



Interim Report
2008



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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1164)



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Lui Tin Nang
Lee Kwong Yiu
Chong Cha Hwa

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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

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

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

COMPANY WEBSITE

www.vital-pharm.com

AUTHORISED REPRESENTATIVES

Tao Lung
Leung Wai Pong

PRINCIPAL BANKERS

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

AUDITORS

SHINEWING (HK) CPA Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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



HIGHLIGHTS

	(unaudited)	
	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Turnover	329,657	186,354
Profit attributable to equity holders of the Company	56,264	22,273
Basic earnings per share	HK3.63 cents	HK1.44 cents
Diluted earnings per share	HK3.61 cents	HK1.44 cents
Interim dividend per share	Nil	Nil

- Turnover of the Group was about HK\$330 million, an increase of approximately 77%, year-on-year;
- Profit attributable to equity holders of the Company increased by approximately 153% year-on-year to around HK\$56 million;
- Basic earnings per share was HK3.63 cents;
- The Board would not recommend the payment of an interim dividend.



BUSINESS REVIEW

Results

I am pleased to announce the unaudited results of Vital Pharmaceutical Holdings Limited (“Company”) and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2008 (“period under review” or “reporting period”). During the period under review, the consolidated sales turnover of the Group increased by 77% year-on-year to approximately HK\$330 million from HK\$186 million.

During the period under review, the profit attributable to equity holders of the Company increased by HK\$34 million year-on-year basis to approximately HK\$56.2 million (2007: HK\$22.2 million). Since the completion on the acquisition of Sichuan Hengtai, the immediate direct effect had been benefited was significant synergies created in terms of financial performance, operation scale and corporate organization. The operation of Sichuan Hengtai had been consolidated in the reporting period, which enhancing the turnover and profits attributable to equity holders of the Company.

Product Sales

Our flagship product “Osteoform” has maintained a steady market share. Its sales turnover was approximately HK\$294 million in the reporting period, which has contributed about 89% of the Group’s sales turnover.

For the other house products: Depile Capsule, Fenofibrate Tablet, Aceclofenac Tablet and 2 antibiotic products developed by the Group, the sales turnover for the reporting period was around HK\$7 million. It is slightly increased when compared to approximately HK\$5.3 million for the corresponding period.

For the overseas agency products, the Group is trading products of Madaus GmbH, Germany. The Group has recorded sales of approximately HK\$22.5 million in the reporting period. It had increased by 240% when compared to approximately HK\$6.6 million for the corresponding period.

Selling Expenses

The selling and distribution expenses for the period under review were approximately HK\$75.5 million, increased by about 18% when compared to approximately HK\$63.8 million year-on-year. However, because of the synergies effect benefited by the acquisition of Sichuan Hengtai and cost savings, there has a sharp decrease in respect of selling and distribution expenses to sales turnover ratio. The selling and distribution expenses to sales turnover ratio for the reporting period was approximately 23%, whereas the ratios for the corresponding period and for the last whole year were around 34% and around 33% respectively.



BUSINESS REVIEW *(Continued)*

The production base in Chengdu, Sichuan Province, China

Equipped with advanced production facilities and staffed with outstanding domestic experts, the highly effective drug manufacturing plant adopts innovative technology of drug production and manufactures drugs in accordance with the GMP standards. The plant produces principally the Group's flagship product "Osteoform", "Depile Capsule", "Clarithromycin Capsules", "Azithromycin Capsules", "Aceclofenac Tablets" and "Aotianping" ("Miglitol Tablets") etc. A Class 4 new drug to relieve hypersensitivity called "Aoshu" ("Loratadine Tablets") had been developed and launched in the market by the Group.

The production base in Wuhan, Hubei Province, China

Major production in the reporting period included "Vital Fast" – a slow release flu medication, "Opin" – a gynaecology biological drug, processing and packaging of Madaus GmbH products.

The pharmaceutical factory in Hong Kong, China

The pharmaceutical factory in Hong Kong, established with GMP standards. The trial production was completed at the end of 2007 and passed the annual inspection by Hong Kong Department of Health in June 2008. The factory becomes a processing platform for worldwide products.

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

The production facilities of the plant are now under maintenance and has not put into operation in the first half of 2008. Solution for injection related products are pending for approval.

