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

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

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

The Board of Directors (the "Board") of Vital Pharmaceutical Holdings Limited ("Vital" or the "Company") announces the audited consolidated results of Vital and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009, together with the comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	NOTES	**2009 HK$'000**	2008 HK$'000
Turnover	4	**364,022**	698,225
Cost of sales		**(106,804)**	(250,858)
Gross profit		**257,218**	447,367
Other operating income	4	**26,921**	26,370
Selling and distribution expenses		**(107,158)**	(182,611)
Administrative expenses		**(80,828)**	(155,343)
Impairment loss recognised in respect of goodwill		**(29,982)**	(37,896)
Finance costs	6	**(586)**	(16,405)
Profit before taxation		**65,585**	81,482
Income tax expense	7	**(12,615)**	(20,563)
Profit for the year	8	**52,970**	60,919
Profit for the year attributable to :			
Owners of the Company		**53,010**	61,095
Minority interests		**(40)**	(176)
		52,970	60,919
Earnings per share			
Basic	10	**HK3.42 cents**	HK3.94 cents
Diluted	10	**HK3.42 cents**	HK3.93 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Intangible assets		**3,030**	2,651
Property, plant and equipment		**203,015**	225,552
Investment properties		**74,384**	57,032
Prepaid lease payments on land use rights		**38,711**	39,511
Deposit for acquisition of property, plant and equipment		**4,201**	4,571
Available-for-sale investments		**2,331**	1,203
Goodwill		**74,924**	104,906
		400,596	435,426
Current assets			
Inventories		**73,730**	66,984
Trade and other receivables	11	**69,241**	131,660
Prepaid lease payments on land use rights		**800**	800
Income tax recoverable		**9,118**	6,031
Value added tax recoverable		**5,537**	–
Held-for-trading investment		**2,121**	1,667
Bank balances and cash			
– pledged		**668**	4,002
– unpledged		**163,291**	148,351
		324,506	359,495
Current liabilities			
Trade and other payables	12	**58,993**	76,008
Value added tax payable		**–**	17,522
Income tax payable		**–**	11,705
Obligations under finance leases		**446**	114
Bank borrowings		**–**	84,349
		59,439	189,698
Net current assets		**265,067**	169,797
Total assets less current liabilities		**665,663**	605,223
Capital and reserves			
Share capital		**15,511**	15,511
Reserves		**633,871**	581,448
Equity attributable to owners of the Company		**649,382**	596,959
Minority interests		**808**	413
Total equity		**650,190**	597,372
Non-current liabilities			
Other payables		**2,778**	–
Obligations under finance leases		**–**	344
Deferred tax liabilities		**12,695**	7,507
		15,473	7,851
		665,663	605,223

NOTES:

1. GENERAL

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

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries is HK$.

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

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are research and development, selling, distributing and manufacturing of pharmaceutical products.

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

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

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

HKFRS 8 Operating Segments

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

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

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

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

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

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

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

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

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

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

3. BASIS OF PREPARATION

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.

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.

4. TURNOVER AND OTHER OPERATING INCOME

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

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

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

Notes:

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

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

5. SEGMENT INFORMATION

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

Segment revenues, results, assets and liabilities

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

Geographical information

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

Information about major customers

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

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

The Hong Kong Profits Tax amounting to HK$6,031,000 of a subsidiary of the Company in respect of the years of assessment 2000/01 and 2001/02 are under inquiries by the Hong Kong Inland Revenue Department (the "IRD"). The subsidiary had lodged an objection against the assessments and the IRD has held over the payment of the profits tax and the equal amount of tax reserve certificates was purchased and recorded as income tax recoverable as at 31 December 2009 and 2008.

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

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

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

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

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

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

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

Certain PRC subsidiaries were either in loss-making position for the current and the previous years or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the year and accordingly did not have any assessable income.

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

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

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

8. PROFIT FOR THE YEAR

	2009 **HK$'000**	2008 HK$'000
Profit for the year has been arrived at after charging:		
Amortisation of intangible assets	**1,119**	2,300
Amortisation of prepaid lease payments on land use rights	**800**	942
Auditors' remuneration	**1,423**	1,436
Cost of inventories sold	**105,853**	248,042
Depreciation of property, plant and equipment	**16,999**	19,308
Impairment loss recognised in respect of trade receivables (included in administrative expenses)	**1,172**	4,695
Net decrease in fair value of investment properties	**–**	633
Impairment loss recognised in respect of property, plant and equipment (included in administrative expenses)	**3,126**	27,075
Impairment loss recognised in respect of payments for pharmaceutical projects (included in administrative expenses)	**–**	2,971
Impairment loss recognised in respect of prepayments, deposits and other receivables (included in administrative expenses)	**1,497**	2,778
Loss on disposal of property, plant and equipment	**144**	428
Operating lease rental on land and buildings	**2,341**	3,507
Provision for compensation claim (included in administrative expenses)	**1,111**	5,556
Research and development costs	**1,194**	3,638
Equity-settled consultancy services (Note a)	**–**	955
Staff costs (including directors' emoluments)	**73,244**	114,961
Written off of inventories (included in cost of sales)	**738**	285
Write down of inventories (included in cost of sales)	**213**	3,809
Net loss on deregistration of subsidiaries	**898**	–
Written off of other receivables	**333**	–

