**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Vital BioTech Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.



# Vital BioTech Holdings Limited

# 維奧生物科技控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1164)**

# MAJOR TRANSACTION
# ACQUISITION OF THE ENTIRE EQUITY INTEREST OF SICHUAN HENGTAI

**Financial adviser to the Company**

**Optima Capital Limited**

A notice convening the EGM to be held at Kennedy Room, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 20 December 2007 at 9:30 a.m. is set out on pages 134 to 135 of this circular.

Whether or not you propose to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same to the branch share registrar and transfer office in Hong Kong of the Company, Union Registrars Limited, at Rooms 1901–02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

30 November 2007

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# DEFINITIONS

*In this circular, the following expressions shall, unless the context otherwise requires, have the following meanings:*

| | |
|---|---|
| "Acquisition" | the acquisition of the Sale Interest pursuant to the Agreement |
| "Agreement" | the conditional agreement dated 6 November 2007 entered into between the Purchaser and the Vendors in relation to the Acquisition |
| "Board" | the board of Directors |
| "Company" | Vital BioTech Holdings Limited, a company incorporated in Cayman Islands with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange |
| "Completion" | completion of the Agreement |
| "Consideration" | the consideration for the Acquisition |
| "Director(s)" | director(s) of the Company |
| "EGM" | the extraordinary general meeting of the Shareholders to be convened to consider and if thought fit, approve the Agreement and the Acquisition |
| "Enlarged Group" | the Group upon completion of the Acquisition |
| "Group" | the Company and its subsidiaries |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Independent Third Party(ies)" | independent third party(ies), to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, which is/are independent of the Company and its connected persons (as such term is defined in the Listing Rules) |
| "Latest Practicable Date" | 28 November 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein |

| | |
|---|---|
| "Letter of Intent" | the non-binding letter of intent entered into between the Company and the Vendors dated 26 July 2007, details of which have been disclosed in the LOI Announcement |
| "Listing Rules" | The Rules Governing the Listing of Securities on the Stock Exchange |
| "LOI Announcement" | the announcement of the Company dated 27 July 2007 in relation to, among other things, the entering into the Letter of Intent by the Company |
| "Mr. Wang" | Mr. Wang Ji (王驥先生), who is interested in 30% of the equity interest in Sichuan Hengtai |
| "Mr. Xue" | Mr. Xue Yang (薛洋先生), who is interested in 30% of the equity interest in Sichuan Hengtai |
| "Ms. Zhou" | Ms. Zhou Xuanchuan (周旋川女士), who is interested in 40% of the equity interest in Sichuan Hengtai |
| "Parties" | the Purchaser and the Vendors |
| "PRC" | the People's Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "PRC GAAP" | PRC Generally Accepted Accounting Principles |
| "Purchaser" | 四川維奧製藥有限公司 (Vital Pharmaceuticals (Sichuan) Company Limited*), a company incorporated in the PRC with limited liability, a wholly-owned subsidiary of the Company |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Sale Interest" | the entire equity interest in Sichuan Hengtai |
| "Share(s)" | ordinary share(s) of HK$0.01 each in the issued share capital of the Company |
| "Shareholder(s)" | the holder(s) of the Share(s) |
| "Sichuan Hengtai" | 四川恒泰醫藥有限公司 (Sichuan Hengtai Pharmaceutical Company Limited*), a company incorporated in the PRC |

* *for identification purpose only*

| | |
|---|---|
| "Sichuan Hengtai Group" | collectively, Sichuan Hengtai and its subsidiaries |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Vendors" | Ms. Zhou, Mr. Wang and Mr. Xue |
| "%" | per cent. |

*For the purpose of this circular, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1 to HK$1.04. No representation is made that any amounts in RMB or HK$ have been, could have been or could be converted at the above rate or at any other rates or at all.*

# Vital BioTech Holdings Limited
# 維奧生物科技控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1164)**

*Executive Directors:*
Mr. Tao Lung *(Chairman)*
Mr. Huang Jianming *(Chief Executive Officer)*
Mr. Shen Songqing
Mr. Liu James Jin
Mr. Xu Xiaofan

*Independent non-executive Directors:*
Mr. Lui Tin Nang
Mr. Lee Kwong Yiu
Mr. Chong Cha Hwa

*Registered Office:*
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1–1111
Cayman Islands

*Head office and principal place of business in Hong Kong:*
Unit 7, 31st Floor
Tower 1, Lippo Centre
89 Queensway
Hong Kong

30 November 2007

*To the Shareholders,*

Dear Sirs,

**MAJOR TRANSACTION**
**ACQUISITION OF THE ENTIRE EQUITY INTEREST OF SICHUAN HENGTAI**

## INTRODUCTION

Reference is made to the LOI Announcement of the Company in relation to, among others, the entering into of the Letter of Intent by the Company. On the basis of the Letter of Intent, the Company continued to negotiate with the Vendors and eventually agreed on the terms of the Agreement. After the trading hours on 6 November 2007, the Purchaser entered into the Agreement with the Vendors in relation to the Acquisition, pursuant to which the Purchaser agreed to acquire and the Vendors agreed to sell the Sale Interest to the Purchaser. The Consideration of RMB200,000,000 (equivalent to approximately HK$208,000,000) shall be satisfied in cash by the Purchaser.

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is conditional on approval by the Shareholders. The purpose of this circular is to provide you with further information in relation to the Acquisition.

**THE AGREEMENT**

**Date** **:** 6 November 2007

**Parties**

Vendors : Ms. Zhou, Mr. Wang and Mr. Xue, who are shareholders of Sichuan Hengtai and, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are Independent Third Parties. The Company has no previous transactions (other than the Acquisition) with the Vendors which required to be aggregated with the Acquisition under Rule 14.22 of the Listing Rule and no previous relationship with any of the Vendors prior to the Acquisition.

Purchaser : 四川維奧製藥有限公司 (Vital Pharmaceuticals (Sichuan) Company Limited*), a wholly-owned subsidiary of the Company, whose principal business activities are manufacturing and trading of pharmaceutical products in the PRC.

**Assets to be acquired**

Pursuant to the Agreement, the Purchaser has agreed to acquire from the Vendors the Sale Interest, representing the entire equity interest in Sichuan Hengtai.

**Consideration**

The Consideration of RMB200,000,000 (equivalent to approximately HK$208,000,000) shall be satisfied in cash by the Purchaser, of which:

(i) RMB10,000,000 (equivalent to approximately HK$10,400,000) has already been paid by the Purchaser to the Vendors as refundable deposit on 10 August 2007;

(ii) RMB40,000,000 (equivalent to approximately HK$41,600,000) shall be payable by the Purchaser to the Vendors within 1 week from the date on which the Company having obtained the approval by the Shareholders at the EGM in respect of the Acquisition;

(iii) RMB60,000,000 (equivalent to approximately HK$62,400,000) shall be payable by the Purchaser to the Vendors within 2 months from the date of Completion, in which the refundable deposit of RMB10,000,000 (equivalent to approximately HK$10,400,000) as referred to in (i) above will be deducted; and

(iv) the balance of RMB100,000,000 (equivalent to approximately HK$104,000,000) shall be payable by the Purchaser to the Vendors within 3 months from the date of Completion.

* *for identification purpose only*

As disclosed in the LOI Announcement, the Parties originally intended to have the Purchaser settled the Consideration by a combination of cash and consideration Shares. After obtaining further advices from professional advisers of the Company, the Parties determined to have the Purchaser settling the Consideration solely in cash in order to simplify the approval procedures required by the relevant PRC government authorities.

The Consideration was determined after arm's length negotiations between the Parties after taking into account the profit of Sichuan Hengtai for the year ending 31 December 2007 as estimated by the Parties. Based on the unaudited consolidated net profit of approximately RMB24.52 million (equivalent to approximately HK$25.50 million) for the nine months ended 30 September 2007. The Company intends to settle the Consideration by internal resources and/or bank borrowings. As at the date of this circular, the Company has not determined the breakdown of the method of financing.

The Directors (including the independent non-executive Directors) are of the opinion that, after taking into account the prospective price-to-earning ratio of Sichuan Hengtai based on the Consideration and the profit of Sichuan Hengtai for the year ending 31 December 2007 as estimated by the Parties, the Consideration is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

**Conditions precedent to Completion**

Completion of the Acquisition is conditional upon, among other things,

(a) Sichuan Hengtai having obtained all necessary consents and approvals required from all shareholders of Sichuan Hengtai in respect of the Agreement and the Acquisition;

(b) the Company having obtained the approval by the Shareholders at the EGM in respect of the Acquisition;

(c) having obtained all necessary consents and approvals from the relevant PRC government authorities in relation to the Acquisition; and

(d) the Purchaser being satisfied with the results of its commercial, legal and financial due diligence in respect of Sichuan Hengtai.

**Completion**

Completion will take place upon the fulfillment of all conditions precedent as stipulated in the Agreement. Unless agreed otherwise by the Parties, the Agreement will lapse if any of the conditions precedent under the Agreement is not fulfilled on or before 30 April 2008, in which case, the Vendors shall refund the entire amount already paid by the Purchaser at that time without interest. Upon Completion, Sichuan Hengtai will become an indirect wholly-owned subsidiary of the Company and the results of Sichuan Hengtai will be consolidated into the account of the Group. Save for Mr. Wang who will remain as the director and corporate representative (法人代表) of Sichuan Hengtai Group, none of the Vendors will hold any position in the Company and/or its subsidiaries upon Completion.

**INFORMATION ON SICHUAN HENGTAI**

Sichuan Hengtai Group is principally engaged in the sale and distribution of pharmaceutical products in the PRC. The sales network of Sichuan Hengtai Group covers over 7,700 distributors in the PRC and it has established a mature sale and distribution system with more than 40 branch offices and around 300 promotion and service stations located in major cities in the PRC, coordinating a sales and promotion team with over 1,200 members throughout the country. It is also the strategic partner of more than 2,000 pharmaceutical companies and has successfully set up sales channels in over 160,000 pharmacies, 49,000 medical centers and a number of supermarkets and shopping centers in the PRC.

As at the date of this circular, Sichuan Hengtai is owned as to 40%, 30% and 30% by Ms. Zhou, Mr. Wang and Mr. Xue respectively.

**Financial information of Sichuan Hengtai**

As at 30 September 2007, the unaudited consolidated net assets value of Sichuan Hengtai based on the PRC GAAP was approximately RMB76.08 million (equivalent to approximately HK$79.12 million).

Set out below are the audited financial information of Sichuan Hengtai for the two financial years ended 31 December 2005 and 2006 as extracted from the accountants report set out in Appendix II to this circular:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2005** | | **2006** | |
| | *RMB million* | *HK$ million equivalent* | *RMB million* | *HK$ million equivalent* |
| Turnover | 327.46 | 340.56 | 358.30 | 372.63 |
| Profit before taxation | 4.62 | 4.80 | 17.34 | 18.03 |
| Profit after taxation | 4.32 | 4.49 | 13.06 | 13.58 |

**REASONS FOR THE ACQUISITION**

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

In view of the pharmaceutical industry in the PRC has commenced a resource re-allocation process and given that the structural changes in the market as a result of keen competition and its own development trend, the Directors consider that the Group has to take a proactive approach in order to cope with the changes. Accordingly, the acquisition of quality downstream assets in the PRC by the Group for the vertical expansion of the Group's business is in line with the business development strategies of the Group.

The Group and Sichuan Hengtai have their respective niche in the upstream and downstream of the industrial chain of the pharmaceutical industry in the PRC. And given that the connectivity of operations, complementariness of assets and consistency of business strategies, the Acquisition may give rise to a leading pharmaceutical company with a focus on the market needs. The immediate and direct effect of the Acquisition is that it creates significant synergies in terms of financial performance, operation scale and industrial organization and in turn enhance the Company's ability in tackling risks and realize the Group's growth potential in the long run.

**FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP**

Following the completion of the Acquisition, Sichuan Hengtai will become an indirect wholly-owned subsidiary of the Company and its results would be consolidated into the accounts of the Group. Assuming the Acquisition had been completed on 30 June 2007, the total assets of the Group would increase from approximately HK$667.6 million to approximately HK$955.4 million and the total liabilities of the Group would increase from approximately HK$213.8 million to approximately HK$501.3 million as set out in Appendix IV to this circular in respect of the unaudited pro forma financial information of the Enlarged Group. Given the historical financial performance of Sichuan Hengtai, the Acquisition is expected to have positive effects on the revenue and earnings of the Enlarged Group.

