維奧集團控股有限公司

Vital Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1164)

Annual Report 2010

Contents

Financial Highlights

OPERATING RESULTS

	For the year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(restated)	(restated)		
Turnover	**328,120**	367,056	699,317	507,494	487,147
Operating profit	**52,942**	66,171	97,887	77,576	60,217
Finance costs	**(779)**	(586)	(16,405)	(12,605)	(13,201)
Profit before taxation	**52,163**	65,585	81,482	64,971	47,016
Income tax expense	**(12,947)**	(12,615)	(20,563)	(14,512)	(9,916)
Profit for the year	**39,216**	52,970	60,919	50,459	37,100
Profit attributable to:					
Owners of the Company	**36,610**	53,010	61,095	50,622	37,743
Non-controlling interests	**2,606**	(40)	(176)	(163)	(643)
	39,216	52,970	60,919	50,459	37,100

FINANCIAL POSITION

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**871,860**	725,102	794,921	741,037	696,491
Total liabilities	**(164,845)**	(74,912)	(197,549)	(236,995)	(250,679)
	707,015	650,190	597,372	504,042	445,812
Equity attributable to owners of the Company	**703,601**	649,382	596,959	503,453	445,071
Non-controlling interests	**3,414**	808	413	589	741
	707,015	650,190	597,372	504,042	445,812

Note: The consolidated results of the Group for the two years ended 31 December 2010 and the assets and liabilities of the Group as at 31 December 2010 and 2009 have been extracted from the audited consolidated financial statements of the Group as set out on pages 32 to 35 of the Annual Report.

Certain figures for the years ended 31 December 2009 and 2008 had been reclassified to conform the presentation of consolidated income statement for the year ended 31 December 2010. The Directors consider that reclassification of rental income and other taxes from other operating income to turnover and to cost of sales is more meaningful in view of the introduction of property investment business during the year ended 31 December 2010.

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

Cheung Hin Kiu *(ACIS (ICSA), ACS (HKICS), ACCA)*
(Appointed on 31 March 2011)
Leung Wai Pong *(CPA (Aust.), CPA)*
(Resigned on 31 March 2011)

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
Cheung Hin Kiu (Appointed on 31 March 2011)
Leung Wai Pong (Resigned on 31 March 2011)

PRINCIPAL BANKERS

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

AUDITORS

SHINEWING (HK) CPA Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
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 Group 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 2010.

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 2010, the Group continued to suffer from the uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule", the consolidated turnover of the Group decreased by 11% year-on-year to approximately HK$328 million from HK$367 million.

Although "Osteoform Calcium Food" has generated attractive sales to the Group in 2010, directors believe that sales of "Osteoform Calcium Food" in the coming year will still be under great pressure due to the fact that the sales has decreased in the second half of 2010. Besides, the competition of PRC food market is getting intense. Therefore it is necessary for the Group's major sales arm — Sichuan Hengtai Pharmaceutical to boost selling and distribution expenses and enhance marketing activities to promote the sales. Increasing selling and distribution expenses in the coming year may result in the drop of profit. As such the Group had provided for amounted to approximately HK$22.6 million impairment of goodwill in the second half of 2010. In addition, in order to improve production efficiency and to minimize the negative impact from suspension of "Osteoform calcium amino acid chelate capsule" production, the Group has completed the preliminary integration of production line in 2010, which resulted in the idleness of some production equipments. Directors estimated that the idleness is not able to be significantly improved in the coming year, therefore, the Group had provided for approximately of HK$9.7 million impairment of production plant and equipments. The above situation led to a fall back on the on the profit attributable to owners of the Company for the year.

As a whole, the profit attributable to owners of the Company decreased by approximately HK$16 million, or around 31%, to approximately HK$37 million from approximately HK$53 million last year.

In addition, the Directors have been continuing in exploring suitable business opportunities to broaden and to diversify the business scope of the Company. The bid for the land parcel in Chengdu city, PRC, in May 2010 represents an opportunity to tap into the PRC property market and such opportunity would enhance the shareholders' value in the long run. However, given the government's austerity measures to curb the real estate market, the property market in the PRC will remain uncertain. The board will carry out the property development business with care and prudence.

FUTURE PLANS AND PROSPECTS

The Group intends to diversify its product range based on the Group's relevant experiences and expertise. The Group had launched new product "Domperidone Tablets" into market in the second half of 2010. This new product is used for the treatment of plenitude and indigestion.

In regard to the uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule", the Group has received a written notification from Pharmco International, Inc, the sole supplier of Osteoform Compound Calcium Amino Acid Chelate Capsules in January 2011. In the written notice, it was mentioned that Pharmco was notified by the Department of Drug Registration of the State Food and Drug Administration in PRC that they intend to issue a notice of non-renewal of import drug license of Osteoform to Pharmco in the near future. Despite the uncertainties, the Group continues to diversify product and business development, expand and optimize product range and accelerate the reform of quality control system in order to raise the competitiveness of our group.

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.

Xu Xiaofan
Chairman

Hong Kong, 28 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

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As a whole, the profit attributable to owners of the Company decreased by approximately HK$16 million, or around 31%, to approximately HK$37 million from approximately HK$53 million last year. Basic earnings per share were HK2.36 cents (2009: HK3.42 cents). The Group's financial position remained strong during the year, with approximately HK$80 million of bank balance and cash as at 31 December 2010. Debt/Equity ratio (gross) as at 31 December 2010 was at 11%.

During the year under review, the Group continues to diversify product range. The Group had launched new product "Domperidone Tablets" into market in the second half of 2010. This new product is used for the treatment of plenitude and indigestion. In addition, the Directors have been continuing in exploring suitable business opportunities to broaden and to diversify the business scope of the Company. The bid for the land parcel in Chengdu city, PRC, in May 2010 represents an opportunity to tap into the PRC property market and such opportunity would enhance the shareholders' value in the long run. However, given the government's austerity measures to curb the real estate market, the property market in the PRC will remain uncertain. The board will carry out the property development business with care and prudence.

Sales of Product

During the year, the Group's turnover from sales of product was amounted to approximately HK$324 million, a decrease of approximately 11% as compared with the sales of approximately HK$364 million for the corresponding year.

Osteoform family products

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

The Group's 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 fourth quarter of 2009 and the market response is satisfactory. The turnover of "Osteoform compound calcium amino acid chelate food capsule" amounted to approximately HK$206 million in 2010, representing an increase of approximately 930% as compared with last year.

"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 in 2010 was around HK$18 million, representing an increase of approximately HK$2 million as compared with last year.

Madaus products

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

"Legalon", a product imported from Madaus, Germany brought in a turnover of approximately HK$40 million, a slight decrease of approximately HK$1 million when compared to approximately HK$41 million in corresponding 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$11 million in 2010. It is slightly increased by HK$1 million when compared to approximately HK$10 million for the corresponding year.

Other products

"Taurolite®", a prescription medication capable of dissolving the cholesterol stones formed in the gallbladder and bile-duct

"Taurolite®" Tauroursodeoxycholic acid capsule, it cures and prevents liver diseases such 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. "Taurolite®" has been launched into the market during the second half of year 2009. The sales turnover for the year 2010 was around HK$5.7 million.

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

Turnover during the year 2010 was approximately HK$6.7 million, representing a decrease of approximately 30% over last year. The decrease in sales is mainly due to the restriction on raw material quota which in turn affect their supply.

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

Turnover of "Opin" for 2010 amounted to approximately HK$5.6 million, an increase of approximately 8% over last year.

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

"Aceclofenac Tablets" contributed a sales turnover of approximately HK$2.4 million in 2010, a decrease of around 17% when compared with last year.

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

In the year under review, Company has strengthened the marketing promotion and advertisement on "Aotianping". As a result, it contributed a sales turnover of approximately HK$4.1 million in 2010, an increase of around 64% when compared with last year.

"Hongjinxiaojie Tablet", another gynaecological product of the Group

It 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. Turnover of "Hongjinxiaojie Tablet" for 2010 was amounted to approximately HK$2.3 million.

Sichuan Hengtai Pharmaceutical

In 2010, the company has brought a series of products into the market. The sales performance is still acceptable in general. During the year, Sichuan Hengtai continued its steady course of academic promotion by co-hosting or undertaking a number of state-level expert conferences, such as the "National Annual Conference on Digestive System" and the "Annual Conference on Endocrine". That generated significantly positive effect in terms of introducing the Group's products to the academic circle. Besides, along with the innovation in product lines as well as profit model, the company continued to restructure and regroup its marketing team with a view to strengthening its positivity in creating economic benefits. With the adjustment to and expansion of its product mix, Sichuan Hengtai will keep on exploring and introducing new products to the market.

The production base in Chengdu, Sichuan Province, the PRC

During the year, the plant is principally responsible for the production of the Group's product "Aceclofenac Tablets", "Aotianping" (Miglitol Tablets), and the new drug to gynaecology called "Hongjinxiaojie Tablet", and "Mengtuoshisan" which is our new product used for the treatment of diarrhoea. In the 4th quarter, "Domperidone Tablets", which is used for the treatment of plenitude and indigestion, is introduced.

The production base in Wuhan, Hubei Province, the PRC

During the year under review, 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 food product "Osteoform Calcium Food".

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

Preparation work of later stage for trial production has been launched in the fourth quarter of 2010. The workshop of solution for water injection has passed the onsite inspection from the Certification Centre of the State Food and Drug Administration (國家藥品食品監督管理局認證中心) for GMP certification and has received GMP certificate at the end of January 2011.