Note:

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

9. DIVIDENDS

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

10. EARNINGS PER SHARE

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

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

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

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

11. TRADE AND OTHER RECEIVABLES

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

Notes:

(a) Amounts paid for the development of technology and pharmaceutical products are deferred prior to completion of the projects and included in payments for pharmaceutical projects. On completion, these amounts are transferred to development costs in accordance with the Group's accounting policy.

(b) At the end of the reporting date, the directors of the Company reviewed the carrying values of the payments for pharmaceutical projects and considered that in light of the market conditions in the PRC, the Group had terminated projects which involved high risks and ceased on its own initiative the application of projects of minimal benefit, therefore accumulated impairment loss of approximately HK$20,509,000 (2008: HK$20,509,000) had been recognised.

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

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

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

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

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

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

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

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

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

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

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

At 31 December 2009 and 2008, 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 2009	**52,201**	**41,801**	**10,400**	**–**	**–**	**–**
31 December 2008	121,432	116,009	4,990	317	–	116

For the year ended 31 December 2009 and 2008, trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

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

12. TRADE AND OTHER PAYABLES

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

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

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

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

Included in accrued expenses and other payables, there was provision for compensation claim following the voluntary recall of one of the Group's product "Depile Capsules" from the market after reports of possible damage to the liver by "Depile Capsules" were received. Details of the particulars were set out on an announcement dated 12 November 2008. The movement of the provision for compensation claim is set out below:

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

13. COMMITMENTS

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

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

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

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

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

(c) Commitments under operating leases

The Group as a lessor

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

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

	2009	2008
	HK$'000	HK$'000
Within one year	**1,016**	1,831
In the second to fifth year inclusive	**1,895**	3,446
	2,911	5,277

The Group as lessee

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

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

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

14. PLEDGE OF ASSETS

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

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

15. EVENTS AFTER THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Notwithstanding the uncertainties, the Group continues to diversify product development, expand and optimize product range, strengthen its branding strategies and accelerate the reform of quality control system in order to raise the competitiveness of our products.

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

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

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

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

Sales of Product

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

Osteoform family products

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

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

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

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

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

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

Madaus products

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

"Legalon", a product imported from Madaus, Germany brought in a turnover of approximately HK$41 million, an increase of approximately 22% when compared to corresponding year.

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

The Group had implemented the revised market strategy and re-appoint product agent in 2008. Agiolax had re-launched into the market in year 2008. Turnover during the year 2009 was approximately HK$16 million, representing a growth of approximately 43% over last year.

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

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

Other products

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

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

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

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

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

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

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

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

Sichuan Hengtai Pharmaceutical

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

The production base in Chengdu, Sichuan Province, the PRC

Equipped with advanced production facilities and staffed with outstanding domestic experts, the highly effective drug manufacturing plant adopts innovative technology of drug production and manufactures drugs in accordance with the GMP standards. The plant produces principally the Group's product "Clarithromycin Capsules", "Azithromycin Capsules", "Aceclofenac Tablets", "Aotianping" (Miglitol Tablets), and the new drug to gynaecology called "Hongjinxiaojie Tablet" in the reporting year.

The production base in Wuhan, Hubei Province, the PRC

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

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

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

BUSINESS PROSPECT

The strong growth of economy and medical reform scheme (中國醫療改革方案) in the PRC resolved to drive the growth of pharmaceutical industry by internal demand. Medical expenditure attributed to the medical insurance of urban citizens will be increased significantly. In addition, due to aging population with increasing number of senior citizens over 60 years old in the population of the PRC, it will eventually lead to an increase in medical consumption. On the other hand, with the disposable per capita income of urban citizens gradually increasing, their economic strength will support other citizens' need towards medical expenditure. Furthermore, higher living standard and education level of Chinese citizen, also drive their needs on health food and become more health conscious, which in turn broaden the entire health good market.