Unaudited pro forma financial information of the Enlarged Group is set out in Appendix IV of this circular.

**FINANCIAL AND TRADING PROSPECT OF THE GROUP**

For the year ended 31 December 2006, the Group recorded turnover of approximately HK$487.15 million and profit for the year of approximately HK$37.10 million.

The Group has recently been cooperating with a foreign enterprise in relation to the introduction of new products to the market, including those for improving the conditions of anemia patients, addressing particular cartilage problems and supplementing nutrients necessary for women during pregnancy and menopause. The Group will be able to take advantage of the sales network established as a result of the possible acquisition, which will in turn reduce the Group's reliance upon a single product and explore in the diversified health-care product market.

The Acquisition and the introduction of a wider array of products, together with its edge and market experience, will enable the Group to capitalize on the strength of the foreign players in the pharmaceutical market of the PRC so as to provide a comprehensive product lifecycle management and effective marketing solution, thereby speeding up the product commercialization process. Meanwhile, this strategy does not merely enrich income portfolio, but also diversify risk of relying on single product and creating value for both shareholders, upstream and downstream customers.

## IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the requirements of reporting, announcement and approval of the Shareholders at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, none of the Shareholders has any material interest in the Acquisition nor has any interest that is different from other Shareholders. Accordingly, no Shareholder is required to abstain from voting in relation to the resolution(s) to approve the Acquisition at the EGM.

## EGM

A notice convening the EGM of the Company to be held at Kennedy Room, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 20 December 2007 at 9:30 a.m. for the purpose of considering, and if thought fit, the passing of the ordinary resolutions is set out on pages 134 to 135 of this circular. The ordinary resolutions in relation to the Agreement will be put forward to the Shareholders at the EGM to vote by a show of hands.

There is enclosed a form of proxy for use at the EGM. Whether or not the Shareholders intend to be present at the EGM, they are requested to complete the form of proxy and return it to the office of the branch share registrar and transfer office of the Company in Hong Kong, Union Registrars Limited, Rooms 1901–02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding of the EGM or any adjourned meeting (as the case may be). Completion and delivery of the form of proxy will not prevent the Shareholders from attending and voting at the EGM or adjourned meeting (as the case may be) if they so wish.

## PROCEDURE FOR DEMANDING A POLL

In accordance with article 72 of the Articles, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

(i) the Chairman of the meeting; or

(ii) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

## RECOMMENDATIONS

Having considered the reasons set out herein, the Directors (including the independent non-executive Directors) are of the opinion that the Agreement are fair and reasonable in so far as the Shareholders are concerned and in the interests of the Shareholders as a whole. Accordingly, the Directors also recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
**Vital BioTech Holdings Limited**
**Tao Lung**
*Chairman*

## 1. SUMMARY OF FINANCIAL RESULTS AND POSITION FOR THE THREE YEARS ENDED 31 DECEMBER 2006

The following financial information has been extracted from the unqualified audited consolidated financial statements of the Group for each of the three years ended 31 December 2006 as shown in the annual reports of the Company.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | (Audited) | (Audited) | (Audited) |
| **RESULTS** | | | |
| Turnover | 487,147 | 446,437 | 343,420 |
| Profit before taxation | 47,016 | 26,480 | 37,893 |
| Taxation | (9,916) | (5,537) | (5,728) |
| Profit for the year | 37,100 | 20,943 | 32,165 |
| Attributable to: | | | |
| Equity holders of the Company | 37,743 | 21,649 | 32,776 |
| Minority interests | (643) | (706) | (611) |
| | 37,100 | 20,943 | 32,165 |
| Dividends | 15,417 | 15,417 | 7,496 |
| Earnings per Share | | | |
| – Basic | 2.45 cents | 1.41 cents | 2.21 cents |
| – Diluted | 2.45 cents | 1.41 cents | 2.20 cents |

| | As at 31 December | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | (Audited) | (Audited) | (Audited) |
| **ASSETS AND LIABILITIES** | | | |
| Total assets | 696,491 | 623,972 | 577,077 |
| Total liabilities | (250,679) | (224,785) | (191,439) |
| Net assets | 445,812 | 399,187 | 385,638 |

## 2. AUDITED FINANCIAL INFORMATION

Set out below is a reproduction of the text of the unqualified audited financial statements of the Group together with accompanying notes contained on page 32 to 88 of the annual report of the Company for the year ended 31 December 2006.

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2006*

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| Turnover | 6 | 487,147 | 446,437 |
| Cost of sales | | (167,822) | (151,137) |
| Gross profit | | 319,325 | 295,300 |
| Other operating income | 6 | 9,534 | 14,470 |
| Selling and distribution expenses | | (173,581) | (174,639) |
| Administrative expenses | | (95,061) | (97,396) |
| Finance costs | 7 | (13,201) | (11,142) |
| Share of result of an associate | | – | (113) |
| Profit before taxation | | 47,016 | 26,480 |
| Income tax expense | 8 | (9,916) | (5,537) |
| Profit for the year | 9 | 37,100 | 20,943 |
| Attributable to: | | | |
| Equity holders of the Company | | 37,743 | 21,649 |
| Minority interests | | (643) | (706) |
| | | 37,100 | 20,943 |
| Dividends | 10 | | |
| – Interim | | – | 15,417 |
| – Proposed final | | 15,417 | – |
| | | 15,417 | 15,417 |
| Earnings per share | 11 | | |
| Basic | | HK2.45 cents | HK1.41 cents |
| Diluted | | HK2.45 cents | HK1.41 cents |

**CONSOLIDATED BALANCE SHEET**

*As at 31 December 2006*

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Intangible assets | 14 | 8,856 | 8,333 |
| Property, plant and equipment | 15 | 246,114 | 200,812 |
| Prepaid lease payments on land use rights | 16 | 32,016 | 31,415 |
| Interest in an associate | 17 | – | – |
| Available-for-sale investments | 18 | 4,562 | 6,560 |
| Goodwill | 19 | 30,396 | 30,396 |
| | | 321,944 | 277,516 |
| Current assets | | | |
| Inventories | 20 | 68,258 | 56,184 |
| Trade and other receivables | 21 | 163,385 | 211,310 |
| Prepaid lease payments on land use rights | 16 | 625 | 595 |
| Tax recoverable | | 6,031 | 6,031 |
| Available-for-sale investments | 18 | – | 1,494 |
| Held-for-trading investment | 22 | 544 | – |
| Bank balances and cash | 23 | | |
| – pledged | | 8,724 | 8,133 |
| – unpledged | | 126,980 | 52,128 |
| | | 374,547 | 335,875 |
| Assets classified as held for sale | 24 | – | 10,581 |
| | | 374,547 | 346,456 |
| Current liabilities | | | |
| Trade and other payables | 25 | 89,375 | 65,919 |
| Value added tax payable | | 3,747 | 3,438 |
| Tax payable | | 1,856 | 2,914 |
| Obligations under finance leases – due within one year | 26 | 270 | 259 |
| Bank borrowings – due within one year | 27 | 100,520 | 100,292 |
| | | 195,768 | 172,822 |
| Net current assets | | 178,779 | 173,634 |
| Total assets less current liabilities | | 500,723 | 451,150 |

| | Notes | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | *28* | 15,417 | 15,417 |
| Reserves | | 414,237 | 380,483 |
| Proposed final dividend | | 15,417 | – |
| Equity attributable to equity holders of the Company | | 445,071 | 395,900 |
| Minority interests | | 741 | 3,287 |
| Total equity | | 445,812 | 399,187 |
| Non-current liabilities | | | |
| Obligations under finance leases – due after one year | *26* | 1,020 | 1,285 |
| Bank borrowings – due after one year | *27* | 53,891 | 50,678 |
| | | 54,911 | 51,963 |
| | | 500,723 | 451,150 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2006*

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Exchange translation reserve | Share options reserve | Reserve fund (Note) | Enterprise develop-ment fund | Other reserve | Retained earnings | Dividend reserve | Total | Minority interests | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2005 | 15,212 | 239,085 | (464) | – | 15,833 | 616 | – | 103,168 | – | 373,450 | 12,274 | 385,724 |
| Loss on fair value changes of available-for-sale investments and recognised directly in equity | – | – | – | – | – | – | (426) | – | – | (426) | – | (426) |
| Exchange difference arising on translation of overseas operation | – | – | 3,685 | – | – | – | – | – | – | 3,685 | – | 3,685 |
| Profit for the year | – | – | – | – | – | – | – | 21,649 | – | 21,649 | (706) | 20,943 |
| Total recognised income and expenses for the year | – | – | 3,685 | – | – | – | – | 21,649 | – | 25,334 | (706) | 24,628 |
| Shares allotted and issued for settlement of final consideration in respect of acquisition of a subsidiary | 205 | 9,229 | – | – | – | – | – | – | – | 9,434 | – | 9,434 |
| 2005 interim dividend paid | – | – | – | – | – | – | – | (15,417) | – | (15,417) | – | (15,417) |
| Recognition of equity settled share-based payments | – | – | – | 3,525 | – | – | – | – | – | 3,525 | – | 3,525 |
| Gain on deemed acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | – | (152) | (152) |
| Acquisition of additional interest in a subsidiary | – | – | – | – | – | – | – | – | – | – | (8,332) | (8,332) |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | – | 203 | 203 |
| At 31 December 2005 | 15,417 | 248,314 | 3,221 | 3,525 | 15,833 | 616 | (426) | 109,400 | – | 395,900 | 3,287 | 399,187 |

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Exchange translation reserve | Share options reserve | Reserve fund (Note) | Enterprise develop-ment fund | Other reserve | Retained earnings | Dividend reserve | Total | Minority interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Gain on fair value changes of available-for-sale investments and recognised directly in equity | – | – | – | – | – | – | 152 | – | – | 152 | – | 152 |
| Exchange difference arising on translation of overseas operation | – | – | 10,104 | – | – | – | – | – | – | 10,104 | – | 10,104 |
| Profit for the year | – | – | – | – | – | – | – | 37,743 | – | 37,743 | (643) | 37,100 |
| Transfer from retained earnings | – | – | – | – | 10,594 | – | – | (10,594) | – | – | – | – |
| Total recognised income and expenses for the year | – | – | 10,104 | – | 10,594 | – | – | 27,149 | – | 47,847 | (643) | 47,204 |
| Recognition of equity settled share-based payments | – | – | – | 1,172 | – | – | – | – | – | 1,172 | – | 1,172 |
| Loss on deemed acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | – | 6 | 6 |
| Capital contribution by minority shareholder of a subsidiary | – | – | – | – | – | – | – | – | – | – | 500 | 500 |
| Acquisition of additional interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | (181) | (181) |
| Disposal of subsidiaries | – | – | – | – | – | – | – | – | – | – | (2,228) | (2,228) |
| Proposed 2006 final dividend | – | – | – | – | – | – | – | (15,417) | 15,417 | – | – | – |
| At 31 December 2006 | 15,417 | 248,314 | 13,325 | 4,697 | 26,427 | 616 | (274) | 121,132 | 15,417 | 445,071 | 741 | 445,812 |

*Note:* Subsidiaries in the People's Republic of China have appropriated 10% of the profit to reserve fund. The reserve fund is required to be retained in the accounts of the subsidiaries for specific purposes.