Property Investment Industry

Property development

"Chengdu Wenjiang Vital Property Development Company Limited" (成都溫江維奧房地產開發有限公司) was incorporated in July 2010 for the purpose of developing the land acquired by auction, which is a tract of state-owned land for construction use, located in the Wancheng Community, Liucheng Street, Wenjiang District, Chengdu, the PRC (中國成都市溫江區柳城街辦萬盛社區) with a total area of approximately 49,595 square meters. The land is intended for developing into high-end commercial facilities and residential units with a gross floor area of approximately 200,000 square meters. Development planning, design and pre-construction submission in respect of the land are under way. Construction is expected to commence in year 2011 and completion of the whole development is scheduled to take place within three years. However, given the government's austerity measures to curb the real estate market, the property market in the PRC will remain uncertain. The board will carry out the property development business with care and prudence.

Leased investment property

Besides property development, property investment industry also includes leased investment properties situated in Sichuan, the PRC. During the year 2010, the investment properties had contributed around HK$4.2 million (Year 2009: approximately HK$3 million) rental income to the Group.

BUSINESS PROSPECT

In the foreseeable future, consolidation will be seen in the markets of food, pharmaceuticals and properties of the PRC, with substantial pressure existing in the operating environment. The Group will strengthen risks management, and adopt a careful and prudent strategy for its operation and investments as the developing direction and objective for the coming years.

In regard to the uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule", the Group has received a written notification from Pharmco International, Inc, the sole supplier of Osteoform Compound Calcium Amino Acid Chelate Capsules in January 2011. In the written notice, it was mentioned that Pharmco was notified by the Department of Drug Registration of the State Food and Drug Administration in the PRC that they intend to issue a notice of non-renewal of import drug license of Osteoform to Pharmco in the near future. Despite the uncertainties, the Group continues to diversify product and business development, expand and optimize product range, and accelerate the reform of quality control system in order to raise the competitiveness of our group.

FINANCIAL REVIEW

Capital structure

As at 31 December 2010, the Company had in issue 1,551,056,993 ordinary shares (31 December 2009: 1,551,056,993 shares). During the years 2009 and 2010, the Company had not issued any new shares. The market capitalization of the Company as at 31 December 2010 was approximately HK$357 million (31 December 2009: approximately HK$284 million).

Liquidity and financial resources

As at 31 December 2010, the Group had bank loan amounted to approximately HK$71 million (As at 31 December 2009: no bank loan). Bank balances and cash amounted to approximately HK$80 million (31 December 2009: approximately HK$164 million), including pledged bank deposits of approximately HK$12 million (31 December 2009: approximately HK$0.7 million).

As at 31 December 2010, the Group has obtained banking facilities of approximately HK$259 million from bank in China (31 December 2009: HK$167 million). Unutilized banking facilities amounted to approximately HK$187 million (31 December 2009: HK$167 million). The average cost of financing was around 6% per annum (Year 2009: 6%). The Group has maintained sufficient financial resources for business operation purpose. The Group has no seasonality of borrowing requirement.

The Group adopts a conservative funding and treasury policies and objectives. As at 31 December 2010: bank borrowings amounting to HK$20 million are denominated in Hong Kong dollars and amounting to HK$51 million are denominated in RMB and will be fully repayable by 31 December 2011, with 48% at fixed rates of interest at approximately 5.6% per annum, and the rest are at floating rates of interest ranging from Hong Kong Interbank Offered Rate plus 5% per annum to the benchmark interest rate of China's Central Bank for loans by adding a markup of 10% (As at 31 December 2009, there was no outstanding bank borrowing).

As at 31 December 2010, in relation to cash and bank balances amounting to approximately HK$80 million (31 December 2009: HK$164 million), approximately 78% (2009: 94%) of which was denominated in RMB, approximately 9% (2009: 3%) was denominated in Hong Kong dollar, approximately 11% (2009: 3%) of which was denominated in US dollar and approximately 2% was denominated in other currencies.

Exposure to foreign exchange risk and Currency policy

The sales receipts of the Group were mainly denominated in RMB. Purchases were denominated as to approximately 42% in USD (2009: 12%), 32% in RMB (2009: 30%) and 26% in EURO (2009: 58%). Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 76% in RMB (2009: 80%), others are in HKD, AUD, USD and Macau Pataca, etc. In 2010, in order to minimize the exposure to exchange rate fluctuation, the Group has entered into several forward foreign exchange contracts to lock in the price of purchasing. However, the Group did not enter into any interest or currency swaps, or other financial derivatives for hedging purpose. During the year 2010, 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 2010, the Group had no material contingent liabilities (2009: Nil).

Key financial figures and ratios

Profit and loss item:

Gross profit margin: Due to the increase of raw material cost, packaging material cost and staff cost in the PRC, the average gross profit margin of year 2010 was decreased by 3%, to around 68%, when compared with around 71% at year 2009.

Other operating income: In the year 2010, there were no revaluation gain in investment properties and government grants recognized while there were approximately HK$20.8 million in the last year which resulted in the drop of other operating income. However, certain reversals of previous provision and impairment losses, plus the gain on deregistration of subsidiaries have been recorded in the year 2010. Therefore, the overall other operating income had decreased by approximately HK$8 million as compared to last year.

Selling and distribution expenses: The Group had identified that high selling and distribution expenses is a business risk, and aimed to tightening the outflow. In the current year, it had been shown the control was in place and effective. In the year 2010, the proportion of selling and distribution expenses to turnover decreased to 25% from 29% of the year 2009.

Administrative expenses: Although the Group focused on tightening its budget control and expenses to cut down administrative costs, there is approximately HK$9.7 million impairment of property, plant and machineries in year 2010 while there is only approximately HK$3.1 million in year 2009. In addition, loss on scrap of property, plant and equipment amounted to HK$8.1 million (Year 2009: HK$0.1 million). Therefore, the administrative expenses increased from approximately HK$81 million in year 2009 to approximately HK$83 million in year 2010.

Finance costs: Although the Group had new bank borrowings in the year 2010, interest expenses amounted to approximately HK$1.2 million has been capitalized into property under development. Therefore, the finance costs under the consolidated income statement were approximately the same as last year.

	Year 2010	Year 2009
Profit and loss item:		
Turnover (HK$'million)	**328**	367
Gross profit margin	**68%**	71%
Selling and distribution expenses (HK$'million)	**82**	107
Gross profit margin after selling and distribution expenses	**43%**	42%
Profit attributable to owners of the Company/turnover	**11%**	14%
EBITDA (HK$'million)	**69**	85
EBITDA/Turnover	**21%**	23%

Balance sheet item:

Gearing ratio: Taken into account of the Group had new bank borrowings in the year 2010, bank borrowing balance increased as compared with no bank borrowing balance at the end of 2009. As such, the debt equity ratio (total bank borrowings/equity attributable to equity holders of the Company, net of intangible assets and goodwill) was increased to 11%.

During the year, the Group had increased the demand of a cash on delivery policy to the distributors, the average trade receivable turnover days therefore had dropped to around 53 days. For the average inventory turnover days (exclude goods in transit), because of stock up in order to satisfy future demand, had climbed up to around 263 days.

	As at 31 December 2010 HK$'million	As at 31 December 2009 HK$'million
Balance sheet item:		
Short-term bank loans	**71**	–
Long-term bank loans	**–**	–
Bank balances and cash	**80**	164
Net tangible assets	**652**	572
Debt equity ratio (gross)	**11%**	0%
Average trade receivable turnover day	**53 days**	86 days
Average inventory turnover day (exclude goods in transit)	**263 days**	215 days

As at 31 December 2010, the Group had approximately HK$12.1 million of bank balances and cash, HK$62.5 million in property, plant and equipment, HK$15.9 million in prepaid lease payments on land use rights, and HK$78.4 million in investment properties were pledged as collateral to banks. For year 2010, return on equity was on average 5%.

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 to RMB0.1 million to Chengdu Wenjiang District charity in Sichuan, aimed to assist the re-construction work in Yushu, Gansu Province which is the affected area in the earthquake. 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 2010, the Group had 779 employees, comprising 20 in research and development, 204 in production, 383 in sales and marketing, and 172 in general administration and finance. 756 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 2010 amounted to approximately HK$69.8 million.

MAJOR TRANSACTION

On 6 May 2010, the agent of the Company received the confirmation letter from the Bureau of Land Resources confirming the successful bid for the land which is located in the Wancheng Community, Liucheng Street, Wenjiang District, Chengdu, the PRC (中國成都市溫江區柳城街辦萬盛社區) with a total area of approximately 49,595 square meters at an aggregate consideration of approximately RMB204.6 million. Details of the major transaction in relation to the land acquisition have been set out in the Company's circular dated 9 June 2010. Such transaction has been approved by passing of a resolution by the shareholders of the Company at the extraordinary general meeting held on 25 June 2010.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Xu Xiaofan, aged 47, 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 49, 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 10 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 47, 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 50, 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 49, an executive director of the Company. He is responsible for business development of the Group. He graduated with a bachelor degree in medicine from Sichuan Medical Institute (四川醫學院) in 1982. He has over 10 years of experience in pharmaceutical industry and 9 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 48, 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 53. 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 Hong Kong Institute of Certified Public

Accountants (Practicing), 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 independent non-executive directors of CT Holdings (International) Ltd and National Investments Fund Limited, companies listed on the Stock Exchange.

Mr. Lee Kwong Yiu, aged 48, 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 44, 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 52, 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 36, 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. He resigned as the company secretary, authorised representative and financial controller of the Company on 31 March 2011.

Mr. Wu Qing Jiang, aged 47, is the chairman of Vital Pharmaceuticals (Sichuan) Co., Ltd and Weiao (Chengdu) Pharmaceuticals 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 26 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 52, 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.

