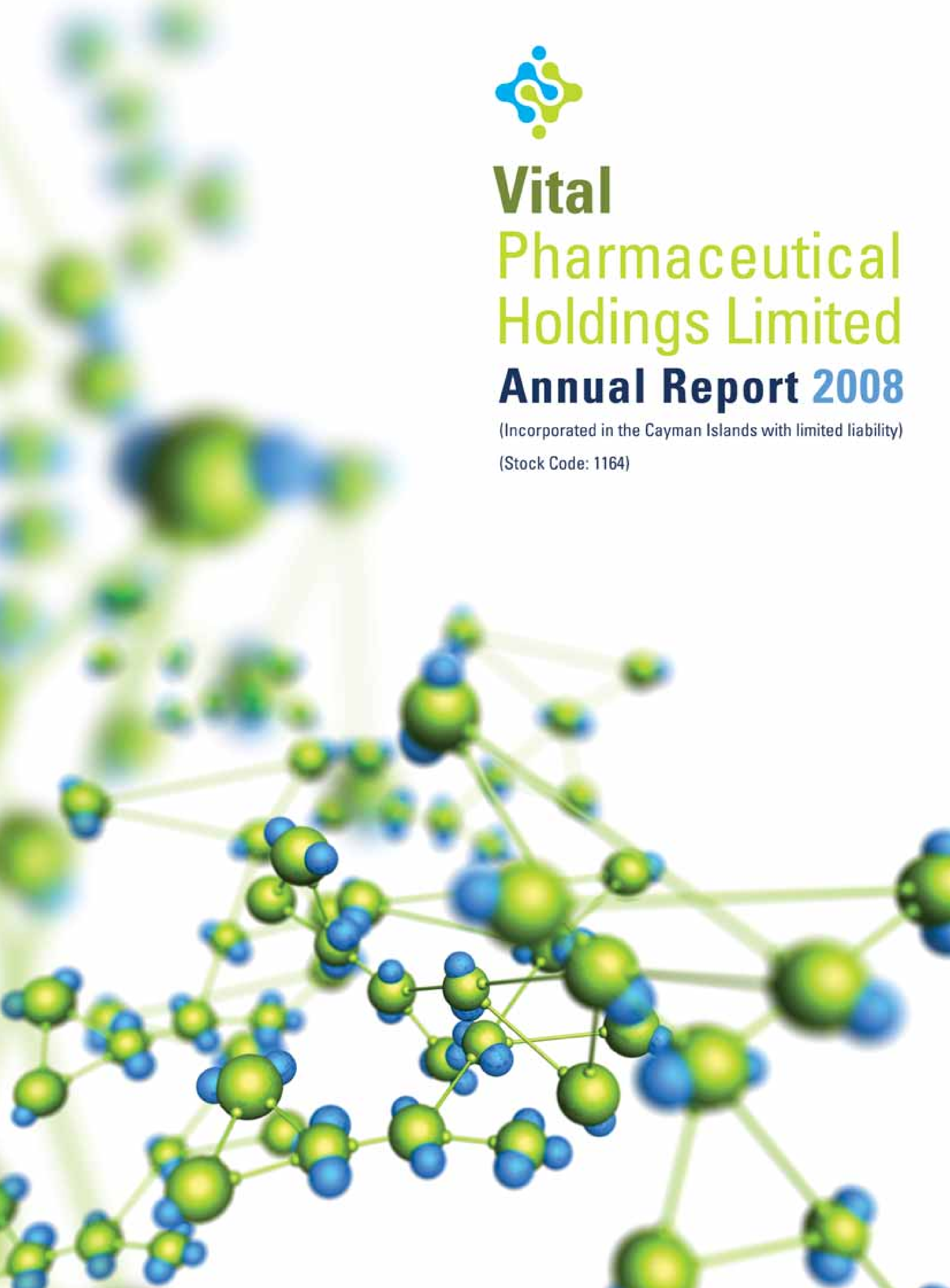

Vital Pharmaceutical Holdings Limited

Annual Report 2008

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1164)

Contents

Financial Highlights

OPERATING RESULTS

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**698,225**	507,494	487,147	446,437	343,420
Operating profit	**97,887**	77,576	60,217	37,735	42,129
Finance costs & share of result of an associate	**(16,405)**	(12,605)	(13,201)	(11,255)	(4,236)
Profit before taxation	**81,482**	64,971	47,016	26,480	37,893
Income tax expense	**(20,563)**	(14,512)	(9,916)	(5,537)	(5,728)
Profit for the year	**60,919**	50,459	37,100	20,943	32,165
Attributable to:					
Equity holders of the Company	**61,095**	50,622	37,743	21,649	32,776
Minority interests	**(176)**	(163)	(643)	(706)	(611)
	60,919	50,459	37,100	20,943	32,165

FINANCIAL POSITION

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**794,921**	741,037	696,491	623,972	577,077
Total liabilities	**(197,549)**	(236,995)	(250,679)	(224,785)	(191,439)
	597,372	504,042	445,812	399,187	385,638
Equity attributable to equity holders of the Company	**596,959**	503,453	445,071	395,900	373,364
Minority interests	**413**	589	741	3,287	12,274
	597,372	504,042	445,812	399,187	385,638

Note:

The consolidated results of the Group for the two years ended 31 December 2008 and the assets and liabilities of the Group as at 31 December 2008 and 2007 have been extracted from the audited consolidated financial statements of the Group as set out on pages 31 to 33 of the Annual Report. Figures for year 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.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
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 Pharmaceutical Holdings Limited (formerly known as "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 2008. During the year, the Group continues to diversify product development, expand and optimize product range and strengthen its branding strategies to lay a more solid foundation for its future development on the product diversification and health food market.

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 2008, our flagship product "Osteoform" achieved satisfactory sales. In addition to the completion on the acquisition of Sichuan Hengtai Pharmaceutical Company Limited ("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 result during the year 2008, which enhancing the turnover and profits attributable to equity holders of the Company. However, due to the uncertainties of renewing import drug license of Osteoform, the Group had to provide impairment amounted to approximately of HK$38 million on goodwill. With the Group's continuous effort in controlling our cost of sales and selling and administrative expenses, the Group's profit before tax for the year surge to approximately HK$81.5 million, representing an increase of approximately 25% over last year.

Turnover of the Group increased from approximately HK$507 million to approximately HK$698 million, representing an increase of approximately 38%. Profit attributable to equity holders increased approximately 21%, from approximately HK$50.6 million to approximately HK$61.1 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 33% in 2007 to approximately 26% in 2008.

FUTURE PLANS AND PROSPECTS

In the coming year, the Group will continue to devote more resources in expanding our sales and distribution network and concentrate on its sales network. In addition, 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 to match up our future development on the product diversification and health food market strategies.

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, 17 April 2009

Management Discussion and Analysis

BUSINESS REVIEW

During the year 2008, because of 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 year, which enhancing the turnover and profits attributable to equity holders of the Company. The Group recorded a turnover of approximately HK$698 million, an increase of approximately 38% as compared to HK$507 million last year. However, due to the uncertainties of renewing import drug license of Osteoform, the Group had to provide impairment amounted to approximately of HK$38 million on goodwill. Profit attributable to equity holders only increased by approximately 21% to approximately HK$61.1 million. At tightened budget control, gross profit margin after selling and distribution expenses of the Group reached approximately 38% against approximately 31% last year. Basic earnings per share were HK3.94 cents (2007: HK3.27 cents). The Group's financial position remained strong, with approximately HK$152 million of bank balance and cash as at 31 December 2008.

Year 2008 was a rewarding year for pharmaceutical industry in China. On general environment, demand for higher living standard and health awareness are increasing resulted from the continuous improving on individual income and education level of Chinese citizen. Rural area development and increasing population in the cities also aggregate demand on pharmaceutical products from consumers. On the one hand, the pharmaceutical 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, 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. Although the trade mark of our flagship product "Osteoform" was being awarded as a national famous trade mark (全國馳名商標) in 2007, the Group was promoting our brand name continuously. 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 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.

The acquisition of Sichuan Hengtai had been completed in year 2008. 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.

Sales of Product

During the year, the Group's consolidated turnover amounted to approximately HK$698 million, an increase of approximately 38% as compared with the consolidated turnover of approximately HK$507 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 and the acquisition effect of Sichuan Hengtai, with a turnover of approximately HK$616 million for the year 2008, representing an increase of approximately 34% as compared with approximately HK$461 million for the corresponding period last year. In which, the 60-capsule package recorded a turnover of approximately HK$87 million as compared with approximately HK$54 million for the corresponding period last year, an increase of approximately 61%.

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".