Sichuan Hengtai Pharmaceutical

The company is principally engaged in the business of marketing, wholesaling and fulfillment of Chinese medicines, chemical drugs, antibiotics, biochemical medicines and blood products. The company is dedicated to establish itself into a world renowned and competent company in domestic market specializes in pharmaceutical products trading in Mainland China through co-operation with local and overseas strategic partners from both upstream and downstream businesses. A comprehensive sales network covering most parts of China has been in place, and a dedicated academic professional team has also been formed. The company has also formulated marketing strategies to facilitate its long term growth, ensuring a stable and sustainable growth of its sales performance.



BUSINESS REVIEW *(Continued)*

Sichuan Hengtai Pharmaceutical *(Continued)*

Whilst keeping up its effort in penetrating the market network and enhancing service to end-users, in the midst of the year, the company had also geared up its initiatives in academic promotional campaigns in hospital. It had also formed collaborations in the OTC retail segment which had yielded considerably towards the enhancing in sales performance of both new and existing products. On the other hand, the company has laid down solid foundations in various local communities by forming its own local marketing teams to act as an effective channel for product promotion. In addition to being capable of serving the general public and consumers in an efficient and convenient manner, this strategy has enabled the image of the company and its products to root deeply and strongly among the public.

BUSINESS OUTLOOK

In the coming future, 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 30 June 2008, the Company had in issue 1,551,056,993 ordinary shares (31 December 2007: 1,551,056,993 shares). During the first half of year 2008, no new shares were issued (Year 2007: issued 9,350,000 new ordinary shares).

The market capitalization of the Company as at 30 June 2008 was approximately HK\$519 million (31 December 2007: approximately HK\$558 million).

Liquidity and financial resources

As at 30 June 2008, the Group has bank loans of approximately HK\$203 million (31 December 2007: approximately HK\$115 million), without long-term portion (31 December 2007: Nil), with short-term portion of approximately HK\$203 million (31 December 2007: approximately HK\$115 million). Bank balances and cash amounted to approximately HK\$91 million (31 December 2007: approximately HK\$107 million), including pledged bank deposits of approximately HK\$7.3 million (31 December 2007: approximately HK\$0.6 million).



FINANCIAL REVIEW *(Continued)*

Liquidity and financial resources *(Continued)*

As at 30 June 2008, the Group has obtained banking facilities of approximately HK\$319 million (31 December 2007: HK\$223 million) from banks in China. Unutilised banking facilities amounted to approximately HK\$116 million (31 December 2007: HK\$108 million). The average cost of financing was around 8% per annum (Year 2007: 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 30 June 2008, bank borrowings amounting to HK\$129 million (31 December 2007: HK\$60 million) are denominated in Hong Kong dollars and amounting to HK\$74 million (31 December 2007: HK\$55 million) are denominated in RMB and are fully repayable by 30 June 2009, with 75% at fixed rates of interest ranging from 5.35% to 8.96% per annum, and the rest are at floating rates of interest at Hong Kong Interbank Offered Rate plus 4.4% per annum (31 December 2007: loans are repayable by 31 December 2008, with 87% at fixed rate ranging from 5.80% to 8.96% per annum, rest are at floating rate of HIBOR + 1.80 per annum). In relation to cash and bank balances amounting to approximately HK\$91 million (31 December 2007: HK\$107 million), approximately 59% (2007: 86%) of which was denominated in RMB, approximately 36% (2007: 12%) was denominated in Hong Kong dollar and approximately 5% (2007: 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 57% in USD, 21% in RMB and 22% in EURO (Year 2007: 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 reporting period, the Group did not enter into any forward contracts, interest or currency swaps, or other financial derivatives for hedging purpose. During the reporting period, the Group did not experience any material difficulty or negative effect on its operations or liquidity as a result of fluctuations on currency exchange rates.

Contingent liabilities

As at 30 June 2008, the Group had no material contingent liabilities (2007: Nil).

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.

FINANCIAL REVIEW (Continued)

Key financial figures and ratios

During the reporting period, most of the P&L ratios were improved as compared to the year 2007. Improvements were shown in Profit attributable to equity holders of the Company to Turnover ratio and EBITDA to Turnover ratios. The gross profit margin after selling and distribution expense was also improved, whereas the gross profit margin had been slightly dropped to 60% due to the rising of manufacturing cost.