Ms. Zhang Mei, aged 43, is the director of Vital Pharmaceuticals (Sichuan) Co. Ltd. and Weiao (Chengdu) Pharmaceuticals Co. Ltd, subsidiaries of the Company. She graduated from Chuan Bei Medical College in 1989 and obtained an EMBA Certificate in California American University in 2003. Ms. 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 2010.

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 2010, the Board comprises 6 Executive Directors ("EDs") and 3 Independent Non-executive Directors ("INEDs") whose biographical details are set out on pages 12 and 13. 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 7 meetings. The attendance of the Directors at the meetings is set out as follows:

	Attendance
Executive Directors	
Xu Xiaofan *(Chairman)*	7/7
Chen Zhiyu *(Chief Executive Officer)*	7/7
Liu James Jin	3/7
Guo Lin	7/7
Huang Zemin	5/7
Li Ke	5/7
Independence Non-executive Directors	
Lui Tin Nang	7/7
Lee Kwong Yiu	7/7
Chong Cha Hwa	7/7

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 2010, the Board had reviewed the structure, size and composition (including the skills, knowledge and experience) of the Directors, and the Board had also assessed the independence of Independent Non-executive Directors during the year 2010.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The position of the Chairman and CEO are held by separate individuals to maintain and preserve 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 referencing 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 referencing 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 1 meeting. The attendance of each member at the committee meetings is set out as follows:

	Attendance
Executive Directors	
Xu Xiaofan	1/1
Guo Lin	1/1
Independence Non-executive Directors	
Lui Tin Nang	1/1
Lee Kwong Yiu *(Chairman of the Remuneration Committee)*	1/1
Chong Cha Hwa	1/1

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 2010 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 can report directly to the Audit Committee.

In respect of the year ended 31 December 2010, 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$950,000 for audit services and approximately HK$622,000 for non-audit services, such as agreed-upon procedures services and interim review service during the year ended 31 December 2010.

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:	Room 3107, 31/F., Tower 1, Lippo Centre, 89 Queensway, Hong Kong
Attention:	Ms. Gloria Cheung

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 2010.

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 selling, distributing and manufacturing of pharmaceutical and food products and property investment. 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 32 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 (2009: Nil).

No dividend was paid or proposed during the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil)

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five years ended 31 December 2010 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 36 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 40 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 32 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")
Mr. Chen Zhiyu *(Chief Executive Officer)* ("Mr. Chen")
Mr. Liu James Jin ("Mr. Liu")
Ms. Guo Lin ("Ms. Guo")
Mr. Huang Zemin ("Mr. Huang")
Mr. Li Ke

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, Mr. Xu, Mr. Liu and Mr. Lee Kwong Yiu will retire from office by rotation 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 2012. 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 12 to 13 of the annual report.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2010 amounted to approximately HK$279,654,000.

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 2010.

SHARE OPTIONS

The Company has adopted a share option scheme (the "2010 Share Option Scheme") in the annual general meeting of the Company held on 2 June 2010 and terminated the share option scheme approved by the shareholders of the Company on 23 July 2003 (the "2003 Share Option Scheme") at the same meeting.

After adoption of the 2010 Share Option Scheme, no share option was granted. The following disclosure is a summary of the 2010 Share Option Scheme as required by Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The "2010 Share Option Scheme"

(1) Purpose:

The purpose of the 2010 Share Option Scheme is to enable the Company to grant options to Eligible Participants as incentives or rewards for their contribution to the Company and/or any of the Subsidiaries.

(2) Participants:

The Eligible Participants of the 2010 Share Option Scheme to whom option(s) may be granted by the Board shall include any employees, 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.

(3) Total number of shares available for issue under the 2010 Share Option Scheme and percentage of issued share capital at the date of approval of the share option scheme:

The number of shares which can be issued is 155,105,699 shares representing approximately 10% of the issued share capital of the Company at the date of approval of the 2010 Share Option Scheme.

(4) Maximum entitlement of each participant:

The total number of shares issued and to be issued upon exercise of the Options granted under the 2010 Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding Options) to each Eligible Participant in any 12-month period must not exceed one percent (1%) of the then total issued share capital of the Company (the "Individual Limit").

(5) The periods within which the shares must be taken up under an option:

An option shall be exercisable in whole or in part and in accordance with the terms of the 2010 Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the day on which the offer for the grant of options is made but shall end in any event not later than ten (10) years commencing from the date the Board makes an offer of the grant of an option subject to the provisions for early termination thereof.

(6) The minimum period for which an option must be held before it can be exercised:

Unless the Directors otherwise determine and state in the offer of the grant of options to an Eligible Participant, there is no minimum period for which an option granted under the 2010 Share Option Scheme must be held before it can be exercised.

(7) The amount payable on application or acceptance of the option and the period within which payments of calls must or may be made or loans for such purpose must be paid:

An offer of grant of an option may be accepted by an Eligible Participant within twenty-eight (28) days from the date of the offer of grant of the option. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

(8) The basis of determining the exercise price:

Subject to the adjustment made in accordance with the terms of the 2010 Share Option Scheme, the exercise price in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of making the offer of grant of an option (which shall be stated in the letter containing the offer of grant of an option) but in any case the exercise price must be at least the highest of (i) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

(9) The remaining life:

The 2010 Share Option Scheme will remain in force for a period of 10 years commencing on 2 June 2010.

The "2003 Share Option Scheme"

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 "2003 Share Option Scheme").

The purpose of the 2003 Share Option Scheme is to grant share options to selected participants satisfying the criteria according to the 2003 Share Option 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 2003 Share Option 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 2003 Share Option Scheme must not in aggregate exceed 127,746,216 shares representing 10% of the share in issue at the date of the 2003 Share Option 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 2003 Share Option 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 2003 Share Option 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 2003 Share Option 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 2003 Share Option Scheme will remain in force for a period of ten years commencing on 23 July 2003.

First phase:
On 21 June 2002, 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 2010, no option granted was exercised, forfeited or cancelled. As at 31 December 2010, 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 2010, no option granted was exercised, forfeited or cancelled. As at 31 December 2010, 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 2010, no option granted was exercised, forfeited or cancelled. As at 31 December 2010, 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 2010, no option granted was exercised, forfeited, or cancelled, while 2,000,000 options were lapsed. As at 31 December 2010, 65,500,000 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 share option 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 share option 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 share options. All of the options in this phase were fully exercised in 2005.

Details of the movement of share options are set out in Note 35 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

Pursuant to a special resolution passed by the shareholders in the annual general meeting held on 2 June 2010, the Company had changed its name from "Vital Pharmaceutical Holdings Limited 維奥醫藥控股有限公司" to "Vital Group Holdings Limited 維奥集團控股有限公司" 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 2010, 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%

Note:

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 2010, 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 2010
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 Oct 2008 to 6 February 2012 (Note 4)	0.28	8,500,000
Mr. Liu James Jin *(Executive Director)*	29 January 2008	1 Oct 2008 to 6 February 2012 (Note 4)	0.28	8,500,000
Mr. Chong Cha Hwa *(Independent Non-executive Director)*	29 January 2008	1 Oct 2008 to 6 February 2012 (Note 4)	0.28	1,500,000

Notes:

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 2010, 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 2010 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	42%
— five largest suppliers combined	76%

Sales

— the largest customer	34%
— five largest customers combined	50%

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 2010, 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 make charitable donations amounting to approximately HK$115,000 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 28 March 2011, the latest practicable date prior to the issue of this report, the Company believe that the number of securities of the Company which are in the hands of the public is above the relevant prescribed minimum percentage.

SUBSEQUENT EVENT

Details of the subsequent event of the Group are set out in Note 41 to the consolidated financial statements.

AUDITORS

The consolidated financial statements for the year ended 31 December 2010 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.

There was no change in auditors in the past 3 years.

By Order of the Board
Xu Xiaofan
Chairman

Hong Kong, 28 March 2011

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF VITAL GROUP HOLDINGS LIMITED
維奥集團控股有限公司
(formerly known as Vital Pharmaceutical Holdings Limited 維奥醫藥控股有限公司)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Vital Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 99 which comprise the consolidated statement of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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 2010 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
28 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000 (Restated)
Turnover	8	**328,120**	367,056
Cost of sales		**(104,098)**	(107,345)
Gross profit		**224,022**	259,711
Other operating income	8	**16,230**	24,428
Selling and distribution expenses		**(82,178)**	(107,158)
Administrative expenses		**(82,563)**	(80,828)
Impairment loss recognised in respect of goodwill	23	**(22,569)**	(29,982)
Finance costs	10	**(779)**	(586)
Profit before taxation		**52,163**	65,585
Income tax expense	11	**(12,947)**	(12,615)
Profit for the year	12	**39,216**	52,970
Profit for the year attributable to:			
Owners of the Company		**36,610**	53,010
Non-controlling interests		**2,606**	(40)
		39,216	52,970
Earnings per share	14		
Basic		**HK2.36 cents**	HK3.42 cents
Diluted		**HK2.36 cents**	HK3.42 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Profit for the year	**39,216**	52,970
Other comprehensive income (expense)		
Exchange differences arising on translating foreign operations		
Exchange differences arising during the year	**15,589**	(3,383)
Reclassification adjustments relating to foreign operations deregistered of during the year	**(1,922)**	898
	13,667	(2,485)
Available-for-sale investments		
Net gain arising on revaluation of available-for-sale financial assets during the year	**333**	1,903
Reclassification adjustments relating to available-for-sale investments disposed of during the year	**(683)**	(5)
	(350)	1,898
Gain arising on transfer of property, plant and equipment and prepaid lease payments to investment properties at fair value	**5,723**	—
Deferred tax liability arising on gain on transfer of property, plant and equipment and prepaid lease payments to investment properties at fair value	**(1,431)**	—
	4,292	—
Other comprehensive income (expense) for the year, net of tax	**17,609**	(587)
Total comprehensive income for the year, net of tax	**56,825**	52,383
Total comprehensive income for the year attributable to:		
Owners of the Company	**54,219**	52,423
Non-controlling interests	**2,606**	(40)
	56,825	52,383