**CONSOLIDATED CASH FLOW STATEMENT**
*For the year ended 31 December 2006*

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| OPERATING ACTIVITIES | | |
| Profit before taxation | 47,016 | 26,480 |
| Adjustments for: | | |
| Amortisation of intangible assets | 2,351 | 1,359 |
| Amortisation of prepaid lease payments on land use rights | 649 | 537 |
| Depreciation | 18,139 | 16,655 |
| Discount arising from acquisition of additional interest in a subsidiary | – | (1,578) |
| Finance costs | 13,201 | 11,142 |
| Gain on disposal of held-for-trading investments | (107) | – |
| Gain on deemed disposal of a subsidiary | (76) | – |
| Gain on disposal of intangible assets | (585) | – |
| Gain on disposal of a subsidiary | (81) | – |
| Gain on fair value changes of held-for-trading investment | (44) | – |
| Impairment loss recognised in respect of assets classified as held for sale | – | 581 |
| Impairment loss recognised in respect of available-for-sale investments | 2,864 | 12,961 |
| Impairment loss recognised in respect of goodwill | – | 4,480 |
| Impairment loss recognised in respect of intangible assets | – | 1,550 |
| Impairment loss recognised in respect of payments for pharmaceutical projects | 17,538 | – |
| Interest income | (744) | (871) |
| Loss (gain) on disposal of property, plant and equipment | 1,822 | (5,189) |
| Loss (gain) on deemed acquisition of a subsidiary | 6 | (152) |
| Recovery of allowance for bad and doubtful debts | (170) | (61) |
| Share-based payments expense | 1,172 | 3,525 |
| Share of result of an associate | – | 113 |
| Write down of inventories | 5,078 | 5,953 |
| Operating cash flow before movements in working capital | 108,029 | 77,485 |
| Increase in inventories | (15,451) | (18,914) |
| Decrease (increase) in trade and other receivables | 25,916 | (71,320) |
| Increase in tax recoverable | – | (6,031) |
| Increase in trade and other payables | 16,456 | 7,596 |
| Increase in value added tax payable | 172 | 6,786 |
| Cash generated from (used in) operations | 135,122 | (4,398) |
| Overseas income tax paid | (10,969) | (3,591) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 124,153 | (7,989) |

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (54,234) | (43,918) |
| Proceeds from deemed disposal/disposal of subsidiaries (net of cash and cash equivalents disposed of) | 33 | (2,169) | – |
| Purchase of held-for-trading investments | | (2,160) | – |
| (Increase) decrease in pledged bank balances | | (591) | 9,743 |
| Purchase of additional equity interest in subsidiaries | | (181) | (6,754) |
| Proceeds from sales of assets classified as held for sale | | 10,581 | – |
| Government grants and subsidies received | | 6,404 | 3,161 |
| Proceeds from sales of property, plant and equipment | | 3,114 | 15,515 |
| Proceeds from sales of held-for-trading investments | | 1,767 | – |
| Proceeds from sales of available-for-sale investments | | 780 | – |
| Interest received | | 744 | 871 |
| Proceeds from sales of intangible assets | | 585 | – |
| Acquisition of a subsidiary (net of cash and cash equivalents acquired) | 32 | – | 297 |
| Amounts paid for registration of certain patents | | – | (391) |
| Payments for development costs | | – | (6,151) |
| Increase in prepaid lease payments on land use rights | | – | (6,571) |
| NET CASH USED IN INVESTING ACTIVITIES | | (35,360) | (34,198) |
| FINANCING ACTIVITIES | | | |
| Repayment of bank borrowings | | (199,128) | (115,648) |
| Finance costs paid | | (13,201) | (11,142) |
| Repayment of obligations under finance leases | | (254) | (174) |
| New bank borrowings raised | | 196,815 | 143,858 |
| Capital contribution by minority shareholder of a subsidiary | | 500 | – |
| Dividend paid | | – | (15,417) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | | (15,268) | 1,477 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 73,525 | (40,710) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 52,128 | 92,229 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | 1,327 | 609 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER representing bank balances and cash | | 126,980 | 52,128 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 1. GENERAL

The Company is incorporated in 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, being the measurement currency of the Company and its subsidiaries (the "Group").

The Group are principally engaged in research and development, selling and manufacturing of pharmaceutical products.

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

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective as at 31 December 2006. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

| | |
|---|---|
| Hong Kong Accounting Standard ("HKAS") 1 (Amendment) | Capital Disclosures[1] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK (IFRIC) – Interpretation ("INT") 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3] |
| HK (IFRIC) – INT 8 | Scope of HKFRS 2[4] |
| HK (IFRIC) – INT 9 | Reassessment of embedded derivatives[5] |
| HK (IFRIC) – INT 10 | Interim Financial Reporting and Impairment[6] |
| HK (IFRIC) – INT 11 | HKFRS 2 – Group and Treasury Share Transactions[7] |
| HK (IFRIC) – INT 12 | Service Concession Arrangements[8] |

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### (b) Goodwill

*Goodwill arising on acquisitions prior to 1 January 2005*

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of subsidiaries, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill (net of cumulative amortisation as at 31 December 2005) is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

*Goodwill arising on acquisitions on or after 1 January 2005*

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

**(c) Interests in associates**

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**(d) Intangible assets**

*Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs 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. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

*Patents*

Cost incurred on the acquisition of patents are capitalised in the consolidated balance sheet and are amortised by equal annual instalments over the estimated useful life of fifteen years. Patents are not revalued as there is no active market for these assets.

*Research and development expenditures*

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

*Impairment*

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When 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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

**(e) Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction-in-progress comprises buildings and plant and machinery on which construction and installation work has not been completed. Construction-in-progress is carried at cost less any recognised impairment loss which includes costs of acquisition of land use rights, development, construction and installation expenditure incurred, interest and other direct costs attributable to the development less any provision for impairment. On completion, the construction-in-progress is transferred to appropriate categories of property, plant and equipment and depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is dereognised.

**(f) Land use rights**

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to consolidated income statement over the period of the rights using the straight-line method.

**(g) Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two subcategories, including financial assets held-for-trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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 the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. 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.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured as cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

*Other financial liabilities*

Other financial liabilities including trade and other payables, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

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

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**(h) Inventories**

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

**(i) Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

**(k) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Subcontract manufacturing income is recognised when the services are rendered.

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.

Operating lease rental income is recognised on a straight-line basis over the period of the relevant lease terms.

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

*Share options granted to employees of the Company*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, 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.

**(m) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(n) Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange translation reserve.

**(o) Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other assets are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*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 balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see accounting policies in respect of borrowing costs).

Rentals payable under operating leases are charged to profit or loss 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.

**(p) Retirement benefit costs**

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

**(q) Borrowing costs**

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

**(r) Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense/are reported separately as "other operating income" .

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical judgement that can significantly affect the amounts recognised in the financial information is disclosed below.

**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 of 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.

**Amortisation of development costs**

Development costs are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involve management's estimation. The Group re-assesses the useful life of the development costs and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

**Allowance for bad and doubtful debts**

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

**Allowances for inventories**

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

**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. No impairment was provided during the 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 2006, the carrying amount of goodwill was approximately HK$30,396,000. Details of impairment testing on goodwill are set out in note 19a.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, trade and other receivables, trade and other payables, bank borrowings and finance leases obligations. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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**

Certain trade receivables and bank borrowings of the Group are denominated in foreign currencies. 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 arises.

**Fair value interest rate risk**

The Group exposed to fair value interest rate risk through the fixed interest rate bank loans.

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.

**Cash flow interest rate risk**

The Group's cash flow interest rate risk relates primarily to floating-rate borrowings. 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.

**Credit risk**

The Group's principal financial assets are trade and other receivables and bank balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group regularly reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group's exposure to liquidity risk is minimal.

**6. TURNOVER AND OTHER OPERATING INCOME**

The Group are principally engaged in research and development, selling and manufacturing of pharmaceutical products.

Turnover represents invoiced value of sales, net of returns, discounts allowed and sales taxes where applicable and subcontract manufacturing income. Revenues recognised during the year are as follows:

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Turnover | | |
| Sales of goods | 487,147 | 446,219 |
| Subcontract manufacturing income | – | 218 |
| | 487,147 | 446,437 |
| Other operating income | | |
| Interest income | 744 | 871 |
| Research and development income | – | 206 |
| Government subsidies income | 3,154 | 1,952 |
| Exchange gain | 4,399 | 4,172 |
| Gain on deemed acquisition of a subsidiary | – | 152 |
| Gain on disposal of property, plant and equipment | – | 5,429 |
| Gain on disposal of a subsidiary | 81 | – |
| Gain on deemed disposal of a subsidiary | 76 | – |
| Gain on disposal of held-for-trading investments | 107 | – |
| Gain on disposal of intangible assets | 585 | – |
| Gain on fair value changes of held-for-trading investment | 44 | – |
| Recovery of allowance for bad and doubtful debts | 170 | 61 |
| Discount arising from acquisition of additional interest in a subsidiary | – | 1,578 |
| Sundry income | 174 | 49 |
| | 9,534 | 14,470 |
| Total revenues | 496,681 | 460,907 |

The Group's revenues, expenses, assets, liabilities and capital expenditure are primarily attributable to the sales and manufacturing of pharmaceutical products. The Group's principal market is in the People's Republic of China (the "PRC").

Neither the business segments of the subcontract manufacturing businesses nor the geographical segment in other country are of a sufficient size to be reported separately.

**7. FINANCE COSTS**

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest expenses on: | | |
| – bank borrowings and overdrafts wholly repayable within five years | 8,397 | 8,277 |
| – obligations under finance leases | 141 | 86 |
| – discounted bills of exchange | 4,024 | 2,495 |
| – bank borrowings not wholly repayable within five years | 213 | – |
| Other incidental borrowing costs | 426 | 284 |
| Total borrowing costs charged to the consolidated income statement | 13,201 | 11,142 |

**8. INCOME TAX EXPENSE**

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Overseas income tax | | |
| – current | 11,580 | 7,241 |
| – overprovision in prior years | (1,664) | (1,704) |
| | 9,916 | 5,537 |

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

The Hong Kong Profits Tax amounting in total to HK$6,031,000 of a subsidiary of the Company for the financial years 2000 and 2001 are under inquiries by the Hong Kong Inland Revenue Department ("IRD"). The subsidiary had lodged an objection against the assessments and the IRD has held over the payment of the profits tax and the equal amount of Tax Reserve Certificates was purchased and recorded as tax recoverable as at 31 December 2006 and 2005.

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

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, certain subsidiaries operating in the PRC are entitled to exemption from income tax in the first two years from the first profit-making year, 50% reduction of income tax in the subsequent three years and thereafter, preferential treatments which are subject to the relevant law and regulation. One subsidiary was taxed at 10.5% (2005: 7.5%). Another subsidiary has incurred a loss and no income tax is payable for the year (2005: Nil). Other subsidiaries were either in loss-making position for the current and the previous years or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the year and accordingly did not have any assessable income.

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

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

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

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit before taxation | 47,016 | 26,480 |
| Tax at applicable tax rate | 8,463 | 4,766 |
| Effect of tax exemption granted to a Macao subsidiary | (5,578) | (593) |
| Effect of different tax rates of subsidiaries operating under other statutory income tax rates | (6,981) | (8,888) |
| Tax effect of income not subject to tax | (842) | (1,200) |
| Tax effect of expenses not deductible for tax purposes | 9,492 | 5,948 |
| Utilisation of previously unrecognised tax losses | (112) | – |
| Tax effect of unrecognised tax losses | 7,138 | 7,208 |
| Overprovision in prior years | (1,664) | (1,704) |
| Tax charges for the year | 9,916 | 5,537 |

## 9. PROFIT FOR THE YEAR

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit for the year has been arrived at after charging: | | |
| Amortisation of intangible assets | | |
| – development costs | 2,351 | 1,255 |
| – patents | – | 104 |
| Amortisation of prepaid lease payments on land use rights | 649 | 537 |
| Auditors' remuneration | 1,513 | 1,410 |
| Cost of inventories sold | 166,812 | 150,776 |
| Depreciation of property, plant and equipment | 18,139 | 16,655 |
| Impairment loss recognised in respect of goodwill | – | 4,480 |
| Impairment loss recognised in respect of intangible assets | – | 1,550 |
| Impairment losses recognised in respect of available-for-sale investments | 2,864 | 12,961 |
| Impairment loss recognised in respect of assets classified as held for sale | – | 581 |
| Impairment loss recognised in respect of payments for pharmaceutical projects *(note 21)* | 17,538 | – |
| Loss on deemed acquisition of a subsidiary | 6 | – |
| Loss on disposal of property, plant and equipment | 1,822 | 240 |
| Operating lease rental on land and buildings | 2,544 | 4,247 |
| Research and development costs | 2,203 | 2,123 |
| Staff costs (including directors' emoluments) *(note 12)* | 34,643 | 36,797 |
| Write down of inventories | 5,078 | 5,953 |

## 10. DIVIDENDS

During the year ended 31 December 2005, the Company declared and paid interim dividend of HK1.0 cent per ordinary share amounting to HK$15,417,000 (2006: Nil).

The final dividend of HK1.0 cent (2005: Nil) per share has been recommended by the directors of the Company and is subject to approval by the shareholders in annual general meeting.

## 11. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to the equity holders of the Company of approximately HK$37,743,000 (2005: HK$21,649,000).

The basic earnings per share is based on the weighted average number of 1,541,706,993 (2005: 1,540,358,481) ordinary shares in issue during the year.

The diluted earnings per share was same as the basic earnings per share because the exercise price of the Company's share options was higher than the average market price for shares for both years ended 31 December 2006 and 2005.