Profit and loss item:	6 months ended 30 June		12 months
	2008	2007	2007
Turnover (HK\$' million)	329.6	186.3	507.5
Gross profit margin	60%	66%	64%
Selling and distribution expenses (HK\$' million)	75.5	63.8	168.8
Gross profit margin after selling and distribution expense	36.8%	32.1%	30.7%
Profit attributable to equity holders of the Company/Turnover	17%	12%	10%
EBITDA (HK\$' million)	87.7	43.8	100.7
EBITDA/Turnover	26.6%	23.5%	19.8%

Balance sheet item:

As of 30 June 2008, increased bank borrowing boosted gross debt equity ratio (Borrowing/Net tangible assets) to around 45.9%. Since the mode of operation in sales and manufacturing cycle had been changed, a higher level of stock is maintained, inventory average turnover day were longer than that at 31 December 2007.

Balance sheet item:	As at 30 June 2008	As at 31 December 2007
	HK\$' million	HK\$' million
Short-term bank loans	203.2	115.1
Long-term bank loans	—	—
Bank balances and cash	91.4	107.1
Bank loans net of bank balances and cash	111.8	8.0
Net tangible assets	442.5	468.9
Debt equity ratio (gross)	45.9%	24.5%
Debt equity ratio (net)	25.2%	1.7%
Average trade receivable turnover day	69 days	96 days
Average inventory turnover day	174 days	169 days

As of 30 June 2008, the Group had approximately HK\$7.3 million bank balances and cash, HK\$16.8 million prepaid lease payment on land use rights, HK\$41.9 million property, plant and equipment, and HK\$11.1 million investment properties were pledged as collateral to banks. For the 6 months ended 30 June 2008, return on equity was on average of approximately 10%.

EMPLOYEE INFORMATION

As at 30 June 2008, the Group had 1,568 employees (31 December 2007: 474), comprising 10 in research and development, 243 in production, 1,106 in sales, and 209 in general administration and finance. 1,535 of these employees were located in China, and 33 in Hong Kong and Macau.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to market rate. The Group encourages employees to participate in external training programmes to develop themselves on a continuous basis, so as to improve staff quality to meet future challenges and gain a competitive edge. Total staff costs (including director emolument and share base payment) for the reporting period amounted to approximately HK\$39 million (First half of 2007: HK\$17 million).

DISCLOSURE OF INTERESTS

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

As at 30 June 2008, 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	35,891,648(L)	2.31%
	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 30 June 2008, the directors and chief executive of the Company had the following personal interests in options to subscribe for Shares of the Company granted under the share option scheme of the Company:

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



DISCLOSURE OF INTERESTS *(Continued)*

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

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

Notes:

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. 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.
4. Mr. Huang Jianming, Shen Songqing, Mr. Liu James Jin, Mr. Chong Cha Hwa and Ms. Guo Lin can exercise their rights in two periods starting from 1 October 2008 to 6 February 2012. From 1 October 2008 to 31 December 2008, grantees can exercise up to 30% of their rights, and starting from 1 January 2009 to 6 February 2012, grantees can exercise any unexercised remaining rights.

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

DISCLOSURE OF INTERESTS (Continued)

(b) Substantial Shareholders' interest and short positions in the shares, underlying shares of the Company

As at 30 June 2008, 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:

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

Save as disclosed above, the Directors are not aware of any person as at 30 June 2008 who had an interest or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO SUBSCRIBE FOR SHARES

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

SHARE OPTION SCHEME

Details of the share option scheme and movements are set out in note 14 to the accounts.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DIVIDEND

The Board would not recommend the payment of an interim dividend (30 June 2007: Nil).



REVIEW OF INTERIM RESULTS

The unaudited interim financial report of the Group for the six months ended 30 June 2008 have been reviewed by the Company's audit committee and auditors, SHINEWING (HK) CPA Limited.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters with the management. The Group's financial statements for the six months ended 30 June 2008 have been reviewed and adopted by the Audit Committee, who is of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made. The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Lui Tin Nang (Audit Committee chairman), Mr. Lee Kwong Yiu and Mr. Chong Cha Hwa.