Consolidated Statement of Financial Position

As at 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-current assets			
Intangible assets	17	**3,028**	3,030
Property, plant and equipment	18	**174,139**	203,015
Investment properties	19	**95,409**	74,384
Prepaid lease payments on land use rights	20	**32,922**	38,711
Deposit for acquisition of property, plant and equipment	21	**4,063**	4,201
Available-for-sale investments	22	**—**	2,331
Goodwill	23	**52,355**	74,924
		361,916	400,596
Current assets			
Properties under development	24	**240,561**	—
Inventories	25	**108,968**	73,730
Trade and other receivables	26	**69,195**	69,241
Prepaid lease payments on land use rights	20	**672**	800
Income tax recoverable		**8,091**	9,118
Value added tax recoverable		**—**	5,537
Held-for-trading investment	27	**2,173**	2,121
Bank balances and cash	28		
— pledged		**12,138**	668
— unpledged		**68,146**	163,291
		509,944	324,506
Current liabilities			
Trade and other payables	29	**67,148**	58,993
Value added tax payable		**3,591**	—
Income tax payable		**7,746**	—
Obligations under finance leases	30	**—**	446
Secured bank borrowings	31	**71,285**	—
		149,770	59,439
Net current assets		**360,174**	265,067
Total assets less current liabilities		**722,090**	665,663

Consolidated Statement of Financial Position

As at 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	32	**15,511**	15,511
Reserves		**688,090**	633,871
Equity attributable to owners of the Company		**703,601**	649,382
Non controlling interests		**3,414**	808
Total equity		**707,015**	650,190
Non-current liabilities			
Other payables	33	**920**	2,778
Deferred tax liabilities	34	**14,155**	12,695
		15,075	15,473
		722,090	665,663

The consolidated financial statements on pages 32 to 99 were approved and authorised for issue by the board of directors on 28 March 2011 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 2010

	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	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2009	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 (expense) for the year	–	–	(2,485)	–	–	–	1,898	53,010	–	52,423	(40)	52,383
Contribution from non-controlling 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
Profit for the year	–	–	–	–	–	–	–	36,610	–	36,610	2,606	39,216
Other comprehensive income (expense) for the year	–	–	13,667	–	–	–	(350)	–	4,292	17,609	–	17,609
Total comprehensive income (expense) for the year	–	–	13,667	–	–	–	(350)	36,610	4,292	54,219	2,606	56,825
Appropriation to reserve fund	–	–	–	–	6,490	–	–	(6,490)	–	–	–	–
At 31 December 2010	**15,511**	**251,175**	**68,501**	**9,891**	**54,373**	**616**	**–**	**294,523**	**9,011**	**703,601**	**3,414**	**707,015**

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 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**52,163**	65,585
Adjustments for:		
Amortisation of intangible assets	**1,335**	1,119
Amortisation of prepaid lease payments on land use rights	**672**	800
Net increase in fair value of investment properties	**—**	(17,352)
Decrease (increase) in fair value of held-for-trading investment	**6**	(454)
Depreciation of property, plant and equipment	**14,367**	16,999
Finance costs	**779**	586
Loss on disposal of available-for-sale investments	**9**	—
Net (gain) loss on deregistration of subsidiaries	**(2,099)**	898
Impairment loss recognised in respect of goodwill	**22,569**	29,982
Impairment loss recognised in respect of property, plant and equipment	**9,702**	3,126
Impairment loss recognised in respect of prepayments, deposits and other receivables	**1,724**	1,497
Impairment loss recognised in respect of trade receivables	**—**	1,172
Interest income from bank deposits	**(1,544)**	(995)
Dividend income from held-for-trading investment	**(343)**	(663)
Loss on disposal of property, plant and equipment	**8,064**	144
Provision for compensation claim	**—**	1,111
Reversal of impairment loss recognised in respect of trade receivables	**(152)**	—
Reversal of impairment loss recognised in respect of prepayments, deposits and other receivables	**(2,778)**	—
Reversal of provision for compensation of staff redundant	**(1,493)**	—
Write back of long outstanding payables	**(3,330)**	—
Written off of other receivables	**—**	333
Write down and written off of inventories	**161**	951
Operating cash flow before movements in working capital	**99,812**	104,839
Increase in inventories	**(33,393)**	(7,697)
Increase in properties under development	**(239,315)**	—
Decrease in trade and other receivables	**2,491**	56,005
Increase (decrease) in trade and other payables	**10,622**	(13,096)
Increase in income tax recoverable	**—**	(2,060)
Decrease (increase) in value-added tax recoverable	**5,728**	(5,537)
Increase (decrease) in value-added tax payable	**3,591**	(17,522)
Cash (used in) generated from operations	**(150,464)**	114,932
People's Republic of China Enterprise Income Tax paid	**(4,372)**	(20,159)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(154,836)**	94,773

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES		
(Increase) decrease in pledged bank balances	**(11,469)**	3,334
Purchase of property, plant and equipment	**(3,994)**	(1,485)
Deposit paid for acquisition of property, plant and equipment	**(1,650)**	(1,778)
Purchase of intangible assets	**(1,230)**	(1,896)
Proceeds from the disposal of available-for-sale investments	**1,972**	770
Interest income from bank deposits	**1,544**	995
Dividend received from held-for-trading investment	**343**	663
Proceeds from the disposal of property, plant and equipment	**57**	4,623
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(14,427)**	5,226
FINANCING ACTIVITIES		
New bank borrowings raised	**94,274**	—
Repayment of bank borrowings	**(22,989)**	(84,349)
Interest paid	**(2,025)**	(586)
Repayment of obligations under finance leases	**(446)**	(148)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**68,814**	(85,083)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(100,449)**	14,916
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**163,291**	148,351
Effect of foreign exchange rate changes	**5,304**	24
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing unpledged bank balances and cash	**68,146**	163,291

1. GENERAL

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

The 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 of the Company 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 selling, distributing and manufacturing of pharmaceutical and food products and property investment.

Pursuant to a special resolution passed at the annual general meeting held on 2 June 2010, the name of the Company was changed 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. The "Certificate of Incorporation on Change of Name" has been issued by the Registrar of Companies in the Cayman Islands and the change of name took effect on 2 June 2010.

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)	Amendment to HKFRS5 as part of Improvement to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
Hong Kong Accounting Standard ("HKAS") 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions from First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK-Interpretations ("Int") 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

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

HKFRS 3 (Revised 2008) Business Combinations

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results, of the Group in future periods, may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

Amendment to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of amendment to HKAS 17 had no material effect on the consolidated financial statements.

HK-Int 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HK-Int 5 clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (repayment on demand clause) should be classified by the borrower as current liabilities. As the Group's bank borrowings are repayable within twelve months from the end of the reporting date, the application of HK-Int 5 had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The application of the other 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)*

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures — Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group enters into any such transactions in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

The amendments to HK(IFRIC)-Int 14 require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC)-Int 19 will affect the required accounting. In particular, under HK(IFRIC)-Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors of the Company anticipates that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

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 statement of comprehensive income from the effective date of acquisition and 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at non-controlling interest proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

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 is allocated to each of the Group's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried 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. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Research and development expenditure

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

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 are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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 of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 other than those financial assets classified as at fair value through profit or loss of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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
- on initial recognition, 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 designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on 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.

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).

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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 or loans and receivables.

Available-for-sale financial assets are measured at fair value at the end of the 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in 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 instruments

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 secured bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, 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 in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the 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. When 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).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties under development

Properties under development are stated at the lower of cost and net realisable value.

Cost is determined by apportionment of the total land and development costs including borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and applicable selling expenses.

On completion, the properties are transferred to properties held for sale.

Inventories

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

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 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.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

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 in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset 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.

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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 on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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 under the heading of the exchange translation reserve (attributable to non-controlling interest as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

On disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes 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.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation), or a disposal involving loss of control over a subsidiary that includes 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. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting date. Exchange differences arising are recognised in the exchange translation reserve.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments on land use rights" in the consolidated statement of financial position and is 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. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the condition attaching to them and that the grant will be received.

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 consolidated 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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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.

Critical judgement in applying the entity's accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Legal title of land and buildings

As detailed in Notes 18, 19 and 24 respectively, certain of the Group's land and buildings have not been granted legal title from the relevant government authorities yet. Although, the Group has not obtained the relevant legal titles, the land and buildings are recognised in the consolidated statement of financial position on the grounds that the Group will obtain the legal title in the near future with no major difficulties and is in substance controlling these land and buildings.

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 2010, the carrying amount of goodwill was approximately HK$52,355,000 (net of impairment loss of approximately HK$94,927,000) (2009: carrying amount of 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.

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

Key sources of estimation uncertainty *(Continued)*

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 it 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 2010, the carrying amount of trade receivables was approximately HK$42,560,000 (net of impairment loss of approximately HK$7,800,000) (2009: carrying amount of 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 2010, the carrying amounts of payments for pharmaceutical projects and prepayments, deposits and other receivables were approximately HK$138,000 and HK$26,497,000 (net of impairment loss of approximately HK$3,273,000) (2009: carrying amount 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 approximately HK$16,539,000 (net of impairment loss of approximately HK$4,275,000) respectively.

