRC. The construction of the factory was completed and the relevant GMP and pharmaceutical manufacturer licence had been obtained in June 2007. The trial production was completed and production had been commenced at the end of 2007.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the Shareholders in the extraordinary general meeting held on 7 March 2008, the Company had changed its name from "Vital BioTech Holdings Limited 維奧生物科技控股有限公司" to "Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司" to better reflect the Group's broaden investment strategies. The Certificate of Registration on Change of Name issued by the Registrar of Companies in Hong Kong is pending.

BUSINESS PROSPECT

In 2008, the PRC medical reform scheme (中國醫療改革方案) resolved to drive the growth of pharmaceutical industry by internal demand. The industry anticipated that medical expenditure attributed to the medical insurance of urban citizens will be increased significantly in 2008. In addition, due to ageing PRC population with increasing number of senior citizens over 60 years old in the population, it will eventually lead to an increase in medical consumption. On the other hand, with the disposable per capita income of urban citizens gradually increasing, their economic strength will support other citizens' need towards medical expenditure. As a result, the industry anticipated that in 2008, the pharmaceutical industry will grow following the footstep of the medical reforms, and it is estimated that the overall revenue of the PRC pharmaceutical industry will increase by double digit.

In the coming year, once the acquisition of Sichuan Hengtai is successfully completed, the immediate direct effect will be the significant synergies created in terms of financial performance, operation scale and industrial organization, which will enhance the ability of the Group to withstand risks. On the other hand, the Group will continue to adopt a prudent expansion and budget approach. Sophisticated and effective logistics management system and inventory management systems will be put in place to boost our operational efficiency and reduce costs, and in turn strengthen our own advantageous businesses. In the long run, the above approach will enable the Group to realize its growth potential.

In the extraordinary general meeting of the Company convened on 7 March 2008, the Shareholders have approved the proposed change of name from "Vital BioTech Holdings Limited 維奧生物科技控股有限公司" to "Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司". The newly adopted name will more accurately reflect the Group's extensive investment strategies, which is in the interest of the Company and its shareholders as a whole.

In the coming year, the Group will continue to expand its products portfolios, 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 packaging services to multi-national 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 31 December 2007, the Company had in issue 1,551,056,993 ordinary shares (31 December 2006: 1,541,706,993 shares). During the year 2007, the Company had issued 9,350,000 new shares due to exercising of share options by the grantees (2006: No new ordinary shares were issued).

The market capitalization of the Company as at 31 December 2007 was approximately HK$558 million (31 December 2006: approximately HK$213 million).

Liquidity and financial resources

As at 31 December 2007, the Group has bank loans of approximately HK$115 million (31 December 2006: approximately HK$154 million), without long-term portion (31 December 2006: comprising long-term portion of approximately HK$54 million), with short-term portion of approximately HK$115 million (31 December 2006: approximately HK$100 million). Bank balances and cash amounted to approximately HK$107 million (31 December 2006: approximately HK$136 million), including pledged bank deposits of approximately HK$0.6 million (31 December 2006: approximately HK$8.7 million).

As at 31 December 2007, the Group has obtained banking facilities of approximately HK$223 million from banks in China. Unutilised banking facilities amounted to approximately HK$108 million. The average cost of financing was around 7.5% 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. As at 31 December 2007, bank borrowings amounting to HK$60 million are denominated in Hong Kong dollars and amounting to HK$55 million are denominated in RMB and are fully repayable by 31 December 2008, with 87% at fixed rates of interest ranging from 5.80% to 8.96% per annum, and the rest are at floating rates of interest at Hong Kong Interbank Offered Rate plus 1.80% per annum. In relation to cash and bank balances amounting to approximately HK$107 million, approximately 86% of which was denominated in RMB, approximately 12% was denominated in Hong Kong dollar and approximately 2% was denominated in other currencies.

Exposure to foreign exchange risk and Currency policy

The sales receipts of the Group were mainly denominated in RMB. Purchases were denominated as to approximately 67% in USD, 24% in RMB and 9% in EURO. Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 80% in RMB, others are in HKD, AUD, USD and Macau Pataca, etc. For the year 2007, the Group did not enter into any forward contracts, interest or currency swaps, or other financial derivatives for hedging purpose.

During the year, 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.

Contingent liabilities

As at 31 December 2007, the Group had no material contingent liabilities (2006: Nil).

Key financial figures and ratios

Profit and loss item:

In the year 2007 several profit and loss items and ratios were enhanced by a lowering level of selling and distribution expenses. Compared with last year, although manufacturing and production cost has risen, the Group focused on tightening its budget control and expenses, which led to the gross profit margin after selling and distribution expenses climbed up slightly by around 0.7%, and profit attributable to equity holders of the Company to turnover ratio increased by around 2%.

The gross profit margin for year 2007 was approximately 64%, which had been decreased by around 2% from approximately 66% in year 2006, due to increasing manufacturing and production cost caused by global inflation.

The other operating income for year 2007 was approximately HK$18 million, which had been increased by around HK$8.4 million from year 2006 was mainly due to the increase of government subsidies income received.

	Year 2007	Year 2006
Profit and loss item:		
Turnover (HK$' million)	**507.5**	487.1
Gross profit margin	**64%**	66%
Selling and distribution expenses (HK$' million)	**168.8**	173.6
Gross profit margin after selling and distribution expenses	**30.7%**	30%
Profit attributable to equity holders/turnover	**10%**	8%
EBITDA (HK$'million)	**100.7**	81.4
EBITDA/Turnover	**19.8%**	16.7%

Balance sheet item:

Gearing ratio: Taken into account of a significant decrease of bank borrowing balances as at 2007 year end over 2006 year end, the gross debt equity ratio (total bank borrowings/equity attributable to equity holders of the Company, net of intangible assets and goodwill) was decreased to 24.5% and net debt equity ratio (total bank borrowings net of bank balances and cash/equity attributable to equity holders of the Company, net of intangible assets and goodwill) was decreased to 1.7%.

Average trade receivable turnover day was shortening to around 96 days. However, inventory (excluding goods in transit) average turnover day climbed up to about 169 days.

	As at 31 December 2007 HK$'million	As at 31 December 2006 HK$'million
Balance sheet item:		
Short-term bank loans	**115.1**	100.5
Long-term bank loans	**0**	53.9
Bank balances and cash	**107.1**	135.7
Bank borrowings net of bank balances and cash	**8.0**	18.7
Net tangible assets	**468.9**	406.5
Debt equity ratio (gross)	**24.5%**	38.0%
Debt equity ratio (net)	**1.7%**	4.6%
Average trade receivable turnover day	**96 days**	123 days
Average inventory turnover day	**169 days**	126 days

As at 31 December 2007, the Group had HK$0.6 million in bank balances and cash, HK$35.1 million in property, plant and equipment and HK$9.8 million in prepaid lease payments on land use rights pledged as collateral to banks. For year 2007, return on equity was on average 10%.

CORPORATE RESPONSIBILITIES

It is the Directors' belief that our Company should make contribution to the community and bear social responsibilities. During the year, the Group has subsidized various community projects, which includes female teachers training program, village infants and family education program in the western part of China, provide subsidies for deprived high school girls and primary school library program.

EMPLOYEE INFORMATION

As at 31 December 2007, the Group had 474 employees, comprising 13 in research and development, 284 in production, 9 in sales and marketing, and 168 in general administration and finance. 429 of these employees were located in China and 45 in Hong Kong and Macau.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to market rate. The Group encourages employees to participate in external training programmes to develop themselves on a continuous basis, so as to improve staff quality to meet future challenges and gain a competitive edge. Total staff costs for the year 2007 amounted to approximately HK$52 million.

MATERIAL ACQUISITION

On 6 November 2007, the Group and the shareholders of Sichuan Hengtai Pharmaceutical Company Limited ("Sichuan Hengtai") entered into an agreement in relation to the acquisition of the entire equity interest of Sichuan Hengtai, at a consideration of RMB200,000,000, details of which have been disclosed in the announcement dated 12 November 2007, and circular dated 30 November 2007. The acquisition was approved by the shareholders of the Company at the extraordinary general meeting on 20 December 2007. Relevant consents and approvals from the PRC government authorities had been obtained and the acquisition had been completed by this report date.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tao Lung, aged 51, one of the founder of the Group, the chairman and authorised representative of the Company. Mr. Tao is responsible for overseeing the administration, overseas procurement and finance strategy of the Group. Mr. Tao holds a bachelor degree and a master degree in medicine from Chengdu Chinese Medical Institute of China in 1983 and 1989 respectively. Subsequently being a doctor in the affiliated hospital of the institute. Mr. Tao was a consultant to several medical companies and at present being an instructor of the Chinese Medicine Course of Baptist University of Hong Kong. He is the controlling shareholder and director of Perfect Develop Holding Inc., a substantial shareholder of the Company. He joined the Group since its establishment in April 1998.

Mr. Huang Jianming, aged 44, one of the founder of the Group and a chief executive officer of the Company. He is responsible for planning and deciding the business and production strategy and daily operation of the Group. Mr. Huang graduated from Sichuan Luzhou Chemical Engineering Institute in 1981. Mr. Huang was employed as a management staff of Sichuan Chengdu Fourth Pharmaceutical Plant for 11 years since 1982 and accumulated totally over 21 years of management experience in the pharmaceutical industry. He joined the Group since its establishment in April 1998.

Mr. Shen Songqing, aged 47, one of the founder of the Group and an executive director of the Company. He is responsible for planning and deciding the marketing strategy of the Group. He graduated from Chengdu Chinese Medicine Institute of China in 1983. Mr. Shen has over 24 years experience in sales and marketing of drugs. He joined the Group since its establishment in April 1998.

Mr. Liu James Jin, aged 45, one of the founders of the Group and an executive director of the Company. He is responsible for the business investment of the Group. Mr. Liu holds a bachelor degree in mechanical engineering from Shandong Chemistry Institute in China (presently known as Qingdao Technology University). He has years of experience in production and sales of medical products. He joined the Group since its establishment in April 1998.

Mr. Xu Xiaofan, aged 44, an executive director of the Company. He is responsible for the business planning of the Group. Mr. Xu obtained a bachelor degree from Beijing University. Mr. Xu had been employed as a civil servant in the China Government for 10 years; and he had management experience in the China Securities Regulatory Commission and several companies for over 3 and 4 years experience respectively. He joined the Group in October 2004.

Ms. Guo Lin, aged 44, the vice president of the Group and an executive director of the Company. Ms. Guo holds a bachelor degree in economics from Hunan Finance and Economics Institute in 1984 and a master degree from Zhongnan Industrial University in 1993. She was a lecturer in Hunan Finance and Economics Institute and Zhongnan Industrial University and also worked as a manager of an investment bank. Ms. Guo joined the Group in June 2001 and appointed as an executive director of the Company on 1 January 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lui Tin Nang, aged 50, is a qualified Accountant. Mr. Lui has obtained a bachelor degree in science from the University of Leeds and a master degree in business administration from the University of Bradford in United Kingdom. Mr. Lui is a fellow member of The Institute of Chartered Accountants in England & Wales and the FCPA (Practicing) of Hong Kong Institute of Certified Public Accountants, member of the Chartered Institute of Management Accountant. He has years of experience in accounting, auditing, taxation and corporate finance. Mr. Lui was appointed as an independent non-executive director of the Company in July 2002.