Other Product

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

"Legalon", a product imported from Madaus, Germany brought in a turnover of approximately HK$33.7 million, an increase of approximately 167% when compared to corresponding year.

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

At the end of year 2008, the Group has been informed by the Adverse Drug Reaction Center under the State Food and Drug Administration of the PRC, regarding the report on the case of damage to liver by the "Depile Capsules". After a systematic analysis undergone in respect to the cases under the report, the relation between the "Depile Capsules" and the case of damage to liver could not be excluded. Consequently, the manufacture, sales and use of "Depile Capsules" has been suspended, and the Group has voluntarily recalled the products from the market. Also, the Group has conducted a research on the mechanism of liver damage resulted from the "Depile Capsules" and reassessed the risks and benefits of such drug product. As a result, the Group had recognized an impairment of inventory amounted to approximately of HK$3.8 million and made provision on compensation claim amounted to approximately of HK$5.6 million at the end of year 2008. Turnover for 2008 amounted to approximately HK$4.2 million, a decrease of approximately 35% over last year.

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

Turnover of "Opin" for 2008 amounted to approximately HK$3.3 million, an increase of approximately 43% over last year.

"Aceclofenac Tablets", a drug that relieve soft tissue pain and inflammation

"Aceclofenac Tablets" a drug that launched into the market in 2006, and contribute a sales turnover of approximately HK$2.4 million in 2008, an increase of around 14% when compare with last year.

"Clarithromycin Capsules", a new generation of broad-spectrum marolide antibiotic drug

Turnover for 2008 amounted to approximately HK$2.3 million, a decrease 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 2008 was approximately HK$5.4 million, representing a growth of approximately 86% over last year.

"Agiolax" (Plantain and Senna Granules), a drug to restore the functions of the intestines

The Group had implemented the revised market strategy and re-appoint product agent in 2008. Agiolax had re-launched into the market in year 2008. Turnover during the year 2008 was approximately HK$11.2 million.

Sichuan Hengtai

During the period under review, Sichuan Hengtai has carried out its operation by strictly following its designed strategic goals and initiatives. During the period under review, Sichuan Hengtai has continued to expand its market network and end-user services in various segment areas throughout the nation, and also strengthen the promotion via, and cooperation with commercial channels, which has helped to build up an interactive and closer working relationship with cooperative institutions such as channel businesses, retail pharmacies and hospitals, thereby creating a powerful driving force to the sale results of both old and new products.

During the year under review, Sichuan Hengtai, with its self-established local marketing team comprising hundreds of members acting as an effective promotion channel, has built up solid foundation among local communities and carried out marketing directly to the consumers, resulting not only to the provision of fast and convenient services to the general public and consumers, but also facilitating the recognition of the images of both the Company and its products among the public.

As a professional pharmaceutical marketing company, our dominance in the academic promotion and prescription drug market provides us with operating advantage. As for the prescription drug market and academic promotion, with the prescription drug department playing the leading role, Sichuan Hengtai has been continuously established academic and promotion channels in various regions and specialties in order to carry out successive academic generalizations and promotions to the medical doctors from specialties. It had also organized over ten times academic seminars at different levels.

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 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, the PRC

Major production during the year under review included "Vital Fast" – a slow release flu medication and "Opin" – a gynaecology biological drug. Part of the production facilities have been upgraded in the production plant since the end of 2008 to accommodate our new health food business. The plant is expected to operate in the second half of year 2009.

Weiao (Chengdu) Pharmaceutical Co., Ltd. (維奥(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 year 2008. Solution for injection related products are pending for approval. The plant has not put into operation since its completion. In view of that, the Group had provided for amounted to approximately of HK$19 million impairment of plant and machineries. The excess office area will be leased out in 2009 to bring additional revenue to the Group.

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. Due to uncertainities of the renewal of import drug license of Osteoform, the factory has been suspended since the second half of 2008. The Group has provided impairment amounted of approximately HK$6 million on leasehold improvement, plant and machinery.

BUSINESS PROSPECT

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 2009. In addition, due to aging population with increasing number of senior citizens over 60 years old in the population of the PRC, 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. Furthermore, higher living standard and education level of Chinese citizen, also drive their needs on health food and become more health conscious, which in turn broaden the entire health good market. As a result, the industry anticipated that in 2009, the pharmaceutical and health food industry will grow continuously, and it is estimated that the overall revenue of the PRC pharmaceutical industry will increase by double digit.

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

FINANCIAL REVIEW

Capital structure

As at 31 December 2008, the Company had in issue 1,551,056,993 ordinary shares (31 December 2007: 1,551,056,993 shares). During the year 2008, the Company had not issue any new shares (2007: issued 9,350,000 new ordinary shares).

The market capitalization of the Company as at 31 December 2008 was approximately HK$256 million (31 December 2007: approximately HK$558 million).

Liquidity and financial resources

As at 31 December 2008, the Group has bank loans of approximately HK$84 million (31 December 2007: approximately HK$115 million), without long-term portion (31 December 2007: Nil), with short-term portion of approximately HK$84 million (31 December 2007: approximately HK$115 million). Bank balances and cash amounted to approximately HK$152 million (31 December 2007: approximately HK$107 million), including pledged bank deposits of approximately HK$4 million (31 December 2007: approximately HK$0.6 million).

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

The Group adopts a conservative funding and treasury policies and objectives. As at 31 December 2008, bank borrowings amounting to HK$59 million are denominated in Hong Kong dollars and amounting to HK$25 million are denominated in RMB and are fully repayable by 31 December 2009, with 88%

at fixed rates of interest ranging from 5.35% to 7.84% per annum, and the rest are at floating rates of interest at Hong Kong Interbank Offered Rate plus 4.5% per annum. In relation to cash and bank balances amounting to approximately HK$152 million, approximately 87% of which was denominated in RMB, approximately 4% was denominated in Hong Kong dollar and approximately 9% 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 34% in USD, 39% in RMB and 27% in EURO. Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 87% in RMB, others are in HKD, AUD, USD and Macau Pataca, etc. For the year 2008, the Group did not enter into any forward contracts, interest or currency swaps, or other financial derivatives for hedging purpose.

During the year in 2008, 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 2008, the Group had no material contingent liabilities (2007: Nil).

Key financial figures and ratios

Profit and loss item:

In the year 2008 several profit and loss items and ratios were enhanced by a lowering proportion 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 by around 7.2%, while profit attributable to equity holders of the Company to turnover ratio decreased slightly by around 1% due to the impairment of goodwill, plant and machineries.

The gross profit margin for year 2008 was approximately 64%, which is comparable for the year 2007.

The other operating income for year 2008 was approximately HK$26 million, which had been increased by around HK$8 million from year 2007 were mainly due to the increase of government grants received, gain on disposal of an available-for-sale investment, and reversal of write off of inventories.

	Year 2008	Year 2007
Profit and loss item:		
Turnover (HK$' million)	**698.2**	507.5
Gross profit margin	**64%**	64%
Selling and distribution expenses (HK$' million)	**182.6**	168.8
Gross profit margin after selling and distribution expenses	**37.9%**	30.7%
Profit attributable to equity holders/turnover	**9%**	10%
EBITDA (HK$'million)	**120.4**	100.7
EBITDA/Turnover	**17.2%**	19.8%

Balance sheet item:

Gearing ratio: Taken into account of a significant decrease of bank borrowing balances as at 2008 year end over 2007 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 17.2% 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 -13.9%.

Benefited from a shorter trade receivable credit periods and lower inventory level of Sichuan Hengtai, average trade receivable turnover day was shortening to around 63 days and inventory (excluding goods in transit) average turnover day decreased to around 123 days.

	As at 31 December 2008 HK$'million	As at 31 December 2007 HK$'million
Balance sheet item:		
Short-term bank loans	**84.4**	115.1
Long-term bank loans	**–**	–
Bank balances and cash	**152.4**	107.1
Bank borrowings net of bank balances and cash	**-68.0**	8.0
Net tangible assets	**489.8**	468.9
Debt equity ratio (gross)	**17.2%**	24.5%
Debt equity ratio (net)	**-13.9%**	1.7%
Average trade receivable turnover day	**63 days**	96 days
Average inventory turnover day	**123 days**	169 days

As at 31 December 2008, the Group had approximately HK$4 million of bank balances and cash, HK$40.9 million in property, plant and equipment, HK$16.6 million in prepaid lease payments on land use rights, and HK$39.7 million in investment properties were pledged as collateral to banks.

For year 2008, 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 donated disaster relief material and cash to victims of earthquake in Sichuan, subsidized various community projects in the PRC, which includes teachers training program, deprived patient rehabilitation program, provide subsidies for deprived high school girls.