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 2010, the carrying amount of inventories was approximately HK$108,968,000 (net of impairment loss of approximately HK$4,955,000) (2009: carrying amount of approximately HK$73,730,000, net of impairment loss of approximately HK$4,917,000).

Estimated net realisable value of properties under development

In determining whether allowances should be made to the Group's properties under development, the directors of the Company takes into consideration the current market environment and the estimated market value (i.e. estimated selling price less estimated costs to sell) less estimated costs to completion of the properties. An allowance is made if the estimated market value is less than the carrying amount. If the actual net realisable value on properties under development is less than expected as a result of change in market condition and/or significant variation in the budgeted development cost, material provision for impairment losses may result. As at 31 December 2010, the carrying amount of properties under development was approximately HK$240,561,000 (2009: nil).

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

Key sources of estimation uncertainty *(Continued)*

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. As at 31 December 2010, the carrying amount of property, plant and equipment was approximately HK$174,139,000 (net of impairment loss of approximately HK$39,903,000) (2009: carrying amount of 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 (the "IRD") 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, are 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. As at 31 December 2010, the aggregate amount of protective profits tax assessment issued by the IRD to the Group amounting to approximately HK$18,890,000 (2009: HK$8,390,000).

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 secured bank borrowings disclosed in Notes 30 and 31 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 of the Company 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

	2010 HK$'000	2009 HK$'000
Financial assets		
Available-for-sale investments	**–**	2,331
Held-for-trading investments	**2,173**	2,121
Loans and receivables (including bank balances and cash)	**125,202**	223,806
Financial liabilities		
At amortised cost	**117,346**	58,556

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, secured 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**	
	2010	2009	**2010**	2009
Assets	**–**	44	**1,346**	744
Liabilities	**3,982**	6,702	**584**	357

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.

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

Currency risk *(Continued)*

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in HK$ against the relevant foreign currencies. 5% (2009: 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% (2009: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where HK$ strengthen 5% (2009: 5%) against the relevant currency. For a 5% (2009: 5%) weakening of HK$ against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	RMB		USD	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Profit or loss	**229**	370	**(297)**	(151)

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.

Interest rate risk

As at 31 December 2010, the Group is exposed to cash flow interest rate risk in relation to its variable-rate bank balances and bank borrowings and is also exposed to fair value interest rate risk in relation to fixed-rate bank deposits and bank 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 2009, the Group is exposed to cash flow interest rate risk in relation to its variable-rate bank balances and is also exposed to fair value interest rate risk in relation to fixed-rate bank deposits.

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

Interest rate risk *(Continued)*

Sensitivity analysis

The Group's exposure to interest rate risk in relation to variable-rate bank balances and fixed-rate bank deposits is minimal due to short-term maturities.

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 2010 would decrease/increase by approximately HK$86,000. 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 2010, 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 2010, the Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2009: 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 can 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

	Weighted average interest rate %	Carrying amount at 31 December HK$'000	Less than 1 year HK$'000	More than 1 year HK$'000	Total undiscounted cash flows HK$'000
2010					
Non-derivative financial liabilities					
Trade and other payables	**N/A**	**47,504**	**46,584**	**920**	**47,504**
Bank borrowings	**5.78**	**71,285**	**74,231**	**—**	**74,231**
		118,789	**120,815**	**920**	**121,735**
2009					
Non-derivative financial liabilities					
Trade and other payables	N/A	58,110	55,332	2,778	58,110
Obligations under finance leases	10.25	446	452	—	452
		58,556	55,784	2,778	58,562

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 33, the directors of the Company 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).

		2010	
	Level 1	**Level 2**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Financial assets at FVTPL			
Held-for-trading investment	**—**	**2,173**	**2,173**

		2009	
	Level 1	Level 2	Total
	HK$'000	HK$'000	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 years ended 31 December 2010 and 2009.

8. TURNOVER AND OTHER OPERATING INCOME

Turnover represents amount received and receivable from sales of pharmaceutical and food products net of returns, discounts allowed, sales related taxes and gross rental income during the year. Revenues recognised during the year are as follows:

	2010 HK$'000	2009 HK$'000 (Restated)
Turnover		
Sales of goods	323,954	364,022
Gross rental income (Note a)	4,166	3,034
	328,120	367,056
Other operating income		
Net increase in fair value of investment properties	—	17,352
Government grants (Note b)	—	3,497
Exchange gain	4,491	1,382
Bank interest income	1,544	995
Dividend income from held-for-trading investment	343	663
Increase in fair value of held-for-trading investment	—	454
Sundry income	—	85
Write back of long outstanding payables	3,330	—
Gain on deregistration of subsidiaries	2,099	—
Reversal of impairment losses recognised in respect of trade receivables	152	—
Reversal of provision for compensation of staff redundant	1,493	—
Reversal of impairment losses recognised in respect of prepayments, deposits and other receivable	2,778	—
	16,230	24,428
Total revenues	344,350	391,484

Notes:

(a) An analysis of the Group's net rental income is as follows:

	2010 HK$'000	2009 HK$'000
Gross rental income	4,166	3,034
Less: Outgoings (included in cost of sales)	(700)	(541)
Net rental income	3,466	2,493

(b) For the year 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.

9. SEGMENT INFORMATION

In prior years, no segment analysis of financial information was presented as the Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the selling, distributing and manufacturing of pharmaceutical and food products.

During the year, a new segment of property investment was introduced as a result of the acquisition of land use rights as set out in Note 24. The Group's operating segments, based on the information reported to the chief operating decision maker, Chief Executive Officer, for the purposes of resource allocation and performance assessment are as follows:

a) Pharmaceutical and food segment engages in the selling, distributing and manufacturing of pharmaceutical and food products.

b) Property investment segment engages in leasing, developing and selling of office premises and residential properties.

No operating segments have been aggregated to form the above reportable segments.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments:

For the year ended 31 December 2010

	Pharmaceutical and food HK$'000	Property investment HK$'000	Total HK$'000
Turnover	323,954	4,166	328,120
Segment profit	54,164	2,813	56,977
Other income and gains			8,477
Central administrative costs			(12,512)
Finance costs			(779)
Profit before taxation			52,163

9. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended 31 December 2009

	Pharmaceutical and food HK$'000	Property investment HK$'000	Total HK$'000
Turnover	364,022	3,034	367,056
Segment profit	50,507	19,845	70,352
Other income and gains			6,991
Central administrative costs			(11,172)
Finance costs			(586)
Profit before taxation			65,585

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of central administrative costs, directors' salaries, other income and gains and finance costs. This is the measure reported to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

Segment assets

	2010 HK$'000	2009 HK$'000
Pharmaceutical and food	**435,762**	472,819
Property investment	**345,394**	74,384
	781,156	547,203
Unallocated corporate assets	**90,704**	177,899
Total assets	**871,860**	725,102

Segment liabilities

	2010 HK$'000	2009 HK$'000
Pharmaceutical and food	**66,153**	56,486
Property investment	**216**	—
	66,369	56,486
Unallocated corporate liabilities	**98,476**	18,426
Total liabilities	**164,845**	74,912

9. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- All assets are allocated to reportable segments other than available-for-sale investments, held-for-trading investment, income tax recoverable, bank balances and cash and other assets for corporate use including property, plant and equipment and other receivables.

- All liabilities are allocated to reportable segments other than obligations under finance leases, secured bank borrowings, deferred tax liabilities and other payables for corporate use.

Other segment information

2010

	Pharmaceutical and food HK$'000	Property investment HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to property, plant and equipment	3,042	605	–	3,647
Addition to intangible assets	1,230	–	–	1,230
Impairment loss recognised in respect of goodwill	22,569	–	–	22,569
Depreciation and amortisation	16,368	–	6	16,374
Impairment losses recognised in respect of property, plant and equipment	9,702	–	–	9,702
Loss on disposal of property, plant and equipment	8,064	–	–	8,064
Write-down of inventories	41	–	–	41
Write-off of inventories	120	–	–	120
Impairment loss recognised in respect of prepayments, deposits and other receivables	1,724	–	–	1,724
Research and development costs	381	–	–	381
Operating lease rental on land and buildings	1,654	–	–	1,654
Write back of long outstanding payables	(3,330)	–	–	(3,330)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Loss on disposal of available-for-sale financial assets	–	–	9	9
Decrease in fair value of held-for-trading investment	–	–	6	6
Interest expenses	–	–	779	779
Income tax expenses	–	–	12,947	12,947
Bank interest income	–	–	(1,544)	(1,544)
Dividend income from held-for-trading investments	–	–	(343)	(343)

9. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

2009

	Pharmaceutical and food HK$'000	Property investment HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to property, plant and equipment	2,176	—	—	2,176
Addition to intangible assets	2,331	—	—	2,331
Impairment loss recognised in respect of goodwill	29,982	—	—	29,982
Depreciation and amortisation	18,898	—	20	18,918
Impairment losses recognised in respect of property, plant and equipment	3,126	—	—	3,126
Loss on disposal of property, plant and equipment	144	—	—	144
Write down of inventories	213	—	—	213
Written off of inventories	738	—	—	738
Impairment loss recognised in respect of trade receivable	1,172	—	—	1,172
Impairment loss recognised in respect of prepayments, deposits and other receivables	1,497	—	—	1,497
Written off of other receivables	333	—	—	333
Research and development costs	1,194	—	—	1,194
Provision for compensation claim	1,111	—	—	1,111
Increase in fair value of investment properties	—	(17,352)	—	(17,352)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Dividend income from held-for trading investment	—	—	(663)	(663)
Increase in fair value of held-for-trading investment	—	—	(454)	(454)
Bank interest income	—	—	(995)	(995)
Interest expenses	—	—	586	586
Income tax expenses	—	—	12,615	12,615

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

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010 HK$'000	2009 HK$'000
Customer A[1]	**112,643**	127,862

[1] Revenue from pharmaceutical and food segment

10. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest expenses on:		
— bank borrowings and overdrafts wholly repayable within five years	**1,246**	473
— obligations under finance leases	**6**	44
— discounted bills of exchange without recourse	**773**	42
Other incidental borrowing costs	**—**	27
Total borrowing costs	**2,025**	586
Less: amounts capitalised into properties under development	**(1,246)**	—
	779	586

Borrowing costs capitalised during the year arose on the general borrowing pool are calculated by applying a capitalisation rate of 5.82% (2009: nil) per annum to expenditure on properties under development.

