Vital Pharmaceutical Holdings Limited

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

Annual Report 2009

Contents

Financial Highlights

OPERATING RESULTS

	For the year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**364,022**	698,225	507,494	487,147	446,437
Operating profit	**66,171**	97,887	77,576	60,217	37,735
Finance costs & share of result of an associate	**(586)**	(16,405)	(12,605)	(13,201)	(11,255)
Profit before taxation	**65,585**	81,482	64,971	47,016	26,480
Income tax expense	**(12,615)**	(20,563)	(14,512)	(9,916)	(5,537)
Profit for the year	**52,970**	60,919	50,459	37,100	20,943
Profit attributable to:					
Owners of the Company	**53,010**	61,095	50,622	37,743	21,649
Minority interests	**(40)**	(176)	(163)	(643)	(706)
	52,970	60,919	50,459	37,100	20,943

FINANCIAL POSITION

	As at 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**725,102**	794,921	741,037	696,491	623,972
Total liabilities	**(74,912)**	(197,549)	(236,995)	(250,679)	(224,785)
	650,190	597,372	504,042	445,812	399,187
Equity attributable to owners of the Company	**649,382**	596,959	503,453	445,071	395,900
Minority interests	**808**	413	589	741	3,287
	650,190	597,372	504,042	445,812	399,187

Note:

The consolidated results of the Group for the two years ended 31 December 2009 and the assets and liabilities of the Group as at 31 December 2009 and 2008 have been extracted from the audited consolidated financial statements of the Group as set out on pages 30 to 33 of the Annual Report.

Corporate Information

DIRECTORS

Executive Directors

Xu Xiaofan *(Chairman)*
Chen Zhiyu *(Chief Executive Officer)*
Guo Lin
Huang Zemin
Li Ke
Liu James Jin

Independent Non-executive Directors

Lui Tin Nang
Lee Kwong Yiu
Chong Cha Hwa

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
Xu Xiaofan
Guo Lin

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

Liu James Jin
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 AGENT

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor
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 ("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 2009. 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 everchanging corporate governance practices and regulatory changes.

BUSINESS REVIEW

In year 2009, in regard to uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule", its inventory had been sold out in the third quarter, which leads to a fall back of the consolidated turnover. The consolidated turnover of the Group decreased by 48% year-on-year to approximately HK$364 million from HK$698 million. In addition, such uncertainties of renewing the import drug license may lead the Group cannot carry on its packing process and sale of "Osteoform calcium amino acid chelate capsule" in the PRC. Therefore, the Group had slowed down its marketing promotion and selling forces in 2009. As such, the Group had provided for amounted to approximately HK$30 million impairment of goodwill in the first half of year 2009, which lead to a fall back of the consolidated results. Nevertheless, the Group was benefited from the property market boom in the PRC, the Group had recorded approximately HK$17 million revaluation gain on its investment properties which situated in the PRC. In a whole, the profits attributable to owners of the Company decreased by approximately HK$8 million year-on-year basis to approximately HK$53 million from HK$61 million.

FUTURE PLANS AND PROSPECTS

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

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

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.

Xu Xiaofan
Chairman

Hong Kong, 16 April 2010

Management Discussion and Analysis

BUSINESS REVIEW

In year 2009, in regard to uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule", its inventory had been sold out in the third quarter, which leads to a fall back of the consolidated turnover. The consolidated turnover of the Group decreased by 48% year-on-year to approximately HK$364 million from HK$698 million. In addition, such uncertainties of renewing the import drug license may lead the Group cannot carry on its packing process and sale of "Osteoform calcium amino acid chelate capsule" in the PRC. Therefore, the Group had slowed down its marketing promotion and selling forces in 2009. As such, the Group had provided for amounted to approximately HK$30 million impairment of goodwill in the first half of year 2009, which lead to a fall back of the consolidated results. Nevertheless, the Group was benefited from the property market boom in the PRC, the Group had recorded approximately HK$17 million revaluation gain on its investment properties which situated in the PRC. In a whole, the profits attributable to owners of the Company decreased by approximately HK$8 million, or around 13%, year-on-year basis to approximately HK$53 million from HK$61 million. Basic earnings per share were HK3.42 cents (2008: HK3.94 cents). The Group's financial position remained strong during the year, with approximately HK$164 million of bank balance and cash as at 31 December 2009.

Notwithstanding the uncertainties, 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.

Riding on the Group's success of introducing "Osteoform Vitamins with minerals dispersible tablet" into the "Osteoform" family, the Group had launched new products into market in the second half of 2009. Including the dealership for Taurolite® Tauroursodeoxycholic acid capsule; "Hongjinxiaojie Tablet ", a new pharmaceutical product of the Group; and "Osteoform compound calcium amino acid chelate food capsule", a new food product of the Group.

Taurolite® Tauroursodeoxycholic acid capsule is a prescription medication capable of dissolving the cholesterol stones formed in the gallbladder and bile-duct. It cures and prevents such liver diseases as cholelithiasis and chronic bile stasis. In the case of cholesterol stone smaller than 2cm, sufferers may simply dissolve it by taking the medication without having to undergo operation.

"Hongjinxiaojie Tablet ", another new product of the Group, is a gynaecological medication with features like soothing the liver while channeling liver Qi (舒肝理氣), activating blood circulation while removing blood stasis (血瘀), eliminating tumescence while killing pain. It cures hyperplasia of the lobular mammary gland caused by Qi stagnation (氣滯) and blood stasis, cervical tumor and ovary tumor.

The Group's new food product "Osteoform compound calcium amino acid chelate food capsule" ("Osteoform Calcium Food") was registered in China and its raw material supplier is Pharmco International Inc. in the United States. "Osteoform Calcium Food" consists of multiple minerals and vitamins, of which its ingredients include calcium amino acid, calcium ascorbate, manganese amino acid and Vitamin D3 etc.. Its nutrition facilitates the absorption of calcium by human body, thus helping the formation of bone matrix and the maintenance of bone density. This food product is suitable for people who need calcium, minerals and vitamins supplement. The Group will distribute "Osteoform Calcium Food" through business channels and networks in the Mainland China.

Sales of Product

During the year, the Group's consolidated turnover was amounted to approximately HK$364 million, a decrease of approximately 48% as compared with the consolidated turnover of approximately HK$698 million for the corresponding year.

Osteoform family products

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

Our product "Osteoform calcium amino acid chelate capsule" has suffered from uncertainties of renewing the import drug license, and inventory of Osteoform had been sold out in the third quarter of 2009, sales volume in the year 2009 were dropped. Its sales turnover was approximately HK$235 million in the reporting year, representing a decrease of approximately 62% as compared with approximately HK$616 million in the last year. "Osteoform calcium amino acid chelate capsule" has contributed about 65% of the Group's sales turnover in the reporting year.

"Osteoform Calcium Food", a new food product of the Group

The Group's new food product "Osteoform compound calcium amino acid chelate food capsule" consists of multiple minerals and vitamins. Its nutrition facilitates the absorption of calcium by human body, thus helping the formation of bone matrix and the maintenance of bone density. It has been launched into the market during the forth quarter of 2009, and recorded sales of approximately HK$20 million.

"Osteoform Vitamins with minerals dispersible tablet", a compound vitamin and minerals product

"Osteoform Vitamins with minerals dispersible tablet", a compound vitamin and minerals product, for the prevention and treatment of disease caused by lack of vitamins and minerals, has been launched into the market during the second quarter of 2009. The sales turnover for the reporting year was around HK$16 million.

Madaus products

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

"Legalon", a product imported from Madaus, Germany brought in a turnover of approximately HK$41 million, an increase of approximately 22% when compared to corresponding 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 2009 was approximately HK$16 million, representing a growth of approximately 43% over last year.

"Uralyt-U", Potassium Sodium Hydrogen Citrate Granules, for dissolution of uric acid stones

"Uralyt-U", a drug used for dissolution of uric acid stones and preventing the formation of new stones (prophylaxis of recurrent calculi), to prevent the formation or enlargement of calcium oxalate stones, also as a supportive measure in the treatment of cystine stones and cystinuria and alkalisation of the urine during treatment with uricosurics and chemotherapy. It contributes a sales turnover of approximately HK$10 million in 2009, an increase of around 18% when compare with last year.

Other products

"Vital Fast", a slow release flu medication formulated with loratadine, psuedophedrine sulphate and paracetamol

Turnover during the year 2009 was approximately HK$9.6 million, representing a growth of approximately 78% over last year.

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

Turnover of "Opin" for 2009 amounted to approximately HK$5.2 million, an increase of approximately 58% over last year.

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

"Aceclofenac Tablets" contribute a sales turnover of approximately HK$2.9 million in 2009, an increase of around 21% when compare with last year.

"Aotianping" (Miglitol Tablets), new generation alpha-glucosidase inhibitor, a drug for the treatment of diabetes in conjunction with dietary management

"Aotianping" contribute a sales turnover of approximately HK$2.5 million in 2009, an increase of around 79% when compare with last year.

Sichuan Hengtai Pharmaceutical

In 2009, Sichuan Hengtai Pharmaceutical adheres to its principles of "nurturing team work, introducing new products and enhancing marketing". Along with the provision of enhanced training for our frontline staff across the nation, marketing efforts in respect of over-the-counter and prescription medications paid off handsomely that was reflected in the impressive growth in sales of the Group's product lines. Further to the successful launch of "Osteoform vitamins with minerals dispersible tablet" during the first half, "Osteoform Calcium Food" was marketed towards the end of the year with positive response from the market and breakthrough in sales shortly afterwards. The company further enhanced its cooperation with dealers in mid-year to implement a centralized management model in respect of major customer sales achieving ideal promotion effects. With the constant realignments and running-in over the year, more stable profits are expected to generate from business and marketing activities for the year to come.

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 product "Clarithromycin Capsules", "Azithromycin Capsules", "Aceclofenac Tablets", "Aotianping" (Miglitol Tablets), and the new drug to gynaecology called "Hongjinxiaojie Tablet" in the reporting year.