Mr. Lee Kwong Yiu, aged 45, is a practicing solicitor in Hong Kong since 1994. He holds professional qualification as a solicitor of the High Court of Hong Kong and an associate of the Chartered Institute of Arbitrators. On 20 April 2006, Mr. Lee was appointed by the Ministry of Justice of the People's Republic of China as a China-Appointed Attesting Officer. Mr. Lee was appointed as an independent non-executive director of the Company in January 2002. He is currently the independent non-executive director of Sun Hing Vision Group Holdings Limited, a company listed on the Stock Exchange.

Mr. Chong Cha Hwa, aged 41, is a fellow member of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants. He has obtained a bachelor degree in management with honours from the University of Science, Malaysia. Prior to joining the Company, Mr. Chong has gained more than 14 years of experience in the accounting and finance area servicing private and public listed companies in Hong Kong and the Southern Asia region. Mr. Chong was appointed as an independent non-executive director of the Company in October 2006. He is currently an independent non-executive director of Proactive Technology Holdings Limited, a company listed on the GEM Board of Stock Exchange; and the qualified accountant and the company secretary of Shanghai Jiaoda Withub Information Industrial Company Limited, a company listed on the GEM Board of the Stock Exchange; and an independent non-executive director of Longlife Group Holdings Limited, a company listed on the GEM Board of Stock Exchange.

SENIOR MANAGEMENT

Mr. Leung Wai Pong, aged 33, is the company secretary, authorised representative and qualified accountant of the Company since July 2005. He joined the group in 2002. He holds a bachelor degree of commerce, majoring in accounting and finance from the University of New South Wales. Mr. Leung is experienced in auditing and financial management of listed companies. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant (Aust.) of CPA Australia.

Mr. Zhao Qiangsheng, aged 45, is the financial controller of mainland China region of the Group. Mr. Zhao holds a bachelor degree in engineering from Hangzhou Institute of Electronics Engineering, and a postgraduate diploma in money and banking studies from Southwestern University of Finance and Economics. Prior to joining the Group in 2003, Mr. Zhao had 21 years management and auditing experience in a China national enterprise and auditing firm.

Mr. Wu Qing Jiang, aged 44, is the chairman of Weiao (Chengdu) Pharmaceuticals Co. Ltd, and the general manager of Vital (Sichuan) Biotech Co Ltd, subsidiaries of the Company. Mr. Wu holds a bachelor degree in Chinese medicine from Chengdu Chinese Medical Institute of China. Mr. Wu was a management staff in charge of the technical operations of Sichuan Jisheng Pharmaceutical Factory for over 11 years and also a manager of Chengdu Tenth Pharmaceutical Factory and a deputy general manager of Sichuan Jinhui Pharmaceutical Limited. He has 23 years of experience in production and quality control of drugs and is familiar with the regulations about drug administration and new drug development. Mr. Wu joined the Group in 2000.

Mr. Guo Wei Ping, aged 49, is the general manager of Wuhan Weiao Pharmaceutical Co. Ltd, a subsidiary of the Company. Mr. Guo graduated from Luzhou Industrial Chemical College with a diploma in organic synthetics and Huaxi Medical University with a diploma in pharmacy in 1982. He worked for Chengdu Fourth Pharmaceutical Factory for almost 20 years and the last position he held was deputy technical manager. Mr. Guo joined the Group in 1998.

Dr. Zhang Mei, aged 40, is a director of Vital Pharmaceuticals (Sichuan) Co. Ltd., a subsidiary of the Company. Dr. Zhang is a registered doctor in China. She graduated from Chuan Bei Medical College in 1989 and obtained an EMBA Certificate in California American University in 2003. Dr. Zhang joined the Group in 2001.

Corporate Governance Report

The Company is committed to establishing and fulfilling a good corporate governance practices and procedures, by ensuring a quality Board, sound internal control, and transparency and accountability to all shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year, the Company complied with the Code on Corporate Governance Practices ("Code on CG") as set out in Appendix 14 of the Listing Rules. Accordingly, the Company has applied the principles and complied with all code provisions and to certain extent of the recommended best practices of the Code on CG.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules, and that having made specific enquiry of all Directors, the Company confirms that all the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2007.

BOARD COMPOSITION AND BOARD PRACTICES

The Board is responsible for the oversight of the Group's business management, strategic decisions, performance and affairs with the objective of enhancing shareholders interest. The Board delegated certain authority and responsibility to the management of the Group. In addition, the Board has also delegated various responsibilities, such as determining remuneration, to several committees.

As at 31 December 2007, the Board comprises 5 Executive Directors ("EDs") and 3 Independent Non-executive Directors ("INEDs") whose biographical details are set out on pages 13 and 14. All the INEDs have appropriate professional qualifications, or accounting or related financial management experience.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition ensuring a strong independence exists across the Board and has met the recommended practice under the Code on CG for the Board to have at least 1/3 in number of its members comprising INEDs.

The Company has received from each of the INEDs, the written confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers all the INEDs are independent.

All Directors are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association and the Code on CG.

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. Its members have full access to relevant information both at the meetings and at regular intervals. Apart from regular Board meetings, the Chairman shall hold meetings with the INEDs without the presence of EDs at least once every year.

During the year, the Board held 10 meetings (including 2 Board written resolutions resolved by all Directors). The attendance of the Directors at the meetings is set out as follows:

	Attendance
Executive Directors	
Tao Lung *(Chairman)*	10/10
Huang Jianming *(Chief Executive Officer)*	10/10
Shen Songqing	(appoint representative: 6) 9/10
Liu James Jin	8/10
Xu Xiaofan	10/10
Independence Non-executive Directors	
Lui Tin Nang	9/10
Lee Kwong Yiu	10/10
Chong Cha Hwa	10/10

Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and the Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary.

Board minutes are kept by the Company Secretary of the Company and are circulated to the Directors and are open for inspection by the Directors.

The Company Secretary of the Company shall provide professional advice and information to the Directors. In addition, the Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the directors to assist the relevant directors to discharge their duties.

Each newly appointed Director is provided with a package of orientation materials setting out the duties and responsibilities of Directors under the Listing Rules, related ordinance and relevant regulatory requirements of Hong Kong.

Appropriate insurance cover has been arranged in respect of legal action arising from the business of the Group against the Directors.

Currently, the Company does not have a nomination committee for appointment of new Directors to the Board. The responsibilities of identifying and selecting suitably qualified individuals to become members of the Board are undertaken by the Board collectively. Where the Board considers necessary or desirable to appoint a new member to the Board (whether to fill a casual vacancy or otherwise), each member of the Board may nominate suitable individual(s) as candidate(s) of member(s) of the Board for the decision of the Board. In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience, skills and possible contribution of such candidate.

Throughout the year 2007, the Board had reviewed the structure, size and composition (including the skills, knowledge and experience) of the Directors, and made recommendations regarding further refinement of the Board composition, as such, had nominated and recommended to the Board, Ms. Guo Lin, as an Executive Director, who was subsequently appointed by the Board on 1 January 2008. In addition, the Board had also assessed the independence of Independent Non-executive Directors during the year 2007.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The position of the Chairman and CEO are held by separate individuals to maintaining and preserving independence and an effective segregation of duties respecting management of the Board and the day-to-day management of the Group's business.

The Chairman provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

The CEO is responsible for the business directions and operational decisions of the management and performance of the Group. The CEO together with the other EDs and management team, is responsible for the implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

REMUNERATION COMMITTEE

The Company established its Remuneration Committee on 30 June 2005 and comprises 2 EDs and 3 INEDs.

The principle responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of executive directors and senior management and reviewing the specific remuneration packages of all EDs and senior management by references to the corporate goals and objectives resolved by the Board from time to time. The detail terms of reference of the Remuneration Committee are posted on the Company's website.

The Remuneration Committee meets regularly to review human resource issues, including group-wide remuneration policies. The emoluments of Directors are based on the working experience, skill, knowledge and involvement in the Company's affairs of each Director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The remuneration of the Directors and the 5 highest paid individuals are set out in note 15 to the consolidated financial statements.

During the year, the Remuneration Committee held 2 meetings. The attendance of each member at the committee meetings is set out as follows:

	Attendance
Executive Directors	
Tao Lung	2/2
Xu Xiaofan	2/2
Independence Non-executive Directors	
Lui Tin Nang	2/2
Lee Kwong Yiu *(Chairman of the Remuneration Committee)*	2/2
Chong Cha Hwa	2/2

AUDIT COMMITTEE

The Company established its Audit Committee on 26 January 2002 and comprises 3 INEDs with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). The Company Secretary and the Qualified Accountant shall attend all Audit Committee meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary.

The principal responsibilities of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, to provide an accuracy, fairness and completeness of the Company's financial statement. The committee also responds to review the Group's financial information and review of the relationship with the Auditors of the Company.

The 2007 quarterly report and accounts, interim report and condensed consolidated financial statements, and annual report and consolidated financial statements of the Group have been reviewed by the Audit Committee.

During the year, the Audit Committee held 4 meetings. The attendance of each member at the committee meetings is set out as follows:

	Attendance
Independence Non-executive Directors	
Lui Tin Nang *(Chairman of the Audit Committee)*	4/4
Lee Kwong Yiu	4/4
Chong Cha Hwa	4/4

INTERNAL CONTROL

The Board is responsible for establishing, maintaining and operating an effective system of internal control. The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards.

Our internal control system covers major operational function of the Group. Our system is designed to safeguard the Group's assets against loss and misappropriation; to maintain proper accounting records for producing reliable financial information; to provide reasonable, but not absolute, assurance against material fraud and errors.

The Group's internal audit function plays an important role in the Group's internal control framework. It provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards through regular and comprehensive audits on major operational functions. All internal audit reports will be submitted to the Audit Committee for review. Significant issues in the management letters from external auditors will be brought to the attention of the Audit Committee to ensure that prompt remedial action is taken. All recommendations will be properly followed up to ensure they are implemented within a reasonable period of time. Pursuant to a risk-based methodology, the Internal Audit Department plans its internal audit schedules annually with audit resources being focused on higher risk areas. The Internal Audit Plan is submitted to the Audit Committee for review and approval. To preserve the audit independence, the Head of Internal Audit Department reports directly to the Audit Committee.

In respect of the year ended 31 December 2007, the Board had reviewed the effectiveness of internal control system. No significant deficiencies which might affect shareholders were identified.