11. INCOME TAX EXPENSE

	2010 HK$'000	2009 HK$'000
PRC Enterprise Income Tax		
— current year	**15,920**	7,427
— overprovision in prior years	**(2,739)**	—
	13,181	7,427
Deferred tax (Note 34)	**(234)**	5,188
	12,947	12,615

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 IRD. The subsidiary had lodged an objection against the assessments and the IRD had held over the payment of the profits tax and the equal amount of tax reserve certificates was purchased and recorded as income tax recoverable as at 31 December 2010 and 2009.

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 2010 and 2009.

11. INCOME TAX EXPENSE *(Continued)*

During the year ended 31 December 2010, the IRD further issued protective profits tax assessments of approximately HK$5,250,000 to that subsidiary of the Company relating to the year of assessment 2003/04, that is, for the financial year ended 31 December 2003. The Group again lodged objections with the IRD against the protective assessments and the IRD agreed to hold over the tax claim unconditionally.

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.

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 2010 and 2009.

During the year ended 31 December 2010, the IRD further issued protective profits tax assessments of approximately HK$5,250,000 to that subsidiary of the Company relating to the year of assessment 2003/04, that is, for the financial year ended 31 December 2003. The Group again lodged objections with the IRD against the protective assessments and the IRD agreed to hold over the tax claim unconditionally.

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% for both years.

Certain PRC subsidiaries obtained approval from the relevant tax bureau and are qualified as a High and New Technology Enterprises which are subject to a tax rate of 15% for the current and previous years.

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 for the current and previous years.

The subsidiary operating in Macau is exempted from the income tax in Macau for the current and previous years.

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 for the current and previous years.

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

11. INCOME TAX EXPENSE *(Continued)*

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

	2010 **HK$'000**	2009 HK$'000
Profit before taxation	**52,163**	65,585
Tax calculated at rates applicable to profits in the respective tax jurisdiction concerned	**13,998**	15,081
Effect of tax exemption granted to a Macau subsidiary	**(3,851)**	(9,559)
Tax effect of income not taxable for tax purpose	**(708)**	(1,020)
Tax effect of expenses not deductible for tax purposes	**6,208**	7,624
Utilisation of previously unrecognised tax losses and temporary difference	**(8,205)**	(1,029)
Tax effect of tax losses and deductible temporary difference not recognised	**8,244**	1,518
Overprovision in prior years	**(2,739)**	—
Income tax expense for the year	**12,947**	12,615

Details of deferred taxation are set out in Note 34.

12. PROFIT FOR THE YEAR

	2010 **HK$'000**	2009 HK$'000
Profit for the year has been arrived at after charging:		
Amortisation of intangible assets	**1,335**	1,119
Amortisation of prepaid lease payments on land use rights	**672**	800
Auditors' remuneration	**1,264**	1,423
Cost of inventories sold	**103,237**	105,853
Depreciation of property, plant and equipment	**14,367**	16,999
Impairment loss recognised in respect of trade receivables (Note 26) (included in administrative expenses)	**—**	1,172
Impairment loss recognised in respect of property, plant and equipment (Note 18) (included in administrative expenses)	**9,702**	3,126
Impairment loss recognised in respect of prepayments, deposits and other receivables (Note 26) (included in administrative expenses)	**1,724**	1,497
Loss on disposal of property, plant and equipment	**8,064**	144
Operating lease rental on land and buildings	**1,654**	2,341
Provision for compensation claim (included in administrative expenses)	**—**	1,111
Research and development costs	**381**	1,194
Staff costs (including directors' emoluments) (Note 15)	**69,844**	73,244
Written off of inventories (included in cost of sales)	**120**	738
Write down of inventories (included in cost of sales)	**41**	213
Net loss on deregistration of subsidiaries	**—**	898
Written off of other receivables	**—**	333
Loss on disposal of available-for-sale investments	**9**	—
Decrease in fair value of held-for-trading investment	**6**	—

13. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (2009: 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:

	2010 HK$'000	2009 HK$'000
Earnings		
Profit for the year attributable to the owners of the Company for the purposes of basic and diluted earnings per share	**36,610**	53,010
Number of shares		
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	**193,633**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,551,250,626**	1,551,056,993

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)

	2010 HK$'000	2009 HK$'000
Salaries, allowances, other benefits and bonus	**62,851**	61,052
Retirement benefit schemes contribution	**6,993**	7,605
Termination benefits (Note)	**—**	4,587
	69,844	73,244

Note: Due to suspension of production of a pharmaceutical product, the Group had laid off excessive staff and incurred termination benefits of approximately HK$4,587,000 during the year ended 31 December 2009.

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.

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

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

The retirement benefit schemes contribution represent gross contributions by the Group to the Schemes operated by the relevant authorities of the PRC and the defined contribution schemes operated in Hong Kong and Australia.

Details of the Company's share options granted to the employees of the Group are set out in Note 35.

16. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the nine (2009: twelve) directors were as follows:

For the year ended 31 December 2010

		Other emoluments			
	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Discretionary bonus HK$'000	Retirement benefit schemes contribution HK$'000	Total HK$'000
Executive directors:					
Liu James Jin	–	396	500	12	908
Xu Xiaofan	–	396	500	–	896
Guo Lin	–	396	500	12	908
Chen Zhiyu	–	396	500	–	896
Huang Zemin	–	396	500	–	896
Li Ke	–	396	500	–	896
Independent non-executive directors:					
Lee Kwong Yiu	120	–	–	–	120
Lui Tin Nang	120	–	–	–	120
Chong Cha Hwa	120	–	–	–	120
	360	2,376	3,000	24	5,760

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

(a) Directors' emoluments *(Continued)*

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	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

Discretionary bonus for the two years ended 31 December 2010 was determined with reference to the Group's operating results, individual performance and comparable market statistics.

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

(b) Senior management's emoluments

Of the five individuals with the highest emoluments in the Group, all (2009: four) were directors of the Company whose emoluments are set out in the above.

For the year ended 31 December 2009, the emoluments of the remaining one highest paid individuals were as follows:

	2009 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.

(c) No emoluments have been paid by the Group to all directors of the Company 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 2010. No directors of the Company waived or agreed to waive any emoluments during the two years ended 31 December 2010.

17. INTANGIBLE ASSETS

	Technical know-how HK$'000
COST	
At 1 January 2009	14,621
Addition	1,896
Contribution from non-controlling interests	435
Cancellation of a contract (Note)	(833)
At 31 December 2009	16,119
Exchange realignment	540
Addition	1,230
At 31 December 2010	**17,889**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2009	11,970
Provided for the year	1,119
At 31 December 2009	13,089
Exchange realignment	437
Provided for the year	1,335
At 31 December 2010	**14,861**
CARRYING VALUES	
At 31 December 2010	**3,028**
At 31 December 2009	3,030

Note:

During the year ended 31 December 2009, the vendor of technical know-how could not meet certain terms 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$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture, fixtures and office equipment HK$'000	Total HK$'000
COST						
At 1 January 2009	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
Exchange realignment	1,675	48	5,799	593	399	8,514
Additions	666	123	1,131	250	1,477	3,647
Disposals	(545)	–	(8,852)	(5,652)	(3,296)	(18,345)
Transfer to investment properties	(5,988)	–	–	–	–	(5,988)
At 31 December 2010	**93,797**	**7,959**	**200,264**	**14,288**	**11,534**	**327,842**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2009	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
Exchange realignment	189	30	2,380	472	261	3,332
Provided for the year	3,280	492	6,724	2,386	1,485	14,367
Impairment losses recognised	–	–	9,702	–	–	9,702
Eliminated on disposals	(74)	–	(2,108)	(5,040)	(3,002)	(10,224)
Transfer to investment properties	(473)	–	–	–	–	(473)
At 31 December 2010	**14,544**	**7,170**	**110,322**	**12,993**	**8,674**	**153,703**
CARRYING VALUES						
At 31 December 2010	**79,253**	**789**	**89,942**	**1,295**	**2,860**	**174,139**
At 31 December 2009	86,367	1,140	108,562	3,922	3,024	203,015

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

The carrying values of properties shown above comprise:

	2010 HK$'000	2009 HK$'000
Land in Hong Kong:		
Long lease	**12,357**	12,706
Medium-term lease	**11,415**	11,970
Land outside Hong Kong:		
Medium-term lease	**55,481**	61,691
	79,253	86,367

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 2010, 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$62,457,000 (2009: HK$40,304,000).

(b) At 31 December 2009, the carrying value of motor vehicles of approximately HK$3,922,000 includes an amount of HK$775,000 in respect of assets held under finance leases. At 31 December 2010, no property, plant and equipment are held under finance lease.

(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. Accordingly, impairment losses of approximately HK$3,126,000 have been recognised in respect of plant and machinery.

During the year ended 31 December 2010, additional impairment losses of approximately HK$9,702,000 are recognised in respect of plant and machinery, due to the possibilities of non-renewal of import drug license of "Osteoform Compund Calcium Amino Acid Chelate Capsules" ("Osteoform"). Details of which are set out in the announcement issued by the Company on 25 January 2011.