The production base in Wuhan, Hubei Province, the PRC

During the year 2009, major production included a new drug "Glimepiride orally disintegrating tablets" – medication for diabetes, "Vital Fast" – a slow release flu medication, "Opin" – a gynaecology biological drug and the Group's new food product "Osteoform Calcium Food".

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

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

BUSINESS PROSPECT

The strong growth of economy and medical reform scheme (中國醫療改革方案) in the PRC resolved to drive the growth of pharmaceutical industry by internal demand. Medical expenditure attributed to the medical insurance of urban citizens will be increased significantly. 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.

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

FINANCIAL REVIEW

Capital structure

As at 31 December 2009, the Company had in issue 1,551,056,993 ordinary shares (31 December 2008: 1,551,056,993 shares). During the years 2008 and 2009, the Company had not issued any new shares.

The market capitalization of the Company as at 31 December 2009 was approximately HK$284 million (31 December 2008: approximately HK$256 million).

Liquidity and financial resources

As at 31 December 2009, the Group has no bank loan (As at 31 December 2008: approximately HK$84 million, in which has no long-term portion and with short-term portion of approximately HK$84 million). Bank balances and cash amounted to approximately HK$164 million (31 December 2008: approximately HK$152 million), including pledged bank deposits of approximately HK$0.7 million (31 December 2008: approximately HK$4 million).

As at 31 December 2009, the Group has obtained banking facilities of approximately HK$167 million from bank in China (31 December 2008: HK$319 million). Unutilised banking facilities amounted to approximately HK$167 million (31 December 2008: HK$235 million). The average cost of financing was around 6% per annum (Year 2008: 6.5%). The Group has maintained sufficient financial resources for business operation purpose. The Group has no seasonality of borrowing requirement.

The Group adopts a conservative funding and treasury policies and objectives. The Group had repaid all bank borrowings during the year. As at 31 December 2009, there was no outstanding bank borrowings (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.)

As at 31 December 2009, in relation to cash and bank balances amounting to approximately HK$164 million (31 December 2008: HK$152 million), approximately 94% (2008: 87%) of which was denominated in RMB, approximately 3% (2008: 4%) was denominated in Hong Kong dollar and approximately 3% (2008: 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 12% in USD (2008: 34%), 30% in RMB (2008: 39%) and 58% in EURO (2008: 27%). Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 80% in RMB (2008: 87%), others are in HKD, AUD, USD and Macau Pataca, etc. For the year 2009, the Group did not enter into any forward contracts, interest or currency swaps, or other financial derivatives for hedging purpose. During the year 2009, 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 2009, the Group had no material contingent liabilities (2008: Nil).

Key financial figures and ratios

Profit and loss item:

Gross profit margin: The average gross profit margin of year 2009 was around 71%, increased by 7% when compared with around 64% at year 2008. Such increase was benefited by the acquisition of Sichuan Hengtai. Starting from April 2008, the income statement of Sichuan Hengtai was consolidated in the Group's financial statement. Profit margin at the latter part of the value chain had been included in the Group results, therefore, average profit margin of the year 2009 had increased.

Other operating income: Although the government subsidies income had recorded only approximately HK$3.5 million in year 2009 while there was approximately HK$14.5 million in year 2008, the Group had recognised approximately HK$17 million revaluation gain in investment properties, and recorded approximately HK$2.5 million rental income in year 2009. Therefore, the overall other operating income had increased by approximately HK$0.6 million.

Selling and distribution expenses: The Group unable to benefit from economy of scale extensively since the turnover had dropped significantly in year 2009. In addition to a few new products of the Group had launched during the year, as the promotion expenses at the early stage are generally higher, and hence the selling and distribution expenses to turnover ratio had increased from approximately 26% in year 2008 to approximately 29% in year 2009.

Administrative expenses: Although inflation rate and operation cost were risen, the Group focused on tightening its budget control and expenses to cut down administrative costs, in addition to there is only approximately HK$3 million impairment of property, plant and machineries in year 2009 while there is approximately HK$27 million in year 2008, the administrative expenses was decreased from approximately HK$155 million in year 2008 to approximately HK$81 million in year 2009.

Finance costs: The Group had repaid all bank borrowings in the first half of year 2009. Therefore, the bank interest expense was dropped significantly from approximately HK$16 million in year 2008 to approximately HK$0.6 million in year 2009.

	Year 2009	Year 2008
Profit and loss item:		
Turnover (HK$' million)	**364.0**	698.2
Gross profit margin	**71%**	64%
Selling and distribution expenses (HK$' million)	**107.2**	182.6
Gross profit margin after selling and distribution expenses	**41%**	38%
Profit attributable to owners of the Company/turnover	**15%**	9%
EBITDA (HK$'million)	**85.1**	120.4
EBITDA/Turnover	**23.4%**	17.2%

Balance sheet item:

Gearing ratio: Taken into account of the Group had repaid all bank borrowings in the first half of year 2009, there was no outstanding bank borrowings at the year end of 2009. When compare with the bank borrowing balances to 2008 year end, the bank borrowings decreased to zero, as such, the debt equity ratio (total bank borrowings/ equity attributable to equity holders of the Company, net of intangible assets and goodwill) was decreased to 0%.

During the year, the Group had launched certain number of new products, in order to provide a more flexible promotion strategy to our distributors, a longer sales credit terms was granted, and hence, the average trade receivable turnover days had boosted up to around 87 days. For the average inventory turnover days (exclude goods in transit), because of stock up in order to satisfy future demand, had also climbed up to around 216 days.

	As at 31 December 2009 HK$'million	As at 31 December 2008 HK$'million
Balance sheet item:		
Short-term bank loans	**–**	84.4
Long-term bank loans	**–**	–
Bank balances and cash	**164.0**	152.4
Net tangible assets	**572.2**	489.8
Debt equity ratio	**0%**	17.2%
Average trade receivable turnover day	**87 days**	63 days
Average inventory turnover day (exclude goods in transit)	**216 days**	123 days

As at 31 December 2009, the Group had approximately HK$0.7 million of bank balances and cash, HK$40.3 million in property, plant and equipment, HK$16.3 million in prepaid lease payments on land use rights, and HK$57.9 million in investment properties were pledged as collateral to banks. For year 2009, return on equity was on average 8%.

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 had donated amounted of RMB5 million to China Health and Medical Development Foundation (中國醫藥衛生事業發展基金會), aimed to improve general health level of citizen and support the development of public health in the PRC. In the meantime, the Group also encourages staffs to participate volunteer work and donation for schools which affected by earthquake in Sichuan, by organising donation activity and providing day off to participants.

EMPLOYEE INFORMATION

As at 31 December 2009, the Group had 1,083 employees, comprising 4 in research and development, 152 in production, 782 in sales and marketing, and 145 in general administration and finance. 1,060 of these employees were located in China and 23 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 programs 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 2009 amounted to approximately HK$73 million.

MATERIAL ACQUISITION

There is no material acquisition during the year ended 31 December 2009.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Xu Xiaofan, aged 46, the chairman and 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.

Mr. Chen Zhiyu, aged 48, the chief executive officer and an executive director of the Company. He is responsible for planning and deciding the business, production strategy and daily operation of the Group. He graduated with a bachelor degree in Science from Southwest China Normal College (西南師範學院) (presently known as Southwest University) in 1982 and a master degree in Economics from Southwestern University of Finance and Economics (西南財經大學) in 1990. Mr. Chen has over 9 years of experience in pharmaceutical industry. He was the general manager of Beijing Xianmai Medicine Company Limited (北京先邁醫藥有限公司) from 2000 to 2002, and the general manager and chairman of Guangdong Suntop Pharmaceutical Co., Ltd. (廣東信東醫藥有限公司) from 2003 to October 2009. As at the date of this report, Mr. Chen still has approximately 52% shareholding in the said Guangdong Suntop Pharmaceutical Co., Ltd.. He joined the Group in November 2009.

Ms. Guo Lin, aged 46, the vice president of the Group and an executive director of the Company. She is responsible for financial management and daily operation of the Group. 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.

Mr. Huang Zemin, aged 49, an executive director of the Company. He is responsible for sale of products of the Group. He graduated with a university professional certificate (大學專科) in law from Sichuan Radio and TV University (四川廣播電視大學) in 1988. He worked in a subsidiary of the Group from 2002 to 2005 and was responsible for sale of products. He is currently the chairman, director and corporate representative (法人代表) of Sichuan Hengtai Pharmaceutical Company Limited, a wholly-owned subsidiary of the Company. He worked for China Pharmaceutical Company, Southwest branch (中國醫藥公司西南分公司) for around 5 years. He is the brother of Mr. Huang Jianming, a former executive Director and former chief executive officer of the Company, and a shareholder as well as a director of Perfect Develop Holding Inc. (a substantial shareholder of the Company). He re-joined the Group in April 2008.

Mr. Li Ke, aged 48, graduated with a bachelor degree in medicine from Sichuan Medical Institute (四川醫學院) in 1982. He is responsible for business development of the Group. He has over 10 years of experience in pharmaceutical industry and 8 years of experience in real estate industry. Mr. Li was a technician in Fourth Sichuan Chengdu Pharmaceutical Factory (四川成都制藥四廠) from 1982 to 1987. He worked with 999 Group (三九企業集團) from 1994 to 2006, as a deputy manger of development department, a general manager of Yaan Sanjiu Pharmaceutical Co., Ltd. (雅安三九藥業有限公司) and a general manager of Chengdu Sanjiu Investment Management Co., Ltd. (成都三九投資管理有限公司). He joined the Group in November 2009.

Mr. Liu James Jin, aged 47, one of the founders of the Group, an executive director and authorised representative 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lui Tin Nang, aged 52. 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 47, 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 and ABC Communications (Holdings) Ltd , companies listed on the Stock Exchange.