REMUNERATION COMMITTEE

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

MODEL CODE

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

CORPORATE GOVERNANCE

The Company is in compliance with all the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2008.

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

On behalf of the Board
TAO Lung
Chairman

Hong Kong, 22 September 2008



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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Vital Pharmaceutical Holdings Limited

(Formerly known as Vital BioTech Holdings Limited)

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information ("Interim Financial Information") set out on pages 15 to 36, which comprises the condensed consolidated balance sheet of Vital Pharmaceutical Holdings Limited (formerly known as Vital BioTech Holdings Limited) (the "Company") and its subsidiaries (the "Group") as at 30 June 2008 and the related condensed consolidated income statement, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on Interim Financial Information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of this Interim Financial Information in accordance with HKAS 34. Our responsibility is to express a conclusion on this Interim Financial Information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

SHINEWING (HK) CPA Limited

Certified Public Accountants

Pang Wai Hang

Practising Certificate Number: P05044

Hong Kong

22 September 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		Six months ended 30 June	
	<i>Notes</i>	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover	4	329,657	186,354
Cost of sales		(132,973)	(62,745)
Gross profit		196,684	123,609
Other operating income		12,828	9,113
Selling and distribution expenses		(75,450)	(63,819)
Administrative expenses		(57,417)	(36,193)
Finance costs		(8,878)	(4,996)
Profit before taxation		67,767	27,714
Income tax expense	5	(11,551)	(5,602)
Profit for the period	6	56,216	22,112
Attributable to:			
Equity holders of the Company		56,264	22,273
Minority interests		(48)	(161)
		56,216	22,112
Interim dividend	7	—	—
Earnings per share	8		
Basic		HK3.63 cents	HK1.44 cents
Diluted		HK3.61 cents	HK1.44 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

	Notes	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Non-current assets			
Intangible assets		3,790	4,745
Property, plant and equipment	9	266,168	250,821
Investment properties	9	40,333	–
Prepaid lease payments on land use rights		42,952	33,416
Deposit for acquisition of a subsidiary		–	52,553
Deposit for acquisition of property, plant and equipment		7,926	2,732
Available-for-sale investments	10	3,165	4,782
Goodwill		139,304	30,396
		503,638	379,445
Current assets			
Inventories		151,804	108,362
Trade and other receivables	11	140,667	139,281
Prepaid lease payments on land use rights		1,055	754
Value added tax recoverable		10,592	–
Tax recoverable		6,031	6,031
Bank balances and cash			
– pledged		7,309	639
– unpledged		84,121	106,525
		401,579	361,592
Current liabilities			
Trade and other payables	12	104,070	105,814
Value added tax payable		2,326	11,818
Tax payable		6,358	3,152
Obligations under finance leases			
– due within one year		321	300
Bank borrowings – due within one year		203,211	115,089
		316,286	236,173
Net current assets		85,293	125,419
Total assets less current liabilities		588,931	504,864



	Notes	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Capital and reserves			
Share capital	13	15,511	15,511
Reserves		569,615	487,942
Equity attributable to equity holders of the Company		585,126	503,453
Minority interests		541	589
		585,667	504,042
Non-current liabilities			
Obligations under finance leases – due after one year		652	822
Deferred tax liability		2,612	–
		3,264	822
		588,931	504,864

The interim financial information on pages 15 to 36 were approved and authorised for issue by the Board of Directors on 22 September 2008 and are signed on its behalf by:

TAO Lung
Director

HUANG Jianming
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2008

Attributable to equity holders of the Company

	Share capital	Share premium	Exchange translation reserve	Share options reserve	Reserve fund	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
(Audited)					(Note 1)							
At 1 January 2007	15,417	248,314	13,325	4,697	26,427	616	(274)	121,132	15,417	445,071	741	445,812
Profit for the period	-	-	-	-	-	-	-	22,273	-	22,273	(161)	22,112
Reserve realised upon deregistration of a subsidiary (Note 2)	-	-	(120)	-	-	-	-	-	-	(120)	-	(120)
2006 final dividend paid	-	-	-	-	-	-	-	-	(15,417)	(15,417)	-	(15,417)
Exercise of share options	63	1,881	-	(495)	-	-	-	-	-	1,449	-	1,449
At 30 June 2007	15,480	250,195	13,205	4,202	26,427	616	(274)	143,405	-	453,256	580	453,836
Profit for the period	-	-	-	-	-	-	-	28,349	-	28,349	(2)	28,347
Gain on fair value changes of available-for-sale investments	-	-	-	-	-	-	220	-	-	220	-	220
Exchange difference arising on translation of overseas operation	-	-	20,790	-	-	-	-	-	-	20,790	11	20,801
Transfer from retained earnings	-	-	-	-	10,227	-	-	(10,227)	-	-	-	-
Exercise of share options	31	980	-	(173)	-	-	-	-	-	838	-	838
At 31 December 2007	15,511	251,175	33,995	4,029	36,654	616	(54)	161,527	-	503,453	589	504,042
(Unaudited)												
Profit for the period	-	-	-	-	-	-	-	56,264	-	56,264	(48)	56,216
Recognition of equity-settled share based payment	-	-	-	3,227	-	-	-	-	-	3,227	-	3,227
Exchange difference arising on translation of overseas operation	-	-	21,714	-	-	-	-	-	-	21,714	-	21,714
Gain on fair value changes of available-for-sale investments	-	-	-	-	-	-	468	-	-	468	-	468
At 30 June 2008	15,511	251,175	55,709	7,256	36,654	616	414	217,791	-	585,126	541	585,667

Notes:

- 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.
- The subsidiary deregistered during the period ended 30 June 2007 had no significant impact on the turnover and results for the Group.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	29,730	(24,146)
Net cash used in investing activities	(130,194)	(4,642)
Net cash from (used in) financing activities	73,980	(45,114)
Net decrease in cash and cash equivalents	(26,484)	(73,902)
Cash and cash equivalents at 1 January	106,525	126,980
Effect of foreign exchange rate changes	4,080	–
Cash and cash equivalents at 30 June	84,121	53,078



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2008

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 of the interim report.

The condensed consolidated Interim Financial Information are presented in Hong Kong dollars, and the functional currency of the Company's subsidiaries is the Renminbi. As the Company is listed in Hong Kong, the directors of the Company consider that it is appropriate to present the condensed consolidated Interim Financial Information in Hong Kong dollars.

The Company and its subsidiaries (the "Group") are principally engaged in research and development, selling and manufacturing of pharmaceutical products.

2. Basis of Preparation

The unaudited condensed consolidated Interim Financial Information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Accounting Standard ("HKAS") No.34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

3. Principal Accounting Policies

The condensed consolidated Interim Financial Information have been prepared under the historical costs basis, except for certain financial instruments, which are measured at fair values.

The condensed consolidated Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2007.

The accounting policies used in the condensed consolidated Interim Financial Information for the six months ended 30 June 2008 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except as described below.

3. Principal Accounting Policies (Continued)

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning 1 January 2008. The adoption of these new HKFRSs has had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

Hong Kong Accounting Standard ("HKAS") 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combination ³
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Interpretation ("INT") 13	Customer Loyalty Programmes ²
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation ⁴

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

² Effective for annual periods beginning on or after 1 July 2008.

³ Effective for annual periods beginning on or after 1 July 2009.

⁴ Effective for annual periods beginning on or after 1 October 2008.

The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and financial position of the Group except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised). The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

4. Turnover

The Group is 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.

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 People's Republic of China (the "PRC").

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

5. Income Tax Expense

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Overseas income tax		
– current period	10,598	5,602
– under provision in prior year	962	–
	<hr/>	<hr/>
	11,560	5,602
Deferred taxation	(9)	–
	<hr/>	<hr/>
	11,551	5,602

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period ended 30 June 2008. No tax is payable on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

Hong Kong Profits Tax has not been provided for in the condensed consolidated Interim Financial Information for the period ended 30 June 2007 as there was no estimated assessable profit derived from Hong Kong in that period.

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 30 June 2008 and 31 December 2007.