EMPLOYEE INFORMATION

As at 31 December 2008, the Group had 1,494 employees, comprising 13 in research and development, 231 in production, 1,049 in sales and marketing, and 201 in general administration and finance. 1,469 of these employees were located in China and 25 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 2008 amounted to approximately HK$115 million.

MATERIAL ACQUISITION

On 6 November 2007, the Group and the shareholders of 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 during the first half of year 2008.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tao Lung, aged 52, 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 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 45, one of the founder of the Group and the 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 Luzhou Chemical Engineering College 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 22 years of management experience in the pharmaceutical industry. He joined the Group since its establishment in April 1998.

Mr. Shen Songqing, aged 48, 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 Medical Institute of China in 1983. Mr. Shen has over 25 years experience in sales and marketing of drugs. He joined the Group since its establishment in April 1998.

Mr. Liu James Jin, aged 46, 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 45, 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 45, 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 51. 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. He is currently the independent non-executive director of China Bio-Med Regeneration Technology Ltd, a company listed on the GEM Board of the Stock Exchange; and an independent non-executive director of CT Holdings (International) Ltd, a company listed on the Stock Exchange.

Mr. Lee Kwong Yiu, aged 46, 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 42, 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 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 34, 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, and completed an Advanced Management Program from University of California Berkeley in 2008. 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 46, 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 45, is the chairman of Weiao (Chengdu) Pharmaceuticals Co. Ltd and 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 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 24 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 50, is the general manager of Wuhan Weiao Pharmaceutical Co. Ltd, a subsidiary of the Company. Mr. Guo graduated from Luzhou Chemical Engineering College with a diploma in organic synthetics in 1982 and Huaxi Medical University with a diploma in pharmacy. 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 41, 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 2008.

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 authorities and responsibilities 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 2008, the Board comprises 6 Executive Directors ("EDs") and 3 Independent Non-executive Directors ("INEDs") whose biographical details are set out on pages 11 and 12. 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 6 meetings (including 1 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)*	6/6
Huang Jianming *(Chief Executive Officer)*	5/6
Shen Songqing *(appoint representative: 2)*	3/6
Liu James Jin	6/6
Xu Xiaofan	6/6
Guo Lin	3/6
Independence Non-executive Directors	
Lui Tin Nang	3/6
Lee Kwong Yiu	6/6
Chong Cha Hwa	5/6

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 2008, 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. Ms Guo Lin, had been appointed as an Executive Director on 1 January 2008. In addition, the Board had also assessed the independence of Independent Non-executive Directors during the year 2008.

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	1/2
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 2008 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 2008, 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$1,160,000 for audit services and approximately HK$480,000 for non-audit services, such as agreed-upon procedures services and interim review service during the year ended 31 December 2008.

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 20 clear business 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 shall be voted by poll by shareholder, the detail procedures for voting by poll and the rights of shareholders 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 2008.

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 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 31 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 (2007: Nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five years ended 31 December 2008 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 34 of the annual report.

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

Details of the movements in intangible assets, property, plant and equipment, investment properties, and prepaid lease payments on land use right of the Group are set out in Notes 16, 17, 18 and 19 to the consolidated financial statements respectively.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in Note 42 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 31 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. Huang, Mr. Liu, and Mr. Xu will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer himself 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$109,000, each of the other executive directors is entitled to a basic monthly salary of HK$100,000 (subject to an annual increment at the discretion of the Directors). With effect from 1 January 2009, except Mr. Huang is entitled to a monthly salary of approximately HK$28,000, each of the other executive directors is entitled to a basic monthly salary of HK$10,000. 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 2010. 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. With effect from 1 January 2009, the monthly salary for each independent non-executive director is revised to HK$10,000 and certain share based payment.

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 11 to 12 of the annual report.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2008 amounted to approximately HK$308,838,000.

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 2008.

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.

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 2008, no option granted was exercised, forfeited or cancelled. As at 31 December 2008, 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.

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 2008, no option granted was exercised, forfeited or cancelled. As at 31 December 2008, 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 2008, no option granted was exercised, forfeited or cancelled. As at 31 December 2008, 32,800,000 share options are remained outstanding and exercisable.

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. During the year ended 31 December 2008, no option granted was exercised, forfeited or cancelled. As at 31 December 2008, 20,250,000 share options are remained outstanding and exercisable.

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-Merton Options Pricing Model to calculate the value of share options.

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 Note 33 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

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

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.

DISCLOSURE OF INTERESTS

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

As at 31 December 2008, the interests and short positions of the Directors and chief executive 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 Songqing	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.

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

As at 31 December 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 31 December 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 CEO)*	29 January 2008	1 Oct 2008 to 6 February 2012 *(Note 5)*	0.28	8,500,000
Mr Shen Songqing *(Executive Director)*	29 January 2008	1 Oct 2008 to 6 February 2012 *(Note 5)*	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
Mr Liu James Jin *(Executive Director)*	29 January 2008	1 Oct 2008 to 6 February 2012 *(Note 5)*	0.28	8,500,000
Ms. Guo Lin *(Executive Director)*	29 September 2003	2 January 2004 to 6 February 2012 *(Note 4)*	0.51	3,000,000
	29 January 2008	1 Oct 2008 to 6 February 2012 *(Note 5)*	0.28	8,500,000
Mr. Chong Cha Hwa *(Independent Non-executive Director)*	29 January 2008	1 Oct 2008 to 6 February 2012 *(Note 5)*	0.28	1,500,000

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.

4. Ms. Guo Lin can exercise her rights in two periods starting from 2 January 2004 to 6 February 2012. From 2 January 2004 to 1 July 2004, she can exercise up to 500,000 share options, and starting from 2 July 2004 to 6 February 2012, she can exercise any unexercised remaining rights. Ms. Guo Lin is appointed as an executive director of the Company from 1 January 2008. She had been granted share options since 29 September 2003.

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

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

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

As at 31 December 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 6)*	**Approximate percentage of shareholding**
Perfect Develop *(Note 7)*	Corporate	Beneficial owner	522,526,940 (L)	33.69%

Notes:

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

7. 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 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 EXECUTIVE'S 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	29%
– five largest suppliers combined	65%
Sales	
– the largest customer	16%
– five largest customers combined	32%

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.

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$924,000 in direct payments, and donated disaster relief medicine and material valued at HK$3,841,000.

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 17 April 2009, 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 41 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 25 May 2009 to 1 June 2009, 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 22 May 2009.

AUDITORS

Messrs. Ho and Ho & Company have been appointed as auditors of the Company with effect from 20 December 2004.

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 2008 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, 17 April 2009

Independent Auditor's Report

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

TO THE MEMBERS OF VITAL PHARMACEUTICAL HOLDINGS LIMITED
(FORMERLY KNOWN AS VITAL BIOTECH HOLDINGS LIMITED)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Vital Pharmaceutical Holdings Limited (formerly known as Vital BioTech Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 95, which comprise the consolidated balance sheet as at 31 December 2008, 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 2008 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
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
17 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
Turnover	8	**698,225**	507,494
Cost of sales		**(250,858)**	(183,053)
Gross profit		**447,367**	324,441
Other operating income	8	**26,370**	17,980
Selling and distribution expenses		**(182,611)**	(168,754)
Administrative expenses		**(155,343)**	(96,091)
Impairment loss recognised in respect of goodwill	23	**(37,896)**	–
Finance costs	9	**(16,405)**	(12,605)
Profit before taxation		**81,482**	64,971
Income tax expense	10	**(20,563)**	(14,512)
Profit for the year	11	**60,919**	50,459
Attributable to:			
Equity holders of the Company		**61,095**	50,622
Minority interests		**(176)**	(163)
		60,919	50,459
Dividends	12	**–**	–
Earnings per share	13		
Basic		**HK3.94 cents**	HK3.27 cents
Diluted		**HK3.93 cents**	HK3.25 cents

Consolidated Balance Sheet

As at 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Intangible assets	16	**2,651**	4,745
Property, plant and equipment	17	**225,552**	250,821
Investment properties	18	**57,032**	–
Prepaid lease payments on land use rights	19	**39,511**	33,416
Deposit for acquisition of a subsidiary	20	**–**	52,553
Deposit for acquisition of property, plant and equipment	21	**4,571**	5,292
Available-for-sale investments	22	**1,203**	4,782
Goodwill	23	**104,906**	30,396
		435,426	382,005
Current assets			
Inventories	24	**66,984**	108,362
Trade and other receivables	25	**131,660**	136,721
Prepaid lease payments on land use rights	19	**800**	754
Income tax recoverable		**6,031**	6,031
Held-for-trading investment	26	**1,667**	–
Bank balances and cash	27		
– pledged		**4,002**	639
– unpledged		**148,351**	106,525
		359,495	359,032
Current liabilities			
Trade and other payables	28	**76,008**	105,814
Value added tax payable		**17,522**	11,818
Income tax payable		**11,705**	3,152
Obligations under finance leases			
– due within one year	29	**114**	300
Bank borrowings – due within one year	30	**84,349**	115,089
		189,698	236,173
Net current assets		**169,797**	122,859
Total assets less current liabilities		**605,223**	504,864