Mr. Chong Cha Hwa, aged 43, is a fellow member of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants. He has obtained a bachelor degree in management with honours from the University of Science, Malaysia. Prior to joining the Company, Mr. Chong has gained more than 14 years of experience in the accounting and finance area servicing private and public listed companies in Hong Kong and the Southern Asia region. Mr. Chong was appointed as an independent non-executive director of the Company in October 2006. He is currently an independent non-executive director of Longlife Group Holdings Limited, a company listed on the GEM Board of Stock Exchange.

SENIOR MANAGEMENT

Mr. Qian Hao, aged 51, is the vice president of the Company. He is responsible for property business of the Group. He graduated with a university professional certificate (大學專科) in labour economic management (勞動經濟管理) from Sichuan Radio and TV University (四川廣播電視大學) in 1988. He has been awarded as senior economist in 2001. Mr Qian is experienced in economic management and property development projects. He joined the group in December 2009.

Mr. Leung Wai Pong, aged 35, is the company secretary, authorised representative and financial controller of the Company since July 2005. He joined the group in 2002. He graduated from the City University of Hong Kong and obtained a master degree of EMBA in 2009, and completed an Advanced Management Program from University of California Berkeley in 2008. He also holds a bachelor degree of commerce, majoring in accounting and finance from the University of New South Wales. Mr. Leung is experienced in auditing and financial management of listed companies. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant (Aust.) of CPA Australia.

Mr. Wu Qing Jiang, aged 46, 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 25 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 51, 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 42, 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 2009.

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 2009, 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.

Except for Mr. Huang Jianming, who was resigned as Director of the Company on 11 November 2009, has a brother relationship with Mr. Huang Zemin, who was appointed as Director of the Company on 11 November 2009, 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. The attendance of the Directors at the meetings is set out as follows:

	Attendance
Executive Directors	
Xu Xiaofan *(Chairman)*	5/6
Chen Zhiyu *(Chief Executive Officer)* (appointed on 11 November 2009)	2/2
Liu James Jin	4/6
Guo Lin	5/6
Huang Zemin (appointed on 11 November 2009)	2/2
Li Ke (appointed on 11 November 2009)	2/2
Tao Lung (resigned on 11 November 2009)	5/5
Huang Jianming (resigned on 11 November 2009)	4/5
Shen Songqing (resigned on 11 November 2009)	1/5
Independence Non-executive Directors	
Lui Tin Nang	4/6
Lee Kwong Yiu	5/6
Chong Cha Hwa	6/6

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 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 2009, 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, to tie in development and fill up casual vacancy. As such, Mr. Chen Zhiyu, Mr. Huang Zemin and Mr. Li Ke had been appointed as Executive Director on 11 November 2009. In addition, the Board had also assessed the independence of Independent Non-executive Directors during the year 2009.

CHANGES OF DIRECTORS

Pursuant to the Board of Directors meeting held on 11 November 2009, which attended by all Directors, has approved the following with effect from 11 November 2009:

Resignation of directors:

(1) Mr. Tao Lung resigned as the chairman, executive Director, member of the remuneration committee and authorised representative of the Company;

(2) Mr. Huang Jianming resigned as the executive Director and chief executive officer of the Company; and

(3) Mr. Shen Songqing resigned as the executive Director of the Company.

Appointment of directors:

(1) Mr. Huang Zemin and Mr. Li Ke appointed as an executive Director of the Company; and

(2) Mr. Chen Zhiyu appointed as an executive Director and chief executive officer of the Company.

Appointment of Chairman, authorised representative and member of remuneration committee:

As a result of resignation of Mr. Tao Lung as the chairman of the Group, the Board approved that Mr. Xu Xiaofan, an executive Director, will be appointed as the chairman of the Group. Mr. Liu James Jin will be appointed as the authorised representative of the Company to replace Mr. Tao Lung. Madam Guo Lin will be appointed as a member of the remuneration committee.

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 and long-term incentive scheme (share options scheme). 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 16 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 (resigned as member on 11 November 2009)	2/2
Xu Xiaofan	2/2
Guo Lin (appointed as member on 11 November 2009)	0/0
Independence Non-executive Directors	
Lui Tin Nang	2/2
Lee Kwong Yiu *(Chairman of the Remuneration Committee)*	2/2
Chong Cha Hwa	2/2

AUDIT COMMITTEE

The Company established its Audit Committee on 26 January 2002 and comprises 3 INEDs with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). The Company Secretary and the 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 2009 quarterly results 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 2009, the Board had reviewed the effectiveness of internal control system including the supervision of the financial, operational and compliance affairs, as well as risk management. No significant deficiencies which might affect shareholders were identified.

CONFIRMATION OF THE DIRECTORS AND AUDITORS

The Directors are responsible for supervising the preparation of annual accounts in order to give a true and fair view of the financial position, operating results and cash flow of the Group during the year. For the purpose of the preparation of the financial statements of the reporting period, the Directors have selected appropriate accounting policies, adopted applicable accounting principles, made judgments and assessments that are prudent and reasonable and ensured the financial statements were prepared on a going concern basis. The Directors have confirmed that the Group's financial statements were prepared in accordance with the requirements of laws and applicable accounting principles.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of the Company to operate as a going concern. The statement of auditors about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report.

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$928,000 for audit services and approximately HK$412,000 for non-audit services, such as agreed-upon procedures services and interim review service during the year ended 31 December 2009.

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 2009.

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, distributing, 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 30 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 (2008: Nil).

No dividend was paid or proposed during the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil)

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five years ended 31 December 2009 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 17, 18, 19 and 20 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. Xu Xiaofan *(Chairman)* ("Mr. Xu")	(redesignated on 11 November 2009)
Mr. Chen Zhiyu *(Chief Executive Officer)* ("Mr. Chen")	(appointed on 11 November 2009)
Mr. Liu James Jin ("Mr. Liu")	
Ms. Guo Lin ("Ms. Guo")	
Mr. Huang Zemin ("Mr. Huang")	(appointed on 11 November 2009)
Mr. Li Ke	(appointed on 11 November 2009)
Mr. Tao Lung	(resigned on 11 November 2009)
Mr. Huang Jianming	(resigned on 11 November 2009)
Mr. Shen Songqing	(resigned on 11 November 2009)

Independent non-executive directors

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

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

In accordance with article 112 of the Articles of Association of the Company, the office of directorship of Mr. Chen, Mr. Huang and Mr. Li Ke will end at the forthcoming annual general meeting of the Company and, being eligible, offer themselves 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. Xu from 21 October 2004, Mr. Chen, Mr. Li Ke and Mr. Huang are from 11 November 2009, 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. Each of the executive director is entitled to a basic monthly salary of HK$33,000 (subject to an annual increment at the discretion of the Directors). The emoluments of the executive directors are recommended by remuneration committee of the Company and are based on the working experience, skill, knowledge and involvement in the Company's affairs of each of them and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Executive directors are also entitled to certain level of share based payment. In addition, the executive directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive directors for any financial year of the Company may not exceed 10% of the audited profit attributable to the owners 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 remuneration of independent non-executive directors are recommended by remuneration committee and are based on the working experience, professional skill and knowledge. The independent non-executive directors, Mr. Lui and Mr. Lee Kwong Yiu have been appointed for a term of two years expiring on 31 December 2011 and Mr. Chong have been appointed for a term of two years expiring on 18 October 2010. Save for a director fee of HK$10,000 per month and certain share based payment for each of them, the independent non-executive directors are not entitled to any other remuneration.

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

DIRECTORS' INTERESTS IN CONTRACTS

Except for the director's service 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 to12 of the annual report.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2009 amounted to approximately HK$297,722,000.

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 2009.

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 2009, no option granted was exercised, forfeited or cancelled. As at 31 December 2009, 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

As at the date of granting, 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 2009, no option granted was exercised, forfeited or cancelled. As at 31 December 2009, 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

As at the date of granting, 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 2009, no option granted was exercised, forfeited or cancelled. As at 31 December 2009, 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

As at the date of granting, 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 2009, no option granted was exercised, forfeited or cancelled. As at 31 December 2009, 67,500,000 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.

Details of the movement of share options are set out in Note 34 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes are set out in Notes 3 and 15 to the consolidated financial statements.

CHANGE OF COMPANY NAME

Subject to the Shareholders approval, pursuant to a special resolution proposing in the annual general meeting to be held on 2 June 2010, the Company may change its name from "Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司" to "Vital Group Holdings Limited 維奧集團控股有限公司" 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 2009, 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. Chen Zhiyu *(Chief executive officer)*	Beneficial owner	26,666 (L)	0.0017%
Mr. Liu James Jin	Beneficial owner	14,630,400 (L)	0.94%

Notes:

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

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

As at 31 December 2009, the directors and chief executive of the Company had the following personal interests in options to subscribe for Shares of the Company granted under the share option scheme of the Company:

Name of Director	Date of grant	Exercisable period	Exercise price per Share (HK$)	No. of Shares involved in the options outstanding at 31 December 2009
Mr. Xu Xiaofan *(Executive Director and Chairman)*	12 September 2005	1 January 2006 to 6 February 2012 *(Note 2)*	0.23	15,000,000
Ms. Guo Lin *(Executive Director)*	29 September 2003	2 January 2004 to 6 February 2012 *(Note 3)*	0.51	3,000,000
	29 January 2008	1 October 2008 to 6 February 2012 *(Note 4)*	0.28	8,500,000
Mr Liu James Jin *(Executive Director)*	29 January 2008	1 October 2008 to 6 February 2012 *(Note 4)*	0.28	8,500,000
Mr. Chong Cha Hwa *(Independent Non-executive Director)*	29 January 2008	1 October 2008 to 6 February 2012 *(Note 4)*	0.28	1,500,000

Note:

2. 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.

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

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

Name	**Company/Name of Group member**	**Capacity**	**Number of shares** *(Note 5)*	**Approximate percentage of shareholding**
Perfect Develop Holding Inc. *(Note 6)*	Corporate	Beneficial owner	522,526,940 (L)	33.69%

Notes:

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

6. The issued share capital of Perfect Develop Holding Inc. 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. Mr. Tao Lung and Mr. Huang Jianming are founders of the Group, former executive directors of the Company, and currently paid consultants of the Company. Mr. Liu James Jin is founder of the Group and executive director of the Company.