EXTERNAL AUDITORS

It is important to the Group that the independence of its external auditors is maintained. Therefore, all the contracts for substantial non-audit work to be awarded to the external auditors must be approved by the Audit Committee and the Board. The scope of work determined to provide only efficiencies of scale and added value, with no adverse effect on actual or perceived independence of the audit work itself.

Messrs. SHINEWING (HK) CPA Limited, the Auditors of the Company received approximately HK$1,230,000 for audit services and approximately HK$1,245,000 for non-audit services, such as agreed-upon procedures services, interim review service and acting as reporting accountants for the major acquisition during the year ended 31 December 2007.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company established different communication channels with its shareholders and investors. The annual general meeting of the Company ("AGM") is the principal occasion at which the Chairman and Directors may interface directly with the shareholders to provide a forum for shareholders to raise comments and exchange views with the Board. All the shareholders can receive corporate information by printed copies of corporate communication. Apart from the above, updated and key information of the Group are available on the website of the Company. During the year, enquiries from shareholders are handled by the EDs and the Company Secretary.

All the shareholders have at least 21 days formal notice of the AGM. In respect of each substantially separate issue at a general meeting, a separate resolution has been proposed by the Chairman of that meeting. All resolutions tabled at the general meeting can be voted by poll demanded by shareholder, the detail procedures for voting by poll and the rights of shareholders to demand a poll are set out in the circulars convening a general meeting.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Hotline telephone number:	(852) 2570 5886
By fax:	(852) 2806 2861
By post:	Rooms 3107, 31/F., Tower 1 Lippo Centre, 89 Queensway, Hong Kong
Attention:	Mr. Matthew Leung

Directors' Report

The Directors have pleasure in submitting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2007.

LISTING OF SHARES

The Company's shares had been listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 February 2002. On 4 August 2003, the Company withdrew the listing of its shares on the GEM and on the same date, the Company's shares were listed on the main board of the Stock Exchange by way of introduction.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The Company is an investment holding company. Its subsidiaries are principally engaged in research and development, selling and manufacturing of pharmaceutical products.

An analysis of the Group's performance for the year by business is set out in note 8 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 36 of the annual report.

Since the Group intends to retain sufficient capital for the business expansion, the Board would not recommend the payment of a final dividend (2006 final dividend: HK1 cent per share).

The final dividend of HK1 cent per ordinary share for the year ended 31 December 2006 had been paid on 21 May 2007. The effect of the 2006 final dividend was payment of approximately HK$15,417,000.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five years ended 31 December 2007 is set out on page 2 of the annual report.

RESERVES

Movements in the reserves of the Group during the year are set out in page 39 of the annual report.

INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS ON LAND USE RIGHT

Details of the movements in intangible assets, property, plant and equipment, and prepaid lease payments on land use right of the Group are set out in notes 16, 17 and 18 to the consolidated financial statements respectively.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in note 41 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 30 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Tao Lung *(Chairman)* ("Mr. Tao")
Mr. Huang Jianming *(Chief Executive Officer)* ("Mr. Huang")
Mr. Shen Songqing ("Mr. Shen")
Mr. Liu James Jin ("Mr. Liu")
Mr. Xu Xiaofan ("Mr. Xu")
Ms. Guo Lin ("Ms. Guo") (appointed on 1 January 2008)

Independent non-executive directors

Mr. Lui Tin Nang ("Mr. Lui")
Mr. Lee Kwong Yiu ("Mr. Lee")
Mr. Chong Cha Hwa ("Mr. Chong")

In accordance with article 108 of the Articles of Association of the Company, Mr. Tao, Mr. Shen, Mr. Lee and Mr. Lui will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

In accordance with article 112 of the Articles of Association of the Company, the office of directorship of Ms. Guo will end at the forthcoming annual general meeting of the Company and, being eligible, offer herself for re-election.

DIRECTORS' SERVICE CONTRACTS

All of the executive directors has entered into a service contract with the Company for an initial term of two years (commencing date: Mr. Tao from 1 December 2001, Mr. Shen and Mr. Huang from 1 April 2004, Mr. Xu from 21 October 2004, Mr. Liu from 22 November 2004 and Ms. Guo from 1 January 2008) and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other. Except Mr. Huang is entitled to a monthly salary of approximately HK$126,000, each of the other executive directors is entitled to a basic monthly salary of HK$80,000 (subject to an annual increment at the discretion of the Directors). The emoluments of the executive directors are recommended by remuneration committee of the Company and are based on the working experience, skill, knowledge and involvement in the Company's affairs of each of them and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Executive directors are also entitled to certain level of share based payment. In addition, the executive directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive directors for any financial year of the Company may not exceed 10% of the audited profit attributable to the shareholders of the Company in respect of that financial year. An executive director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him. The independent non-executive directors, Mr. Lui and Mr. Lee have been appointed for a term of two years expiring on 31 December 2009 and Mr. Chong have been appointed for a term of two years expiring on 18 October 2008. Save for a director fee of HK$20,000 per month and certain share based payment for each of them, the independent non-executive directors are not entitled to any other remuneration.

Save as disclosed above, there are no existing or proposed service contracts with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries were a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 13 to 15 of the annual report.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2007 amounted to approximately HK$331,074,000.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

None of the Company and its subsidiaries redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTIONS

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

The purpose of the Scheme is to grant share options to selected participants satisfying the criteria according to the Scheme as incentives or rewards for their contribution to the Group.

The maximum number of securities to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme must not in aggregate exceed 30% of the relevant shares capital of the Company in issue from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 127,746,216 shares representing 10% of the share in issue at the date of the Scheme. Subsequently, the general scheme limit was refreshed and approved at the annual general meeting on 31 May 2005, and the limit was re-set to 154,170,699 shares.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

SHARE OPTIONS *(Continued)*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the options. The subscription price for shares under the Scheme will be a price determined by the Directors but shall not be less than the highest of (i) the closing price of shares as stated in the Stock Exchange's daily quotation sheet for trades in one or more board lot of shares on the date of the offer of grant, or (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for trades in one or more board lot of shares for the five trading days immediately preceding the date of the offer of grant, and (iii) the nominal value of shares. A nominal consideration of HK$1 is payable on acceptance of the grant of option.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer but shall and in any event be not later than ten years from the date on which the offer is made subject to the provisions of early termination thereof.

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

First phase:

On 21 June 2002, the Directors granted options to subscribe for an aggregate of 30,000,000 shares of the Company, with an exercise price at HK$0.39 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 below:

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

Among the grantees in this grant of share options, 108 of them are full-time employees of the Company and an aggregate of 21,100,000 options were granted to them; 29 of them are staff of major customers of the Company and an aggregate of 8,900,000 options are granted to them. During the year ended 31 December 2007, 850,000 share options were exercised and no option was forfeited or cancelled. As at 31 December 2007, 330,000 share options remained outstanding and exercisable.

Second phase:

On 28 February 2003, the Directors granted options to three directors of certain subsidiaries of the Group to subscribe for 19,800,000 shares of the Company, with an exercise price at HK$0.24 per share. The grantees are entitled to exercise the subscription rights on or before 6 February 2012.

All of the options in this phase were fully exercised in 2004.

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SHARE OPTIONS *(Continued)*

Third phase:

On 29 September 2003, the Directors granted options to subscribe for an aggregate of 30,000,000 shares of the Company, with an exercise price at HK$0.51 per share. Those who were granted the options can exercise their rights in two periods starting from 2 January 2004 to 6 February 2012 as below:

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

Among the grantees in this grant of share options, 14 of them are full-time employees of the Group and an aggregate of 16,595,000 options were granted to them; 5 of them are directors of certain subsidiaries of the Group and an aggregate of 12,405,000 options were granted to them; and one of them is a consultant of a wholly owned subsidiary and 1,000,000 options were granted. In year 2003, 1,500,000 options were waived by a grantee. During the year ended 31 December 2007, no option granted was exercised, forfeited or cancelled during the year. As at 31 December 2007, 13,760,000 share options remained outstanding and exercisable.

Fourth phase:

On 12 September 2005, the Directors granted options to subscribe for an aggregate of 69,800,000 shares of the Company, with an exercise price at 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 below:

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

Among the grantees in this grant of share options, 12 of them are full-time employees of the Group and an aggregate of 11,000,000 options were granted to them; 3 of them are executive directors of the Company and an aggregate of 35,000,000 options were granted to them; 3 of them are independent non-executive directors of the Company and an aggregate of 4,500,000 options were granted to them; 2 of them are ex-executive directors of the Company in the past 12 months and an aggregate of 18,000,000 options were granted to them; and 2 of them are directors of certain subsidiaries of the Group and an aggregate of 1,300,000 options were granted to them. During the year ended 31 December 2007, 8,500,000 share options were exercised, 500,000 options were forfeited, and no option was cancelled. As at 31 December 2007, 32,800,000 share options are remained outstanding and exercisable.

SHARE OPTIONS *(Continued)*

Fifth phase:

On 29 January 2008, the Directors granted options to subscribe for an aggregate of 67,500,000 shares of the Company, with an exercise price at 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 below:

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

Among the grantees in this grant of share options, 6 of them are full-time employees of the Group and an aggregate of 16,000,000 options were granted to them; 4 of them are executive directors of the Company and an aggregate of 34,000,000 options were granted to them; 1 of them is independent non-executive director of the Company and 1,500,000 options were granted; 1 of them is a director of a subsidiary of the Company and 2,000,000 options were granted; 1 of them is a director of certain subsidiaries of the Company and 3,000,000 options were granted; and 3 of them are consultants of the Company and an aggregate of 11,000,000 options were granted to them.

Other share options

On 22 September 2003, the Group entered into an agreement to acquire the remaining 15% minority interest of the subsidiary, Vital Pharmaceuticals (Sichuan) Co Ltd. The remaining monetary consideration of the acquisition amounting to approximately HK$28.3 million representing 60% of the total consideration will be settled at the sole option of the Company, either in cash or in new ordinary share of the Company. On or before the following dates, the Company may opt to pay cash or to issue new ordinary shares by serving a notice to the seller (the "Notice"):

- 22 March 2004: HK$9,433,962;
- 22 September 2004: HK$9,433,962; and
- 22 March 2005: HK$9,433,962.

The number of option share is calculated at a price that is equal to the higher of the average 30 day closing price of the Company's shares on the Stock Exchange immediately prior to the date of the Notice and HK$0.46 per share. The maximum number of option share to be issued if based on HK$0.46 per share will be 61,525,839. A conditional approval has been obtained from the Stock Exchange for the listing of and permission to deal in the option shares. All of the options in this phase were fully exercised in 2005.

Valuation of the options granted under the Scheme:

The Company adopted Black-Scholes Options Pricing Model to calculate the value of share options.