	NOTES	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	31	**15,511**	15,511
Reserves		**581,448**	487,942
Equity attributable to equity holders of the Company		**596,959**	503,453
Minority interests		**413**	589
Total equity		**597,372**	504,042
Non-current liabilities			
Obligations under finance leases			
– due after one year	29	**344**	822
Deferred tax liabilities	32	**7,507**	–
		7,851	822
		605,223	504,864

The consolidated financial statements on pages 31 to 95 were approved and authorised for issue by the Board of Directors on 17 April 2009 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 2008

	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	Properties revaluation 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	HK$'000
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
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
Net income recognised directly in equity	–	–	20,790	–	–	–	220	–	–	–	21,010	11	21,021
Profit (loss) 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	–	–	–	–	10,227	–	–	40,395	–	–	50,622	(163)	50,459
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
Loss on fair value changes of available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**–**	**(1,533)**	**–**	**–**	–	**(1,533)**	**–**	**(1,533)**
Change in fair value of properties upon transfer to investment properties	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,292**	**6,292**	**–**	**6,292**
Deferred tax liability arising from change of fair value of properties	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,573)**	**(1,573)**	**–**	**(1,573)**
Release of other reserve upon disposal of an available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**–**	**39**	**–**	**–**	–	**39**	**–**	**39**
Exchange difference arising on translation of overseas operation	**–**	**–**	**23,338**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**23,338**	**–**	**23,338**
Net (expense) income recognised directly in equity	**–**	**–**	**23,338**	**–**	**–**	**–**	**(1,494)**	**–**	**–**	**4,719**	**26,563**	**–**	**26,563**
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**61,095**	**–**	**–**	**61,095**	**(176)**	**60,919**
Transfer from retained earnings	**–**	**–**	**–**	**–**	**8,939**	**–**	**–**	**(8,939)**	**–**	**–**	**–**	**–**	**–**
Total recognised income and expenses for the year	**–**	**–**	**–**	**–**	**8,939**	**–**	**–**	**52,156**	**–**	**–**	**61,095**	**(176)**	**60,919**
Reserves released through disposal of a subsidiary	**–**	**–**	**(14)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(14)**	**–**	**(14)**
Recognition of equity-settled share based payment	**–**	**–**	**–**	**5,862**	**–**	**–**	**–**	**–**	**–**	**–**	**5,862**	**–**	**5,862**
At 31 December 2008	**15,511**	**251,175**	**57,319**	**9,891**	**45,593**	**616**	**(1,548)**	**213,683**	**–**	**4,719**	**596,959**	**413**	**597,372**

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 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**81,482**	64,971
Adjustments for :		
Amortisation of intangible assets	**2,300**	2,769
Amortisation of prepaid lease payments on land use rights	**942**	726
Net decrease in fair value of investment properties	**633**	–
Depreciation of property, plant and equipment	**19,308**	19,614
Finance costs	**16,405**	12,605
Gain on disposal of held-for-trading investments	**–**	(652)
Gain on disposal of available-for-sale investments	**(2,030)**	–
Gain on disposal/gain on deregistration of a subsidiary	**(143)**	(90)
Impairment loss recognised in respect of goodwill	**37,896**	–
Impairment loss recognised in respect of intangible assets	**–**	1,899
Impairment loss recognised in respect of property, plant and equipment	**27,075**	–
Impairment loss recognised in respect of other receivables	**2,778**	–
Impairment loss recognised in respect of payments for pharmaceutical projects	**2,971**	–
Impairment loss recognised in respect of trade receivables	**4,695**	5,722
Interest income	**(652)**	(995)
Loss on disposal of property, plant and equipment	**428**	324
Provision for compensation	**5,556**	–
Reversal of write off of inventories	**(2,816)**	–
Share based payments expense	**5,862**	–
Write down and written off of inventories	**4,094**	4,228
Operating cash flow before movements in working capital	**206,784**	111,121
Decrease (increase) in inventories	**86,483**	(40,031)
Decrease in trade and other receivables	**56,326**	38,652
(Decrease) increase in trade and other payables	**(116,088)**	15,549
Increase in value added tax payable	**7,590**	7,832
Cash generated from operations	**241,095**	133,123
Overseas income tax paid	**(18,670)**	(13,334)
NET CASH FROM OPERATING ACTIVITIES	**222,425**	119,789

	NOTES	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	34	**(136,284)**	–
Purchase of property, plant and equipment		**(6,073)**	(11,631)
Purchase of held-for-trading investments		**(1,667)**	(104)
Deposit paid for acquisition of property, plant and equipment		**(2,147)**	(5,292)
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	35	**(31)**	–
Decrease in pledged bank balances		**9,333**	8,219
Proceeds from sales of available-for-sale investments		**4,115**	–
Interest received		**652**	995
Proceeds from sales of property, plant and equipment		**210**	55
Deposit paid for acquisition of a subsidiary		**–**	(52,553)
Proceeds from sales of held-for-trading investments		**–**	1,268
NET CASH USED IN INVESTING ACTIVITIES		**(131,892)**	(59,043)
FINANCING ACTIVITIES			
Repayment of bank borrowings		**(223,482)**	(245,878)
Finance costs paid		**(16,405)**	(12,605)
Repayment of obligations under finance leases		**(514)**	(292)
New bank borrowings raised		**187,627**	197,111
Dividend paid		**–**	(15,417)
Proceeds from issue of shares		**–**	2,287
NET CASH USED IN FINANCING ACTIVITIES		**(52,774)**	(74,794)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**37,759**	(14,048)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**106,525**	126,980
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**4,067**	(6,407)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		**148,351**	106,525

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

Vital Pharmaceutical Holdings Limited (formerly known as Vital Biotech Holdings Limited) (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liabilities and its shares 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$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries is HK$.

As the Company is listed in Hong Kong, the directors consider that it is appropriate to present the consolidated financial statements in HK$.

The principal activities of the Company and its subsidiaries (the "Group") are research and development, selling, distributing 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 the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK (IFRIC) – Interpretation ("INT") 11	HKFRS 2 – Group and Treasury Share Transactions
HK (IFRIC) – INT 12	Service Concession Arrangements
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	Embedded Derivatives[6]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – INT 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – INT 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 October 2008.
6 Effective for annual periods ending on or after 30 June 2009.
7 Effective for transfers of assets from customers received on or after 1 July 2009.

The application 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. The directors of the Company anticipate that the application of the other new and revised standards, amendments 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 investment properties and 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.

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) Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity 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 net assets and operations of another entity, 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 business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Intangible assets

Research and development expenditure

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.

(e) Investments in subsidiaries

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

(f) Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment *(Continued)*

Construction in progress includes property, plant and equipment 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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in properties revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

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.

(g) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) 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.

(i) 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 or 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.

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.

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 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.

Interest income is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Financial assets at fair value through profit or loss

A financial asset is classified as 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.

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 and cash) 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)*

(i) Financial instruments *(Continued)*

Impairment loss on financial assets

Financial assets 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 affected.

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 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.

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.

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 or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Impairment loss on 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, 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)*

(i) Financial instruments *(Continued)*

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.

(j) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(k) Inventories

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

(l) 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. 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)*

(m) 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.

(n) Equity settled share-based payment transactions

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

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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

The fair value of services received are 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Equity settled share-based payment transactions *(Continued)*

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, with a corresponding increase in equity (share options reserve), when the Group obtains the good or when the counterparties render services, unless the goods or services qualify for recognition as assets.

(o) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) 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.

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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) 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 lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

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.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases, except for those that are classified and accounted for as investment properties under the fair value model.

(r) Retirement benefit costs

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

(s) 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.

(t) 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 reported separately as "other operating income".

4. 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.

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.

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 2008, the carrying amount of goodwill was approximately HK$104,906,000 (net of impairment loss of approximately HK$37,986,000). Details of impairment testing on goodwill are set out in Note 23a.

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.

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 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. As at 31 December 2008, the carrying amount of trade receivables was approximately HK$121,432,000 (net of impairment loss of approximately HK$11,215,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amounts of payments for pharmaceutical projects and other receivables were approximately HK$744,000 (net of impairment loss of approximately HK$20,509,000) and HK$1,786,000 (net of impairment loss of approximately HK$2,778,000), respectively.