## 12. STAFF COSTS

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Wages and salaries (including directors' emoluments) | 32,256 | 31,426 |
| Retirement benefit schemes contribution | 1,215 | 1,846 |
| Share-based payments | 1,172 | 3,525 |
| | 34,643 | 36,797 |

The subsidiaries in Hong Kong and Australia operate defined contribution schemes which are available to qualified employees. The assets of the schemes are held separately from those of the subsidiaries in independently administered funds. Monthly contributions made by the subsidiaries are calculated based on certain percentages of the applicable payroll costs or fixed sums as stipulated under the relevant requirements, as appropriate.

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

The retirement benefit schemes contribution represent gross contributions by the Group to the Schemes operated by the relevant authorities of the PRC and the defined contribution schemes operated in Hong Kong and Australia (collectively the "Retirement Schemes"). Contributions totalling HK$18,710 payable to the Retirement Schemes as at 31 December 2006 (2005: HK$81,000) are included in accrued charges and other payables. There were no forfeited contributions throughout the current and previous years.

Details of the Company's share options granted to the employees of the Group are set out in note 30.

## 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the ten (2005: nine) directors were as follows:

**For the year ended 31 December 2006**

| | | Other emoluments | | | | |
|---|---|---|---|---|---|---|
| | Fees | Salaries, allowances and other benefits | Discretionary bonuses | Retirement benefit schemes contribution | Share-based payments | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive directors:* | | | | | | |
| Mr. Tao Lung | – | 917 | 720 | 12 | 421 | 2,070 |
| Mr. Liu James Jin | – | 920 | 720 | 12 | – | 1,652 |
| Mr. Huang Jianming | – | 1,322 | 720 | 40 | – | 2,082 |
| Mr. Jin Wei *(Note 1)* | – | 35 | – | – | – | 35 |
| Mr. Shen Songqing | – | 920 | 720 | – | – | 1,640 |
| Mr. Xu Xiaofan | – | 920 | 720 | – | 420 | 2,060 |
| *Independent non-executive directors:* | | | | | | |
| Mr. Lee Kwong Yiu | 240 | – | – | – | 42 | 282 |
| Mr. Lui Tin Nang | 240 | – | – | – | 42 | 282 |
| Mr. Lo Wa Kei, Roy *(Note 2)* | 192 | – | – | – | – | 192 |
| Mr. Chong Cha Hwa *(Note 3)* | 48 | – | – | – | – | 48 |
| | 720 | 5,034 | 3,600 | 64 | 925 | 10,343 |

*Notes:*

1. Resigned on 18 January 2006.

2. Resigned on 19 October 2006.

3. Appointed on 19 October 2006.

**For the year ended 31 December 2005**

| | | Other emoluments | | | | |
|---|---|---|---|---|---|---|
| | Fees | Salaries, allowances and other benefits | Discretionary bonuses | Retirement benefit schemes contribution | Share-based payments | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive directors:* | | | | | | |
| Mr. Tao Lung | – | 720 | 79 | 12 | 758 | 1,569 |
| Mr. Liu James Jin | – | 720 | 79 | 12 | – | 811 |
| Mr. Huang Jianming | – | 707 | 79 | – | – | 786 |
| Mr. Jin Wei | – | 720 | 79 | – | 253 | 1,052 |
| Mr. Shen Songqing | – | 720 | 79 | – | – | 799 |
| Mr. Xu Xiaofan | – | 720 | 79 | – | 758 | 1,557 |
| *Independent non-executive directors:* | | | | | | |
| Mr. Lee Kwong Yiu | 240 | – | – | – | 76 | 316 |
| Mr. Lui Tin Nang | 240 | – | – | – | 76 | 316 |
| Mr. Lo Wa Kei, Roy | 240 | – | – | – | 76 | 316 |
| | 720 | 4,307 | 474 | 24 | 1,997 | 7,522 |

**(b) Senior management's emoluments**

Of the five individuals with the highest emoluments in the Group, all (2005: three) were directors of the Company whose emoluments are set out in the above. For the year ended 31 December 2005, the emoluments of the two highest paid individuals were as follows:

| | *HK$'000* |
|---|---|
| Salaries, allowances and other benefits | 2,402 |
| Retirement benefit schemes contribution | 20 |
| Share-based payments | 909 |
| | 3,331 |

For the year ended 31 December 2005, the emoluments of the two highest paid employees fall in the following band:

| | **Number of individuals** |
|---|---|
| Emoluments band | |
| HK$1,500,001 – HK$3,000,000 | 2 |

**(c)** Except for HK$501,000 paid to Mr. Ko Sai Ying, a former director of the Group for loss of office which is included in staff costs during the year ended 31 December 2005, no emoluments have been paid by the Group to other directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 December 2006 and 2005. No directors waived or agreed to waive any emoluments during the two years ended 31 December 2006 and 2005.

**14. INTANGIBLE ASSETS**

| | Patents | Development costs | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| COST | | | |
| At 1 January 2005 | 1,423 | 4,044 | 5,467 |
| Exchange realignment | – | 68 | 68 |
| Additions | 391 | 6,151 | 6,542 |
| At 31 December 2005 | 1,814 | 10,263 | 12,077 |
| Exchange realignment | – | 391 | 391 |
| Additions | – | 2,550 | 2,550 |
| Disposals | (1,814) | – | (1,814) |
| At 31 December 2006 | – | 13,204 | 13,204 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT | | | |
| At 1 January 2005 | 160 | 665 | 825 |
| Exchange realignment | – | 10 | 10 |
| Charge for the year | 104 | 1,255 | 1,359 |
| Impairment loss recognised in the year | 1,550 | – | 1,550 |
| At 31 December 2005 | 1,814 | 1,930 | 3,744 |
| Exchange realignment | – | 67 | 67 |
| Charge for the year | – | 2,351 | 2,351 |
| Eliminated on disposals | (1,814) | – | (1,814) |
| At 31 December 2006 | – | 4,348 | 4,348 |
| CARRYING VALUES | | | |
| At 31 December 2006 | – | 8,856 | 8,856 |
| At 31 December 2005 | – | 8,333 | 8,333 |

The above intangible assets have definite useful lives and are amortised on a straight-line basis over five to fifteen years.

(a) The directors of the Company had reviewed the carrying values of the Group's intangible assets as at 31 December 2005. The directors of the Company considered that it is unlikely that the patents have any future value in use and therefore the carrying amount of these patents in the amount of HK$1,550,000 were fully impaired.

(b) The patents as at 31 December 2006 included the amounts of HK$1,814,000 (2005: HK$1,814,000) paid for registration of certain patents in certain countries were disposed in 2006.

(c) Development costs mainly represented payments for development of the production technology of new products. Additions during the year ended 31 December 2006 included amounts of HK$2,550,000 (2005: HK$6,151,000) transferred from payments for pharmaceutical projects.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings HK$'000 | Construction in progress HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Furniture, fixtures and office equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At 1 January 2005 | 34,778 | 13,226 | 1,473 | 142,485 | 20,551 | 6,510 | 219,023 |
| Exchange realignment | 77 | 145 | 12 | 2,857 | 367 | 86 | 3,544 |
| Reclassification | 3,482 | (11,384) | – | 7,899 | – | 3 | – |
| Transfer to prepaid lease payments on land use rights | – | (3,722) | – | – | – | – | (3,722) |
| Acquired on acquisition of a subsidiary | – | – | – | – | 167 | 37 | 204 |
| Additions | 315 | 33,528 | – | 1,906 | 8,836 | 1,051 | 45,636 |
| Reclassified as held for sale | (9,842) | – | – | (5,150) | – | (1,014) | (16,006) |
| Disposals | (9,857) | – | – | (511) | (1,174) | (17) | (11,559) |
| At 31 December 2005 | 18,953 | 31,793 | 1,485 | 149,486 | 28,747 | 6,656 | 237,120 |
| Exchange realignment | 767 | 1,211 | 14 | 5,889 | 971 | 195 | 9,047 |
| Reclassification | – | (790) | – | 656 | – | 134 | – |
| Additions | 31,445 | 17,708 | 3,012 | 7,512 | 149 | 908 | 60,734 |
| Eliminated on deemed disposal/ disposal of subsidiaries | – | – | – | – | – | (105) | (105) |
| Disposals | – | – | (762) | (14) | (8,344) | (26) | (9,146) |
| At 31 December 2006 | 51,165 | 49,922 | 3,749 | 163,529 | 21,523 | 7,762 | 297,650 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2005 | 1,254 | – | 444 | 15,182 | 5,909 | 2,550 | 25,339 |
| Exchange realignment | 3 | – | 6 | 248 | 103 | 31 | 391 |
| Charge for the year | 905 | – | 332 | 9,775 | 4,352 | 1,291 | 16,655 |
| Reclassified as held for sale | (1,232) | – | – | (2,948) | – | (664) | (4,844) |
| Eliminated on disposals | (247) | – | – | (126) | (854) | (6) | (1,233) |
| At 31 December 2005 | 683 | – | 782 | 22,131 | 9,510 | 3,202 | 36,308 |
| Exchange realignment | 18 | – | 13 | 894 | 329 | 87 | 1,341 |
| Charge for the year | 1,344 | – | 123 | 10,840 | 4,547 | 1,285 | 18,139 |
| Eliminated on deemed disposal/ disposal of subsidiaries | – | – | – | – | – | (42) | (42) |
| Eliminated on disposals | – | – | (288) | (4) | (3,907) | (11) | (4,210) |
| At 31 December 2006 | 2,045 | – | 630 | 33,861 | 10,479 | 4,521 | 51,536 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2006 | 49,120 | 49,922 | 3,119 | 129,668 | 11,044 | 3,241 | 246,114 |
| At 31 December 2005 | 18,270 | 31,793 | 703 | 127,355 | 19,237 | 3,454 | 200,812 |

The carrying values of properties shown above comprises:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Land in Hong Kong: | | |
| Long lease | 13,756 | – |
| Medium-term lease | 16,193 | – |
| Land outside Hong Kong: | | |
| Long lease | 10,449 | 10,668 |
| Medium-term lease | 8,722 | 7,602 |
| | 49,120 | 18,270 |

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 2006, 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$47,592,000 (2005: HK$25,649,000).

(b) The carrying values of motor vehicles of approximately HK$11,044,000 includes an amount of approximately HK$1,297,000 (2005: HK$1,567,000) in respect of assets held under finance leases.

## 16. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| The Group's prepaid lease payments on land use rights comprise: | | |
| Leasehold land in the PRC: | | |
| Long lease | 13,235 | 12,919 |
| Medium-term lease | 19,406 | 19,091 |
| | 32,641 | 32,010 |
| Analysed for reporting purposes as: | | |
| Current assets | 625 | 595 |
| Non-current assets | 32,016 | 31,415 |
| | 32,641 | 32,010 |

At 31 December 2006, the carrying values of the Group's prepaid lease payments on land use rights pledged as security for the banking facilities granted to the Group amounted to approximately HK$12,988,000 (2005: Nil).

## 17. INTEREST IN AN ASSOCIATE

| | 2006 | 2005 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Cost of investment in unlisted associate in the PRC | – | 754 |
| Share of post-acquisition losses and exchange realignment | – | (212) |
| Consideration of acquisition of a subsidiary *(Note 32)* | – | (542) |
| | – | – |

The Company held 40% equity interest in 成都出口監管倉庫有限公司 ("監管倉"), which was an equity joint venture company established in the PRC and engaged in provision of logistic services in the PRC. During the year ended 31 December 2005, the Group acquired an additional 45% equity interest in 監管倉 which then became a non-wholly owned subsidiary of the Group.

The summarised financial information in respect of the Group's associate for the year ended 31 December 2005 was set out below:

| | At 30/10/2005 |
|---|---|
| | HK$'000 |
| Total assets | – |
| Total liabilities | – |
| Net assets | – |
| Group's share of net assets of an associate | – |

| | 1/1/2005 to 30/10/2005 |
|---|---|
| | HK$'000 |
| Revenue | 184 |
| Loss for the period | (282) |
| Group's share of result of an associate for the period | (113) |

## 18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Unlisted investments in guaranteed funds, at fair value | 3,824 | 3,696 |
| Unlisted investments in certificates of deposits, at fair value | 738 | 1,494 |
| Unlisted equity securities, at cost *(notes a and b)* | 17,234 | 17,234 |
| *Less:* Impairment loss recognised *(notes b and c)* | (17,234) | (14,370) |
| | 4,562 | 8,054 |

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Analysed for reporting purposes as: | | |
| Current assets | – | 1,494 |
| Non-current assets | 4,562 | 6,560 |
| | 4,562 | 8,054 |

*Notes:*

(a) The above unlisted equity securities represent investments in private entities incorporated in the PRC and Malaysia.