SHARE OPTIONS *(Continued)*

Fifth phase

For share options to subscribe for 67,500,000 shares granted on 29 January 2008 with an exercise price of HK$0.28 each, the fair value of the share options was calculated in two lots with assumptions as follows:

Lot 1 with the exercisable period from 1 October 2008 to 6 February 2012
Fair value: HK$0.088 per share option

1. Using the yields of the Hong Kong Exchange Fund Notes of 1.677% as the risk-free interest rate;

2. The expected life is 2.35 years;

3. The expected volatility is 67.06% which were based on the historical volatilities of share prices of the Company over the periods that are equal to the expected lives before the grant dates;

4. Expected dividend yield of the Company is 5.056% which were based on historical dividend payment record;

5. Spot price is HK$0.275 per share and the exercise price per share option is HK$0.28; and

6. The nature of the share options is call option.

Lot 2 with the exercisable period from 1 January 2009 to 6 February 2012
Fair value: HK$0.086 per share option

1. Using the yields of the Hong Kong Exchange Fund Notes 1.69% as the risk-free interest rate;

2. The expected life is 2.48 years;

3. The expected volatility is 65.28% which were based on the historical volatilities of share prices of the Company over the periods that are equal to the expected lives before the grant dates;

4. Expected dividend yield of the Company is 5.056% which were based on historical dividend payment record.

5. Spot price is HK$0.275 per share and the exercise price per share option is HK$0.28; and

6. The nature of the share options is call option.

Note: The value of the share options is subject to a number of assumptions and with regard to the limitation of the model. Therefore the value may be subjective and difficult to determine.

Details of the movement of share options are set out in notes 32 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes are set out in notes 3(o) and 14 to the consolidated financial statements.

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 31 December 2007, 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	110,891,648 (L)	7.15%
	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%
Mr. Lee Kwong Yiu	Beneficial owner	1,500,000 (L)	0.10%

Notes:

1. The letter "L" stands for the Director's long position in the Shares.

2. 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 31 December 2007, 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** *(Note 3)*	**Exercise price per Share** *(HK$)*	**No. of Shares involved in the options outstanding at 31 December 2007**
Mr. Tao Lung *(Executive director and Chairman)*	12 September 2005	1 January 2006 to 6 February 2012	0.23	15,000,000
Mr. Xu Xiaofan *(Executive Director)*	12 September 2005	1 January 2006 to 6 February 2012	0.23	15,000,000
Ms. Guo Lin *(Note 4)*	29 September 2003	2 January 2004 to 6 February 2012	0.51	3,000,000

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.

   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.

4. 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.

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 31 December 2007, 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 5)*	Approximate percentage of shareholding
Perfect Develop *(Note 6)*	Corporate	Beneficial owner	522,526,940(L)	33.69%

Notes:

5. The letter "L" denotes the person's/entity's long position in the shares.

6. 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 31 December 2007 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 annual 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 year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	64%
– five largest suppliers combined	82%
Sales	
– the largest customer	78%
– five largest customers combined	97%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONTINUING CONNECTED TRANSACTION

During the year 2007, the Group purchased raw materials from Pharmco International, Inc., was the beneficial shareholder of the minority shareholder of a subsidiary of the Company, and a connected person of the Company.

Pursuant to Rule 14A.38 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported the factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions:

1. Have been entered into by the Group in the ordinary course of its business;

2. Have been entered into on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than those available to or from independent third parties; and

3. Have been entered into in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors, the management shareholders of the Company and their respective associates (as defined in the Listing Rules) had an interest in a business which causes or may cause any significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$598,000 in payments.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at 28 March 2008, the latest practicable date prior to the issue of this report, the Company believe that the number of securities of the Company which are in the hands of the public is above the relevant prescribed minimum percentage.

SUBSEQUENT EVENT

Details of the subsequent event of the Group are set out in note 40 to the consolidated financial statements.

CLOSURE OF BOOKS

For the purpose of determining the shareholders who are entitled to attend and vote at the forthcoming annual general meeting, the Register of Members of the Company will be closed for a period commencing from 13 May 2008 to 19 May 2008, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 9 May 2008.

AUDITORS

Messrs. PricewaterhouseCoopers had resigned as auditors of the Company with effect from 17 December 2004 and Messrs. Ho and Ho & Company have been appointed as new auditors of the Company with effect from 20 December 2004 to fill the causal vacancy.

As Messrs. Ho and Ho & Company has joined with Messrs. ShineWing Certified Public Accountants in China and established Messrs. SHINEWING (HK) CPA Limited. Messrs. Ho and Ho & Company had resigned as auditors of the Company with effect from 29 December 2006 and Messrs. SHINEWING (HK) CPA Limited have been appointed as new auditors of the Company with effect from the same date to fill the causal vacancy.

The consolidated financial statements for the year ended 31 December 2007 have been audited by Messrs. SHINEWING (HK) CPA Limited who will retire and, being eligible, offer themselves for reappointment in the forthcoming Annual General Meeting.

By Order of the Board
Tao Lung
Chairman

Hong Kong, 28 March 2008

Independent Auditor's Report

信永中和 ShineWing

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

TO THE SHAREHOLDERS OF VITAL BIOTECH HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Vital BioTech Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 36 to 96, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
28 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Turnover	8	**507,494**	487,147
Cost of sales		**(183,053)**	(167,822)
Gross profit		**324,441**	319,325
Other operating income	8	**17,980**	9,534
Selling and distribution expenses		**(168,754)**	(173,581)
Administrative expenses		**(96,091)**	(95,061)
Finance costs	9	**(12,605)**	(13,201)
Profit before taxation		**64,971**	47,016
Income tax expense	10	**(14,512)**	(9,916)
Profit for the year	11	**50,459**	37,100
Attributable to :			
Equity holders of the Company		**50,622**	37,743
Minority interests		**(163)**	(643)
		50,459	37,100
Dividends	12		
– Interim		**–**	–
– Proposed final		**–**	15,417
		–	15,417
Earnings per share	13		
Basic		**HK3.27 cents**	HK2.45 cents
Diluted		**HK3.25 cents**	HK2.45 cents

Consolidated Balance Sheet

As at 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current assets			
Intangible assets	16	**4,745**	8,856
Property, plant and equipment	17	**250,821**	246,114
Prepaid lease payments on land use rights	18	**33,416**	32,016
Deposit for acquisition of a subsidiary	19	**52,553**	–
Deposit for acquisition of property, plant and equipment	20	**2,732**	–
Available-for-sale investments	21	**4,782**	4,562
Goodwill	22	**30,396**	30,396
		379,445	321,944
Current assets			
Inventories	23	**108,362**	68,258
Trade and other receivables	24	**139,281**	163,385
Prepaid lease payments on land use rights	18	**754**	625
Tax recoverable		**6,031**	6,031
Held-for-trading investment	25	**–**	544
Bank balances and cash	26		
– pledged		**639**	8,724
– unpledged		**106,525**	126,980
		361,592	374,547
Current liabilities			
Trade and other payables	27	**105,814**	89,375
Value added tax payable		**11,818**	3,747
Tax payable		**3,152**	1,856
Obligations under finance leases			
– due within one year	28	**300**	270
Bank borrowings – due within one year	29	**115,089**	100,520
		236,173	195,768
Net current assets		**125,419**	178,779
		504,864	500,723

	NOTES	2007 HK$'000	2006 HK$'000
Capital and reserves			
Share capital	30	**15,511**	15,417
Reserves		**487,942**	414,237
Proposed final dividend		**–**	15,417
Equity attributable to equity holders of the Company		**503,453**	445,071
Minority interests		**589**	741
Total equity		**504,042**	445,812
Non-current liabilities			
Obligations under finance leases			
– due after one year	28	**822**	1,020
Bank borrowings – due after one year	29	**–**	53,891
		822	54,911
		504,864	500,723

The consolidated financial statements on pages 36 to 96 were approved and authorised for issue by the Board of Directors on 28 March 2008 and are signed on its behalf by:

TAO Lung
Director

HUANG Jianming
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company											
	Share capital	Share premium	Exchange translation reserve	Share options reserve	Reserve fund (Note)	Enterprise development fund	Other reserve	Retained earnings	Dividend reserve	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	15,417	248,314	3,221	3,525	15,833	616	(426)	109,400	–	395,900	3,287	399,187
Gain on fair value changes of available-for-sale investments and recognised directly in equity	–	–	–	–	–	–	152	–	–	152	–	152
Exchange difference arising on translation of overseas operation	–	–	10,104	–	–	–	–	–	–	10,104	–	10,104
Profit for the year	–	–	–	–	–	–	–	37,743	–	37,743	(643)	37,100
Transfer from retained earnings	–	–	–	–	10,594	–	–	(10,594)	–	–	–	–
Total recognised income and expenses for the year	–	–	10,104	–	10,594	–	–	27,149	–	47,847	(643)	47,204
Recognition of equity settled share-based payments	–	–	–	1,172	–	–	–	–	–	1,172	–	1,172
Loss on deemed acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	6	6
Capital contribution by minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	500	500
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(181)	(181)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(2,228)	(2,228)
Proposed 2006 final dividend	–	–	–	–	–	–	–	(15,417)	15,417	–	–	–
At 31 December 2006	**15,417**	**248,314**	**13,325**	**4,697**	**26,427**	**616**	**(274)**	**121,132**	**15,417**	**445,071**	**741**	**445,812**
Gain on fair value changes of available-for-sale investments and recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**–**	**220**	**–**	**–**	**220**	**–**	**220**
Exchange difference arising on translation of overseas operation	**–**	**–**	**20,790**	**–**	**–**	**–**	**–**	**–**	**–**	**20,790**	**11**	**20,801**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**50,622**	**–**	**50,622**	**(163)**	**50,459**
Transfer from retained earnings	**–**	**–**	**–**	**–**	**10,227**	**–**	**–**	**(10,227)**	**–**	**–**	**–**	**–**
Total recognised income and expenses for the year	**–**	**–**	**20,790**	**–**	**10,227**	**–**	**–**	**40,395**	**–**	**71,412**	**(152)**	**71,260**
Reserves released through deregistration of a subsidiary	**–**	**–**	**(120)**	**–**	**–**	**–**	**–**	**–**	**–**	**(120)**	**–**	**(120)**
Exercise of share options	**94**	**2,861**	**–**	**(668)**	**–**	**–**	**–**	**–**	**–**	**2,287**	**–**	**2,287**
2006 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(15,417)**	**(15,417)**	**–**	**(15,417)**
At 31 December 2007	**15,511**	**251,175**	**33,995**	**4,029**	**36,654**	**616**	**(54)**	**161,527**	**–**	**503,453**	**589**	**504,042**