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. As at 31 December 2008, the carrying amount of inventories was approximately HK$66,984,000 (net of impairment of approximately HK$8,510,000).

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. As at 31 December 2008, the carrying amount of property, plant and equipment was approximately HK$225,552,000 (net of impairment loss of approximately HK$27,075,000).

Provision for compensation

Management judgment is required in assessing the provisions made for compensation at the balance sheet date, which is made based on an estimation of the anticipated claims against the Group, the merits of the claims against the Group and the existence of any obligation. The provision is reviewed on an ongoing basis and is revised where appropriate.

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 shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes bank borrowings and obligations under finance leases disclosed in Notes 30 and 29 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 a 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 2008.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008 **HK$'000**	2007 HK$'000
Available-for-sale investments	**1,203**	4,782
Held-for-trading investment	**1,667**	–
Loans and receivables (including cash and cash equivalents)	**284,070**	244,659
Financial liabilities at amortised cost	**160,815**	222,025

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, trade and other receivables, bank balances and cash, trade and other payables, bank borrowings and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

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

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 available-for-sale investments and bank balances and cash are denominated in currencies other than the functional currency of the entity to which they relate.

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 2008		As at 31 December 2007	
	RMB'000	**United States Dollars ("USD") '000**	RMB'000	USD'000
Assets	**3**	**1,766**	34	1,776
Liabilities	**8,620**	**5**	26,351	1,696

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% (2007: 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% (2007: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit and other equity where HK$ strengthen 5% (2007: 5%) against the relevant currency. For a 5% (2007: 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.

	RMB		**USD**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Profit or loss	**479**	1,400	**(648)**	208
Other equity	**–**	–	**(39)**	(239)

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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 30 for details of these borrowings) for the years ended 31 December 2008 and 2007. 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 30 for details of these borrowings) for the years ended 31 December 2008 and 2007. It is the Group's policy to keep its borrowings at floating rate of interest 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 had 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 was 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 2008 would decrease/increase by approximately HK$50,000 (2007: HK$75,000). This was mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Other price risk

The Group is exposed to equity price risk through its investment in listed equity securities. The Group's exposure to other price risk is minimal.

Credit risk

As at 31 December 2008 and 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.

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.

As at 31 December 2007, the Group had concentration of credit risk as 60% and 64% of the total receivables was due from the Group's largest customer and five largest customers, respectively.

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

Credit risk *(Continued)*

As at 31 December 2008, the Group does not have any significant concentration of credit risk. Trade receivables consist of a large number of customers, spreading across diverse industries.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by the international credit-rating agencies.

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-derivative 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 will be required to pay. The table includes both interest and principal cash flows.

Liquidity risk tables

	Weighted average effective interest rate	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
2008					
Non-derivative financial liabilities					
Trade and other payables	**–**	**76,008**	**76,008**	**–**	**76,008**
Bank borrowings	**6.31%**	**84,349**	**86,146**	**–**	**86,146**
Obligations under finance leases	**10.25%**	**458**	**161**	**353**	**514**
		160,815	**162,315**	**353**	**162,668**
2007					
Non-derivative financial liabilities					
Trade and other payables	–	105,814	105,814	–	105,814
Bank borrowings	7.42%	115,089	120,654	–	120,654
Obligations under finance leases	9.00%	1,122	424	962	1,386
		222,025	226,892	962	227,854

8. TURNOVER AND OTHER OPERATING INCOME

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

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

	2008 **HK$'000**	2007 HK$'000
Turnover		
Sales of goods	**698,225**	507,494
Other operating income		
Interest income	**652**	995
Government grants (Note a)	**14,533**	10,193
Exchange gain	**5,004**	5,667
Gain on disposal/gain on deregistration of a subsidiary	**143**	90
Gain on disposal of held-for-trading investments	**–**	652
Gain on disposal of available-for sale investments	**2,030**	–
Net rental income from investment properties (Note b)	**905**	–
Reversal of write off of inventories	**2,816**	–
Sundry income	**287**	383
	26,370	17,980
Total revenues	**724,595**	525,474

Notes:

(a) For the two years ended 31 December 2008, the amounts represented unconditional grants from the PRC government specifically for encouraging 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.

(b) The amount represents net rental income generated from investment properties after deducing direct operating expenses of approximately HK$187,000 (2007: Nil).

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

	2008 HK$'000	2007 HK$'000
Interest expenses on:		
– bank borrowings and overdrafts wholly repayable within five years	**12,421**	7,402
– obligations under finance leases	**161**	155
– discounted bills of exchange	**2,001**	4,509
– bank borrowings not wholly repayable within five years	**–**	194
Other incidental borrowing costs	**1,822**	345
Total borrowing costs charged to the consolidated income statement	**16,405**	12,605

10. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
Overseas income tax		
– current	**19,715**	15,632
– under(over) provision in prior years	**1,033**	(1,120)
	20,748	14,512
Deferred tax (Note 32)	**(185)**	–
	20,563	14,512

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

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 2008 and 2007.

10. 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.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries was reduced from 33% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries ranged from 15% to 25% (2007: 13% to 33%).

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, one (2007: two) subsidiaries operating in the PRC are entitled to exemption from PRC enterprise income tax in the first two years from the first profit-making year, followed by a 50% reduction of PRC enterprise income tax for the next three years and thereafter, preferential treatments which are subject to the relevant law and regulation.

One subsidiary obtained approval from the relevant tax bureau during the year ended 31 December 2008 and are qualified as a High and New Technology Enterprise which is subject to a tax rate of 15%. This subsidiary is subject to a tax rate of 13% during the year ended 31 December 2007.

Certain PRC 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.

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:

	2008 **HK$'000**	2007 HK$'000
Profit before taxation	**81,482**	64,971
Tax calculated at rates applicable to profits in the respective tax jurisdiction concerned	**12,048**	11,695
Effect of tax exemption granted to a Macao subsidiary	**(16,426)**	(5,796)
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	**3,556**	(1,666)
Tax effect of income not taxable for tax purpose	**(1,428)**	(493)
Tax effect of expenses not deductible for tax purposes	**13,287**	9,091
Utilisation of previously unrecognised tax losses	**(561)**	(95)
Tax effect of tax losses and deductible temporary difference not recognised	**9,054**	2,896
Under (over) provision in prior years	**1,033**	(1,120)
Income tax expense for the year	**20,563**	14,512

Details of deferred taxation are set out in Note 32.

11. PROFIT FOR THE YEAR

	2008 HK$'000	2007 HK$'000
Profit for the year has been arrived at after charging :		
Amortisation of intangible assets	**2,300**	2,769
Amortisation of prepaid lease payments on land use rights	**942**	726
Auditors' remuneration	**1,436**	1,389
Cost of inventories sold	**248,042**	182,034
Depreciation of property, plant and equipment	**19,308**	19,614
Impairment loss recognised in respect of trade receivables (included in administrative expenses)	**4,695**	5,722
Net decrease in fair value of investment properties	**633**	–
Impairment loss recognised in respect of intangible assets (included in administrative expenses)	**–**	1,899
Impairment loss recognised in respect of property, plant and equipment (included in administrative expenses)	**27,075**	–
Impairment loss recognised in respect of payments for pharmaceutical projects (Note 25) (included in administrative expenses)	**2,971**	–
Impairment loss recognised in respect of other receivables (Note 25) (included in administrative expenses)	**2,778**	–
Loss on disposal of property, plant and equipment	**428**	324
Operating lease rental on land and buildings	**3,507**	2,598
Provision for compensation (Note a)	**5,556**	–
Research and development costs	**3,638**	1,747
Equity-settled consultancy services (Note b)	**955**	–
Staff costs (including directors' emoluments) (Note 14)	**114,961**	52,048
Written off of inventories (included in cost of sales)	**285**	165
Write down of inventories (included in cost of sales (2007: included in administrative expenses))	**3,809**	4,063

Notes:

(a) The amount represents the provision for compensation claim following the voluntary recall of one of the Group's product "Depile Capsules" from the market after reports of possible damage to the liver by "Depile Capsules". Details of the particulars were set out on an announcement dated 12 November 2008.

(b) The amount represents the fair value of consultancy and professional services provided to the Group in the current period in relation to identifying potential pharmaceutical projects and providing legal advice in the PRC. The consultancy service and professional service fees are settled through the issue of 11,000,000 share options in the current year as set out in Note 33.

12. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

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:

	2008 **HK$'000**	2007 HK$'000
Earnings		
Profit for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	**61,095**	50,622

Number of shares	**2008**	2007
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,551,056,993**	1,546,319,870
Effect of dilutive ordinary shares in respect of share options	**2,007,791**	9,226,864
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,553,064,784**	1,555,546,734

14. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2008	2007
	HK$'000	HK$'000
Salaries, allowances, other benefits and bonus	**102,954**	49,822
Retirement benefit schemes contribution	**7,100**	2,226
Share-based payments	**4,907**	–
	114,961	52,048

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.