5. Income Tax Expense *(Continued)*

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.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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 income tax in the first two years from the first profit-making year, 50% reduction of income tax in the subsequent three years and thereafter, preferential treatments which are subject to the relevant law and regulations. One subsidiary was taxed at 15% (2007: 13%). Another subsidiary has incurred a loss and no income tax is payable for the period (2007: Nil). Other subsidiaries were either in loss-making position for the current and the previous periods or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the period and accordingly did not have any assessable income.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 issued by the Tenth National People's Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate for the current period. For companies that were still entitled to certain exemption and reliefs ("Tax Benefit") from PRC income tax, the New Law and Implementation Regulations allow the companies to continue to enjoy the Tax Benefit and the tax rate will change to 25% afterwards. For companies that were subject to tax rate of 33%, the New Law and Implementation Regulations have changed the tax rate from 33% to 25% from 1 January 2008.

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 periods.

6. Profit for the Period

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

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of intangible assets		
– development costs	1,161	1,302
Amortisation of prepaid lease payments		
on land use rights	457	341
Depreciation of property, plant and equipment	9,478	9,477
Loss on disposal of property, plant and equipment	87	18
Research and development costs	608	670
Exchange loss	1,539	1,048
Impairment loss recognised (reversal) in respect		
of trade receivables	4,202	(124)
Impairment loss recognised in respect of		
other receivables	3,333	–
Gain on deregistration of a subsidiary	–	(90)
Gain on disposal of available-for-sale investments	(2,030)	–
Government subsidies income	(9,793)	(8,255)
Write back of provision for inventories	–	(779)

7. Interim Dividend

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

8. Earnings Per Share

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

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	56,264	22,273
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,551,056,993	1,542,176,606
Effect of dilutive potential shares in respect of share options	5,303,645	4,627,050
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,556,360,638	1,546,803,656

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

The directors of the Company are of the opinion that the market value of the Group's investment properties as at 30 June 2008 is not materially different from the carrying value of the investment properties. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties in the period.

During the period, the Group spent approximately HK\$4.5 million (2007: HK\$5.4 million) on additions to property, plant and equipment to upgrade its manufacturing capacities.

10. Available-for-sale Investments

Available-for-sale investments comprise:

	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Listed investment in equity securities listed elsewhere (<i>note a</i>)	2,391	–
Unlisted investments in guaranteed funds, at fair value	–	4,017
Unlisted investments in certificates of deposits, at fair value	774	765
Unlisted equity securities, at cost (<i>notes b and c</i>)	7,072	17,234
Less: Impairment loss recognised (<i>notes c and d</i>)	(7,072)	(17,234)
	3,165	4,782

Notes:

- (a) The above listed equity securities represent investments in listed securities in Australia.
- (b) The above unlisted equity securities represent investments in private entity incorporated in the PRC. On 19 March 2008, the Group disposed of its investment in unlisted equity securities in Malaysia in exchange for 1,586,053 ordinary shares in a company listed on the Australian Securities Exchange. The fair value of the listed securities at the date of transfer was approximately HK\$1,971,000 which was the deemed cost of the investment in listed securities.
- (c) 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.
- (d) The directors of the Company had reviewed the carrying values of the unlisted equity securities and considered that in light of the recurring operating losses of these investments and the current market conditions, total impairment losses of approximately HK\$7,072,000 (2007: HK\$17,234,000) had been recognised. The directors of the Company were of the opinion that the impairment was made based on their best estimation with reference to the market situation and circumstances of the equity securities.

11. Trade and Other Receivables

	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Trade and bills receivables (<i>note a</i>)	141,320	127,474
Prepayments and deposits	3,637	14,345
Payments for pharmaceutical projects (<i>note b</i>)	20,301	19,324
Other receivables	4,336	2,863
	169,594	164,006
Less: Impairment loss recognised in respect of trade receivables	(11,389)	(7,187)
Impairment loss recognised for payments for pharmaceutical projects (<i>note c</i>)	(17,538)	(17,538)
	140,667	139,281

Notes:

- (a) The Group's sales are on open account terms. The Group normally grants to its customers credit periods ranging from 30 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:

	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Within 30 days	63,234	39,704
31 – 60 days	39,752	40,078
61 – 90 days	14,144	17,844
Over 90 days	12,801	22,661
	129,931	120,287

- (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 in accordance with the Group's accounting policy.
- (c) The directors of the Company reviewed the carrying values of the payments for pharmaceutical projects and considered that in light of the current new drugs policies in the PRC and the current 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 total impairment loss of approximately HK\$17,538,000 (2007: HK\$17,538,000) had been recognised.