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.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	64,971	47,016
Adjustments for :		
Amortisation of intangible assets	2,769	2,351
Amortisation of prepaid lease payments on land use rights	726	649
Depreciation	19,614	18,139
Finance costs	12,605	13,201
Gain on disposal of held-for-trading investments	(652)	(107)
Gain on deemed disposal of a subsidiary	–	(76)
Gain on disposal of intangible assets	–	(585)
Gain on deregistration/disposal of a subsidiary	(90)	(81)
Gain on fair value changes of held-for-trading investment	–	(44)
Impairment loss recognised in respect of available-for-sale investments	–	2,864
Impairment loss recognised in respect of payments for pharmaceutical projects	–	17,538
Impairment loss recognised in respect of intangible assets	1,899	–
Interest income	(995)	(744)
Loss on disposal of property, plant and equipment	324	1,822
Loss on deemed acquisition of a subsidiary	–	6
Impairment loss recognised (reversed) in respect of trade receivables	5,722	(170)
Share based payments expense	–	1,172
Write down and written off of inventories	4,228	5,078
Operating cash flow before movements in working capital	111,121	108,029
Increase in inventories	(40,031)	(15,451)
Decrease in trade and other receivables	36,092	25,916
Increase in trade and other payables	15,549	16,456
Increase in value added tax payable	7,832	172
Cash generated from operations	130,563	135,122
Overseas income tax paid	(13,334)	(10,969)
NET CASH FROM OPERATING ACTIVITIES	117,229	124,153

	NOTES	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Deposit paid for acquisition of a subsidiary		(52,553)	–
Purchase of property, plant and equipment	33	(11,631)	(54,234)
Decrease (increase) in pledged bank balances		8,219	(591)
Deposit paid for acquisition of property, plant and equipment		(2,732)	–
Proceeds from sales of held-for-trading investments		1,268	1,767
Interest received		995	744
Purchase of held-for-trading investments		(104)	(2,160)
Proceeds from sales of property, plant and equipment		55	3,114
Proceeds from sales of assets classified as held for sale		–	10,581
Proceeds from sales of available-for-sale investments		–	780
Proceeds from sales of intangible assets		–	585
Purchase of additional equity interest in subsidiaries		–	(181)
Proceeds from deemed disposal/disposal of subsidiaries (net of cash and cash equivalents disposed of)	35	–	(2,169)
Government grants and subsidies received		–	6,404
NET CASH USED IN INVESTING ACTIVITIES		(56,483)	(35,360)
FINANCING ACTIVITIES			
Repayment of bank borrowings		(245,878)	(199,128)
New bank borrowings raised		197,111	196,815
Dividend paid		(15,417)	–
Finance costs paid		(12,605)	(13,201)
Proceeds from issue of shares		2,287	–
Repayment of obligations under finance leases		(292)	(254)
Capital contribution by minority shareholder of a subsidiary		–	500
NET CASH USED IN FINANCING ACTIVITIES		(74,794)	(15,268)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(14,048)	73,525
CASH AND CASH EQUIVALENTS AT 1 JANUARY		126,980	52,128
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(6,407)	1,327
CASH AND CASH EQUIVALENTS AT 31 DECEMBER representing bank balances and cash		106,525	126,980

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. GENERAL

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 addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), being the measurement currency of the Company and its subsidiaries (the "Group").

The Group is principally engaged in research and development, selling and manufacturing of pharmaceutical products.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Interpretation ("INT") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationery Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Cost[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HKFRS 2 (Amendment)	Share-based Payment–Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-INT 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC)-INT 12	Service Concession Arrangements[3]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[4]
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 July 2009.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of subsidiaries, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill (net of cumulative amortisation as at 31 December 2005) is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Goodwill *(Continued)*

On subsequent disposal of the relevant subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(c) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(d) Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment including land and buildings held for use in production or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes buildings and plant and machinery in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

(f) Land use rights

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to consolidated income statement over the period of the rights using the straight-line method.

(g) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective basis for debt instruments other than those financial assets designated at financial assets through profit or loss, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designed and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

A financial asset other than a financial asset held for trading may be designated as fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- if forms part of a contract containing one or more embedded derivatives, and HKAS39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured as cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collective payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 90 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credit to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, value added tax payable, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(i) Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Interest income from a financial asset (excluding financial assets at fair value through profit or loss) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(k) Equity settled share-based payment transactions

Share options granted to employees (after 7 November 2002 and vested on or after 1 January 2005)

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Share options granted to other eligible participants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless the fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

(n) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other assets are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see accounting policies in respect of borrowing costs).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Leasing *(Continued)*

The Group as lessee (Continued)

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(o) Retirement benefit costs

Payments to state-managed retirement benefit scheme and the defined contribution schemes are charged as an expense when employees have rendered service entitling them to the contributions.

(p) Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

(q) Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense/are reported separately as "other operating income".

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill was approximately HK$30,396,000. Details of impairment testing on goodwill are set out in note 22a.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Amortisation of development costs

Development costs are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involve management's estimation. The Group re-assesses the useful life of the development costs and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Write down of inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the year.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank borrowings and obligations under finance leases disclosed in notes 29 and 28 respectively, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings. The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure. The overall strategy of the Group remained unchanged during the two years ended 31 December 2007 and 2006.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007 **HK$'000**	2006 HK$'000
Held-for-trading investment	–	544
Available-for-sale investments	**4,782**	4,562
Loans and receivables (including cash and cash equivalents)	**246,445**	299,089
Financial liabilities at amortised cost	**233,843**	248,823

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, trade and other receivables, trade and other payables, value added tax payable, bank borrowings and finance leases obligations. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by several subsidiaries of the Company in currencies other than those subsidiaries' functional currencies. In addition, certain portion of the bank loans, available-for-sale financial assets, and bank balances and cash are denominated in currencies other than HK$.

The following table shows the Group's exposure at the balance sheet date to currency risk arising from transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	As at 31 December 2007		As at 31 December 2006	
	Renminbi ("RMB") '000	**United States Dollars ("USD") '000**	RMB'000	USD'000
Assets	**34**	**1,776**	151	1,504
Liabilities	**26,351**	**1,696**	33,461	25,000

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to the currency of RMB and the currency of USD.

The following table details the Group's sensitivity to a 5% increase and decrease in HK$ against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the borrower. A positive number below indicates an increase in profit and other equity where HK$ strengthen 5% against the relevant currency. For a 5% weakening of HK$ against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

	RMB		USD	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Profit or loss	**1,400**	1,665	**208**	9,392
Other equity	**–**	–	**(239)**	(229)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 29 for details of these borrowings) for the years ended 31 December 2007 and 2006. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group was also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 29 for details of these borrowings) for the years ended 31 December 2007 and 2006. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate (the "HIBOR") arising from the Group's HK$ borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by approximately HK$75,000 (2006: HK$50,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 60% (2006: 99%) and 64% (2006: 98%) of the total receivables was due from the Group's largest customer and the five largest customers respectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivatives financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity risk tables

	Carrying amount at 31 December HK$'000	**Less than 1 year** HK$'000	**More than 1 year** HK$'000	**Total undiscounted cash flows** HK$'000
2007				
Non-derivative financial liabilities				
Trade and other payables	**105,814**	**105,814**	**–**	**105,814**
Bank borrowings	**115,089**	**120,654**	**–**	**120,654**
Obligations under finance leases	**1,122**	**424**	**962**	**1,386**
	222,025	**226,892**	**962**	**227,854**
2006				
Non-derivative financial liabilities				
Trade and other payables	89,375	89,375	–	89,375
Bank borrowings	154,411	108,520	57,942	166,462
Obligations under finance leases	1,290	394	1,262	1,656
	245,076	198,289	59,204	257,493

8. TURNOVER AND OTHER OPERATING INCOME

The Group principally engaged in research and development, selling and manufacturing of pharmaceutical products.

Turnover represents invoiced value of sales, net of returns, discounts allowed and sales taxes where applicable. Revenues recognised during the year are as follows:

	2007 HK$'000	2006 HK$'000
Turnover		
Sales of goods	507,494	487,147
Other operating income		
Interest income	995	744
Government subsidies income (Note)	10,193	3,154
Exchange gain	5,667	4,399
Gain on deregistration/disposal of a subsidiary	90	81
Gain on deemed disposal of a subsidiary	–	76
Gain on disposal of held-for-trading investments	652	107
Gain on disposal of intangible assets	–	585
Gain on fair value changes of held-for-trading investment	–	44
Impairment loss reversed in respect of trade receivables	–	170
Sundry income	383	174
	17,980	9,534
Total revenues	525,474	496,681

Note:

For the year ended 31 December 2007, the amounts represented unconditional grants from the People's Republic of China (the "PRC") government specifically for encourging the Group's business development in Sichuan Province, the PRC and an one-off government grant for the Group's enlarged investment in a subsidiary.

The Group's revenues, expenses, assets, liabilities and capital expenditure are primarily attributable to the sales and manufacturing of pharmaceutical products. The Group's principal market is in the PRC.

No geographical segment in other country are of a sufficient size to be reported separately.

9. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest expenses on:		
– bank borrowings and overdrafts wholly repayable within five years	**7,402**	8,397
– obligations under finance leases	**155**	141
– discounted bills of exchange	**4,509**	4,024
– bank borrowings not wholly repayable within five years	**194**	213
Other incidental borrowing costs	**345**	426
Total borrowing costs charged to the consolidated income statement	**12,605**	13,201

10. INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000
Overseas income tax		
– current	**15,632**	11,580
– overprovision in prior years	**(1,120)**	(1,664)
	14,512	9,916

Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there was no estimated assessable profit derived from Hong Kong for both years.

The Hong Kong Profits Tax amounting in total to 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 31 December 2007 and 2006.

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 the 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.

10. INCOME TAX EXPENSE *(Continued)*

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, certain subsidiaries operating in the PRC are entitled to exemption from PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of PRC income tax for the next three years and thereafter, preferential treatments which are subject to the relevant law and regulation. One subsidiary was taxed at 13% (2006: 10.5%). Another subsidiary has incurred a loss and no income tax is payable for the year (2006: Nil). Other subsidiaries were either in loss-making position for the current and the previous years or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the year and accordingly did not have any assessable income.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for the PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008. The tax rate applicable to the PRC subsidiaries are subject to approval by the tax authority.

The subsidiary operating in Macao is exempted from income tax in Macao.

No Australian income tax has been provided as the subsidiaries operating in Australia had no estimated assessable profits for the current and previous years.

10. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000
Profit before taxation	64,971	47,016
Tax calculated at rates applicable to profits in the respective tax jurisdiction concerned	11,695	8,463
Effect of tax exemption granted to a Macao subsidiary	(5,796)	(5,578)
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	(1,666)	(6,981)
Tax effect of income not subject to tax	(493)	(842)
Tax effect of expenses not deductible for tax purposes	9,091	9,492
Utilisation of previously unrecognised tax losses	(95)	(112)
Tax effect of unrecognised tax losses	2,896	7,138
Overprovision in prior years	(1,120)	(1,664)
Income tax expense for the year	14,512	9,916

11. PROFIT FOR THE YEAR

	2007 HK$'000	2006 HK$'000
Profit for the year has been arrived at after charging:		
Amortisation of intangible assets – development costs	2,769	2,351
Amortisation of prepaid lease payments on land use rights	726	649
Auditors' remuneration	1,389	1,513
Cost of inventories sold	182,034	166,812
Depreciation of property, plant and equipment	19,614	18,139
Impairment loss recognised in respect of trade receivables	5,722	–
Impairment loss recognised in respect of intangible assets	1,899	–
Impairment losses recognised in respect of available-for-sale investments	–	2,864
Impairment loss recognised in respect of payments for pharmaceutical projects (Note 24)	–	17,538
Loss on deemed acquisition of a subsidiary	–	6
Loss on disposal of property, plant and equipment	324	1,822
Operating lease rental on land and buildings	2,598	2,544
Research and development costs	1,747	2,203
Staff costs (including directors' emoluments) (Note 14)	52,048	34,643
Written off of inventories	165	–
Write down of inventories (included in administrative expenses)	4,063	5,078

12. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2007, nor has any dividend been proposed since the balance sheet date (2006: HK$15,417,000).

13. EARNINGS PER SHARE

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

	2007 HK$'000	2006 HK$'000
Earnings		
Profit for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	50,622	37,743
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,546,319,870	1,541,706,993
Effect of dilutive ordinary shares in respect of share options	9,226,864	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,555,546,734	1,541,706,993

The diluted earnings per share was the same as the basic earnings per share because the exercise price of the Company's share options was higher than the average market price for shares for the year ended 31 December 2006.

14. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 HK$'000	2006 HK$'000
Wages and salaries	49,822	32,256
Retirement benefit schemes contribution	2,226	1,215
Share-based payments	–	1,172
	52,048	34,643

The subsidiaries in Hong Kong and Australia operate defined contribution schemes which are available to qualified employees. The assets of the schemes are held separately from those of the subsidiaries in independently administered funds. Monthly contributions made by the subsidiaries are calculated based on certain percentages of the applicable payroll costs or fixed sums as stipulated under the relevant requirements, as appropriate.

14. STAFF COSTS *(Continued)*

Pursuant to the regulations of the relevant authorities in the PRC, the subsidiaries of the Group in this country participate in respective government retirement benefit schemes (the "Schemes") whereby the subsidiaries are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes.

The retirement benefit schemes contribution represent gross contributions by the Group to the Schemes operated by the relevant authorities of the PRC and the defined contribution schemes operated in Hong Kong and Australia (collectively the "Retirement Schemes"). There were no forfeited contributions throughout the current and previous years.

Details of the Company's share options granted to the employees of the Group are set out in Note 32.

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight (2006: ten) directors were as follows:

For the year ended 31 December 2007

		Other emoluments				
	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Discretionary bonuses HK$'000	Retirement benefit schemes contribution HK$'000	Share-based payments HK$'000	Total HK$'000
Executive directors:						
Mr. Tao Lung	–	963	1,000	12	–	1,975
Mr. Liu James Jin	–	960	1,000	12	–	1,972
Mr. Huang Jianming	–	1,516	1,000	93	–	2,609
Mr. Shen Songqing	–	960	1,000	–	–	1,960
Mr. Xu Xiaofan	–	960	1,000	–	–	1,960
Independent non-executive directors:						
Mr. Lee Kwong Yiu	240	–	–	–	–	240
Mr. Lui Tin Nang	240	–	–	–	–	240
Mr. Chong Cha Hwa	240	–	–	–	–	240
	720	5,359	5,000	117	–	11,196

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2006

	Fees	Other emoluments				Total
		Salaries, allowances and other benefits	Discretionary bonuses	Retirement benefit schemes contribution	Share-based payments	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:						
Mr. Tao Lung	–	917	720	12	421	2,070
Mr. Liu James Jin	–	920	720	12	–	1,652
Mr. Huang Jianming	–	1,322	720	40	–	2,082
Mr. Jin Wei (Note 1)	–	35	–	–	–	35
Mr. Shen Songqing	–	920	720	–	–	1,640
Mr. Xu Xiaofan	–	920	720	–	420	2,060
Independent non-executive directors:						
Mr. Lee Kwong Yiu	240	–	–	–	42	282
Mr. Lui Tin Nang	240	–	–	–	42	282
Mr. Lo Wa Kei, Roy (Note 2)	192	–	–	–	–	192
Mr. Chong Cha Hwa (Note 3)	48	–	–	–	–	48
	720	5,034	3,600	64	925	10,343

Notes:

1. Resigned on 18 January 2006.
2. Resigned on 19 October 2006.
3. Appointed on 19 October 2006.

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Senior management's emoluments

Of the five individuals with the highest emoluments in the Group, three (2006: all) were directors of the Company whose emoluments are set out in the above.

For the year ended 31 December 2007, the emoluments of the two highest paid individual were as follows:

	HK$'000
Salaries, allowance, other benefits and bonus	5,273
Retirement benefit schemes contribution	33
	5,306

For the year ended 31 December 2007, the emoluments of the two highest paid employees fall in the following band:

	Number of individuals
Emoluments band	
HK$2,000,000 – HK$3,000,000	2

(c) No emoluments have been paid by the Group to other directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 December 2007 and 2006. No directors waived or agreed to waive any emoluments during the two years ended 31 December 2007 and 2006.

16. INTANGIBLE ASSETS

	Patents HK$'000	Development costs HK$'000	Total HK$'000
COST			
At 1 January 2006	1,814	10,263	12,077
Exchange realignment	–	391	391
Additions	–	2,550	2,550
Disposals	(1,814)	–	(1,814)
At 31 December 2006	–	13,204	13,204
Exchange realignment	–	813	813
At 31 December 2007	–	14,017	14,017
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 January 2006	1,814	1,930	3,744
Exchange realignment	–	67	67
Provided for the year	–	2,351	2,351
Eliminated on disposals	(1,814)	–	(1,814)
At 31 December 2006	–	4,348	4,348
Exchange realignment	–	256	256
Impairment loss recognised in the year	–	1,899	1,899
Provided for the year	–	2,769	2,769
At 31 December 2007	–	9,272	9,272
CARRYING VALUES			
At 31 December 2007	–	4,745	4,745
At 31 December 2006	–	8,856	8,856

16. INTANGIBLE ASSETS *(Continued)*

The above intangible assets have finite useful lives and are amortised on a straight-line basis over five years.

(a) Development costs mainly represented payments for development of the production technology of new products. Additions during the year ended 31 December 2006 included amounts of HK$2,550,000 transferred from payments for pharmaceutical projects (Note 24(b)).

(b) The directors of the Company had reviewed the carrying values of the Group's intangible assets as at 31 December 2007. The directors of the Company considered that it is unlikely that one of the development costs have any future value in use and therefore the carrying amount of that development cost in the amount of approximately HK$1,899,000 were fully impaired.

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	**Construction in progress**	**Leasehold improvements**	**Plant and machinery**	**Motor vehicles**	**Furniture, fixtures and office equipment**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST							
At 1 January 2006	18,953	31,793	1,485	149,486	28,747	6,656	237,120
Exchange realignment	767	1,211	14	5,889	971	195	9,047
Reclassification	–	(790)	–	656	–	134	–
Additions	31,445	17,708	3,012	7,512	149	908	60,734
Eliminated on deemed disposal/disposal of subsidiaries	–	–	–	–	–	(105)	(105)
Disposals	–	–	(762)	(14)	(8,344)	(26)	(9,146)
At 31 December 2006	51,165	49,922	3,749	163,529	21,523	7,762	297,650
Exchange realignment	1,338	2,443	–	10,468	1,245	376	15,870
Reclassification	4,091	(4,091)	–	–	–	–	–
Additions	–	6,849	1,832	1,814	–	1,136	11,631
Eliminated on deregistration of a subsidiary	–	–	–	(7)	–	(69)	(76)
Disposals	–	–	–	(3)	(1,162)	(46)	(1,211)
At 31 December 2007	**56,594**	**55,123**	**5,581**	**175,801**	**21,606**	**9,159**	**323,864**

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Land and buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture, fixtures and office equipment HK$'000	Total HK$'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2006	683	–	782	22,131	9,510	3,202	36,308
Exchange realignment	18	–	13	894	329	87	1,341
Provided for the year	1,344	–	123	10,840	4,547	1,285	18,139
Eliminated on deemed disposal/disposal of subsidiaries	–	–	–	–	–	(42)	(42)
Eliminated on disposals	–	–	(288)	(4)	(3,907)	(11)	(4,210)
At 31 December 2006	2,045	–	630	33,861	10,479	4,521	51,536
Exchange realignment	84	–	–	1,924	566	197	2,771
Provided for the year	1,949	–	357	12,325	3,656	1,327	19,614
Eliminated on deregistration of a subsidiary	–	–	–	(7)	–	(39)	(46)
Eliminated on disposals	–	–	–	(1)	(799)	(32)	(832)
At 31 December 2007	**4,078**	**–**	**987**	**48,102**	**13,902**	**5,974**	**73,043**
CARRYING VALUES							
At 31 December 2007	**52,516**	**55,123**	**4,594**	**127,699**	**7,704**	**3,185**	**250,821**
At 31 December 2006	49,120	49,922	3,119	129,668	11,044	3,241	246,114

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying values of properties shown above comprises:

	2007 HK$'000	2006 HK$'000
Land in Hong Kong:		
Long lease	13,406	13,756
Medium-term lease	15,574	16,193
Land outside Hong Kong:		
Long lease	10,399	10,449
Medium-term lease	13,137	8,722
	52,516	49,120

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 40 years
Leasehold improvements	20% or over lease term, whichever is shorter
Plant and machinery	2.5% to 20%
Motor vehicles	20%
Furniture, fixtures and office equipment	10% to 27%

Notes:

(a) At 31 December 2007, the carrying values of the Group's property, plant and equipment pledged as security for the banking facilities granted to the Group amounted to approximately HK$35,115,000 (2006: HK$47,592,000).

(b) The carrying values of motor vehicles of approximately HK$7,704,000 includes an amount of approximately HK$1,240,000 (2006: HK$1,297,000) in respect of assets held under finance leases.

18. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2007 HK$'000	2006 HK$'000
The Group's prepaid lease payments on land use rights comprise:		
Leasehold land in the PRC:		
Long lease	13,865	13,235
Medium-term lease	20,305	19,406
	34,170	32,641
Analysed for reporting purposes as:		
Current assets	754	625
Non-current assets	33,416	32,016
	34,170	32,641

At 31 December 2007, the carrying values of the Group's prepaid lease payments on land use rights pledged as security for the banking facilities granted to the Group amounted to approximately HK$9,819,000 (2006: HK$12,988,000).