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.

Details of the Company's share options granted to the employees of the Group are set out in Note 33.

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the nine (2007: eight) directors were as follows:

For the year ended 31 December 2008

		Other emoluments				
	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Discretionary bonus HK$'000	Retirement benefit schemes contribution HK$'000	Share-based payments HK$'000	Total HK$'000
Executive directors:						
Mr. Tao Lung	–	1,080	1,000	12	–	2,092
Mr. Liu James Jin	–	1,080	1,000	12	738	2,830
Mr. Huang Jianming	–	1,301	1,000	–	738	3,039
Mr. Shen Songqing	–	1,080	1,000	–	738	2,818
Mr. Xu Xiaofan	–	1,080	1,000	–	–	2,080
Ms. Guo Lin (Appointed on 1 January 2008)	–	1,172	1,000	5	738	2,915
Independent non-executive directors:						
Mr. Lee Kwong Yiu	240	–	–	–	–	240
Mr. Lui Tin Nang	240	–	–	–	–	240
Mr. Chong Cha Hwa	240	–	–	–	130	370
	720	6,793	6,000	29	3,082	16,624

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

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2007

		Other emoluments				
	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Discretionary bonus 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

Discretionary bonus for the two years ended 31 December 2008 was determined with reference to the Group's operating results, individual performance and comparable market statistics.

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

(b) Senior management's emoluments

Of the five individuals with the highest emoluments in the Group, all (2007: three) were directors of the Company whose emoluments are set out in the above.

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

	2007 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 remaining two highest paid individuals fall in the following band:

	Number of individuals
Emoluments bands	
HK$2,000,001 – HK$2,500,000	1
HK$2,500,001 – HK$3,000,000	1
	2

(c) No emoluments have been paid by the Group to all 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 2008. No directors waived or agreed to waive any emoluments during the two years ended 31 December 2008.

16. INTANGIBLE ASSETS

	Development costs HK$'000
COST	
At 1 January 2007	13,204
Exchange realignment	813
At 31 December 2007	14,017
Exchange realignment	604
At 31 December 2008	**14,621**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2007	4,348
Exchange realignment	256
Impairment loss recognised in the year	1,899
Provided for the year	2,769
At 31 December 2007	9,272
Exchange realignment	398
Provided for the year	2,300
At 31 December 2008	**11,970**
CARRYING VALUES	
At 31 December 2008	**2,651**
At 31 December 2007	4,745

Development costs have finite useful lives and are amortised on a straight-line basis over five years.

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 was fully impaired during the year ended 31 December 2007.

17. PROPERTY, PLANT AND EQUIPMENT

	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
COST							
At 1 January 2007	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
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
Exchange realignment	1,173	2,152	–	7,193	609	313	11,440
Reclassification	40,469	(59,831)	–	18,790	–	572	–
Transfer to investment properties (Note 18)	(7,830)	–	–	–	–	–	(7,830)
Additions	3,047	2,556	812	278	1,410	1,073	9,176
Acquired on acquisition of subsidiaries	7,222	–	903	–	1,309	2,224	11,658
Disposal of a subsidiary	–	–	–	–	–	(22)	(22)
Disposals	–	–	–	–	(1,213)	(433)	(1,646)
At 31 December 2008	**100,675**	**–**	**7,296**	**202,062**	**23,721**	**12,886**	**346,640**

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 2007	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
Exchange realignment	105	–	–	1,895	494	186	2,680
Provided for the year	2,284	–	773	10,934	3,495	1,822	19,308
Impairment losses recognised	2,700	–	4,139	20,078	–	158	27,075
Eliminated on disposal of a subsidiary	–	–	–	–	–	(10)	(10)
Eliminated on disposals	–	–	–	–	(924)	(84)	(1,008)
At 31 December 2008	**9,167**	**–**	**5,899**	**81,009**	**16,967**	**8,046**	**121,088**
CARRYING VALUES							
At 31 December 2008	**91,508**	**–**	**1,397**	**121,053**	**6,754**	**4,840**	**225,552**
At 31 December 2007	52,516	55,123	4,594	127,699	7,704	3,185	250,821

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

The carrying values of properties shown above comprises:

	2008 **HK$'000**	2007 HK$'000
Land in Hong Kong:		
Long lease	**13,056**	13,406
Medium-term lease	**14,955**	15,574
Land outside Hong Kong:		
Long lease	**–**	10,399
Medium-term lease	**63,497**	13,137
	91,508	52,516

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 2008, 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$40,862,000 (2007: HK$35,115,000).

(b) The carrying values of motor vehicles of approximately HK$6,754,000 includes an amount of approximately HK$596,000 (2007: HK$1,240,000) in respect of assets held under finance leases.

(c) During the year ended 31 December 2008, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to suspension of production of a pharmaceutical product and pending from approval for the production of injection related products. Accordingly, impairment losses of approximately HK$20,078,000 and HK$6,997,000 have been recognised in respect of plant and machinery and other assets, respectively.

18. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2007 and 1 January 2008	–
Acquired on acquisition of a subsidiary	40,333
Transfer from land and buildings (Note 17) (Note d)	7,830
Transfer from prepaid lease payments on land use rights (Note d)	3,210
Net increase in fair value recognised in properties revaluation reserve (Note d)	6,292
Net decrease in fair value recognised in the consolidated income statement	(633)
At 31 December 2008	**57,032**

Notes:

(a) The carrying value of investment properties shown above are situated in the PRC and held under medium-term lease.

(b) All of the Group's property interests are held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

(c) The fair value of the Group's investment properties at 31 December 2008 has been arrived at on the basis of a valuation carried out on that date by 成都天一房地產地價評估有限公司 ("成都天一"), independent qualified professional valuers not connected with the Group. 成都天一 has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

(d) During the year, the Group transferred an office building previously classified as property, plant and equipment and prepaid lease payments with carrying amounts of approximately HK$7,830,000 and HK$3,210,000, respectively to investment properties. The fair value of the investment properties on the date of transfer amounted to approximately HK$17,332,000 which were valued by 成都天一.

(e) At 31 December 2008, the fair value of the Group's investment properties pledged as security for the banking facilities granted to the Group amounted to approximately HK$39,700,000 (2007: Nil).

19. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2008	2007
	HK$'000	HK$'000
The Group's prepaid lease payments on land use rights comprise:		
Leasehold land in the PRC:		
Long lease	**–**	13,865
Medium-term lease	**40,311**	20,305
	40,311	34,170
Analysed for reporting purposes as:		
Current assets	**800**	754
Non-current assets	**39,511**	33,416
	40,311	34,170

At 31 December 2008, 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$16,647,000 (2007: HK$9,819,000).

20. 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 四川恒泰醫藥有限公司 (Sichuan Hengtai Pharmaceutical Company Limited) ("Sichuan Hengtai") for a consideration of approximately RMB200,000,000 (equivalent to approximately HK$222,222,000). On 31 March 2008, the Group completed the acquisition and the consideration was fully settled during the year.

21. DEPOSIT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Balance as at 31 December 2008 and 2007 represents deposits paid for acquisition of staff quarters in the PRC. Details of the related capital commitments as at 31 December 2008 and 2007 are set out in Note 38.

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2008 **HK$'000**	2007 HK$'000
Unlisted investments in guaranteed funds, at fair value	–	4,017
Unlisted investments in certificates of deposits, at fair value	**775**	765
Unlisted equity securities, at cost (Notes a and b)	**7,072**	17,234
Less: Impairment loss recognised (Notes b and c)	**(7,072)**	(17,234)
Listed investment in equity securities listed elsewhere (Note d)	**428**	–
	1,203	4,782

Notes:

(a) As at 31 December 2007, the above unlisted equity securities represented investments in private entity incorporated in the PRC and Malaysia.

On 19 March 2008, the Group disposed of its investment in unlisted equity securities in Malaysia to an independent third party in exchange for 1,586,053 ordinary shares in a company listed on the Australian Securities Exchange and resulted in a gain on disposal of approximately HK$1,971,000. 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.

(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 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 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.

(d) The above listed equity securities represent investments in listed securities in Australia.

23. GOODWILL

	HK$'000
COST	
At 1 January 2007 and 31 December 2007	34,876
Arising on acquisition of a subsidiary (Note 34)	112,406
At 31 December 2008	**147,282**
IMPAIRMENT	
At 1 January 2007 and 31 December 2007	4,480
Impairment loss recognised in the year	37,896
At 31 December 2008	**42,376**
CARRYING VALUES	
At 31 December 2008	**104,906**
At 31 December 2007	30,396

Particulars regarding impairment testing on goodwill are disclosed in Note 23a.