(b) The above unlisted investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

(c) The directors of the Company have reviewed the carrying values of the unlisted equity securities as at 31 December 2006 and consider that in light of the recurring operating losses of these investments and the current market conditions, impairment losses of approximately HK$2,864,000 (2005: HK$14,370,000) has been recognised during the year ended 31 December 2006. The directors of the Company are of the opinion that the impairment is made based on their best estimation with reference to the market situation and circumstances of the equity securities.

(d) At 31 December 2006, available-for-sale investments of approximately HK$3,824,000 (2005: HK$5,190,000) were pledged to secure banking facilities granted to the Group.

**19. GOODWILL**

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2005 | 42,400 |
| Arising on acquisition of a subsidiary | 256 |
| Elimination of accumulated amortisation upon the application of HKFRS 3 | (7,780) |
| At 31 December 2005 and 31 December 2006 | 34,876 |
| ACCUMULATED AMORTISATION | |
| At 1 January 2005 | 7,780 |
| Elimination of accumulated amortisation upon the application of HKFRS 3 | (7,780) |
| At 31 December 2005 and 31 December 2006 | – |
| IMPAIRMENT | |
| At 1 January 2005 | – |
| Impairment loss recognised for the year | 4,480 |
| At 31 December 2005 and 31 December 2006 | 4,480 |
| CARRYING VALUES | |
| At 31 December 2006 | 30,396 |
| At 31 December 2005 | 30,396 |

Particulars regarding impairment testing on goodwill are disclosed in Note 19a.

During the year ended 31 December 2005, the management of the Group prepared profit forecasts and cash flow forecasts (the "Forecasts") in respect of Wuhan Weiao Pharmaceuticals Co., Ltd. ("Wuhan Weiao"), 維奧（成都）製藥有限公司 (formerly known as "四川維奧三江製藥有限公司") ("維奧成都") and 監管倉. The directors of the Company are of the opinion that based on the Forecasts, the recoverable amounts of the goodwill arising from acquisition of these subsidiaries do not exceed their carrying amount in the consolidated balance sheet, therefore full impairment losses of HK$4,480,000 were recognised.

**19a. IMPAIRMENT TESTING ON GOODWILL**

For the purposes of impairment testing, goodwill has been arising from the acquisition of a subsidiary, Vital Pharmaceuticals (Sichuan) Co. Ltd. ("Vital Sichuan").

During the year ended 31 December 2006, the management of the Group prepared profit forecast and cash flow forecast (the "Forecast") in respect of the Vital Sichuan. The Forecast based on financial budgets approved by the management covering a period of 5 years and a discount rate of 6%. The cash flows beyond the 1-year period are extrapolated using a steady 8% growth rate. This growth rate is based on the relevant industry growth rate forecasts and does not exceed the average long-term growth rate for the relevant industry. The Forecast during the budget period are based on the budgeted gross margins during the budget period. Budgeted gross margins have been determined based on the management's expectation for the market development and past experience, and the management believes that the budgeted gross margins are reasonable. The directors of the Company are of the opinion, based on the Forecast, that the recoverable amount exceeds its carrying amount in the consolidated balance sheet and no impairment loss is necessary.

**20. INVENTORIES**

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Raw materials | | |
| – in transit | – | 8,854 |
| – on hand | 7,887 | 14,035 |
| Work in progress | 26,356 | 4,927 |
| Finished goods | 30,343 | 26,366 |
| Packing materials | 3,672 | 2,002 |
| | 68,258 | 56,184 |

Included in the above were raw materials and finished goods of approximately HK$3,759,000 (2005: Nil) and HK$305,000 (2005: Nil), respectively carried at net realisable values.

**21. TRADE AND OTHER RECEIVABLES**

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade and bills receivables *(note a)* | 149,250 | 180,778 |
| Prepayments and deposits | 10,165 | 3,518 |
| Payments for pharmaceutical projects *(note b)* | 19,178 | 20,615 |
| Other receivables | 3,760 | 7,971 |
| | 182,353 | 212,882 |
| *Less:* Allowance for bad and doubtful debts | (1,430) | (1,572) |
| Impairment loss recognised for payments for pharmaceutical projects *(note c)* | (17,538) | – |
| | 163,385 | 211,310 |

*Notes:*

(a) The Group's sales are on open account terms. The Group normally grants to its customers credit periods ranging from 90 days to 180 days which are subject to periodic review by management.

At the balance sheet date, the aging analysis of the trade and bills receivables net of allowance for bad and doubtful debts was as follows:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within 30 days | 58,847 | 63,933 |
| 31-60 days | 40,447 | 43,067 |
| 61-90 days | 38,397 | 55,133 |
| Over 90 days | 10,129 | 17,073 |
| | 147,820 | 179,206 |

(b) Amounts paid for the development of technology and pharmaceutical products are deferred prior to completion of the projects and included in payments for pharmaceutical projects. On completion, these amounts are transferred to development costs (note 14) in accordance with the Group's accounting policy as set out in note 3(d) above.

(c) The directors of the Company reviewed the carrying values of the payments for pharmaceutical projects as at 31 December 2006 and consider that in light of the current new drugs policies in the PRC and the current market conditions, the Group has terminated projects which involved high risks and ceased on its own initiative the application of projects of minimal benefit, therefore impairment loss of approximately HK$17,538,000 (2005: Nil) has been recognised.

(d) The fair values of the Group's trade and other receivables at the balance sheet date approximated to the corresponding carrying amounts.

**22. HELD-FOR-TRADING INVESTMENT (OTHER THAN DERIVATIVES)**

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Held-for-trading investment include: | | |
| Unlisted investment in guaranteed funds, at fair value | 544 | – |

**23. BANK BALANCES AND CASH**

Pledged bank deposits represent deposits pledged to banks to secure short-term banking facilities granted to the Group in respect of bills and letter of credit facilities and are therefore classified as current assets. The deposits carry fixed interest rate ranging from 2.60% to 2.86% (2005: 1.8% to 3.0%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The fair values of the pledged bank deposits and bank balances at the balance sheet date approximated to the corresponding carrying amounts.

**24. ASSETS CLASSIFIED AS HELD FOR SALE**

At 31 December 2005, assets classified as held for sale represented the property, plant and equipment to be disposed in 2006. The net carrying amount of the relevant assets were expected to exceed the net proceeds of disposal and accordingly, impairment loss approximated HK$581,000 has been recognised. The recognition for impairment loss reflects the adjustment required to measure these assets at fair value.

The property, plant and equipment were disposed of on 19 July 2006.

**25. TRADE AND OTHER PAYABLES**

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade and bills payables | 10,706 | 28,392 |
| Accrued charges and other payables | 78,669 | 37,527 |
| | 89,375 | 65,919 |

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

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within 30 days | 4,307 | 9,779 |
| 31-60 days | 3,569 | 1,603 |
| 61-90 days | 573 | 1,121 |
| Over 90 days | 2,257 | 15,889 |
| | 10,706 | 28,392 |

The fair values of the Group's trade and other payables at the balance sheet date approximated to the corresponding carrying amounts.

**26. OBLIGATIONS UNDER FINANCE LEASES**

The lease terms are five years. For the year ended 31 December 2006, the average effective borrowing rate was 9% (2005: 9%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Amounts payable under finance leases | | | | |
| Within one year | 394 | 394 | 270 | 259 |
| In more than one year but not more than two years | 394 | 394 | 281 | 269 |
| In more than two years but not more than three years | 394 | 394 | 293 | 281 |
| In more than three years but not more than four years | 474 | 394 | 446 | 293 |
| In more than four years but not more than five years | – | 471 | – | 442 |
| | 1,656 | 2,047 | 1,290 | 1,544 |
| *Less:* Future finance charges | (366) | (503) | – | – |
| Present value of lease obligations | 1,290 | 1,544 | 1,290 | 1,544 |
| *Less:* Amount due within one year shown under current liabilities | | | (270) | (259) |
| Amount due after one year | | | 1,020 | 1,285 |

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

Finance leases are denominated in Hong Kong dollars and Australian dollars.

The directors of the Company consider that the carrying amounts of the obligations under finance leases at the balance sheet date approximated to their fair values.

**27. BANK BORROWINGS**

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank loans | 154,411 | 150,970 |
| Analysed as: | | |
| Secured bank loans | 51,119 | 16,728 |
| Unsecured bank loans | 103,292 | 134,242 |
| | 154,411 | 150,970 |

The above amounts bear interest at prevailing market rates and are repayable as follow:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| On demand or within one year | 100,520 | 100,292 |
| More than one year but not exceeding two years | 48,570 | 2,588 |
| More than two years but not more than five years | 1,904 | 48,090 |
| Over five years | 3,417 | – |
| | 154,411 | 150,970 |
| *Less:* Amount due within one year shown under current liabilities | (100,520) | (100,292) |
| Amount due after one year | 53,891 | 50,678 |

At 31 December 2006, bank borrowings of approximately HK$144,358,000 and HK$10,053,000 are fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carry interest ranging from 5.30% to 6.91% per annum and the floating-rate borrowings carry interest at Hong Kong Interbank Offered Rate plus 3% per annum.

At 31 December 2005, bank borrowings of approximately HK$130,964,000 and HK$20,006,000 were fixed-rate borrowings and floating-rate borrowings, respectively. The fixed-rate borrowings carried interest ranging from 4.2% to 7.254% per annum and the floating-rate borrowings carried interest at Hong Kong Interbank Offered Rate plus 2% to 3% per annum.

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

| | RMB | United States Dollars |
|---|---|---|
| | *'000* | *'000* |
| As at 31 December 2006 | 48,000 | 2,500 |
| As at 31 December 2005 | 108,000 | – |

During the year ended 31 December 2006, the Group obtained new loans in the amount of approximately HK$196,815,000 (2005: HK$143,858,000). These loans carry interest at prevailing market rates and will be repayable varying from 2007 to 2016.

The directors of the Company consider that the carrying amounts of bank borrowings at the balance sheet date approximated to their fair values.

## 28. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | *HK$'000* |
| Ordinary share of HK$0.01 each | | |
| *Authorised:* | | |
| At 1 January 2005, 31 December 2005 and 31 December 2006 | 50,000,000,000 | 500,000 |
| *Issued and fully paid:* | | |
| At 1 January 2005 | 1,521,198,380 | 15,212 |
| Issue of shares for settlement of final consideration in respect of acquisition of a subsidiary *(note a)* | 20,508,613 | 205 |
| At 31 December 2005 and 31 December 2006 | 1,541,706,993 | 15,417 |

*Notes:*

(a) On 25 January 2005, the Company allotted and issued 20,508,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share to settle the final phase of the consideration for the acquisition of 15% equity interest in a subsidiary.

(b) All the new shares issued during the year ended 31 December 2005 rank pari passu with the existing shares in all respects.

## 29. DEFERRED TAXATION

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

| | Accumulated tax depreciation | Tax losses | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2005 and 31 December 2005 | – | – | – |
| Charge (credit) to consolidated income statement | 1,143 | (1,143) | – |
| At 31 December 2006 | 1,143 | (1,143) | – |

At the balance sheet date, the Group has unused tax losses of approximately HK$147,586,000 (2005: HK$105,690,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$6,531,000 (2005: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses HK$141,055,000 (2005: HK$105,690,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses of approximately HK$37,879,000 (2005: HK$30,617,000) that will expire in 2010. Other losses may be carried forward indefinitely.

**30. SHARE OPTION SCHEME**

A share option scheme was adopted on 26 January 2002 ("2002 Share Option Scheme"). The 2002 Share Option Scheme was replaced by a new share option scheme adopted by the shareholders on 23 July 2003 ("2003 Share Option Scheme").

The Board of Directors of the Company may, at their discretion, grant option to the eligible participant including any employees, any non-executive directors, directors, suppliers, customers, advisors, consultants, joint venture partners and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the share option scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholder in a general meeting of the Company. Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding any independent non-executive director who is the grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

At 31 December 2006, the number of shares of the Company in respect of which options had remained outstanding under the 2003 Share Option Scheme of the Company was 56,740,000, representing 3.7% of the shares of the Company in issue at that date.

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

Total consideration received from eligible participants for taking up the options granted during the year ended 31 December 2005 was HK$22 (2006: Nil).