19. DEPOSIT FOR ACQUISITION OF A SUBSIDIARY

Balance as at 31 December 2007 represents refundable deposits paid by a wholly-owned subsidiary of the Company which entered into a conditional agreement on 6 November 2007 with independent third parties in relation to the acquisition of the entire equity interest in 四川恆泰醫藥有限公司 (Sichuan Hengtai Pharmaceutical Company Limited) for a consideration of approximately RMB200,000,000 (equivalent to approximately HK$212,766,000) (the "Acquisition"). The unpaid balances as at year end is disclosed as capital commitment of the Group in Note 37.

20. DEPOSIT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Balance as at 31 December 2007 represents deposits paid for acquisition of a staff quarter in the PRC at an aggregate consideration of approximately HK$2,732,000. The acquisition is completed in 2008.

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2007 HK$'000	2006 HK$'000
Unlisted investments in guaranteed funds, at fair value	4,017	3,824
Unlisted investments in certificates of deposits, at fair value	765	738
Unlisted equity securities, at cost (notes a and b)	17,234	17,234
Less: Impairment loss recognised (notes b and c)	(17,234)	(17,234)
	4,782	4,562

Notes:

(a) The above unlisted equity securities represent investments in private entities incorporated in the PRC and Malaysia.

(b) The above unlisted investments are measured at cost less impairment at each balance sheet 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 have reviewed the carrying values of the unlisted equity securities and considered that in light of the recurring operating losses of these investments and the market conditions, impairment losses of approximately HK$17,234,000 was recognised in the year ended 31 December 2006. The directors of the Company are of the opinion that the impairment is made based on their best estimation with reference to the market situation and circumstances of the equity securities.

(d) At 31 December 2006, available-for-sale investments of approximately HK$3,824,000 were pledged to secure banking facilities granted to the Group and released during the year ended 31 December 2007.

22. GOODWILL

	HK$'000
COST	
At 1 January 2006, 31 December 2006 and 31 December 2007	34,876
IMPAIRMENT	
At 1 January 2006, 31 December 2006 and 31 December 2007	4,480
CARRYING VALUES	
At 31 December 2007	30,396
At 31 December 2006	30,396

Particulars regarding impairment testing on goodwill are disclosed in Note 22a.

22a. IMPAIRMENT TESTING ON GOODWILL

The goodwill arose from the acquisition of a subsidiary, Vital Pharmaceuticals (Sichuan) Co. Ltd. ("Vital Sichuan").

During the year ended 31 December 2007, the management of the Group prepared profit forecast and cash flow forecast (the "Forecast") in respect of the Vital Sichuan. The Forecast based on financial budgets approved by the management covering a period of 5 years and a discount rate of 7.5%. The cash flows beyond the 1-year period are extrapolated using a steady 8% growth rate. This growth rate is based on the relevant industry growth rate forecasts and does not exceed the average long-term growth rate for the relevant industry. The Forecast during the budget period are based on the budgeted gross margins during the budget period. Budgeted gross margins have been determined based on the management's expectation for the market development and past experience, and the management believes that the budgeted gross margins are reasonable. The directors of the Company are of the opinion, based on the Forecast, that the recoverable amount exceeds its carrying amount in the consolidated balance sheet and no impairment loss is necessary.

23. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials		
– in transit	6,630	–
– on hand	29,080	7,887
Work in progress	20,888	26,356
Finished goods	47,836	30,343
Packing materials	3,928	3,672
	108,362	68,258

24. TRADE AND OTHER RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade and bills receivables (note a)	**127,474**	149,250
Prepayments and deposits	**14,345**	10,165
Payments for pharmaceutical projects (note b)	**19,324**	19,178
Other receivables	**2,863**	3,760
	164,006	182,353
Less: Impairment loss recognised in respect of trade receivables	**(7,187)**	(1,430)
Impairment loss recognised for payments for pharmaceutical projects (note c)	**(17,538)**	(17,538)
	139,281	163,385

Notes:

(a) 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 balance sheet date, the aging analysis of the trade and bills receivables net of impairment loss recognised was as follows:

	2007 HK$'000	2006 HK$'000
Within 30 days	**39,704**	58,847
31- 60 days	**40,078**	40,447
61- 90 days	**17,844**	38,397
Over 90 days	**22,661**	10,129
	120,287	147,820

(b) Amounts paid for the development of technology and pharmaceutical products are deferred prior to completion of the projects and included in payments for pharmaceutical projects. On completion, these amounts are transferred to development costs (Note 16) in accordance with the Group's accounting policy as set out in Note 3(c) above.

(c) The directors of the Company reviewed the carrying values of the payments for pharmaceutical projects as at 31 December 2006 and considered that in light of the new drugs policies in the PRC and the market conditions, the Group had terminated projects which involved high risks and ceased on its own initiative the application of projects of minimal benefit, therefore impairment loss of approximately HK$17,538,000 had been recognised.

(d) The fair values of the Group's trade and other receivables at the balance sheet date approximated to the corresponding carrying amounts due to their short-term maturities.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

(e) The movements in provision for impairment loss of trade receivables were as follows:

	2007 HK$'000	2006 HK$'000
At 1 January	1,430	1,572
Exchange realignment	35	28
Recognised (reversed) during the year	5,722	(170)
At 31 December	7,187	1,430

(f) At 31 December 2007 and 2006, the analysis of trade receivables that were past due but not impaired are as follows:

			Past due but not impaired			
	Total HK$'000	Neither past due nor impaired HK$'000	< 90 days HK$'000	91 to 180 days HK$'000	181 to 365 days HK$'000	1 to 2 years HK$'000
31 December 2007	120,287	112,911	4,850	–	2,526	–
31 December 2006	147,820	141,193	5,032	–	889	706

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

25. HELD-FOR-TRADING INVESTMENT (OTHER THAN DERIVATIVES)

	2007 HK$'000	2006 HK$'000
Held-for-trading investment include:		
Unlisted investment in guaranteed funds, at fair value	–	544

26. BANK BALANCES AND CASH

Bank balances and cash of the Group as at 31 December 2007 included amounts of approximately HK$91,794,000 (2006: HK$99,994,000) denominated in RMB which is not freely convertible to other currencies.

Pledged bank deposits represent deposits pledged to banks to secure short-term banking facilities granted to the Group in respect of bills and letter of credit facilities and are therefore classified as current assets. The deposits carry fixed interest rate at 1.50% (2006: 2.60% to 2.86%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The fair values of the pledged bank deposits and bank balances at the balance sheet date approximated to the corresponding carrying amounts due to their short-term maturities.

27. TRADE AND OTHER PAYABLES

	2007 HK$'000	2006 HK$'000
Trade and bills payables	14,965	10,706
Accrued expenses and other payables	90,849	78,669
	105,814	89,375

At the balance sheet date, the aging analysis of the trade and bills payables were as follows:

	2007 HK$'000	2006 HK$'000
Within 30 days	12,783	4,307
31- 60 days	1,777	3,569
61- 90 days	30	573
Over 90 days	375	2,257
	14,965	10,706

The fair values of the Group's trade and other payables at the balance sheet date approximated to the corresponding carrying amounts due to their short-term maturities.

28. OBLIGATIONS UNDER FINANCE LEASES

The average lease terms are five years. For the year ended 31 December 2007, the average effective borrowing rate was 9% (2006: 9%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases				
Within one year	**424**	394	**300**	270
In more than one year but not more than two years	**424**	394	**315**	281
In more than two years but not more than three years	**538**	394	**507**	293
In more than three years but not more than four years	**–**	474	**–**	446
	1,386	1,656	**1,122**	1,290
Less: Future finance charges	**(264)**	(366)	**–**	–
Present value of lease obligations	**1,122**	1,290	**1,122**	1,290
Less: Amount due within one year shown under current liabilities			**(300)**	(270)
Amount due after one year			**822**	1,020

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Finance leases obligations are denominated in Hong Kong dollars and Australian dollars.

28. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

Finance leases obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Australian Dollars '000
As at 31 December 2007	104
As at 31 December 2006	122

The directors of the Company consider that the carrying amounts of the obligations under finance leases at the balance sheet date approximated to their fair values.

29. BANK BORROWINGS

	2007 **HK$'000**	2006 HK$'000
Bank loans	**115,089**	154,411
Analysed as:		
Secured bank loans	**19,923**	51,119
Unsecured bank loans	**95,166**	103,292
	115,089	154,411

The above amounts bear interest at prevailing market rates and are repayable as follow:

	2007 **HK$'000**	2006 HK$'000
On demand or within one year	**115,089**	100,520
More than one year but not exceeding two years	**–**	48,570
More than two years but not more than five years	**–**	1,904
Over five years	**–**	3,417
	115,089	154,411
Less: Amount due within one year shown under current liabilities	**(115,089)**	(100,520)
Amount due after one year	**–**	53,891

29. BANK BORROWINGS *(Continued)*

At 31 December 2007, bank borrowings of approximately HK$100,089,000 and HK$15,000,000 are fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carry interest ranging from 5.80% to 8.96% per annum and the floating-rate borrowings carry interest at HIBOR plus 1.80% per annum.

At 31 December 2006, bank borrowings of approximately HK$144,358,000 and HK$10,053,000 were fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carried interest ranging from 5.30% to 6.91% per annum and the floating-rate borrowings carried interest at HIBOR plus 3% per annum.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	RMB '000	USD '000
As at 31 December 2007	52,000	–
As at 31 December 2006	48,000	2,500

During the year ended 31 December 2007, the Group obtained new loans in the amount of approximately HK$197,111,000 (2006: HK$196,815,000). These loans carry interest at prevailing market rates and will be repayable in 2008.

The directors of the Company consider that the carrying amounts of bank borrowings at the balance sheet date approximated to their fair values due to their short-term maturities.

30. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary share of HK$0.01 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 31 December 2007	50,000,000,000	500,000
Issued and fully paid:		
At 1 January 2006, 31 December 2006 and 1 January 2007	1,541,706,993	15,417
Exercise of shares options	9,350,000	94
At 31 December 2007	1,551,056,993	15,511

During the year ended 31 December 2007, 8,500,000 and 850,000 share options were exercised at subscription prices of HK$0.23 and HK$0.39 per share respectively, resulting in the issue of 9,350,000 ordinary shares of HK$0.01 each in the Company.

All the ordinary shares issued during the year rank pari passu with the existing ordinary shares in all respects.

31. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Accumulated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2006	–	–	–
Charge (credit) to consolidated income statement	1,143	(1,143)	–
At 31 December 2006	1,143	(1,143)	–
Charge (credit) to consolidated income statement	31	(31)	–
At 31 December 2007	1,174	(1,174)	–

At the balance sheet date, the Group has unused tax losses of approximately HK$104,365,000 (2006: HK$96,763,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$6,709,000 (2006: HK$6,531,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$97,656,000 (2006: HK$90,232,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses of approximately HK$38,100,000 (2006: HK$37,879,000) that will expire in 2011. Other losses may be carried forward indefinitely.

32. 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 31 December 2007, 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 46,890,000, representing 3.02% 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.

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.