(d) At 31 December 2010, included in property, plant and equipment are land and buildings with carrying amount of approximately HK$27,949,000 (2009: HK$25,629,000) which are located in the PRC and the Group is in the process of obtaining the building certificates.

19. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2009	57,032
Net increase in fair value recognised in the consolidated income statement	17,352
At 31 December 2009	74,384
Transfer from land and buildings (Note 18) (Note e)	5,515
Transfer from prepaid lease payments on land use rights (Note e)	6,607
Net increase in fair value recognised in properties revaluation reserve (Note e)	5,723
Exchange realignment	3,180
At 31 December 2010	**95,409**

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 2010 has been arrived at on the basis of a valuation carried out on that date by 四川建科中聯資產評估事務所有限公司 ("建科中聯") 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. 建科中聯 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 2009 have 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, 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.

(e) During the year ended 31 December 2010, the Group transferred an office building previously classified as property, plant and equipment and prepaid lease payment with carrying amounts of approximately HK$5,515,000 and HK$6,607,000 respectively to investment properties. The fair value of the investment properties on the date of transfer was amounted to approximately HK$17,845,000 which were valued by 四川建科.

(f) At 31 December 2010, the fair value of the Group's investment properties pledged as security for the banking facilities granted to the Group amounted to approximately HK$78,396,000 (2009: HK$57,898,000).

(g) At 31 December 2010, investment properties with fair value of approximately HK$17,014,000 (2009: HK$17,332,000) are located in the PRC and the Group is in the process of obtaining the building certificate.

20. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2010 HK$'000	2009 HK$'000
Analysed for reporting purposes as:		
Current assets	**672**	800
Non-current assets	**32,922**	38,711
	33,594	39,511

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 2010, 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$15,875,000 (2009: HK$16,270,000).

21. DEPOSIT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Balances as at 31 December 2010 and 2009 represent deposits paid for the acquisition of staff quarters in the PRC. Details of the related capital commitments as at 31 December 2010 and 2009 are set out in Note 37.

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2010 HK$'000	2009 HK$'000
Unlisted equity securities, at cost (Note a)	**–**	7,072
Less: Impairment loss recognised (Note a)	**–**	(7,072)
Listed investment in equity securities listed elsewhere (Note b)	**–**	2,331
	–	2,331

Notes:

(a) At 31 December 2009, the unlisted equity securities issued by a private entity in the PRC are measured at cost less impairment 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.

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 had been recognised in prior year. 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.

During the year ended 31 December 2010, the private entity was deregistered.

(b) The listed equity securities as at 31 December 2009 represent investments in listed securities in Australia. The listed equity securities were disposed of during the year ended 31 December 2010.

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 Pharmaceutical Company Limited ("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 2009, 31 December 2009 and 31 December 2010	34,876	112,406	147,282
IMPAIRMENT			
At 1 January 2009	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
Impairment loss recognised in the year	—	22,569	22,569
At 31 December 2010	**34,876**	**60,051**	**94,927**
CARRYING VALUES			
At 31 December 2010	**—**	**52,355**	**52,355**
At 31 December 2009	—	74,924	74,924

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 assessed the future viability of Sichuan Vital and considered that the carrying amount of the goodwill arising from the acquisition of Sichuan Vital in the amount of approximately HK$34,876,000 was fully impaired in prior year.

Hengtai Group

At 31 December 2010, 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$22,569,000 (2009: HK$29,982,000). The main factor contributing to the impairment of the cash generating unit was due to the possibilities of non-renewal of the import drug license of Osteoform as mentioned in the Note 41(i), it may lead the Group cannot carry on its packing process and the sale of Osteoform 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 19.51% (2009: 18.42%). Cash flow beyond the 5-year period has been extrapolated using a steady 3% growth rate (2009: 3%). This growth rate is based on the relevant market 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. PROPERTIES UNDER DEVELOPMENT

	2010 HK$'000	2009 HK$'000
At 1 January	—	—
Additions	240,561	—
At 31 December	240,561	—
Represented by:		
Prepaid lease payments on land use rights	237,446	—
Construction costs and capitalised expenditure	1,869	—
Finance costs capitalised	1,246	—
	240,561	—

The Group is in the process of obtaining the land use right certificates.

The carrying amounts of the land use rights held for property development in the PRC are as follows:

	2010 HK$'000	2009 HK$'000
Medium-term lease	23,745	—
Long-term lease	213,701	—
	237,446	—

According to the accounting policy of the Group, properties under development are classified as current assets as the construction period of the relevant property development project is expected to be completed in the normal operating cycle even it is expected to be recovered after one year from the end of the reporting period.

25. INVENTORIES

	2010 HK$'000	2009 HK$'000
Raw materials		
— in transit	18,157	14,518
— on hand	30,480	10,638
Work in progress	1,648	305
Finished goods	55,183	46,088
Packing materials	3,500	2,181
	108,968	73,730

26. TRADE AND OTHER RECEIVABLES

	2010 HK$'000	2009 HK$'000
Trade and bills receivables	**50,360**	64,588
Prepayments, deposits and other receivables	**29,770**	20,814
Payments for pharmaceutical projects (Note a)	**138**	21,010
	80,268	106,412
Less: Impairment loss recognised in respect of trade receivables	**(7,800)**	(12,387)
Impairment loss recognised for payments for pharmaceutical projects (Note b)	**–**	(20,509)
Impairment loss recognised in respect of prepayment, deposits and other receivables (Note c)	**(3,273)**	(4,275)
	69,195	69,241

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) As at 31 December 2009, 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 had been recognised.

During the year ended 31 December 2010, the directors of the Company considered to write off the balances which are long outstanding and expected that the amounts cannot be receivable.

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

	2010 HK$'000	2009 HK$'000
At 1 January	**20,509**	20,509
Written off	**(20,509)**	–
At 31 December	**–**	20,509

As at 31 December 2009, included in the impairment loss are individually impaired payments for pharmaceutical projects with an aggregate balance of approximately 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.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

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

	2010 HK$'000	2009 HK$'000
At 1 January	**4,275**	2,778
Exchange realignment	**52**	—
Recognised during the year	**1,724**	1,497
Reversal during the year	**(2,778)**	—
At 31 December	**3,273**	4,275

As at 31 December 2010, included in the impairment loss are individually impaired prepayments, deposits and other receivables with an aggregate balance of approximately HK$3,273,000 (2009: HK$4,275,000) 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:

	2010 HK$'000	2009 HK$'000
Within 30 days	**13,755**	13,979
31–60 days	**18,381**	14,823
61–90 days	**10,161**	12,998
Over 90 days	**263**	10,401
	42,560	52,201

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

	2010 HK$'000	2009 HK$'000
At 1 January	**12,387**	11,215
Exchange realignment	**251**	—
Recognised during the year	**—**	1,172
Reversal during the year	**(152)**	—
Written off	**(4,686)**	—
At 31 December	**7,800**	12,387

As at 31 December 2010, included in the impairment loss of trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$7,800,000 (2009: HK$12,387,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

At 31 December 2010 and 2009, the aged analysis of trade receivables that were past due but not impaired are as follows:

	Total	Neither past due nor impaired	Past due but not 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 2010	**42,560**	**42,560**	**–**	**–**	**–**	**–**
31 December 2009	52,201	41,800	10,401	–	–	–

For the years ended 31 December 2010 and 2009, 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.

27. HELD-FOR-TRADING INVESTMENT

	2010 HK$'000	2009 HK$'000
Held-for-trading investment include:		
Unlisted investment in guaranteed funds, at fair value	**2,173**	2,121

28. BANK BALANCES AND CASH

Bank balances and cash of the Group as at 31 December 2010 included amounts of approximately HK$62,576,000 (2009: HK$152,793,000) denominated in RMB which is not freely convertible to other currencies. Unpledged bank balances carry interest at average market rates of 0.29% (2009: 0.90%) per annum.

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 rates ranging from 0.01% to 1.98% (2009: 0.05% to 0.72%) per annum. The pledged bank deposits will be released upon the cancellation of bills and letter of credit facilities.

29. TRADE AND OTHER PAYABLES

	2010 HK$'000	2009 HK$'000
Trade and bills payables	**19,576**	5,462
Accrued expenses and other payables	**47,572**	53,531
	67,148	58,993

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

	2010 HK$'000	2009 HK$'000
Within 30 days	**16,448**	5,008
31–60 days	**946**	60
61–90 days	**1,797**	28
Over 90 days	**385**	366
	19,576	5,462

The average credit period on purchases of goods is 30 days (2009: 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 in an announcement dated 12 November 2008. The movement of the provision for compensation claim is set out below:

	2010 HK$'000	2009 HK$'000
At 1 January	**2,500**	5,556
Exchange realignment	**86**	—
Provision for the year	**—**	1,111
Settled in the year	**(1,139)**	(4,167)
At 31 December	**1,447**	2,500

30. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases as at 31 December 2009 are set out below:

	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Amounts payable under finance leases		
Within one year	452	446
Less: Finance charges	(6)	—
Present value of lease obligations	446	446

The average lease term is five years and the average effective borrowing rate was 10.25% per annum. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Finance lease obligations are denominated in Australian dollars.

The obligations under finance leases were fully repaid during the year ended 31 December 2010.

31. SECURED BANK BORROWINGS

	2010 HK$'000	2009 HK$'000
Secured bank borrowings		
Fixed-rate borrowings	**34,483**	—
Floating-rate borrowings	**36,802**	—
	71,285	—

At 31 December 2010, the fixed-rate borrowings carry interest rate at 5.58% per annum and the floating-rate borrowings carry interest rate ranging from 5.85% to 6.12% per annum. The secured bank borrowings are secured by certain assets of the Group as set out in Note 38. All secured bank borrowings are repayable within one year.