Save as disclosed above, the Directors are not aware of any person as at 31 December 2009 who had an interest or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' AND CHIEF 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.

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	58%
– five largest suppliers combined	91%

Sales

– the largest customer	35%
– five largest customers combined	52%

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.

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2009, Mr. Chen Zhiyu ("Mr Chen"), an executive director and chief executive officer of the Company, has approximately 52% shareholding in the Guangdong Suntop Pharmaceutical Co., Ltd. (the "Guangdong Suntop"). Mr. Chen had interest in businesses which compete or likely to compete, either directly or indirectly with the business of the Group. The Guangdong Suntop principally engages in the sales of pharmaceutical products in the PRC. The major pharmaceutical products sold by the Guangdong Suntop are Houtou Jun TiQuWu KeLi (猴頭菌提取物顆粒), which is for the treatment of chronic gastritis, and fungus related products Compound TianMa MiHuanTangTai Pian (複方天麻蜜環糖肽片), which is for the treatment of high blood pressures and cerebral thrombosis etc. These products are different and easily distinguishable from the major products, i.e. calcium capsule, minerals, vitamins and liver protecting drug, of the Company. As there is a clear delineation between the products sold by the Company and by Guangdong Suntop, the Directors believe that there is no direct competition between the Guangdong Suntop and the Company.

Save as disclosed above, none of the Directors, the controlling 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$5,556,000 in direct cash payments.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at 16 April 2010, 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 43 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 27 May 2010 to 2 June 2010, 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 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 26 May 2010.

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 2009 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
Xu Xiaofan
Chairman

Hong Kong, 16 April 2010

Independent Auditor's Report

信永中和 ShineWing

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

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

We have audited the consolidated financial statements of Vital Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 87 which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 2009 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
16 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000
Turnover	8	**364,022**	698,225
Cost of sales		**(106,804)**	(250,858)
Gross profit		**257,218**	447,367
Other operating income	8	**26,921**	26,370
Selling and distribution expenses		**(107,158)**	(182,611)
Administrative expenses		**(80,828)**	(155,343)
Impairment loss recognised in respect of goodwill	23	**(29,982)**	(37,896)
Finance costs	10	**(586)**	(16,405)
Profit before taxation		**65,585**	81,482
Income tax expense	11	**(12,615)**	(20,563)
Profit for the year	12	**52,970**	60,919
Profit for the year attributable to :			
Owners of the Company		**53,010**	61,095
Minority interests		**(40)**	(176)
		52,970	60,919
Earnings per share			
Basic	14	**HK3.42 cents**	HK3.94 cents
Diluted	14	**HK3.42 cents**	HK3.93 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Profit for the year	**52,970**	60,919
Other comprehensive (expense) income		
Exchange differences arising on translating foreign operations		
Exchange differences arising during the year	**(3,383)**	23,338
Reclassification adjustments relating to foreign operations deregistered/disposed of during the year	**898**	(14)
	(2,485)	23,324
Available-for-sale financial assets		
Net gain (loss) arising on revaluation of available-for-sale financial assets during the year	**1,903**	(1,533)
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year	**(5)**	39
	1,898	(1,494)
Gain arising on transfer of property, plant and equipment and prepaid lease payments to investment properties at fair value	**–**	6,292
Deferred tax liability arising on gain on transfer of property, plant and equipment and prepaid lease payments to investment properties at fair value	**–**	(1,573)
	–	4,719
Other comprehensive (expense) income for the year, net of tax	**(587)**	26,549
Total comprehensive income for the year	**52,383**	87,468
Total comprehensive income attributable to:		
Owners of the Company	**52,423**	87,644
Minority interests	**(40)**	(176)
	52,383	87,468

Consolidated Statement of Financial Position

As at 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Intangible assets	17	**3,030**	2,651
Property, plant and equipment	18	**203,015**	225,552
Investment properties	19	**74,384**	57,032
Prepaid lease payments on land use rights	20	**38,711**	39,511
Deposit for acquisition of property, plant and equipment	21	**4,201**	4,571
Available-for-sale investments	22	**2,331**	1,203
Goodwill	23	**74,924**	104,906
		400,596	435,426
Current assets			
Inventories	24	**73,730**	66,984
Trade and other receivables	25	**69,241**	131,660
Prepaid lease payments on land use rights	20	**800**	800
Income tax recoverable		**9,118**	6,031
Value added tax recoverable		**5,537**	–
Held-for-trading investment	26	**2,121**	1,667
Bank balances and cash	27		
– pledged		**668**	4,002
– unpledged		**163,291**	148,351
		324,506	359,495
Current liabilities			
Trade and other payables	28	**58,993**	76,008
Value added tax payable		**–**	17,522
Income tax payable		**–**	11,705
Obligations under finance leases	29	**446**	114
Bank borrowings	30	**–**	84,349
		59,439	189,698
Net current assets		**265,067**	169,797
Total assets less current liabilities		**665,663**	605,223

	NOTES	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	31	**15,511**	15,511
Reserves		**633,871**	581,448
Equity attributable to owners of the Company		**649,382**	596,959
Minority interests		**808**	413
Total equity		**650,190**	597,372
Non-current liabilities			
Other payables	32	**2,778**	–
Obligations under finance leases	29	**–**	344
Deferred tax liabilities	33	**12,695**	7,507
		15,473	7,851
		665,663	605,223

The consolidated financial statements on pages 30 to 87 were approved and authorised for issue by the board of directors on 16 April 2010 and are signed on its behalf by :

Xu Xiaofan
Director

Chen Zhiyu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the Company											
	Share capital HK$'000	**Share premium** HK$'000	**Exchange translation reserve** HK$'000	**Share options reserve** HK$'000	**Reserve fund** HK$'000 (Note)	**Enterprise development fund** HK$'000	**Other reserve** HK$'000	**Retained earnings** HK$'000	**Properties revaluation reserve** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At 1 January 2008	15,511	251,175	33,995	4,029	36,654	616	(54)	161,527	–	503,453	589	504,042
Profit for the year	–	–	–	–	–	–	–	61,095	–	61,095	(176)	60,919
Other comprehensive income (expense) for the year	–	–	23,324	–	–	–	(1,494)	–	4,719	26,549	–	26,549
Total comprehensive income for the year	–	–	23,324	–	–	–	(1,494)	61,095	4,719	87,644	(176)	87,468
Appropriation to reserve fund	–	–	–	–	8,939	–	–	(8,939)	–	–	–	–
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
Profit for the year	–	–	–	–	–	–	–	53,010	–	53,010	(40)	52,970
Other comprehensive (expense) income for the year	–	–	(2,485)	–	–	–	1,898	–	–	(587)	–	(587)
Total comprehensive income for the year	–	–	(2,485)	–	–	–	1,898	53,010	–	52,423	(40)	52,383
Contribution from minority interests	–	–	–	–	–	–	–	–	–	–	435	435
Appropriation to reserve fund	–	–	–	–	2,290	–	–	(2,290)	–	–	–	–
At 31 December 2009	15,511	251,175	54,834	9,891	47,883	616	350	264,403	4,719	649,382	808	650,190

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 Statement of Cash Flows

For the year ended 31 December 2009

	2009 **HK$'000**	2008 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**65,585**	81,482
Adjustments for :		
Amortisation of intangible assets	**1,119**	2,300
Amortisation of prepaid lease payments on land use rights	**800**	942
Net (increase) decrease in fair value of investment properties	**(17,352)**	633
Increase in fair value of held-for-trading investment	**(454)**	–
Depreciation of property, plant and equipment	**16,999**	19,308
Finance costs	**586**	16,405
Gain on disposal of available-for-sale investments	**–**	(2,030)
Net loss (gain) on deregistration/disposal of subsidiaries	**898**	(143)
Impairment loss recognised in respect of goodwill	**29,982**	37,896
Impairment loss recognised in respect of property, plant and equipment	**3,126**	27,075
Impairment loss recognised in respect of prepayments, deposits and other receivables	**1,497**	2,778
Impairment loss recognised in respect of payments for pharmaceutical projects	**–**	2,971
Impairment loss recognised in respect of trade receivables	**1,172**	4,695
Interest income from bank deposits	**(995)**	(652)
Investment income from held-for-trading investment	**(663)**	–
Loss on disposal of property, plant and equipment	**144**	428
Provision for compensation claim	**1,111**	5,556
Reversal of written off of inventories	**–**	(2,816)
Share-based payments expense	**–**	5,862
Written off of other receivables	**333**	–
Write down and written off of inventories	**951**	4,094
Operating cash flow before movements in working capital	**104,839**	206,784
(Increase) decrease in inventories	**(7,697)**	86,483
Decrease in trade and other receivables	**56,005**	56,326
Decrease in trade and other payables	**(13,096)**	(116,088)
Increase in income tax recoverable	**(2,060)**	–
Increase in value-added tax (recoverable) payable	**(23,059)**	7,590
Cash generated from operations	**114,932**	241,095
People's Republic of China Enterprise Income Tax paid	**(20,159)**	(18,670)
NET CASH FROM OPERATING ACTIVITIES	**94,773**	222,425

	NOTES	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES			
Decrease in pledged bank balances		**3,334**	9,333
Proceeds from the disposal of property, plant and equipment		**4,623**	210
Interest income from bank deposits		**995**	652
Investment income from held-for-trading investment		**663**	–
Proceeds from the disposal of available-for-sale investments		**770**	4,115
Net cash outflow from the disposal of a subsidiary (net of cash and cash equivalents disposed of)	36	**–**	(31)
Purchase of intangible assets		**(1,896)**	–
Deposit paid for acquisition of property, plant and equipment		**(1,778)**	(2,147)
Purchase of property, plant and equipment		**(1,485)**	(6,073)
Purchase of held-for-trading investment		**–**	(1,667)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	35	**–**	(136,284)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**5,226**	(131,892)
FINANCING ACTIVITIES			
Repayment of bank borrowings		**(84,349)**	(223,482)
Finance costs paid		**(586)**	(16,405)
Repayment of obligations under finance leases		**(148)**	(514)
New bank borrowings raised		**–**	187,627
NET CASH USED IN FINANCING ACTIVITIES		**(85,083)**	(52,774)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**14,916**	37,759
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**148,351**	106,525
Effect of foreign exchange rate changes		**24**	4,067
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing unpledged bank balances and cash		**163,291**	148,351

1. GENERAL

Vital Pharmaceutical Holdings Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liabilities and its shares are listed on the Main Board of 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 (collectively referred to as 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 new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Interpretations ("INT") INT 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-INT 13	Customer Loyalty Programmes
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-INT 18	Transfers of Assets from Customers

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has changed the basis of measurement of the Group's segment profit or loss. However, the adoption of HKFRS 8 has not resulted in a redesignation of the Group's reportable segment.