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

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

**First phase:**

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

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

**Second phase:**

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

**Third phase:**

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

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

**Forth phase:**

On 12 September 2005, options were granted for an aggregate of 69,800,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the 2003 Share Option Scheme at HK$0.23 per share. The closing price of the Company on the day immediately preceding the offer of grant was HK$0.23 per share. Those who were granted with the options can exercise their rights in multiple 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

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

| | Date of grant | Outstanding at 1 January 2005 | Granted during the year | Cancelled during the year | Outstanding at 31 December 2005 | Cancelled during the year | Outstanding at 31 December 2006 | Exercise price per share |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *HK$* |
| *Directors:* | | | | | | | | |
| Mr. Tao Lung | 12 September 2005 | – | 15,000,000 | – | 15,000,000 | – | 15,000,000 | 0.23 |
| Mr. Xu Xiaofan | 12 September 2005 | – | 15,000,000 | – | 15,000,000 | – | 15,000,000 | 0.23 |
| Mr. Jin Wei (Resigned on 18 January 2006) | 12 September 2005 | – | 5,000,000 | – | 5,000,000 | (5,000,000 ) | – | 0.23 |
| Independent non-executive directors: | | | | | | | | |
| Mr. Lui Tin Nang | 12 September 2005 | – | 1,500,000 | – | 1,500,000 | – | 1,500,000 | 0.23 |
| Mr. Lee Kwong Yiu | 12 September 2005 | – | 1,500,000 | – | 1,500,000 | – | 1,500,000 | 0.23 |
| Mr. Lo Wa Kei, Roy (Resigned on 19 October 2006) | 12 September 2005 | – | 1,500,000 | – | 1,500,000 | (1,500,000 ) | – | 0.23 |
| Employees | 21 June 2002 | 18,360,000 | – | (15,970,000 ) | 2,390,000 | (2,060,000 ) | 330,000 | 0.39 |
| | 29 September 2003 | 24,820,000 | – | (5,260,000 ) | 19,560,000 | (6,300,000 ) | 13,260,000 | 0.51 |
| | 12 September 2005 | – | 12,300,000 | – | 12,300,000 | (3,500,000 ) | 8,800,000 | 0.23 |
| Connected person | 12 September 2005 | – | 18,000,000 | – | 18,000,000 | (18,000,000 ) | – | 0.23 |
| Other eligible participants | 21 June 2002 | 8,650,000 | – | – | 8,650,000 | (7,800,000 ) | 850,000 | 0.39 |
| | 29 September 2003 | 500,000 | – | – | 500,000 | – | 500,000 | 0.51 |
| | | 52,330,000 | 69,800,000 | (21,230,000 ) | 100,900,000 | (44,160,000 ) | 56,740,000 | |
| Exercisable at the end of the year | | | | | 31,100,000 | | 35,840,000 | |

During the year ended 31 December 2005, options were granted on 12 September 2005. The estimated fair value of the options granted on is approximately HK$5,875,000.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

| | |
|---|---|
| Share price on grant date | HK$0.23 |
| Exercise price | HK$0.23 |
| Expected volatility | 34.35% |
| Expected life | 6.5 years |
| Risk-free rate | 3.28% |
| Expected dividend yield | 8.7% |

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

The risk-free interest rate is using the average Hong Kong Exchange Fund Notes for the past two years.

The Group recognised the total expense of approximately HK$1,172,000 for the year ended 31 December 2006 (2005: HK$3,525,000) in relation to the share options granted by the Company in 2005 and became vested during the year ended 31 December 2006.

During the year ended 31 December 2006, the number of share options granted expected to be vested has been reduced to reflect the forfeiture of options granted prior to completion of vesting period and accordingly, the share option expense has been adjusted. At each balance date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

Where share options have been forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will continue to be held in the share options reserve.

**31. MAJOR NON-CASH TRANSACTIONS**

During the year ended 31 December 2006, the Group acquired certain property, plant and equipment amounted to HK$6,500,000 is unsettled and included in other payables as at 31 December 2006.

During the year ended 31 December 2005, the Group entered into the following non-cash transactions:

(a) The Company allotted and issued 20,518,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share to settle the final phase of the consideration amounted to HK$9,434,000 for the acquisition of equity interest in a subsidiary.

(b) The Group entered into finance leases arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$1,718,000.

## 32. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2005, the Group acquired a further 45% of the registered share capital of 監管倉 at a consideration of approximately HK$865,000 (equivalent to approximately RMB900,000). This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$256,000.

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the year ended 31 December 2005 had no significant differences from their respective carrying amounts. The net assets acquired in the transaction, and the goodwill arising, are as follows:

| | **Acquiree's carrying amount and fair value** |
|---|---|
| | *HK$'000* |
| NET ASSETS ACQUIRED: | |
| Property, plant and equipment | 204 |
| Trade and other receivables | 34 |
| Bank balances and cash | 1,162 |
| Trade and other payables | (46) |
| Minority interests | (203) |
| | 1,151 |
| Goodwill | 256 |
| | 1,407 |
| SATISFIED BY: | |
| Interest in an associate *(Note 17)* | 542 |
| Cash | 865 |
| | 1,407 |
| Net cash inflow arising on acquisition: | |
| Cash consideration | (865) |
| Bank balances and cash acquired | 1,162 |
| Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary | 297 |

The subsidiary acquired during the year ended 31 December 2005 had no significant contribution to the Group's revenue and profit before tax for the year between the date of acquisition and the balance sheet date.

**33. DISPOSAL OF SUBSIDIARIES**

(a) Pursuant to a directors' resolution of Sino Metro Development Limited ("Sino Metro") passed on 5 April 2006 regarding the cancellation agreement dated 6 April 2006 which entered into between the Company, a non-wholly owned subsidiary of the Company, Sino Metro, and the minority shareholder of Sino Metro. Sino Metro has forfeited the shares held by the Company and refunded a sum of HK$3,000,000 to the Company. Upon the forfeiture of the shares by Sino Metro, the Company has deemed disposed of the interest in Sino Metro. The net assets of Sino Metro at the date of disposal were as follows:

| | *HK$'000* |
|---|---|
| Net assets disposed of | |
| Plant and equipment | 2 |
| Bank balances | 5,150 |
| Minority interests | (2,228) |
| Net assets | 2,924 |
| Gain on deemed disposal | 76 |
| Total refund | 3,000 |
| Satisfied by: | |
| Cash | 3,000 |
| Net cash outflow arising on deemed disposal: | |
| Cash refund | 3,000 |
| Bank balances disposed of | (5,150) |
| Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary | (2,150) |

The subsidiary disposed of during the year ended 31 December 2006 had no significant impact on the turnover and results of the Group.

(b) At 31 July 2006, the Group disposed of its entire interest in 維奧達（北京）生物技術有限公司 to independent third parties for no consideration.

| | HK$'000 |
|---|---|
| Net assets disposed of | |
| Property, plant and equipment | 61 |
| Inventories | 40 |
| Trade and other receivables | 65 |
| Bank balances and cash | 19 |
| Trade and other payables | (260) |
| Tax payable | (5) |
| Value added tax payable | (1) |
| Net liabilities | (81) |
| Gain on disposal | 81 |
| Total consideration | – |
| Net cash outflow arising on disposal: | |
| Cash consideration | – |
| Bank balances and cash disposed of | (19) |
| | (19) |

The subsidiary disposed of during the year ended 31 December 2006 had no significant impact on the turnover and results of the Group.

**34. RELATED PARTY TRANSACTIONS**

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

*Notes:*

(a) During the year ended 31 December 2006, a subsidiary of the Company purchased raw materials from Pharmco International, Inc. ("Pharmco") amounted to approximately HK$88,451,000 (2005: HK$68,423,000), Pharmco is a company which is wholly owned by a former minority shareholders of Maxsun International Limited ("Maxsun"), at prices and terms as set out in the agreement entered into between the subsidiary and Pharmco.

(b) Pursuant to a trademark licence agreement dated 14 August 2002 entered into between Beshabar (Macao Commercial Offshore) Ltd. ("Beshabar (Macao)"), a wholly owned subsidiary of the Company, and Maxsun, another wholly owned (2005: 51% owned) subsidiary of the Company, Maxsun granted a licence to Beshabar (Macao) to use its trademark of Osteoform for twenty years in certain territories free of charge.

(c) On 22 September 2003, Yugofoil Holdings Limited, a wholly owned subsidiary of the Company, entered into an agreement (the "Agreement") with the then minority shareholder ("Former Minority Shareholder") of Vital Sichuan, a then 85% owned subsidiary of the Company, to acquire the Former Minority Shareholder's 15% equity interest in Vital Sichuan at an aggregate consideration of RMB50,000,000 (equivalent to approximately HK$47,170,000).

For the year ended 31 December 2005, the Company settled the final phase of the consideration of RMB10,000,000 (equivalent to HK$9,434,000) by issuing 20,508,613 ordinary shares of HK$0.01 each at the base price of HK$0.46 per share.

(d) A tax indemnity dated 30 January 2002 were entered into by the controlling shareholders of the Company, the Company and its subsidiaries, the controlling shareholders provide indemnities on a joint and several basis in respect of, among other matters, taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before 7 February 2002.

(e) During the year ended 31 December 2005, the Group acquired a further 45% registered share capital of 監管倉 from the minority shareholders of 監管倉 for a consideration of RMB900,000 (equivalent to approximately HK$865,000).

During the year ended 31 December 2006, the Group acquired the remaining 15% registered share capital of 監管倉 for a consideration of RMB300,000 (equivalent to approximately HK$288,000).

(f) During the year ended 31 December 2006, the Group acquired the remaining 49% equity interest in a subsidiary, Maxsun from the minority shareholders of Maxsun for a consideration of HK$49.

(g) During the year ended 31 December 2005, the Group acquired the remaining 40% equity interest in a subsidiary, 維奧成都 from the minority shareholders of 維奧成都 for a consideration of RMB7,200,000 (equivalent to HK$6,754,000).

(h) Compensation of key management personnel

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

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Short-term benefits | 12,613 | 7,774 |
| Post-employment benefits | 124 | 74 |
| Share-based payments | 1,051 | 2,222 |
| | 13,788 | 10,070 |

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.

**35. COMMITMENTS**

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

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

| | **2006** | **2005** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Authorised but not contracted for | 2,200 | – |
| Contracted but not provided for | 4,472 | 15,275 |
| | 6,672 | 15,275 |

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

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Contracted but not provided for | 12,493 | 12,175 |

**(c) Commitments under operating leases**

*The Group as lessee*

The Group leases certain of its offices and staff quarters under operating lease arrangements. Lease for properties are negotiated for a term ranging from one to two years.

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

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Land and buildings | | |
| Within one year | 1,235 | 2,478 |
| In the second to fifth year inclusive | 712 | 450 |
| | 1,947 | 2,928 |

**36. PLEDGE OF ASSETS**

At the balance sheet date, certain assets of the Group were pledged to secure banking facilities granted to the Group and as follows:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Property, plant and equipment | 47,592 | 25,649 |
| Available-for-sale investments | 3,824 | 5,190 |
| Bank balances and cash | 8,724 | 8,133 |
| Prepaid lease payments on land use rights | 12,988 | – |
| | 73,128 | 38,972 |

In addition, at the balance sheet date, one of the subsidiary's shares were also pledged for banking facilities granted to the Group.

### 37. BALANCE SHEET OF THE COMPANY

| | Notes | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Plant and equipment | | 63 | 102 |
| Available-for-sale investments | | 4,562 | 3,696 |
| Investments in subsidiaries | | 53,036 | 56,046 |
| | | 57,661 | 59,844 |
| Current assets | | | |
| Prepayment, deposits and other receivables | | 313 | 415 |
| Amounts due from subsidiaries | *(a)* | 335,939 | 293,337 |
| Available-for-sale investments | | – | 1,494 |
| Bank balances and cash | | 1,032 | 2,876 |
| | | 337,284 | 298,122 |
| Current liabilities | | | |
| Other payables and accrued expenses | | 4,538 | 1,090 |
| Amounts due to subsidiaries | ***(a)*** | 29,657 | 20,075 |
| | | 34,195 | 21,165 |
| Net current assets | | 303,089 | 276,957 |
| Net assets | | 360,750 | 336,801 |
| Capital and reserves | | | |
| Share capital | | 15,417 | 15,417 |
| Reserves | *(b)* | 345,333 | 321,384 |
| Shareholders' fund | | 360,750 | 336,801 |

**(a) Amounts due from/to subsidiaries**

The amounts are unsecured, non-interest bearing and repayable on demand. The fair value of the amounts at the balance sheet date was approximated to the corresponding carrying amount.