32. SHARE OPTION SCHEME *(Continued)*

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 certain directors of certain subsidiaries of the Group 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.

Third phase:

On 29 September 2003, options were granted 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 multiple 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 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 multiple 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

32. SHARE OPTION SCHEME *(Continued)*

(a) Movements of the share options during both years are set out below:

	Date of grant	Outstanding at 1 January 2006	Cancelled during the year	Outstanding at 31 December 2006	Cancelled during the year	Exercised during the year	Outstanding at 31 December 2007	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. Jin Wei (Resigned on 18 January 2006)	12 September 2005	5,000,000	(5,000,000)	–	–	–	–	0.23
Independent non-executive directors:								
Mr. Lui Tin Nang	12 September 2005	1,500,000	–	1,500,000	–	(1,500,000)	–	0.23
Mr. Lee Kwong Yiu	12 September 2005	1,500,000	–	1,500,000	–	(1,500,000)	–	0.23
Mr. Lo Wa Kei, Roy (Resigned on 19 October 2006)	12 September 2005	1,500,000	(1,500,000)	–	–	–	–	0.23
Employees	21 June 2002	2,390,000	(2,060,000)	330,000	–	–	330,000	0.39
	29 September 2003	19,560,000	(6,300,000)	13,260,000	–	–	13,260,000	0.51
	12 September 2005	12,300,000	(3,500,000)	8,800,000	(500,000)	(5,500,000)	2,800,000	0.23
Connected person	12 September 2005	18,000,000	(18,000,000)	–	–	–	–	0.23
Other eligible participants	21 June 2002	8,650,000	(7,800,000)	850,000	–	(850,000)	–	0.39
	29 September 2003	500,000	–	500,000	–	–	500,000	0.51
		100,900,000	(44,160,000)	56,740,000	(500,000)	(9,350,000)	46,890,000	
Exercisable at the end of the year				35,840,000			46,890,000	

32. SHARE OPTION SCHEME *(Continued)*

During the year ended 31 December 2006, the number of share options granted expected to be vested had been reduced to reflect the forfeiture of options granted prior to completion of vesting period and accordingly, the share option expense had been adjusted. At each balance date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

Where share options have been forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will continue to be held in the share options reserve.

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, the Group acquired certain property, plant and equipment amounted to HK$6,500,000 was unsettled and included in other payables as at 31 December 2006.

34. DEREGISTRATION OF A SUBSIDIARY

In June 2007, the Group deregistered one of its subsidiary, 維奧生物科技諮詢(上海)有限公司.

Net assets at the date of deregistration:

	HK$'000
Property, plant and equipment	30
Exchange reserves realised on deregistration of a subsidiary	(120)
Gain on deregistration	90
	–

The subsidiary deregistered during the year ended 31 December 2007 had no significant impact on the turnover and results of the Group.

35. DISPOSAL OF SUBSIDIARIES

(a) Pursuant to a directors' resolution of Sino Metro Development Limited ("Sino Metro") passed on 5 April 2006 regarding the cancellation agreement dated 6 April 2006 which was entered into between the Company, a non-wholly owned subsidiary of the Company, Sino Metro, and the minority shareholder of Sino Metro, Sino Metro had forfeited the shares held by the Company and refunded a sum of HK$3,000,000 to the Company. Upon the forfeiture of the shares by Sino Metro, the Company had deemed disposed of the interest in Sino Metro. The net assets of Sino Metro at the date of disposal were as follows:

	HK$'000
Net assets disposed of	
Plant and equipment	2
Bank balances	5,150
Minority interests	(2,228)
Net assets	2,924
Gain on deemed disposal	76
Total refund	3,000
Satisfied by:	
Cash	3,000
Net cash outflow arising on deemed disposal:	
Cash refund	3,000
Bank balances disposed of	(5,150)
Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary	(2,150)

The subsidiary disposed of during the year ended 31 December 2006 had no significant impact on the turnover and results of the Group.

35. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) At 31 July 2006, the Group disposed of its entire interest in 維奧達(北京)生物技術有限公司 to independent third parties for no consideration.

	HK$'000
Net assets disposed of	
Property, plant and equipment	61
Inventories	40
Trade and other receivables	65
Bank balances and cash	19
Trade and other payables	(260)
Tax payable	(5)
Value added tax payable	(1)
Net liabilities	(81)
Gain on disposal	81
Total consideration	–
Net cash outflow arising on disposal:	
Cash consideration	–
Bank balances and cash disposed of	(19)
	(19)

The subsidiary disposed of during the year ended 31 December 2006 had no significant impact on the turnover and results of the Group.

36. RELATED PARTY TRANSACTIONS

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

(a) During the year ended 31 December 2007, a subsidiary of the Company purchased raw materials from Pharmco International, Inc. ("Pharmco") amounted to approximately HK$95,081,000 (2006: HK$88,451,000), Pharmco is a company which is wholly owned by a former minority shareholders of Maxsun International Limited ("Maxsun"), at prices and terms as set out in the agreement entered into between the subsidiary and Pharmco.

(b) A tax indemnity dated 30 January 2002 were entered into by the controlling shareholders of the Company, the Company and its subsidiaries, pursuant to which 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.

(c) For the year ended 31 December 2006, the Group acquired the remaining 15% registered share capital of 成都出口監管倉庫有限公司 ("監管倉") for a consideration of RMB300,000 (equivalent to approximately HK$288,000).

(d) For the year ended 31 December 2006, the Group acquired the remaining 49% equity interest in a subsidiary, Maxsun from the minority shareholders of Maxsun for a consideration of HK$49.

(e) **Compensation of key management personnel**

The remuneration of directors of the Company and other members of key management during the year was as follows:

	2007 HK$'000	2006 HK$'000
Short-term benefits	19,606	12,613
Post-employment benefits	215	124
Share-based payments	–	1,051
	19,821	13,788

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

37. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

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

	2007 HK$'000	2006 HK$'000
Authorised but not contracted for	–	2,200
Contracted but not provided for	–	4,472
	–	6,672

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

	2007 HK$'000	2006 HK$'000
Contracted but not provided for	10,941	12,493

(c) Commitments for acquisition of a subsidiary

	2007 HK$'000	2006 HK$'000
Contracted but not provided for	160,213	–

37. COMMITMENTS *(Continued)*

(d) Commitments under operating leases

The Group as lessee

The Group leases certain of its offices and staff quarters under operating lease arrangements. Leases for properties are negotiated for a term ranging from one to two years.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007 HK$'000	2006 HK$'000
Land and buildings		
Within one year	1,352	1,235
In the second to fifth year inclusive	121	712
	1,473	1,947

38. PLEDGE OF ASSETS

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

	2007 HK$'000	2006 HK$'000
Property, plant and equipment	35,115	47,592
Available-for-sale investments	–	3,824
Bank balances and cash	639	8,724
Prepaid lease payments on land use rights	9,819	12,988
	45,573	73,128

In addition, at 31 December 2006, one of the subsidiary's share with net assets value of approximately HK$20,729,000 were also pledged for banking facilities granted to the Group, such pledge was released during the year ended 31 December 2007.

39. BALANCE SHEET OF THE COMPANY

	NOTE	2007 HK$'000	2006 HK$'000
Non-current assets			
Plant and equipment		**49**	63
Available-for-sale investments		**4,782**	4,562
Investments in subsidiaries		**53,035**	53,036
		57,866	57,661
Current assets			
Prepayment, deposits and other receivables		**260**	313
Amounts due from subsidiaries	(a)	**394,760**	335,939
Bank balances and cash		**295**	1,032
		395,315	337,284
Current liabilities			
Other payables and accrued expenses		**16,342**	4,538
Amounts due to subsidiaries	(a)	**86,280**	29,657
		102,622	34,195
Net current assets		**292,693**	303,089
Net assets		**350,559**	360,750
Capital and reserves			
Share capital		**15,511**	15,417
Other reserves		**308,182**	321,189
Retained earnings		**26,866**	24,144
Shareholders' fund		**350,559**	360,750

(a) Amounts due from/to subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand. The fair value of the amounts at the balance sheet date was approximated to the corresponding carrying amount.

40. POST BALANCE SHEET EVENT

The following subsequent events took place subsequent to the balance sheet date:

(a) On 29 January 2008, 67,500,000 share options at an exercise price of HK$0.28 per share were granted to eligible participants under the share option scheme. Of the 67,500,000 share option granted, 20,250,000 share options are exercisable from 1 October 2008 to 6 February 2012 and the remaining 47,250,000 share options are exercisable from 1 January 2009 to 6 February 2012.

(b) On 4 February 2008, the Company announced the proposed change of the Company name to "Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司". On 7 March 2008, a resolution has been passed by the shareholders for the approval of the change of the company name.

(c) As detailed in Note 19, the Acquisition was completed after balance sheet date and the details of the Acquisition are set out in the circular dated 30 November 2007.

41. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 December 2007 are as follows:

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
Direct subsidiaries:						
Ever Power Holding Inc.	Ordinary shares	British Virgin Islands ("BVI")	BVI	2 ordinary shares of US$1 each	100%	Investment holding
Gainful Plan Limited	Ordinary shares	BVI	BVI	2 ordinary shares of US$1 each	100%	Investment holding
Vital BioTech (Hong Kong) Limited	Ordinary shares	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	100%	Manufacturing of pharmaceutical products
Yugofoil Holdings Limited	Ordinary shares	BVI	Hong Kong	103 ordinary shares of US$1 each	100%	Investment holding

41. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
Indirect subsidiaries:						
Beshabar Trading Limited	Ordinary shares	BVI	BVI	1 ordinary share of US$1	100%	Investment holding
Beshabar (Macao)	Ordinary shares	Macao	Macao	1 quota (share) of MOP100,000 each	100%	Trading
Beshabar Trading Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	100%	Trading
Maxsun	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	100%	Investment holding
# Wuhan Weiao Pharmaceutical Co., Ltd.	Contributed capital	PRC	PRC	RMB29,610,000	96.96%	Manufacturing and trading of pharmaceutical products
## Vital Sichuan	Contributed capital	PRC	PRC	RMB221,080,754	100%	Manufacturing and trading of pharmaceutical products
## Vital (Sichuan) Biotech Co., Ltd.	Contributed capital	PRC	PRC	US$1,400,000	100%	Research and development of biotechnology
Wide Triumph Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	100%	Management services
Vital Pharmaceuticals Company Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	100%	Manufacturing and trading of pharmaceutical products

41. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Class of shares held	Place of incorporation/ establishment	Place of operations	Particulars of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
Indirect subsidiaries: *(Continued)*						
# 維奧(成都)製藥有限公司	Contributed capital	PRC	PRC	RMB25,000,000	100%	Manufacturing and trading of pharmaceutical products
監管倉	Contributed capital	PRC	PRC	RMB2,000,000	100%	Provision of logistic services

\# Equity joint ventures
\## Wholly owned foreign enterprise

The above table lists the subsidiaries of the Group, which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.