Improving Disclosures about Financial Instruments (Amendment to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

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.

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

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretation will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On 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.

Intangible assets

Intangible assets acquired separately

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

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.

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 other comprehensive income and accumulated 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 profit or loss in the period in which the item is derecognised.

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 profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit or loss over the period of the rights using the straight-line method.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL represent investments held for trading.

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.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in other reserve until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in other reserve is reclassified to 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 the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. 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 collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 90 to 365 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivable, 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 receivable 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.

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 other comprehensive income and accumulated in other reserve. 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.

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 other comprehensive income 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Inventories

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

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

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

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 on initial recognition.

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 profit or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

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

Share options granted to other eligible participants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless the fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (exchange translation reserve).

On disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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 end of the reporting 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)*

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 leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss 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 statement of financial position 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.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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 and amortised over the lease term on a straight-line basis, except for those that are classified and accounted for as investment properties under the fair value model.

Retirement benefit costs

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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.

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

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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 2009, the carrying amount of goodwill was approximately HK$74,924,000 (net of impairment loss of approximately HK$72,358,000). Details of impairment testing on goodwill are set out in Note 23.

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 the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2009, the carrying amount of trade receivables was approximately HK$52,201,000 (net of impairment loss of approximately HK$12,387,000).

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 2009, the carrying amounts of payments for pharmaceutical projects and prepayments, deposits and other receivables were approximately HK$501,000 (net of impairment loss of approximately HK$20,509,000) and HK$16,539,000 (net of impairment loss of approximately HK$4,275,000) respectively.

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

Write down of inventories

The management of the Group reviews an aging analysis at the end of each reporting period, 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 end of each reporting period and makes allowance for obsolete items. As at 31 December 2009, the carrying amount of inventories was approximately HK$73,730,000 (net of impairment loss of approximately HK$4,917,000).

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 2009, the carrying amount of property, plant and equipment was approximately HK$203,015,000 (net of impairment loss of approximately HK$30,201,000).

Provision for compensation

Management judgment is required in assessing the provisions made for compensation at the end of the reporting period, 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.

Income taxes

In respect of the Hong Kong Profits Tax under inquiries by the Hong Kong Inland Revenue Department as mentioned in Note 11, management judgment is required in assessing the likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, is not subject to Hong Kong Profits Tax and no provision for profit tax is required. The provision of income taxes is reviewed on an ongoing basis and the management had received an advice from a tax expert to assess the potential income taxes exposure.

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 Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes obligations under finance leases and bank borrowings disclosed in Notes 29 and 30 respectively, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 **HK$'000**	2008 HK$'000
Financial assets		
Available-for-sale investments	**2,331**	1,203
Held-for-trading investments	**2,121**	1,667
Loans and receivables (including bank balances and cash)	**223,806**	281,255
Financial liabilities		
At amortised cost	**58,556**	155,697

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include held-for-trading investment, available-for-sale 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.

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 end of the reporting period 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.

	RMB'000		United States Dollars ("USD")'000	
	2009	2008	**2009**	2008
Assets	**44**	3	**744**	1,766
Liabilities	**6,702**	8,620	**357**	5

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 USD.

The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in HK$ against the relevant foreign currencies. 5% (2008: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2008: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit and other equity where HK$ strengthen 5% (2008: 5%) against the relevant currency. For a 5% (2008: 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'000		USD'000	
	2009	2008	**2009**	2008
Profit or loss	**370**	479	**(151)**	(648)
Other equity	**–**	–	**–**	(39)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

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

Interest rate risk

As at 31 December 2009, the Group is not exposed to interest rate risk as the fixed-rate and variable-rate borrowings have been fully repaid.

As at 31 December 2008, the Group is exposed to fair value and cash flow interest rate risk in relation to fixed-rate and variable-rate borrowings, respectively (see Note 30 for details of these borrowings). 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. Also, it is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

As at 31 December 2008, 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$ denominated borrowings.

Sensitivity analysis

The sensitivity analyses below had been determined based on the exposure to interest rates for non-derivative instruments. The analysis was prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2008 would decrease/increase by approximately HK$50,000. 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 2009, 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 statement of financial position.

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 the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

As at 31 December 2009, the Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2008: 100%) of the total trade receivable. However, trade receivables consist of a large number of customers, and spreading across diverse industries. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

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 non-derivative financial liabilities based on the agreed repayment terms. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity risk tables

	Carrying amount at 31 December HK$'000	**Less than 1 year** HK$'000	**More than 1 year** HK$'000	**Total undiscounted cash flows** HK$'000
2009				
Non-derivative financial liabilities				
Trade and other payables	**58,110**	**55,332**	**2,778**	**58,110**
Obligations under finance leases	**446**	**446**	**–**	**446**
	58,556	**55,778**	**2,778**	**58,556**
2008				
Non-derivative financial liabilities				
Trade and other payables	70,890	70,890	–	70,890
Bank borrowings	84,349	86,146	–	86,146
Obligations under finance leases	458	161	353	514
	155,697	157,197	353	157,550

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Except for other payables as disclosed in note 32, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their immediate or short-term maturities.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		2009	
	Level 1 HK$'000	**Level 2 HK$'000**	**Total HK$'000**
Financial assets at FVTPL			
Held-for-trading investment	**–**	**2,121**	**2,121**
Available-for-sale financial assets			
Listed equity securities	**2,331**	**–**	**2,331**
Total	**2,331**	**2,121**	**4,452**

There were no transfers between Levels 1 and 2 during the current year.

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:

	2009 HK$'000	2008 HK$'000
Turnover		
Sales of goods	364,022	698,225
Other operating income		
Net increase in fair value of investment properties	17,352	–
Government grants (Note a)	3,497	14,533
Net rental income from investment properties (Note b)	2,493	905
Exchange gain	1,382	5,004
Interest income from bank deposits	995	652
Interest income from held-for-trading investment	663	–
Increase in fair value of held-for-trading investment	454	–
Sundry income	85	287
Net gain on disposal of a subisdiary	–	143
Gain on disposal of available-for-sale investments	–	2,030
Reversal of written off of inventories	–	2,816
	26,921	26,370
Total revenues	390,943	724,595

Notes:

(a) For the two years ended 31 December 2009, the amounts represented unconditional grants from the PRC government specifically for encouraging the Group's business development in Sichuan Province, the PRC. There is also an one-off government grant for the Group's investment in the enlarged capital of a subsidiary for the year ended 31 December 2008.

(b) The amount represents net rental income generated from investment properties after deducing direct operating expenses of approximately HK$541,000 (2008: HK$187,000).

9. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, no business segments/geographical segments information had been presented. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 Segment Reporting. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

Segment revenues, results, assets and liabilities

The Group's revenues, results, assets and liabilities are primarily attributable to the sales, distributing and manufacturing of pharmaceutical products. The directors of the Company consider that there is only one operating and reportable segment for the Group.

Geographical information

No geographical information is presented as the Group's business is principally carried out in the PRC and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

Information about major customers

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2009, revenues from sales of pharmaceutical products to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately HK$127,862,000 (2008: approximately HK$111,716,000).

10. FINANCE COSTS

	2009 **HK$'000**	2008 HK$'000
Interest expenses on:		
– bank borrowings and overdrafts wholly repayable within five years	**473**	12,421
– obligations under finance leases	**44**	161
– discounted bills of exchange without recourse	**42**	2,001
Other incidental borrowing costs	**27**	1,822
Total borrowing costs charged to the consolidated income statement	**586**	16,405

11. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
PRC Enterprise Income Tax		
– Current year	**7,427**	19,715
– Underprovision in prior years	**–**	1,033
	7,427	20,748
Deferred tax (Note 33)	**5,188**	(185)
	12,615	20,563

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 to HK$6,031,000 of a subsidiary of the Company in respect of the years of assessment 2000/01 and 2001/02 are under inquiries by the Hong Kong Inland Revenue Department (the "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 2009 and 2008.

During the year ended 31 December 2009, the IRD further issued protective profits tax assessments of approximately HK$1,760,000 to that subsidiary of the Company relating to the year of assessment 2002/03, that is, for the financial year ended 31 December 2002. The Group lodged objections with the IRD against the protective assessments and purchased a tax reserve certificate of approximately HK$1,760,000 during the year ended 31 December 2009 as demanded by the IRD. The amount was recorded as income tax recoverable as at 31 December 2009.

The Group had received an advice from a tax expert that, the profits of that subsidiary for the years of assessment 2000/01 and 2001/02 were neither arisen in nor derived from Hong Kong. The directors of the Company believes that that subsidiary has a reasonable likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, are not subject to Hong Kong Profits Tax and since that subsidiary's operation has remained unchanged during the financial years 2000 to 2002, Accordingly, no provision for profits tax is required.