**(b) Reserves**

| | Share premium HK$'000 | Share options reserve HK$'000 | Other reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2005 | 292,120 | – | – | 8,781 | 300,901 |
| Profit for the year | – | – | – | 23,572 | 23,572 |
| Shares allotted and issued for settlement of final consideration in respect of acquisition of a subsidiary | 9,229 | – | – | – | 9,229 |
| 2005 interim dividends paid | – | – | – | (15,417) | (15,417) |
| Recognition of equity settled share-based payments | – | 3,525 | – | – | 3,525 |
| Loss on fair value changes of available-for-sale investments and recognised directly in equity | – | – | (426) | – | (426) |
| At 31 December 2005 | 301,349 | 3,525 | (426) | 16,936 | 321,384 |
| Profit for the year | – | – | – | 22,625 | 22,625 |
| Recognition of equity settled share-based payments | – | 1,172 | – | – | 1,172 |
| Gain on fair value changes of available-for-sale investments and recognised directly in equity | – | – | 152 | – | 152 |
| At 31 December 2006 | 301,349 | 4,697 | (274) | 39,561 | 345,333 |

**38. PRINCIPAL SUBSIDIARIES**

Details of the principal subsidiaries held by the Company as at 31 December 2006 are as follows:

| Name of subsidiary | Class of shares held | Place of incorporation/ establishment | Place of operations | Particulars of issued share capital/paid up registered capital | Attributable equity interest of the Group | Principal activities |
|---|---|---|---|---|---|---|
| *Direct subsidiaries:* | | | | | | |
| Ever Power Holding Inc. | Ordinary shares | British Virgin Islands ("BVI") | BVI | 2 ordinary shares of US$1 each | 100% | Investment holding |
| Gainful Plan Limited | Ordinary shares | BVI | BVI | 2 ordinary shares of US$1 each | 100% | Investment holding |
| Vital BioTech (Hong Kong) Limited | Ordinary shares | Hong Kong | Hong Kong | 2 ordinary shares of HK$1 each | 100% | Investment holding |
| Yugofoil Holdings Limited | Ordinary shares | BVI | Hong Kong | 103 ordinary shares of US$1 each | 100% | Investment holding |

| | Name of subsidiary | Class of shares held | Place of incorporation/ establishment | Place of operations | Particulars of issued share capital/paid up registered capital | Attributable equity interest of the Group | Principal activities |
|---|---|---|---|---|---|---|---|
| | *Indirect subsidiaries:* | | | | | | |
| | Beshabar Trading Limited | Ordinary shares | BVI | BVI | 1 ordinary share of US$1 | 100% | Investment holding |
| | Beshabar (Macao) | Ordinary shares | Macao | Macao | 1 quota (share) of MOP100,000 each | 100% | Trading |
| | Beshabar Trading Limited | Ordinary shares | Hong Kong | Hong Kong | 100 ordinary shares of HK$1 each | 100% | Trading |
| | Maxsun | Ordinary shares | Hong Kong | Hong Kong | 100 ordinary shares of HK$1 each | 100% | Investment holding |
| # | Wuhan Weiao | Contributed capital | PRC | PRC | RMB29,610,000 | 96.96% | Manufacturing and trading of pharmaceutical products |
| ## | Vital Sichuan | Contributed capital | PRC | PRC | RMB221,080,754 | 100% | Manufacturing and trading of pharmaceutical products |
| ## | Vital (Sichuan) Biotech Co., Ltd. | Contributed capital | PRC | PRC | US$1,400,000 | 100% | Research and development of biotechnology |
| | Wide Triumph Limited | Ordinary shares | Hong Kong | Hong Kong | 100 ordinary shares of HK$1 each | 100% | Management services |
| ## | 維奧成都 | Contributed capital | PRC | PRC | RMB25,000,000 | 100% | Manufacturing and trading of pharmaceutical products |
| | 監管倉 | Contributed capital | PRC | PRC | RMB2,000,000 | 100% | Provision of logistic services |

\# *Equity joint ventures*

\## *Wholly owned foreign enterprise*

The above table lists the subsidiaries of the Group, which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.

## 3. UNAUDITED INTERIM FINANCIAL STATEMENT

Set out below is the unandited consolidated results of the Group for the six months ended 30 June 2007 as extracted from page 12 to 28 of the interim report of the Company.

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2007*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2007** | **2006** |
| | *Notes* | *HK$'000* | *HK$'000* |
| | | (Unaudited) | (Unaudited) |
| Turnover | *3* | 186,354 | 215,958 |
| Cost of sales | | (62,745) | (69,549) |
| Gross profit | | 123,609 | 146,409 |
| Other operating income | | 9,113 | 1,247 |
| Selling and distribution expenses | | (63,819) | (83,959) |
| Administrative expenses | | (36,193) | (38,728) |
| Finance costs | | (4,996) | (6,468) |
| Profit before taxation | | 27,714 | 18,501 |
| Income tax expense | *4* | (5,602) | (4,984) |
| Profit for the period | *5* | 22,112 | 13,517 |
| Attributable to: | | | |
| Equity holders of the Company | | 22,273 | 13,723 |
| Minority interests | | (161) | (206) |
| | | 22,112 | 13,517 |
| Interim dividend | *6* | – | – |
| Earnings per share | *7* | | |
| Basic | | HK1.44 cents | HK0.89 cents |
| Diluted | | HK1.44 cents | HK0.89 cents |

**CONDENSED CONSOLIDATED BALANCE SHEET**
*At 30 June 2007*

| | Notes | 30/6/2007 HK$'000 (Unaudited) | 31/12/2006 HK$'000 (Audited) |
|---|---|---|---|
| Non-current assets | | | |
| Intangible assets | | 7,554 | 8,856 |
| Property, plant and equipment | *8* | 241,625 | 246,114 |
| Prepaid lease payments on land use rights | | 31,675 | 32,016 |
| Available-for-sale investments | *9* | 4,562 | 4,562 |
| Goodwill | | 30,396 | 30,396 |
| | | 315,812 | 321,944 |
| Current assets | | | |
| Inventories | | 135,088 | 68,258 |
| Trade and other receivables | *10* | 155,783 | 163,385 |
| Prepaid lease payments on land use rights | | 625 | 625 |
| Tax recoverable | | 6,031 | 6,031 |
| Held-for-trading investment | *11* | 544 | 544 |
| Bank balances and cash | | | |
| – pledged | | 631 | 8,724 |
| – unpledged | | 53,078 | 126,980 |
| | | 351,780 | 374,547 |
| Current liabilities | | | |
| Trade and other payables | *12* | 80,482 | 89,375 |
| Value added tax payable | | 766 | 3,747 |
| Tax payable | | 2,957 | 1,856 |
| Obligations under finance leases | | | |
| – due within one year | | 285 | 270 |
| Bank borrowings | | | |
| – due within one year | | 110,779 | 100,520 |
| | | 195,269 | 195,768 |
| Net current assets | | 156,511 | 178,779 |
| Total assets less current liabilities | | 472,323 | 500,723 |

| | Notes | 30/6/2007<br>*HK$'000*<br>(Unaudited) | 31/12/2006<br>*HK$'000*<br>(Audited) |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | *13* | 15,480 | 15,417 |
| Reserves | | 437,776 | 414,237 |
| Proposed final dividend | | – | 15,417 |
| Equity attributable to equity holders of the Company | | 453,256 | 445,071 |
| Minority interests | | 580 | 741 |
| | | 453,836 | 445,812 |
| Non-current liabilities | | | |
| Obligations under finance leases – due after one year | | 877 | 1,020 |
| Bank borrowings – due after one year | | 17,610 | 53,891 |
| | | 18,487 | 54,911 |
| | | 472,323 | 500,723 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2007*

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Exchange translation reserve HK$'000 | Share options reserve HK$'000 | Reserve fund HK$'000 (Note 1) | Enterprise development fund HK$'000 | Other reserve HK$'000 | Retained earnings HK$'000 | Dividend reserve HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| (Audited) | | | | | | | | | | | | |
| At 1 January 2006 | 15,417 | 248,314 | 3,221 | 3,525 | 15,833 | 616 | (426) | 109,400 | – | 395,900 | 3,287 | 399,187 |
| Profit (loss) for the period | – | – | – | – | – | – | – | 13,723 | – | 13,723 | (206) | 13,517 |
| Recognition of equity settled share-based payments | – | – | – | 1,175 | – | – | – | – | – | 1,175 | – | 1,175 |
| Loss on deemed acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | – | 6 | 6 |
| Acquisition of additional interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | (194) | (194) |
| Disposal of subsidiaries | – | – | – | – | – | – | – | – | – | – | (2,228) | (2,228) |
| At 30 June 2006 | 15,417 | 248,314 | 3,221 | 4,700 | 15,833 | 616 | (426) | 123,123 | – | 410,798 | 665 | 411,463 |
| Profit (loss) for the period | – | – | – | – | – | – | – | 24,020 | – | 24,020 | (437) | 23,583 |
| Gain on fair value changes of available-for-sale investments | – | – | – | – | – | – | 152 | – | – | 152 | – | 152 |
| Exchange difference arising on translation of overseas operation | – | – | 10,104 | – | – | – | – | – | – | 10,104 | – | 10,104 |
| Transferred from retained earnings | – | – | – | – | 10,594 | – | – | (10,594) | – | – | – | – |
| Recognition of equity settled share-based payments | – | – | – | (3) | – | – | – | – | – | (3) | – | (3) |
| Capital contribution by minority shareholder of a subsidiary | – | – | – | – | – | – | – | – | – | – | 500 | 500 |
| Acquisition of additional interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | 13 | 13 |
| Proposed 2006 final dividend | – | – | – | – | – | – | – | (15,417) | 15,417 | – | – | – |
| At 31 December 2006 | 15,417 | 248,314 | 13,325 | 4,697 | 26,427 | 616 | (274) | 121,132 | 15,417 | 445,071 | 741 | 445,812 |
| (Unaudited) | | | | | | | | | | | | |
| Profit (loss) for the period | – | – | – | – | – | – | – | 22,273 | – | 22,273 | (161) | 22,112 |
| Reserve realised upon deregistration of a subsidiary *(Note 2)* | – | – | (120) | – | – | – | – | – | – | (120) | – | (120) |
| 2006 final dividend paid | – | – | – | – | – | – | – | – | (15,417) | (15,417) | – | (15,417) |
| Exercise of share options | 63 | 1,881 | – | (495) | – | – | – | – | – | 1,449 | – | 1,449 |
| At 30 June 2007 | 15,480 | 250,195 | 13,205 | 4,202 | 26,427 | 616 | (274) | 143,405 | – | 453,256 | 580 | 453,836 |

*Notes:*

1. 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.

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

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended 30 June 2007*

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Unaudited) |
| Net cash (used in) from operating activities | (24,146) | 3,526 |
| Net cash used in investing activities | (4,642) | (12,555) |
| Net cash used in financing activities | (45,114) | (4,132) |
| Net decrease in cash and cash equivalents | (73,902) | (13,161) |
| Cash and cash equivalents at 1 January | 126,980 | 52,128 |
| Cash and cash equivalents at 30 June | 53,078 | 38,967 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*For the six months ended 30 June 2007*

### 1. GENERAL

The Company is incorporated in 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 interim report.

The condensed consolidated Interim Financial Information are presented in Hong Kong dollars, being the measurement currency of the Company and its subsidiaries (the "Group").

The Group are principally engaged in research and development, selling and manufacturing of pharmaceutical products.

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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

The condensed consolidated Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjuction with the Group's annual financial statement as at 31 December 2006.

The accounting policies used in the condensed consolidated Interim Financial Information for the six months ended 30 June 2007 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendment and interpretations (collectively referred to as "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning 1 January 2007. The adoption of these new HKFRSs has had no material effect on how the results or financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and financial position of the Group.

| | |
|---|---|
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC)-Interpretation ("Int")-11 | HKFRS2: Group and Treasury Share Transactions[2] |
| HK(IFRIC)-Int-12 | Service Concession Arrangements[3] |

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008

### 3. TURNOVER

The Group is principally engaged in research and development, selling and manufacturing of pharmaceutical products. Turnover represents invoiced value of sales, net of returns, discounts allowed and sales taxes where applicable and subcontract manufacturing income.

The Group's revenues, expenses, assets, liabilities and capital expenditure are primarily attributable to the sales and manufacturing of pharmaceutical products. The Group's principal market is in the People's Republic of China (the "PRC").

Neither the business segments of the subcontract manufacturing business nor the geographical segment in other country are of a sufficient size to be reported separately.