23a. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill set out in Note 23 has been allocated to two individual cash generating units (2007: one). The carrying amounts of goodwill (net of accumulated impairment losses) as at the balance sheet date allocated to these units are as follows:

	2008 HK$'000	2007 HK$'000
Vital Pharmaceutical (Sichuan) Company Limited ("Sichuan Vital")	**–**	30,396
Sichuan Hengtai and its subsidiary ("Hengtai Group")	**104,906**	–
	104,906	30,396

23a. IMPAIRMENT TESTING ON GOODWILL *(Continued)*

Sichuan Vital

Sichuan Vital is engaged in the manufacturing and trading of pharmaceutical products in the PRC. Due to the uncertainties with the renewal of the import drug license for Osteoform, the directors of Company is seriously assessing the future viability of Sichuan Vital and considers that the carrying amount of the goodwill arising from the acquisition of Sichuan Vital in the amount of approximately HK$30,396,000 was fully impaired for the year ended 31 December 2008.

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

Hengtai Group

Hengtai Group is engaged in the selling and distribution of pharmaceutical products. In performing impairment review of the goodwill of Hengtai Group, the directors of the Company have taken into account that Hengtai Group is a professional pharmaceutical marketing enterprise which has an extensive distribution network, a broad customer base, a team of competent salesman and a close working relationship with business partners such as distributors and retail pharmacies. The management considers that the uncertainties with the renewal of the import drug license for Osteoform may have certain impact on Hengtai Group's future business performance. The directors of the Company assessed the goodwill impairment with reference to the business valuation report of Hengtai Group as at 31 December 2008 issued by BMI Appraisals Limited ("BMI"), an independent professional valuer. The directors of the Company are of the opinion that the recoverable amount is less than its respective carrying amount as at 31 December 2008, accordingly an impairment loss of approximately HK$7,500,000 was recognised.

As extracted from BMI's valuation report for the recoverable amounts as at 31 December 2008, the management of the Group prepared profit forecast and cash flow forecast in respect of Hengtai Group (the "Hengtai's Forecast"). Hengtai's Forecast is based on financial budgets approved by the management covering a period of five years at a discount rate of 15.3%. The cash flows beyond the five-year period are extrapolated using a steady 3% 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. Hengtai's Forecast during the budget period is based on the budgeted gross margins during the budget period. Budgeted gross margins have been determined based on the management's expectation for market development and past experience, and the management believes that the budgeted gross margins are reasonable.

24. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials		
– in transit	–	6,630
– on hand	**1,448**	29,080
Work in progress	**2,099**	20,888
Finished goods	**62,978**	47,836
Packing materials	**459**	3,928
	66,984	108,362

During the year, certain impaired inventories were sold at gross profit. As a result, a reversal of write-down of the inventories of approximately HK$2,816,000 (2007: Nil) has been recognised and included in consolidated income statement for the year ended 31 December 2008.

25. TRADE AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade and bills receivables (Note a)	**132,647**	127,474
Prepayments and deposits	**7,698**	11,785
Payments for pharmaceutical projects (Note b)	**21,253**	19,324
Other receivables	**4,564**	2,863
	166,162	161,446
Less: Impairment loss recognised in respect of trade receivables	**(11,215)**	(7,187)
Impairment loss recognised for payments for pharmaceutical projects (Note c)	**(20,509)**	(17,538)
Impairment loss recognised in respect of other receivables (Note d)	**(2,778)**	–
	131,660	136,721

25. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

	2008 HK$'000	2007 HK$'000
Within 30 days	**46,842**	39,704
31-60 days	**28,192**	40,078
61-90 days	**31,297**	17,844
Over 90 days	**15,101**	22,661
	121,432	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) At the balance sheet date, the directors of the Company reviewed the carrying values of the payments for pharmaceutical projects and considered that in light of the market conditions in the PRC, the Group had terminated projects which involved high risks and ceased on its own initiative the application of projects of minimal benefit, therefore accumulated impairment loss of approximately HK$20,509,000 (2007: HK$17,538,000) had been recognised. An impairment loss of approximately HK$2,971,000 was recognised during the year ended 31 December 2008 (2007: Nil).

(d) Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$2,778,000 (2007: Nil) which are due to long outstanding. The Group does not hold any collateral over these balances.

(e) 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.

(f) The movements in impairment loss of trade receivables were as follows:

	2008 HK$'000	2007 HK$'000
At 1 January	**7,187**	1,430
Exchange realignment	**3**	35
Arising on acquisition of a subsidiary	**238**	–
Recognised during the year	**4,695**	5,722
Written off	**(908)**	–
At 31 December	**11,215**	7,187

(g) At 31 December 2008 and 2007, the aging 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 2008	**121,432**	**116,009**	**4,990**	**317**	**–**	**116**
31 December 2007	120,287	112,911	4,850	–	2,526	–

25. TRADE AND OTHER RECEIVABLES *(Continued)*

For the year ended 31 December 2008, 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.

For the year ended 31 December 2007, trade receivable that were neither pass due nor impaired related to 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 loss 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.

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

	2008 **HK$'000**	2007 HK$'000
Held-for-trading investment include:		
Unlisted investment in guaranteed funds, at fair value	**1,667**	–

27. BANK BALANCES AND CASH

Bank balances and cash of the Group as at 31 December 2008 included amounts of approximately HK$132,894,000 (2007: HK$91,794,000) 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 ranging from 0.05% to 1.62% (2007: 1.50%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

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

28. TRADE AND OTHER PAYABLES

	2008 **HK$'000**	2007 HK$'000
Trade and bills payables	**11,909**	14,965
Accrued expenses and other payables	**64,099**	90,849
	76,008	105,814

28. TRADE AND OTHER PAYABLES *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Within 30 days	**274**	12,783
31-60 days	**114**	1,777
61-90 days	**6**	30
Over 90 days	**11,515**	375
	11,909	14,965

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.

29. OBLIGATIONS UNDER FINANCE LEASES

The average lease terms are five (2007: five) years. For the year ended 31 December 2008, the average effective borrowing rate was 10.25% (2007: 9.00%). 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	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Amounts payable under finance leases				
Within one year	**161**	424	**114**	300
In more than one year but not more than two years	**353**	424	**344**	315
In more than two years but not more than three years	**–**	538	**–**	507
	514	1,386	**458**	1,122
Less: Future finance charges	**(56)**	(264)	**–**	–
Present value of lease obligations	**458**	1,122	**458**	1,122
Less: Amount due within one year shown under current liabilities			**(114)**	(300)
Amount due after one year			**344**	822

29. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

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

Finance lease obligations are denominated in Australian dollars.

30. BANK BORROWINGS

	2008 HK$'000	2007 HK$'000
Bank loans	**84,349**	115,089
Analysed as :		
Secured bank loans	**39,196**	19,923
Unsecured bank loans	**45,153**	95,166
	84,349	115,089

At 31 December 2008, bank borrowings of approximately HK$74,349,000 and HK$10,000,000 are fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carry interest ranging from 5.35% to 7.84% per annum and the floating-rate borrowings carry interest at HIBOR plus 4.50% per annum.

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

During the year ended 31 December 2008, the Group obtained new loans in the amount of approximately HK$187,627,000 (2007: HK$197,111,000). These loans carry interest at fixed and prevailing market rate and will be repayable in 2009.

31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary share of HK$0.01 each		
Authorised:		
At 1 January 2007, 31 December 2007 and 31 December 2008	50,000,000,000	500,000
Issued and fully paid:		
At 1 January 2007	1,541,706,993	15,417
Exercise of shares options	9,350,000	94
At 31 December 2007 and 31 December 2008	1,551,056,993	15,511

For 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 existing ordinary shares in all respects.

32. 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 HK$'000	Change in fair value of land and buildings HK$'000	Change in fair value of properties upon transfer to investment properties HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2007	1,143	–	–	(1,143)	–
Charge (credit) to consolidated income statement	31	–	–	(31)	–
At 31 December 2007	1,174	–	–	(1,174)	–
Arising on acquisition of subsidiaries	4,564	1,555	–	–	6,119
(Credit) charge to consolidated income statement	(697)	(26)	–	538	(185)
Charge to consolidation equity for the year	–	–	1,573	–	1,573
Effect of change in tax rate	(67)	–	–	67	–
At 31 December 2008	**4,974**	**1,529**	**1,573**	**(569)**	**7,507**

32. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of approximately HK$105,704,000 (2007: HK$104,365,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$3,448,000 (2007: HK$6,709,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$102,256,000 (2007: HK$97,656,000) due to the unpredictability of future profit streams. At 31 December 2008, approximately HK$38,843,000 (2007: HK$38,100,000) included in the above unused tax losses will expire after five years from the year of assessment to which they relate to. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of approximately HK$75,577,000 (2007: HK$34,822,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible differences can be utilised.