During the year ended 31 December 2009, the IRD issued protective profits tax assessments of approximately HK$599,000 to another subsidiary of the Company relating to the year of assessment 2002/03, that is, for the financial year ended 31 December 2002. The Group lodged objections with the IRD against the protective assessments. The IRD agreed to hold over the tax claim subject to the purchasing of a tax reserve certificate of approximately HK$300,000, the Group purchased the tax reserve certificate during the year ended 31 December 2009 as demanded by the IRD. The amount was recorded as income tax recoverable as at 31 December 2009.

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

11. INCOME TAX EXPENSE *(Continued)*

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, one subsidiary operating in the PRC is entitled to exemption from PRC enterprise income tax in the first two profit-making years, followed by a 50% reduction of PRC enterprise income tax for the next three years (the "Tax Exemption"). During the year ended 31 December 2009, the Tax Exemption period has been expired and this subsidiary has obtained approval from the relevant tax bureau and is qualified as a High and New Technology Enterprise which is subject to a tax rate of 15%.

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

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 the income tax in Macao.

Pursuant to the laws and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

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

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

	2009 HK$'000	2008 HK$'000
Profit before taxation	**65,585**	81,482
Tax calculated at rates applicable to profits in the respective tax jurisdiction concerned	**9,838**	12,048
Effect of tax exemption granted to a Macao subsidiary	**(9,559)**	(13,400)
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	**5,243**	3,556
Tax effect of income not taxable for tax purpose	**(1,020)**	(1,428)
Tax effect of expenses not deductible for tax purposes	**7,624**	10,261
Utilisation of previously unrecognised tax losses and temporary difference	**(1,029)**	(561)
Tax effect of tax losses and deductible temporary difference not recognised	**1,518**	9,054
Underprovision in prior years	**–**	1,033
Income tax expense for the year	**12,615**	20,563

Details of deferred taxation are set out in Note 33.

12. PROFIT FOR THE YEAR

	2009 HK$'000	2008 HK$'000
Profit for the year has been arrived at after charging:		
Amortisation of intangible assets	**1,119**	2,300
Amortisation of prepaid lease payments on land use rights	**800**	942
Auditors' remuneration	**1,423**	1,436
Cost of inventories sold	**105,853**	248,042
Depreciation of property, plant and equipment	**16,999**	19,308
Impairment loss recognised in respect of trade receivables (Note 25) (included in administrative expenses)	**1,172**	4,695
Net decrease in fair value of investment properties	**–**	633
Impairment loss recognised in respect of property, plant and equipment (Note 18) (included in administrative expenses)	**3,126**	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 prepayments, deposits and other receivables (Note 25) (included in administrative expenses)	**1,497**	2,778
Loss on disposal of property, plant and equipment	**144**	428
Operating lease rental on land and buildings	**2,341**	3,507
Provision for compensation claim (included in administrative expenses)	**1,111**	5,556
Research and development costs	**1,194**	3,638
Equity-settled consultancy services (Note a)	**–**	955
Staff costs (including directors' emoluments) (Note 15)	**73,244**	114,961
Written off of inventories (included in cost of sales)	**738**	285
Write down of inventories (included in cost of sales)	**213**	3,809
Net loss on deregistration of subsidiaries	**898**	–
Written off of other receivables	**333**	–

Note:

(a) The amount represented the fair value of consultancy services provided to the Group for the year ended 31 December 2008 in relation to identifying potential pharmaceutical projects and providing legal advice in the PRC. The consultancy service and professional service fees were settled through the issue of 11,000,000 share options in 2008 as set out in Note 34.

13. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: nil).

14. EARNINGS PER SHARE

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

	2009 HK$'000	2008 HK$'000
Earnings		
Profit for the year attributable to the owners of the Company for the purposes of basic and diluted earnings per share	**53,010**	61,095

Number of shares	**2009**	2008
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,551,056,993**	1,551,056,993
Effect of dilutive ordinary shares in respect of share options	**–**	2,007,791
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,551,056,993**	1,553,064,784

For the year ended 31 December 2009, the computation of dilutive earnings per share does not assume the exercise of the Company's outstanding share options as the exercises price of those options is higher than the average market price for shares. Hence, the dilutive earnings per share is the same as basic earnings per share for the year ended 31 December 2009.

15. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2009 HK$'000	2008 HK$'000
Salaries, allowances, other benefits and bonus	**61,052**	102,954
Retirement benefit schemes contribution	**7,605**	7,100
Share-based payments	**–**	4,907
Termination benefits	**4,587**	–
	73,244	114,961

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.

15. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

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 34.

16. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the twelve (2008: nine) directors were as follows:

For the year ended 31 December 2009

		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:						
Tao Lung[1]	–	102	650	12	–	764
Liu James Jin	–	158	650	12	–	820
Huang Jianming[1]	–	532	650	–	–	1,182
Shen Songqing[1]	–	103	650	–	–	753
Xu Xiaofan[2]	–	158	650	–	–	808
Guo Lin	–	158	650	6	–	814
Chen Zhiyu[3]	–	55	–	–	–	55
Huang Zemin[3]	–	55	–	–	–	55
Li Ke[3]	–	55	–	–	–	55
Independent non-executive directors:						
Lee Kwong Yiu	120	–	–	–	–	120
Lui Tin Nang	120	–	–	–	–	120
Chong Cha Hwa	120	–	–	–	–	120
	360	1,376	3,900	30	–	5,666

1 Resigned on 11 November 2009
2 Redesignated on 11 November 2009
3 Appointed on 11 November 2009

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

(a) Directors' emoluments *(Continued)*

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:						
Tao Lung	–	1,080	1,000	12	–	2,092
Liu James Jin	–	1,080	1,000	12	738	2,830
Huang Jianming	–	1,301	1,000	–	738	3,039
Shen Songqing	–	1,080	1,000	–	738	2,818
Xu Xiaofan	–	1,080	1,000	–	–	2,080
Guo Lin [1]	–	1,172	1,000	5	738	2,915
Independent non-executive directors:						
Lee Kwong Yiu	240	–	–	–	–	240
Lui Tin Nang	240	–	–	–	–	240
Chong Cha Hwa	240	–	–	–	130	370
	720	6,793	6,000	29	3,082	16,624

[1] Appointed on 1 January 2008

Discretionary bonus for the two years ended 31 December 2009 was determined with reference to the Group's operating results, individual performance and comparable market statistics.

(b) Senior management's emoluments

Of the five individuals with the highest emoluments in the Group, four (2008: five) were directors of the Company whose emoluments are set out in the above, the emolument of the remaining one (2008: nil) highest paid individual was as follows:

	2009 HK$'000	2008 HK$'000
Salaries, allowance, other benefits and bonus	**813**	–
Retirement benefit schemes contribution	**12**	–
	825	–

Note: The emolument of the above highest paid individual is below HK$1,000,000.

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

(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 2009. No directors waived or agreed to waive any emoluments during the two years ended 31 December 2009.

17. INTANGIBLE ASSETS

	Technical know-how HK$'000
COST	
At 1 January 2008	14,017
Exchange realignment	604
At 31 December 2008	14,621
Addition	1,896
Contribution from minority interests	435
Cancellation of a contract (Note)	(833)
At 31 December 2009	**16,119**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2008	9,272
Exchange realignment	398
Provided for the year	2,300
At 31 December 2008	11,970
Provided for the year	1,119
At 31 December 2009	**13,089**
CARRYING VALUES	
At 31 December 2009	**3,030**
At 31 December 2008	2,651

Note:

During the year ended 31 December 2009, the vendor of technical know-how could not meet certain term of the contract entered into between the Group and the vendor. The vendor forfeited the remaining balance of approximately HK$833,000 for the termination of contract.

Technical know-how has finite useful lives and are amortised on a straight-line basis over five years.

18. 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 2008	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 property (Note 19)	(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
Exchange realignment	–	–	–	–	221	4	225
Additions	1,344	–	492	128	104	108	2,176
Disposals	(4,030)	–	–	(4)	(4,949)	(44)	(9,027)
At 31 December 2009	**97,989**	**–**	**7,788**	**202,186**	**19,097**	**12,954**	**340,014**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2008	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
Exchange realignment	–	–	–	–	42	4	46
Provided for the year	2,626	–	749	9,492	2,216	1,916	16,999
Impairment losses recognised	–	–	–	3,126	–	–	3,126
Eliminated on disposals	(171)	–	–	(3)	(4,050)	(36)	(4,260)
At 31 December 2009	**11,622**	**–**	**6,648**	**93,624**	**15,175**	**9,930**	**136,999**
CARRYING VALUES							
At 31 December 2009	**86,367**	**–**	**1,140**	**108,562**	**3,922**	**3,024**	**203,015**
At 31 December 2008	91,508	–	1,397	121,053	6,754	4,840	225,552

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

The carrying values of properties shown above comprise:

	2009 HK$'000	2008 HK$'000
Land in Hong Kong:		
Long lease	**12,706**	13,056
Medium-term lease	**11,970**	14,955
Land outside Hong Kong:		
Medium-term lease	**61,691**	63,497
	86,367	91,508

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 2009, 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$40,304,000 (2008: HK$40,862,000).

(b) The carrying values of motor vehicles of approximately HK$3,922,000 (2008: HK$6,754,000) includes an amount of approximately HK$775,000 (2008: HK$596,000) in respect of assets held under finance leases.

(c) During the year ended 31 December 2009, the directors of the Company 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$3,126,000 (2008: HK$20,078,000) and nil (2008: HK$6,997,000) have been recognised in respect of plant and machinery and other assets, respectively.

19. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2008	–
Acquired on acquisition of a subsidiary	40,333
Transfer from land and building (Note 18) (Note d)	7,830
Transfer from prepaid lease payment (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
Net increase in fair value recognised in the consolidated income statement	17,352
At 31 December 2009	**74,384**

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 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 2009 has been arrived at on the basis of a valuation carried out on that date by 四川永道合資產評估有限責任公司 ("四川永道") and 四川建科房地產評估事務所有限公司 ("四川建科"), independent qualified professional valuers not connected with the Group. 四川永道 and 四川建科 have 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) 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"), an independent qualified professional valuer 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.