12. Trade and Other Payables

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

	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Trade and bills payables		
Within 30 days	1,003	12,783
31 – 60 days	14,444	1,777
61 – 90 days	11,151	30
Over 90 days	16,532	375
	43,130	14,965
Accrued expenses and other payables	60,940	90,849
	104,070	105,814

13. Share Capital

	Number of shares	Amount HK\$'000
Ordinary share of HK\$0.01 each		
<i>Authorised:</i>		
At 1 January 2007, 31 December 2007 and 30 June 2008	50,000,000,000	500,000
<i>Issued and fully paid:</i>		
At 1 January 2007	1,541,706,993	15,417
Exercise of share options	9,350,000	94
At 31 December 2007 and 30 June 2008	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 ended 31 December 2007 rank pari passu with the then existing ordinary shares in all respects.



14. 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 per cent of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholder in a general meeting of the Company. Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding any independent non-executive director who is the grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders’ approval in a general meeting of the Company.

At 30 June 2008, the number of shares of the Company in respect of which options had remained outstanding under the 2003 Share Option Scheme of the Company was 114,390,000, representing 7.4% 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.

HK\$16.00 was received during the period from eligible participants for taking up the options granted during the period (31 December 2007: Nil).

14. Share Option Scheme (Continued)

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

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

First phase:

On 21 June 2002, options were granted to subscribe for an aggregate of 30,000,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2002 Share Option Scheme at HK\$0.39 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK\$0.37 per share. Those who were granted with the options can exercise their rights in multiple periods starting from 16 August 2002 to 6 February 2012 as follows:

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

Second phase:

On 28 February 2003, options were granted to 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

14. Share Option Scheme (Continued)

Fourth 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 two periods starting from 1 January 2006 to 6 February 2012 as follows:

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

Fifth phase:

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

14. Share Option Scheme (Continued)

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

Date of grant	Outstanding at 1 January 2007	Cancelled during the year	Exercised during the year	Outstanding	Granted during the period	Outstanding at 30 June 2008	Exercise price per share HK\$	
				at 31 December 2007				
<i>Executive directors:</i>								
Mr. Tao Lung	12 September 2005	15,000,000	-	-	15,000,000	-	15,000,000	0.23
Mr. Xu Xiaofan	12 September 2005	15,000,000	-	-	15,000,000	-	15,000,000	0.23
Mr. Huang Jianming	29 January 2008	-	-	-	-	8,500,000	8,500,000	0.28
Mr. Shen Songqing	29 January 2008	-	-	-	-	8,500,000	8,500,000	0.28
Mr. Liu James Jin	29 January 2008	-	-	-	-	8,500,000	8,500,000	0.28
Ms. Guo Lin	29 January 2008	-	-	-	-	8,500,000	8,500,000	0.28
<i>Independent non-executive directors:</i>								
Mr. Lui Tin Nang	12 September 2005	1,500,000	-	(1,500,000)	-	-	-	0.23
Mr. Lee Kwong Yiu	12 September 2005	1,500,000	-	(1,500,000)	-	-	-	0.23
Mr. Chong Cha Hwa	29 January 2008	-	-	-	-	1,500,000	1,500,000	0.28
<i>Employees</i>								
	21 June 2002	330,000	-	-	330,000	-	330,000	0.39
	29 September 2003							
	(Note)	13,260,000	-	-	13,260,000	-	13,260,000	0.51
	12 September 2005	8,800,000	(500,000)	(5,500,000)	2,800,000	-	2,800,000	0.23
	29 January 2008	-	-	-	-	21,000,000	21,000,000	0.28
<i>Other eligible participants</i>								
	21 June 2002	850,000	-	(850,000)	-	-	-	0.39
	29 September 2003	500,000	-	-	500,000	-	500,000	0.51
	29 January 2008	-	-	-	-	11,000,000	11,000,000	0.28
		56,740,000	(500,000)	(9,350,000)	46,890,000	67,500,000	114,390,000	
Exercisable at the end of the year/period					46,890,000		46,890,000	

Note: Included in the share options granted to employees on 29 September 2003 are 3,000,000 share options granted and still outstanding at 30 June 2008 to Ms. Guo Lin who became an executive director of the Company on 1 January 2008.