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

FINANCIAL REVIEW

Capital structure

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

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

Liquidity and financial resources

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

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

The Group adopts a conservative funding and treasury policies and objectives. The Group had repaid all bank borrowings during the year. As at 31 December 2009, there was no outstanding bank borrowings (31 December 2008: bank borrowings amounting to HK$59 million are denominated in Hong Kong dollars and amounting to HK$25 million are denominated in RMB and are fully repayable by 31 December 2009, with 88% at fixed rates of interest ranging from 5.35% to 7.84% per annum, and the rest are at floating rates of interest at Hong Kong Interbank Offered Rate plus 4.5% per annum.)

As at 31 December 2009, in relation to cash and bank balances amounting to approximately HK$164 million (31 December 2008: HK$152 million), approximately 94% (2008: 87%) of which was denominated in RMB, approximately 3% (2008: 4%) was denominated in Hong Kong dollar and approximately 3% (2008: 9%) was denominated in other currencies.

Exposure to foreign exchange risk and Currency policy

The sales receipts of the Group were mainly denominated in RMB. Purchases were denominated as to approximately 12% in USD (2008: 34%), 30% in RMB (2008: 39%) and 58% in EURO (2008: 27%). Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 80% in RMB (2008: 87%), others are in HKD, AUD, USD and Macau Pataca, etc. For the year 2009, the Group did not enter into any forward contracts, interest or currency swaps, or other financial derivatives for hedging purpose. During the year 2009, the Group did not experience any material difficulty or negative effect on its operations or liquidity as a result of fluctuations on currency exchange rates.

Contingent liabilities

As at 31 December 2009, the Group had no material contingent liabilities (2008: Nil).

Key financial figures and ratios

Profit and loss item:

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

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

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

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

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

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

Balance sheet item:

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

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

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

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

CORPORATE RESPONSIBILITIES

It is the Directors' belief that our Company should make contribution to the community and bear social responsibilities. During the year, the Group had donated amounted of RMB5 million to China Health and Medical Development Foundation (中國醫藥衛生事業發展基金會), aimed to improve general health level of citizen and support the development of public health in the PRC. In the meantime, the Group also encourages staffs to participate volunteer work and donation for schools which affected by earthquake in Sichuan, by organising donation activity and providing day off to participants.

EMPLOYEE INFORMATION

As at 31 December 2009, the Group had 1,083 employees, comprising 4 in research and development, 152 in production, 782 in sales and marketing, and 145 in general administration and finance. 1,060 of these employees were located in China and 23 in Hong Kong and Macau.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to market rate. The Group encourages employees to participate in external training programs to develop themselves on a continuous basis, so as to improve staff quality to meet future challenges and gain a competitive edge. Total staff costs for the year 2009 amounted to approximately HK$73 million.

MATERIAL ACQUISITION

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

CHANGE OF COMPANY NAME

Subject to the Shareholders approval, pursuant to a special resolution proposing in the annual general meeting to be held on 2 June 2010, the Company may change its name from "Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司" to "Vital Group Holdings Limited 維奧集團控股有限公司" to better reflect the Group's broaden investment strategies.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules, and that having made specific enquiry of all Directors, the Company confirms that all the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2009.

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

None of the Company and its subsidiaries redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year 2009.

AUDIT COMMITTEE

The Audit Committee reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2009.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the Company and The Stock Exchange of Hong Kong Limited. The 2009 annual report will be dispatched to the shareholders and available on the same websites on or before 28 April 2010.

DIVIDEND

Since the Group intends to retain sufficient capital for the business expansion, the Board would not recommend the payment of a final dividend of 2009 (2008 final dividend: Nil).

CLOSURE OF BOOKS

For the purpose of determining the shareholders who are entitled to attend and vote at the forthcoming annual general meeting, the Register of Members of the Company will be closed for a period commencing from 27 May 2010 to 2 June 2010, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 26 May 2010.

ANNUAL GENERAL MEETING

An annual general meeting of the Company will be convened on 2 June 2010 (Wednesday), 11:00 a.m., a notice of the meeting will be dispatched to the shareholders on or before 28 April 2010.

By Order of the Board
Vital Pharmaceutical Holdings Limited
Xu Xiaofan
Chairman

Hong Kong, 16 April 2010

As at the date of this announcement, the Board comprises six executive Directors: Mr. Xu Xiaofan, Mr. Chen Zhiyu, Madam Guo Lin, Mr. Huang Zemin, Mr. Li Ke and Mr. Liu James Jin, and three independent non-executive Directors: Mr. Lee Kwong Yiu, Mr. Lui Tin Nang and Mr. Chong Cha Hwa.