(e) During the year ended 31 December 2008, the Group transferred an office building previously classified as property, plant and equipment and prepaid lease payment 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 was amounted to approximately HK$17,332,000 which were valued by 成都天一.

(f) At 31 December 2009, the fair value of the Group's investment properties pledged as security for the banking facilities granted to the Group amounted to approximately HK$57,898,000 (2008: HK$39,700,000).

20. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2009 HK$'000	2008 HK$'000
Analysed for reporting purposes as:		
Current assets	**800**	800
Non-current assets	**38,711**	39,511
	39,511	40,311

The prepaid lease payments consist of cost of land use rights in respect of land located in the PRC held under medium term lease.

At 31 December 2009, the carrying value 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$16,270,000 (2008: HK$16,647,000).

21. DEPOSIT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Balances as at 31 December 2009 and 2008 represents deposits paid for the acquisition of staff quarters in the PRC. Details of the related capital commitments as at 31 December 2009 and 2008 are set out in Note 38.

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2009 HK$'000	2008 HK$'000
Unlisted investments in certificates of deposits, at fair value	**–**	775
Unlisted equity securities, at cost (Note a)	**7,072**	7,072
Less: Impairment loss recognised (Note b)	**(7,072)**	(7,072)
Listed investment in equity securities listed elsewhere (Note c)	**2,331**	428
	2,331	1,203

Notes:

(a) The unlisted equity securities issued by a private entity in the PRC are measured at cost less impairment at end of each reporting period 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.

(b) 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 (2008: HK$7,072,000) had been recognised. The directors of the Company were of the opinion that the impairment was made based on their best estimation with reference to the market situation and circumstances of the equity securities.

(c) The listed equity securities represent investments in listed securities in Australia.

23. GOODWILL

The carrying amounts of goodwill at the end of the reporting period allocated to Vital Pharmaceutical (Sichuan) Company Limited ("Sichuan Vital") and Sichuan Hengtai and its subsidiary ("Hengtai Group") are as follows:

	Sichuan Vital HK$'000	**Hengtai Group** HK$'000	**Total** HK$'000
COST			
At 1 January 2008	34,876	–	34,876
Arising on acquisition of a subsidiary (Note 35)	–	112,406	112,406
At 31 December 2008 and 2009	**34,876**	**112,406**	**147,282**
IMPAIRMENT			
At 1 January 2008	4,480	–	4,480
Impairment loss recognised in the year	30,396	7,500	37,896
At 31 December 2008	34,876	7,500	42,376
Impairment loss recognised in the year	–	29,982	29,982
At 31 December 2009	**34,876**	**37,482**	**72,358**
CARRYING VALUES			
At 31 December 2009	**–**	**74,924**	**74,924**
At 31 December 2008	–	104,906	104,906

23. GOODWILL *(Continued)*

Impairment testing on goodwill

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.

Hengtai Group

At 31 December 2009, the management of the Group assessed the recoverable amount of Hengtai Group with reference to the valuation report of the Hengtai Group issued by BMI Appraisals Limited, an independent professional valuer not connected with the Group, and determined that goodwill was further impaired by approximately HK$29,982,000 (2008: HK$7,500,000). The main factor contributing to the impairment of the cash generating unit was due to the uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule" (the "Capsule"), it may lead the Group cannot carry on its packing process and the sale of the Capsule in the PRC.

The basis of calculating the recoverable amount and the principal underlying assumptions are summarised as below:

The recoverable amount of Hengtai Group has been determined on the basis of value in use calculations. That calculation uses cash flow projections based on financial budgets approved by management of the Group covering a 5-year period, and discount rate of 14.26% (2008: 15.30%). Cash flow beyond the 5-year period has been extrapolated using a steady 3% growth rate (2008: 3%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Hengtai Group to exceed the aggregate recoverable amount of Hengtai Group.

24. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials		
– in transit	**14,518**	–
– on hand	**10,638**	1,448
Work in progress	**305**	2,099
Finished goods	**46,088**	62,978
Packing materials	**2,181**	459
	73,730	66,984

During the year ended 31 December 2008, certain impaired inventories were sold at gross profit. As a result, a reversal of written-off of inventories of approximately HK$2,816,000 (2009: nil) has been recognised and included in consolidated income statement for the year ended 31 December 2008.

25. TRADE AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade and bills receivables	**64,588**	132,647
Prepayments and deposits	**16,606**	7,698
Payments for pharmaceutical projects (Note a)	**21,010**	21,253
Other receivables	**4,208**	4,564
	106,412	166,162
Less: Impairment loss recognised in respect of trade receivables	**(12,387)**	(11,215)
Impairment loss recognised for payments for pharmaceutical projects (Note b)	**(20,509)**	(20,509)
Impairment loss recognised in respect of prepayment, deposits and other receivables (Note c)	**(4,275)**	(2,778)
	69,241	131,660

Notes:

(a) 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.

(b) At the end of the reporting 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 (2008: HK$20,509,000) had been recognised.

The movements in impairment loss of payments for pharmaceutical projects were as follows:

	2009 HK$'000	2008 HK$'000
At 1 January	**20,509**	17,538
Recognised during the year	**–**	2,971
At 31 December	**20,509**	20,509

Included in the impairment loss are individually impaired payments for pharmaceutical projects with an aggregate balance of approximately HK$20,509,000 (2008: HK$20,509,000) which are of high risks and the application of these projects provides minimal benefits. The Group does not hold any collateral over these balances.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

(c) The movements in impairment loss of prepayment, deposits and other receivables were as follows:

	2009 HK$'000	2008 HK$'000
At 1 January	**2,778**	–
Recognised during the year	**1,497**	2,778
At 31 December	**4,275**	2,778

Included in the impairment loss are individually impaired prepayments, deposits and other receivables with an aggregate balance of approximately HK$4,275,000 (2008: HK$2,778,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

The Group normally grants to its customers credit periods ranging from 90 days to 180 days which are subject to periodic review by management.

The following is an aged analysis of the trade and bills receivables, based on the invoice date at the end of the reporting period, and net of impairment loss recognised:

	2009 HK$'000	2008 HK$'000
Within 30 days	**13,979**	46,842
31-60 days	**14,823**	28,192
61-90 days	**12,998**	31,297
Over 90 days	**10,401**	15,101
	52,201	121,432

The movements in impairment loss of trade and bills receivables were as follows:

	2009 HK$'000	2008 HK$'000
At 1 January	**11,215**	7,187
Exchange realignment	**–**	3
Arising on acquisition of a subsidiary	**–**	238
Recognised during the year	**1,172**	4,695
Written off	**–**	(908)
At 31 December	**12,387**	11,215

25. TRADE AND OTHER RECEIVABLES *(Continued)*

At 31 December 2009 and 2008, the aged analysis of trade receivables that were past due but not impaired are as follows:

			Past due but not impaired			
	Total	**Neither past due nor impaired**	**<90days**	**91 to 180 days**	**181 to 365 days**	**1 to 2 years**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2009	**52,201**	**41,801**	**10,400**	**–**	**–**	**–**
31 December 2008	121,432	116,009	4,990	317	–	116

For the year ended 31 December 2009 and 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. The Group does not hold any collateral over these balances.

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)

	2009	2008
	HK$'000	HK$'000
Held-for-trading investment include:		
Unlisted investment in guaranteed funds, at fair value	**2,121**	1,667

27. BANK BALANCES AND CASH

Bank balances and cash of the Group as at 31 December 2009 included amounts of approximately HK$152,793,000 (2008: HK$132,894,000) denominated in RMB which is not freely convertible to other currencies. Bank balances carried interest at average market rate of 0.90% (2008: 0.33%).

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 0.72% (2008: 0.05% to 1.62%) per annum. The pledged bank deposits will be released upon the cancellation of bills and letter of credit facilities.

28. TRADE AND OTHER PAYABLES

	2009 HK$'000	2008 HK$'000
Trade and bills payables	5,462	11,909
Accrued expenses and other payables	53,531	64,099
	58,993	76,008

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2009 HK$'000	2008 HK$'000
Within 30 days	5,008	274
31-60 days	60	114
61-90 days	28	6
Over 90 days	366	11,515
	5,462	11,909

The average credit period on purchases of goods is 30 days (2008: 30 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

Included in accrued expenses and other payables, there was 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" were received. Details of the particulars were set out on an announcement dated 12 November 2008. The movement of the provision for compensation claim is set out below:

	2009 HK$'000	2008 HK$'000
At 1 January	5,556	–
Provision for the year	1,111	5,556
Settled in the year	(4,167)	–
At 31 December	2,500	5,556

29. OBLIGATIONS UNDER FINANCE LEASES

The average lease term is five (2008: five) years. For the year ended 31 December 2009, the average effective borrowing rate was 10.25% (2008: 10.25%). 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	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Amounts payable under finance leases				
Within one year	**446**	161	**446**	114
In more than one year but not more than two years	**–**	353	**–**	344
	446	514	**446**	458
Less: Future finance charges	**–**	(56)	**–**	–
Present value of lease obligations	**446**	458	**446**	458
Less: Amount due within one year shown under current liabilities			**(446)**	(114)
Amount due after one year			**–**	344

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

	2009 HK$'000	2008 HK$'000
Bank loans	**–**	84,349
Analysed as:		
Secured bank loans	**–**	39,196
Unsecured bank loans	**–**	45,153
	–	84,349

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. The bank borrowings have been fully repaid during the year ended 31 December 2009. The details of assets that have been pledged as collateral to secure the bank borrowings were set out in Note 39.

30. BANK BORROWINGS *(Continued)*

The amounts of banking facilities and the utilisation at the end of each reporting period are set out as follows:

	2009 **HK$'000**	2008 HK$'000
Facilities amount	**166,667**	318,889
Utilisation at 31 December	**–**	84,349

31. SHARE CAPITAL

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

32. OTHER PAYABLES

Other payables represent the compensation payable to former distributors for early termination of distribution contracts after the Group acquired a subsidiary in 2008 which took up the role as a distributor for its products.