14. Share Option Scheme (Continued)

During the year ended 31 December 2007, 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.

Fair value of share options and assumptions – Fifth phase

The fair value of services received in return for the share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes-Merton Option Pricing model. The contractual life of the share option is used as an input into this model. Expectation of early exercise is incorporated into the valuation model.

From 1 October 2008 to 6 February 2012 – approximately 20,250,000 shares

Fair value at 29 January 2008	HK\$0.0877
Share price	HK\$0.275
Exercise price	HK\$0.28
Risk-free interest rate	1.677%
Nature of the share options	Call
Expected option period	2.35 years
Expected volatility	67.06%
Expected dividend yield	5.056%

From 1 January 2009 to 6 February 2012 – approximately 47,250,000 shares

Fair value at 29 January 2008	HK\$0.0865
Share price	HK\$0.275
Exercise price	HK\$0.28
Risk-free interest rate	1.690%
Nature of the share options	Call
Expected option period	2.48 years
Expected volatility	65.28%
Expected dividend yield	5.056%

The Black-Scholes-Merton Option Pricing Model has been used to estimate the fair value of the options. The variables or assumptions used in computing the fair value of the share options are based on the director's best estimate. The value of an option varies with different variables of certain subjective assumptions.

15. Acquisition of a Subsidiary

On 20 March 2008, the Group acquired the entire equity interest in Sichuan Hengtai Pharmaceutical Company Limited and its subsidiary ("Hengtai Group") for a consideration of RMB200,000,000 (approximately HK\$222,222,000). This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK\$108,908,000.

The relevant information about the acquisition is as follows:

	Acquiree's amount before combination	Fair value adjustment	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	9,671	1,987	11,658
Investment properties	40,333	–	40,333
Prepaid lease payments on land use right	4,326	4,230	8,556
Inventories	40,377	–	40,377
Trade and other receivables	52,246	–	52,246
Value added tax recoverable	2,411	–	2,411
Pledged bank deposits	12,696	–	12,696
Bank balances and cash	33,385	–	33,385
Trade and other payables	(79,252)	–	(79,252)
Tax payable	(6,475)	–	(6,475)
Deferred tax liabilities	(1,066)	(1,555)	(2,621)
	<u>108,652</u>	<u>4,662</u>	113,314
Goodwill			<u>108,908</u>
Total consideration			<u>222,222</u>
Total consideration satisfied by:			
Deposit for acquisition of a subsidiary			52,553
Cash consideration			<u>169,669</u>
			<u>222,222</u>
Net cash outflow on acquisition			
Cash consideration paid			169,669
Less: Bank balances and cash acquired			<u>(33,385)</u>
			<u>136,284</u>



15. Acquisition of a Subsidiary *(Continued)*

Hengtai Group contributed approximately HK\$8,533,000 to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group's turnover for the six months ended 30 June 2008 would have been approximately HK\$472,154,000 and profit for the six months ended 30 June 2008 would have been approximately HK\$73,236,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

16. Related Party Transactions

The Group had significant related party transactions as follows which were carried out in the normal course of the Group's business:

Notes:

- (a) During the six months ended 30 June 2007, a subsidiary of the Company purchased raw materials from Pharmco International, Inc. ("Pharmco") amounted to approximately HK\$81,821,000. Pharmco is a company which is wholly owned by a former minority shareholders of Maxsun International Limited, a subsidiary of the Company. The transactions had been carried out 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 thereby 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.

17. Commitments

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

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

	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Contracted but not provided for	<u>255</u>	–

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

	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Contracted but not provided for	<u>10,273</u>	10,941

(c) *Commitments for acquisition of a subsidiary*

	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Contracted but not provided for	<u>–</u>	160,213

18. 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:

	30/6/2008 HK\$'000 (Unaudited)	31/12/2007 HK\$'000 (Audited)
Property, plant and equipment	41,892	35,115
Investment properties	11,089	–
Bank balances and cash	7,309	639
Prepaid lease payments on land use rights	16,836	9,819
	<u>77,126</u>	<u>45,573</u>