The amounts of banking facilities not utilised at the end of each reporting period are set out as follows:

	2010 HK$'000	2009 HK$'000
Facilities amount not utilised	**187,336**	166,667

32. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary share of HK$0.01 each		
Authorised:		
At 1 January 2009, 31 December 2009 and 31 December 2010	50,000,000,000	500,000
Issued and fully paid:		
At 1 January 2009, 31 December 2009 and 31 December 2010	1,551,056,993	15,511

33. 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.

	2010 HK$'000	2009 HK$'000
Analysed for reporting purposes as:		
Current liabilities (included in trade and other payables)	**1,494**	2,666
Non-current liabilities	**920**	2,778
	2,414	5,444

The fair value of other payables equals its carrying amount, as the impact of discounting is not significant. The balance would be fully settled in the year ending 31 December 2012.

34. DEFERRED TAXATION

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

	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 2009	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
Charge to profit or loss	(132)	(40)	—	(62)	(234)
Charge to other comprehensive income	—	—	1,431	—	1,431
Exchange realignment	11	202	50	—	263
At 31 December 2010	**5,194**	**6,029**	**3,054**	**(122)**	**14,155**

At the end of the reporting period, the Group has unused tax losses of approximately HK$97,504,000 (2009: HK$89,910,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$739,000 (2009: HK$364,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$96,765,000 (2009: HK$89,546,000) due to the unpredictability of future profit streams. At 31 December 2010, approximately HK$31,638,000 (2009: HK$28,331,000) 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$60,370,000 (2009: HK$74,904,000). 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 of the PRC subsidiaries amounting to HK$13,448,000 (2009: HK$9,307,000) 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.

35. 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 share option scheme adopted by the shareholders on 23 July 2003 ("2003 Share Option Scheme").

Pursuant to an ordinary resolution passed at the annual general meeting held on 2 June 2010, a new share option scheme ("2010 Share Option Scheme") was adopted and the 2003 Share Option Scheme was terminated. Any share options granted pursuant to the 2003 Share Option Scheme prior to the termination will remain exercisable before the expiration date. Details of which have been set out in the Company's circular dated 27 April 2010.

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 2010 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 share option 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 2010, the number of shares of the Company in respect of which options had remained outstanding under the schemes was 112,390,000 (2009: 114,390,000) representing 7.25% (2009: 7.37%) of the shares of the Company in issue at that date.

During the years ended 31 December 2010 and 2009, no share options were granted, exercised or cancelled except 2,000,000 options were lapsed in current year.

35. 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

Fourth 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

35. SHARE OPTION SCHEME *(Continued)*

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

	Date of grant	Outstanding at 1 January 2009 and 31 December 2009	Lapsed during the year	Outstanding at 31 December 2010	Exercise price per share
					HK$
Executive directors:					
Mr. Xu Xiaofan	12 September 2005	15,000,000	—	15,000,000	0.23
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
Ex-directors:					
Mr. Tao Lung[1]	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
Independent non-executive director:					
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	(2,000,000)	19,000,000	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
		114,390,000	(2,000,000)	112,390,000	
Exercisable at the end of the reporting period		114,390,000		112,390,000	
Weighted average exercise price		HK$0.29	HK$0.28	HK$0.29	

[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.

36. RELATED PARTY TRANSACTIONS

During the year, the Group has the following significant related party transactions:

(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 the 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:

	2010 HK$'000	2009 HK$'000
Short-term benefits	**8,922**	7,333
Post-employment benefits	**109**	101
	9,031	7,434

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

37. COMMITMENTS

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

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

	2010 HK$'000	2009 HK$'000
Contracted but not provided for	**940**	4,014

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

	2010 HK$'000	2009 HK$'000
Contracted but not provided for	**–**	571

37. COMMITMENTS *(Continued)*

(c) Commitments for the properties under development

	2010 HK$'000	2009 HK$'000
Contracted but not provided for	230	—
Authorised but not contracted for	759,439	—
	759,669	—

(d) Commitments under operating leases

The Group as a lessor

Property rental income earned during the year was approximately HK$4,166,000 (2009: HK$3,034,000). The investment properties are expected to generate rental yields of 4.37% (2009: 4.08%) 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 Group had contracted with tenants for the following future minimum lease payments:

	2010 HK$'000	2009 HK$'000
Within one year	3,236	1,016
In the second to fifth year inclusive	5,974	1,895
	9,210	2,911

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:

	2010 HK$'000	2009 HK$'000
Land and buildings		
Within one year	905	715
In the second to fifth year inclusive	562	16
	1,467	731

38. 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:

	2010 HK$'000	2009 HK$'000
Property, plant and equipment	**62,457**	40,304
Investment properties	**78,396**	57,898
Bank balances and cash	**12,138**	668
Prepaid lease payments on land use rights	**15,875**	16,270
	168,866	115,140

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	2010 HK$'000	2009 HK$'000
Non-current assets			
Plant and equipment		**13**	21
Available-for-sale investments		**–**	2,331
Investments in subsidiaries		**53,035**	53,035
		53,048	55,387
Current assets			
Other receivables		**144**	349
Amounts due from subsidiaries	(a)	**381,016**	399,848
Bank balances and cash		**4,811**	5,038
		385,971	405,235
Current liabilities			
Other payables		**5,290**	5,285
Amounts due to subsidiaries	(a)	**128,673**	135,763
		133,963	141,048
Net current assets		**252,008**	264,187
Total assets less current liabilities		**305,056**	319,574
Capital and reserves			
Share capital		**15,511**	15,511
Other reserves		**314,098**	314,448
Accumulated losses		**(24,553)**	(10,385)
Total equity		**305,056**	319,574

Note:

(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.

40. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 December 2010 and 2009 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 2010	2009	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%**	95.70%	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%	Research and development of biotechnology

40. 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 2010	2009	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
#維奥(成都)製藥有限公司 ("成都維奥") (Note)	Contributed capital	PRC	PRC	After spin-off arrangement RMB7,000,000 Before spin-off arrangement RMB25,000,000	**100%**	100%	Manufacturing and trading of pharmaceutical products
Sichuan Hengtai Pharmaceutical Company Limited	Contributed capital	PRC	PRC	RMB4,300,000	**100%**	100%	Selling and distributing of pharmaceutical products
#成都維奥置業有限公司 ("維奥置業") (Note)	Contributed capital	PRC	PRC	RMB18,000,000	**100%**	–	Property development and management
成都溫江維奥房地產開發有限公司	Contributed capital	PRC	PRC	RMB8,000,000	**100%**	–	Property development and management

Wholly owned foreign enterprise

40. PRINCIPAL SUBSIDIARIES *(Continued)*

Note:

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 2010, the Group deregistered its PRC subsidiary, Vital (Sichuan) Biotech Co., Limited and its Australian subsidiary, Darsawye Pty Limited. The subsidiaries deregistered had no significant impact on the results and cash flows of the Group.

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 四川新恆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.

During the year ended 31 December 2010, in accordance with relevant shareholder meeting resolution, spin-off agreements and regulations of modified articles of association, a wholly owned subsidiary of the Company, 成都維奧, is divided into the new 成都維奧 and 維奧置業. Registered and paid up capital of the new 成都維奧 is reduced from RMB25,000,000 to RMB7,000,000 and the registered capital of 維奧置業 is RMB18,000,000. After the completion of spin-off, 維奧置業 is wholly owned by 成都維奧.

41. EVENTS AFTER THE REPORTING PERIOD

(i) On 24 January 2011, the Company received a written notification from Pharmco International, Inc ("Pharmco"), the sole supplier of Osteoform. In the written notice, it was mentioned that, on 7 December 2010, Pharmco was notified by the Department of Drug Registration of the State Food and Drug Administration in the PRC that they intend to issue a notice of non-renewal of import drug license of Osteroform to Pharmco in the near future. Details of the information are set out in the announcement dated 25 January 2011.

(ii) On 28 January 2011, Vital Pharmaceuticals Company Limited ("VPCL"), a wholly-owned subsidiary of the Company, entered into a provisional sale and purchase agreement with an independent third party, Bright Future Pharmaceutical Laboratories Limited ("Bright Future"), pursuant to which VPCL agreed to sell and Bright Future agreed to purchase a property of the Group at cash consideration of HK$21,000,000. At 31 December 2010, the carrying value of the property amounted to HK$11,415,000. Details of the disposal of property are set out in the announcement dated 28 January 2011.

(iii) On 18 March 2011, the Company entered into a subscription agreement with China Uranium Development Company Limited. Details on the subscription agreement are set out in the holding announcement dated 28 March 2011.

42. COMPARATIVE FIGURES

Certain comparative figures had been reclassified to conform to current year's presentation. The directors of the Company consider that reclassification of rental income and other taxes from other operating income to turnover and to cost of sales in the consolidated income statement is more meaningful in view of the introduction of new property investment segment as detailed in Note 9.

Particulars of Major Properties as at 31 December 2010

PROPERTIES HELD FOR INVESTMENT

Location	Type of properties	Lease term
Office Unit Nos. 15–16 on 1st Floor to 2nd Floor and Office Unit Nos. 1–12 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

PROPERTIES HELD FOR DEVELOPMENT

Location	Existing Land use	Site Area (sq.m.)	Effective % held	Stage of completion
Land Parcel No. WJ01 (252/211): 2010–035, Wansheng Community, Liucheng Street, Wenjiang District, Chengdu City, Sichuan Province, the PRC	Residential/Commercial	49,595.3	100%	Planning