	2009 **HK$'000**	2008 HK$'000
Analysed for reporting purposes as:		
Current liabilities (included in trade and other payables)	**2,666**	–
Non-current liabilities	**2,778**	–
	5,444	–

The fair value of other payables equals its carrying amount, as the impact of discounting is not significant.

33. DEFERRED TAXATION

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

	Accumulated tax depreciation HK$'000	Change in fair value of land and buildings and investment properties HK$'000	Change in fair value of properties upon transfer to investment properties HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2008	1,174	–	–	(1,174)	–
Arising on acquisition of subsidiaries	4,564	1,555	–	–	6,119
(Credit) charge to profit or loss	(697)	(26)	–	538	(185)
Charge to other comprehensive income	–	–	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
Charge to profit or loss	341	4,338	–	509	5,188
At 31 December 2009	**5,315**	**5,867**	**1,573**	**(60)**	**12,695**

At the end of the reporting period, the Group has unused tax losses of approximately HK$89,910,000 (2008: HK$105,704,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$364,000 (2008: HK$3,448,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$89,546,000 (2008: HK$102,256,000) due to the unpredictability of future profit streams. At 31 December 2009, approximately HK$28,331,000 (2008: HK$38,843,000) 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 end of the reporting period, the Group has deductible temporary differences of approximately HK$74,904,000 (2008: HK$75,577,000). 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 EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits to the PRC subsidiaries amounting to HK$9,307,000 (2008: HK$7,317,000) 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.

34. 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 2009, 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 (2008: 114,390,000) representing 7.37% (2008: 7.37%) of the shares of the Company in issue at that date.

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

HK$16 was received during the year ended 31 December 2008 from eligible participants for taking up the options granted in 2008. No options were granted during the year ended 31 December 2009.

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.

34. SHARE OPTION SCHEME *(Continued)*

First phase:

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

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

Second phase:

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

Third phase:

On 29 September 2003, options were granted 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

34. SHARE OPTION SCHEME *(Continued)*

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

	Date of grant	Outstanding at 1 January 2008	Granted during 2008	Outstanding at 31 December 2008 and 2009	Exercise price per share
					HK$
Directors:					
Mr. Tao Lung[1]	12 September 2005	15,000,000	–	15,000,000	0.23
Mr. Xu Xiaofan	12 September 2005	15,000,000	–	15,000,000	0.23
Mr. Huang Jianming[1]	29 January 2008	–	8,500,000	8,500,000	0.28
Mr.Shen Songqing[1]	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 September 2003	3,000,000	–	3,000,000	0.51
	29 January 2008	–	8,500,000	8,500,000	0.28
Independent non-executive directors:					
Mr. Chong Cha Hwa	29 January 2008	–	1,500,000	1,500,000	0.28
Employees	21 June 2002	330,000	–	330,000	0.39
	29 September 2003	10,260,000	–	10,260,000	0.51
	12 September 2005	2,800,000	–	2,800,000	0.23
	29 January 2008	–	21,000,000	21,000,000	0.28
Other eligible participants	29 September 2003	500,000	–	500,000	0.51
	29 January 2008	–	11,000,000	11,000,000	0.28
		46,890,000	67,500,000	114,390,000	
Exercisable at the end of the year					
– 31 December 2008				67,140,000	
– 31 December 2009				114,390,000	
Weighted average exercise price					
– 1 January 2008		0.31			
– Granted during 2008			0.28		
– 31 December 2008				0.29	
– 31 December 2009				0.18	

[1] The directors have resigned with effect from 11 November 2009. The share options held by the resigned directors remained effective and exercisable until 6 February 2012.

34. 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.

35. 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
Investment 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 (Note 23)			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

Goodwill arose in the acquisition of Hengtai Group because the consideration paid for the combination effectively included amounts in relation to the benefit of significant synergies in terms of financial performance, operation scale and industrial organisation which in turn enhanced the Group's ability in tackling risks and realised the Group's potential growth in the long run. These benefits were not recongised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

35. ACQUISITION OF SUBSIDIARIES *(Continued)*

Hengtai Group contributed approximately HK$2,225,000 to the Group's profit for the year ended 31 December 2008 between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2008, total Group's turnover and profit for the year ended 31 December 2008 would have been approximately HK$840,722,000 and HK$74,097,000, respectively. 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.

36. 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 as 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 realised 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.

37. RELATED PARTY TRANSACTIONS

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

(a) A tax indemnity dated 30 January 2002 were entered into by the then controlling shareholders of the Company, the Company and its subsidiaries, pursuant to which the then 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 (other than those established or incorporated subsequent to the date of tax indemnity) in respect of any income, profits or gains earned, accrued or received on or before 7 February 2002.

(b) Compensation of key management personnel

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

	2009 HK$'000	2008 HK$'000
Short-term benefits	**7,333**	17,196
Post-employment benefits	**101**	156
Share-based payments	**–**	3,865
	7,434	21,217

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 end of the reporting period, the Group had the following commitments:

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

	2009 HK$'000	2008 HK$'000
Contracted but not provided for	**4,014**	5,356

(b) Commitments for the acquisition of technical know-how

	2009 HK$'000	2008 HK$'000
Contracted but not provided for	**571**	1,432

38. COMMITMENTS *(Continued)*

(c) Commitments under operating leases

The Group as a lessor

Property rental income earned during the year was approximately HK$3,034,000 (2008: HK$1,092,000). The investment properties are expected to generate rental yields of 1.78% on an ongoing basis. The investment properties held have committed tenants for the next one to four years.

At the end of the reporting period, the Company had contracted with tenants for the following future minimum lease payments:

	2009 **HK$'000**	2008 HK$'000
Within one year	**1,016**	1,831
In the second to fifth year inclusive	**1,895**	3,446
	2,911	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 throughout the rental period.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 **HK$'000**	2008 HK$'000
Land and buildings		
Within one year	**715**	917
In the second to fifth year inclusive	**16**	5
	731	922

39. PLEDGE OF ASSETS

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

	2009 **HK$'000**	2008 HK$'000
Property, plant and equipment	**40,304**	40,862
Investment properties	**57,898**	39,700
Bank balances and cash	**668**	4,002
Prepaid lease payments on land use rights	**16,270**	16,647
	115,140	101,211

40. NON-CASH TRANSACTIONS

During the year, an intangible asset with fair value of approximately HK$435,000 was contributed by a minority shareholder as additional capital injection to a subsidiary.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Plant and equipment		**21**	26
Available-for-sale investments		**2,331**	1,203
Investments in subsidiaries		**53,035**	53,035
		55,387	54,264
Current assets			
Other receivables		**349**	120
Amounts due from subsidiaries	(a)	**399,848**	398,290
Bank balances and cash		**5,038**	5,627
		405,235	404,037
Current liabilities			
Other payables		**1,385**	7,389
Amounts due to subsidiaries	(a)	**135,763**	118,220
		137,148	125,609
Net current assets		**268,087**	278,428
Total assets less current liabilities		**323,474**	332,692
Capital and reserves			
Share capital		**15,511**	15,511
Reserves		**307,963**	317,181
Total equity		**323,474**	332,692

(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 end of the reporting period was approximated to the corresponding carrying amounts due to their short-term maturities.

42. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 December 2009 and 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 2009	2008	Principal activities
Direct subsidiaries:							
Ever Power Holding Inc.	Ordinary shares	BVI	BVI	2 ordinary shares of US$1 each	**100%**	100%	Investment holding
Gainful Plan Limited	Ordinary shares	BVI	BVI	2 ordinary shares of US$1 each	**100%**	100%	Investment holding
Vital BioTech (Hong Kong) Limited	Ordinary shares	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Investment holding
Yugofoil Holdings Limited	Ordinary shares	BVI	Hong Kong	103 ordinary shares of US$1 each	**100%**	100%	Investment holding
Indirect subsidiaries:							
Beshabar Trading Limited	Ordinary shares	BVI	BVI	1 ordinary share of US$1	**100%**	100%	Investment holding
Beshabar (Macao Commercial Offshore) Limited	Ordinary shares	Macao	Macao	1 quota (share) of MOP100,000 each	**100%**	100%	Trading
Beshabar Trading Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	**100%**	100%	Trading
Maxsun International Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	**100%**	100%	Investment holding
#Wuhan Weiao Pharmaceuticals Co., Ltd.	Contributed capital	PRC	PRC	RMB30,000,000	**95.70%**	96.96%	Manufacturing and trading of pharmaceutical products
##Vital Pharmaceuticals (Sichuan) Co., Ltd.	Contributed capital	PRC	PRC	RMB221,080,754	**100%**	100%	Manufacturing and trading of pharmaceutical products
##Vital (Sichuan) Biotech Co., Ltd.	Contributed capital	PRC	PRC	US$1,400,000	**100%**	100%	Research and development of biotechnology

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 2009	2008	Principal activities
Indirect subsidiaries: *(Continued)*							
Wide Triumph Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	**100%**	100%	Management services
Vital Pharmaceuticals Company Limited	Ordinary shares	Hong Kong	Hong Kong	100 ordinary shares of HK$1 each	**100%**	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%**	100%	Manufacturing and trading of pharmaceutical products
###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 Pharmaceutical Company Limited	Contributed capital	PRC	PRC	RMB4,300,000	**100%**	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 reporting period or at any time during the reporting period.

During the year ended 31 December 2009, the Group deregistered its PRC subsidiaries, 成都出口監管倉庫有限公司 and 四川新恒泰醫藥信息有限公司. The subsidiaries deregistered had no significant impact on the results and cash flows of the Group.

43. EVENTS AFTER THE REPORTING PERIOD

On 16 April 2010, the Company announced the proposed change of the Company's name to "Vital Group Holdings Limited 維奧集團控股有限公司". The change of the Company's name is subject to the passing of a special resolution at the annual general meeting to be held on 2 June 2010.

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