Under the New Law of PRC, withholding tax is imposed on dividends in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards (the "Post-2008 Earnings"). As at 31 December 2008, deferred taxation has not been provided for in the consolidation financial statements in respect of temporary difference attributable to the "Post-2008 Earnings" as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

33. 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 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 (2007: 46,890,000), representing 7.37% (2007: 3.02%) of the shares of the Company in issue at that date.

33. SHARE OPTION SCHEME *(Continued)*

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 was received during the year ended 31 December 2008 from eligible participants for taking up the options granted during the year (2007: Nil).

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

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

First phase:

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

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

Second phase:

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

33. SHARE OPTION SCHEME *(Continued)*

Third phase:

On 29 September 2003, options were granted to subscribe for an aggregate of 30,000,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2003 Share Option Scheme at HK$0.51 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK$0.50 per share. Those who were granted with the options can exercise their rights in two periods starting from 2 January 2004 to 6 February 2012 as follows:

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

Forth phase:

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

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

Fifth phase:

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

33. SHARE OPTION SCHEME *(Continued)*

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

	Date of grant	Outstanding at 1 January 2007	Cancelled during the year	Exercised during the year	Outstanding at 31 December 2007	Granted during the year	Outstanding at 31 December 2008	Exercise price per share
								HK$
Directors:								
Mr. Tao Lung	12 September 2005	15,000,000	–	–	15,000,000	–	15,000,000	0.23
Mr. Xu Xiaofan	12 September 2005	15,000,000	–	–	15,000,000	–	15,000,000	0.23
Mr. Huang Jianming	29 January 2008	–	–	–	–	8,500,000	8,500,000	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
Independent non-executive directors:								
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
Employees	21 June 2002	330,000	–	–	330,000	–	330,000	0.39
	29 September 2003	13,260,000	–	–	13,260,000	–	13,260,000	0.51
	12 September 2005	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
Other eligible participants	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					46,890,000		67,140,000	
Weighted average exercise price		0.30	0.23	0.24	0.31	0.28	0.29	

In respect of the share option exercised during the year ended 31 December 2007, the weighted average share price at the dates of exercise was HK$0.25.

33. SHARE OPTION SCHEME *(Continued)*

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 measurement date	HK$0.0877
Weighted average 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 measurement date	HK$0.0865
Weighted average 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%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 2.4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

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.

34. ACQUISITION OF SUBSIDIARIES

On 20 March 2008, the Group acquired the entire equity interest in 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$112,406,000.

The relevant information about the acquisition is as follows:

	Acquiree's carrying amount before combination HK$'000	**Fair value adjustment** HK$'000	**Fair value** HK$'000
Net assets acquired:			
Property, plant and equipment	9,671	1,987	11,658
Investments properties	40,333	–	40,333
Prepaid lease payments on land use rights	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	(4,564)	(1,555)	(6,119)
	105,154	4,662	109,816
Goodwill			112,406
Total consideration			222,222
Total consideration satisfied by:			
Cash consideration			169,669
Deposit for acquisition of a subsidiary			52,553
			222,222
Net cash outflow on acquisition			
Cash consideration paid			169,669
Less: Bank balances and cash acquired			(33,385)
			136,284

34. ACQUISITION OF SUBSIDIARIES *(Continued)*

Hengtai Group contributed approximately HK$2,225,000 to the Group's profit for the year 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 year would have been approximately HK$840,722,000 and profit for the year would have been approximately H$74,097,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the turnover 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.

35. DISPOSAL OF A SUBSIDIARY

On 30 November 2008, the Group disposed of its entire interests in a subsidiary engaged in the research and development of biotechnology, Chengdu Weiao Xinhui Pharmaceutical Technology, to an independent third party for a consideration of approximately HK$11,000 (equivalent to RMB10,000). The relevant information about the disposal was a follows:

	HK$'000
Net liabilities disposal of :	
Plant and equipment	12
Trade and other receivables	2
Bank balance and cash	42
Other payables	(174)
Net liabilities at date of disposal	(118)
Exchange reserves released on disposal of a subsidiary	(14)
Gain on disposal	143
Total consideration	11
Net cash outflow arising on disposal:	
Cash consideration received	11
Bank balance and cash	(42)
	(31)

The subsidiary disposed during the year ended 31 December 2008 had no significant impact on the results and cash flows of the Group.

36. 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
Plant and equipment	30
Exchange reserves released 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 results and cash flows of the Group.

37. RELATED PARTY TRANSACTIONS

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

(a) For 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, 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) **Compensation of key management personnel**

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

	2008 HK$'000	2007 HK$'000
Short-term benefits	**17,196**	19,606
Post-employment benefits	**156**	215
Share-based payments	**3,865**	–
	21,217	19,821

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.

38. COMMITMENTS

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

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

	2008 **HK$'000**	2007 HK$'000
Contracted but not provided for	**5,356**	–

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

	2008 **HK$'000**	2007 HK$'000
Contracted but not provided for	**10,877**	10,941

(c) Commitments for the acquisition of a subsidiary

	2008 **HK$'000**	2007 HK$'000
Contracted but not provided for	**–**	160,213

(d) Commitments under operating leases

The Group as a lessor

Property rental income earned during the year was approximately HK$1,092,000 (2007: Nil). The investment properties are expected to generate rental yields of 3.67% (2007 : Nil) on an ongoing basis. The investment properties held have committed tenants for the next one to four years.

38. COMMITMENTS *(Continued)*

(d) Commitments under operating leases *(Continued)*

At the balance sheet date, the Company had commitments for future minimum lease receivables under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2008 HK$'000	2007 HK$'000
Within one year	**1,831**	–
In the second to fifth year inclusive	**3,446**	–
	5,277	–

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 and rentals are fixed.

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

	2008 HK$'000	2007 HK$'000
Land and buildings		
Within one year	**917**	1,352
In the second to fifth year inclusive	**5**	121
	922	1,473

39. 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:

	2008 HK$'000	2007 HK$'000
Property, plant and equipment	**40,862**	35,115
Investment properties	**39,700**	–
Bank balances and cash	**4,002**	639
Prepaid lease payments on land use rights	**16,647**	9,819
	101,211	45,573

40. BALANCE SHEET INFORMATION OF THE COMPANY

	NOTE	2008 HK$'000	2007 HK$'000
Non-current assets			
Plant and equipment		**26**	49
Available-for-sale investments		**1,203**	4,782
Investments in subsidiaries		**53,035**	53,035
		54,264	57,866
Current assets			
Other receivables		**120**	260
Amounts due from subsidiaries	(a)	**398,290**	394,760
Bank balances and cash		**5,627**	295
		404,037	395,315
Current liabilities			
Other payables		**7,389**	16,342
Amounts due to subsidiaries	(a)	**118,220**	86,280
		125,609	102,622
Net current assets		**278,428**	292,693
Net assets		**332,692**	350,559
Capital and reserves			
Share capital		**15,511**	15,511
Other reserves		**311,470**	308,182
Retained earnings		**5,711**	26,866
Shareholders' fund		**332,692**	350,559

(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 amounts due to their short-term maturities.

41. SUBSEQUENT EVENTS

On 11 March 2009, the Company received a written notice from Pharmco, the sole supplier of Osteoform to the Group with regards to the uncertainties of renewing the import drug license for Osteoform which may lead to a possible termination of supply of Osteoform by Pharmco to the Group for medical purpose. Details of the particulars were set out on announcement dated 12 March 2009.

42. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 December 2008 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
Indirect subsidiaries:						
Beshabar Trading Limited	Ordinary shares	BVI	BVI	1 ordinary share of US$1	100%	Investment holding
Beshabar (Macao Commercial Offshore) Limited	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

42. 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)*						
## Sichuan Vital	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
## 維奧(成都)製藥有限公司	Contributed capital	PRC	PRC	RMB25,000,000	100%	Inactive
# 成都出口監管倉庫有限公司	Contributed capital	PRC	PRC	RMB2,000,000	100%	Provision of logistic services
### Sichuan Hengtai	Contributed capital	PRC	PRC	RMB4,300,000	100%	Selling and distributing of pharmaceutical products

Equity joint ventures
Wholly owned foreign enterprise
Limited liability company

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.

43. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with current year's presentation.

Properties Held for Investment

INVESTMENT PROPERTIES

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