### 4. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Unaudited) |
| Overseas income tax | | |
| – current period | 5,602 | 4,984 |

Hong Kong Profits Tax has not been provided for in the condensed consolidated Interim Financial Information as there was no estimated assessable profits derived from both periods.

The Hong Kong Profits Tax amounting in total to HK$6,031,000 of a subsidiary of the Company for the financial years 2000 and 2001 are under inquiries by the Hong Kong Inland Revenue Department ("IRD"). The subsidiary had lodged an objection against the assessments and the IRD has held over the payment of the profits tax and the equal amount of Tax Reserve Certificates was purchased and recorded as tax recoverable as at 30 June 2007 and 31 December 2006.

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

In accordance with the relevant regulations, approvals from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, certain subsidiaries operating in the PRC are entitled to exemption from income tax in the first two years from the first profit-making year, 50% reduction of income tax in the subsequent three years and thereafter, preferential treatments which are subject to the relevant law and regulations. One subsidiary was taxed at 13% (2006: 10.5%). Another subsidiary has incurred a loss and no income tax is payable for the period (2006: Nil). Other subsidiaries were either in loss-making position for the current and the previous periods or had sufficient tax losses brought forward from previous year to offset the estimated assessable income for the period and accordingly did not have any assessable income.

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

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

**5. PROFIT FOR THE PERIOD**

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

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Unaudited) |
| Amortisation of development costs | 1,302 | 1,009 |
| Amortisation of prepaid lease payments on land use rights | 341 | 296 |
| Depreciation of property, plant and equipment | 9,477 | 8,635 |
| Loss on disposal of property, plant and equipment | 18 | 1,626 |
| Research and development costs | 670 | 756 |
| Write (back) down of allowance for inventories | (779) | 1,219 |
| Exchange loss (gain) | 1,048 | (261) |
| Gain on disposal of intangible assets – patents | – | (585) |
| Write back of allowance for bad and doubtful debts | (124) | (104) |
| Gain on deregistration of a subsidiary | (90) | – |
| Government subsidies income | (8,255) | – |

**6. INTERIM DIVIDEND**

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

**7. EARNINGS PER SHARE**

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

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Unaudited) |
| Earnings | | |
| Profit for the period attributable to equity holders of the Company for the purposes of basic and diluted earnings per share | 22,273 | 13,723 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 1,542,176,606 | 1,541,706,993 |
| Effect of dilutive ordinary shares in respect of share options | 4,627,050 | – |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 1,546,803,656 | 1,541,706,993 |

**8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately HK$5.4 million (2006: HK$19 million) on additions to property, plant and equipment to upgrade its manufacturing capacities, construct new manufacturing plant and acquire new staff quarters.

## 9. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

| | **30/6/2007** | **31/12/2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Audited) |
| Unlisted investments in guaranteed funds, at fair value | 3,824 | 3,824 |
| Unlisted investments in certificates of deposits, at fair value | 738 | 738 |
| Unlisted equity securities, at cost *(notes a and b)* | 17,234 | 17,234 |
| *Less*: Impairment loss recognised *(notes b and c)* | (17,234) | (17,234) |
| | 4,562 | 4,562 |

*Notes:*

(a) The above unlisted equity securities represent investments in private entities incorporated in the PRC and Malaysia.

(b) The above unlisted investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

(c) The directors of the Company had reviewed the carrying values of the unlisted equity securities and considered that in light of the recurring operating losses of these investments and the current market conditions, total impairment losses of approximately HK$17,234,000 (2006: HK$17,234,000) had been recognised. The directors of the Company were of the opinion that the impairment was made based on their best estimation with reference to the market situation and circumstances of the equity securities.

(d) At 31 December 2006, available-for-sale investments of approximately HK$3,824,000 (2007: Nil) were pledged to secure banking facilities granted to the Group.

## 10. TRADE AND OTHER RECEIVABLES

| | **30/6/2007** | **31/12/2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Audited) |
| Trade and bills receivables *(note a)* | 132,163 | 149,250 |
| Prepayments and deposits | 19,105 | 10,165 |
| Payments for pharmaceutical projects *(note b)* | 19,703 | 19,178 |
| Other receivables | 3,656 | 3,760 |
| | 174,627 | 182,353 |
| *Less*: Allowance for bad and doubtful debts | (1,306) | (1,430) |
| Impairment loss recognised for payments for pharmaceutical projects *(note c)* | (17,538) | (17,538) |
| | 155,783 | 163,385 |

*Notes:*

(a) The Group's sales are on open account terms. The Group normally grants to its customers credit periods ranging from 90 days to 180 days which are subject to periodic review by management.

At the balance sheet date, the aging analysis of the trade and bills receivables net of allowance for bad and doubtful debts was as follows:

| | **30/6/2007** | **31/12/2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Audited) |
| Within 30 days | 69,477 | 58,847 |
| 31–60 days | 25,802 | 40,447 |
| 61–90 days | 15,340 | 38,397 |
| Over 90 days | 20,238 | 10,129 |
| | 130,857 | 147,820 |

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

(c) The directors of the Company reviewed the carrying values of the payments for pharmaceutical projects and considered that in light of the current new drugs policies in the PRC and the current market conditions, the Group had terminated projects which involved high risks and ceased on its own initiative the application of projects of minimal benefit, therefore total impairment loss of approximately HK$17,538,000 (2006: HK$17,538,000) had been recognised.

(d) The fair values of the Group's trade and other receivables at the balance sheet date approximated to their corresponding carrying amounts because of their short-term of maturities.

**11. HELD-FOR-TRADING INVESTMENT (OTHER THAN DERIVATIVES)**

Held-for-trading investment include:

| | **30/6/2007** | **31/12/2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Audited) |
| Unlisted investment in guaranteed funds, at fair value | 544 | 544 |

## 12. TRADE AND OTHER PAYABLES

At the balance sheet date, the aging analysis of the trade payables was as follows:

| | 30/6/2007 | 31/12/2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Audited) |
| Trade payables | | |
| Within 30 days | 10,959 | 4,307 |
| 31 – 60 days | 12,344 | 3,569 |
| 61 – 90 days | 7,562 | 573 |
| Over 90 days | 319 | 2,257 |
| | 31,184 | 10,706 |
| Accrued charges and other payables | 49,298 | 78,669 |
| | 80,482 | 89,375 |

The fair values of the Group's trade and other payables at the balance sheet date approximated to their corresponding carrying amounts because of their short-term of maturities.

## 13. SHARE CAPITAL

| Ordinary share of HK$0.01 each | Number of shares | Amount |
|---|---|---|
| | | *HK$'000* |
| Authorised: | | |
| At 1 January 2006, 31 December 2006 and 30 June 2007 | 50,000,000,000 | 500,000 |
| Issued and fully paid: | | |
| At 1 January 2006 and 31 December 2006 | 1,541,706,993 | 15,417 |
| Exercise of share options | 6,300,000 | 63 |
| At 30 June 2007 | 1,548,006,993 | 15,480 |

During the six months ended 30 June 2007, 6,300,000 share options were exercised by the directors and employees of the Company at a subscription price of HK$0.23 per share, resulting in the issue of 6,300,000 ordinary shares of HK$0.01 each in the Company.

All the ordinary shares issued during the period rank pari passu with the then existing ordinary shares in all respects.

## 14. SHARE OPTION SCHEME

A share option scheme was adopted on 26 January 2002 ("2002 Share Option Scheme"). The 2002 Share Option Scheme was replaced by a new share option scheme adopted by the shareholders on 23 July 2003 ("2003 Share Option Scheme").

The Board of Directors of the Company may, at their discretion, grant option to the eligible participant including any employees, any non-executive directors, directors, suppliers, customers, advisors, consultants, joint venture partners and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its share option scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the share option scheme and any other share option scheme of the Group must not in aggregate exceed 10 per cent of the shares in issue as at the date of passing the relevant resolution adopting the Scheme unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholder in a general meeting of the Company. Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding any independent non-executive director who is the grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

At 30 June 2007, the number of shares of the Company in respect of which options had remained outstanding under the 2003 Share Option Scheme of the Company was 49,940,000, representing 3.2% of the shares of the Company in issue at that date.

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

No consideration was received during the period from eligible participants for taking up the options granted during the period (31 December 2006: Nil).

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

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

**First phase:**

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

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

**Second phase:**

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

**Third phase:**

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

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

**Fourth phase:**

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

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

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

| | Date of grant | Outstanding at 1 January 2006 | Cancelled during the year | Outstanding at 31 December 2006 | Cancelled during the period | Exercised during the period | Outstanding at 30 June 2007 | Exercise price per share *HK$* |
|---|---|---|---|---|---|---|---|---|
| *Directors:* | | | | | | | | |
| Mr. Tao Lung | 12 September 2005 | 15,000,000 | – | 15,000,000 | – | – | 15,000,000 | 0.23 |
| Mr. Xu Xiaofan | 12 September 2005 | 15,000,000 | – | 15,000,000 | – | – | 15,000,000 | 0.23 |
| Mr. Jin Wei (Resigned on 18 January 2006) | 12 September 2005 | 5,000,000 | (5,000,000) | – | – | – | – | 0.23 |
| *Independent non-executive directors:* | | | | | | | | |
| Mr. Lui Tin Nang | 12 September 2005 | 1,500,000 | – | 1,500,000 | – | (1,500,000) | – | 0.23 |
| Mr. Lee Kwong Yiu | 12 September 2005 | 1,500,000 | – | 1,500,000 | – | – | 1,500,000 | 0.23 |
| Mr. Lo Wa Kei, Roy (Resigned on 19 October 2006) | 12 September 2005 | 1,500,000 | (1,500,000) | – | – | – | – | 0.23 |
| Employees | 21 June 2002 | 2,390,000 | (2,060,000) | 330,000 | – | – | 330,000 | 0.39 |
| | 29 September 2003 | 19,560,000 | (6,300,000) | 13,260,000 | – | – | 13,260,000 | 0.51 |
| | 12 September 2005 | 12,300,000 | (3,500,000) | 8,800,000 | (500,000) | (4,800,000) | 3,500,000 | 0.23 |
| Connected person | 12 September 2005 | 18,000,000 | (18,000,000) | – | – | – | – | 0.23 |
| Other eligible participants | 21 June 2002 | 8,650,000 | (7,800,000) | 850,000 | – | – | 850,000 | 0.39 |
| | 29 September 2003 | 500,000 | – | 500,000 | – | – | 500,000 | 0.51 |
| | | 100,900,000 | (44,160,000) | 56,740,000 | (500,000) | (6,300,000) | 49,940,000 | |
| Exercisable at the end of the year/period | | | | 35,840,000 | | | 49,940,000 | |

During the year ended 31 December 2006, the number of share options granted expected to be vested had been reduced to reflect the forfeiture of options granted prior to completion of vesting period and accordingly, the share option expense had been adjusted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

Where share options have been forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will continue to be held in the share options reserve.

**15. RELATED PARTY TRANSACTIONS**

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

*Notes:*

(a) During the six months ended 30 June 2007, a subsidiary of the Company purchased raw materials from Pharmco International, Inc. ("Pharmco") amounted to approximately HK$81,821,000 (six months ended 30 June 2006: HK$45,359,000), Pharmco is a company which is wholly owned by a former minority shareholders of Maxsun International Limited ("Maxsun"), at prices and terms as set out in the agreement entered into between the subsidiary and Pharmco.

(b) Pursuant to a trademark licence agreement dated 14 August 2002 entered into between Beshabar (Macao Commercial Offshore) Ltd. ("Beshabar (Macao)"), a wholly owned subsidiary of the Company, and Maxsun, another wholly owned (2006: 51% owned) subsidiary of the Company, Maxsun granted a licence to Beshabar (Macao) to use its trademark of Osteoform for twenty years in certain territories free of charge.

(c) A tax indemnity dated 30 January 2002 were entered into by the controlling shareholders of the Company, the Company and its subsidiaries, the controlling shareholders provide indemnities on a joint and several basis in respect of, among other matters, taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before 7 February 2002.

**16. COMMITMENTS**

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

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

| | **30/6/2007** | **31/12/2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Audited) |
| Authorised but not contracted for | 3,800 | 2,200 |
| Contracted but not provided for | 4,608 | 4,472 |
| | 8,408 | 6,672 |

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

| | **30/6/2007** | **31/12/2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Audited) |
| Contracted but not provided for | 12,493 | 12,493 |

## 17. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group were pledged to secure banking facilities granted to the Group as follows:

| | **30/6/2007** | **31/12/2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | (Unaudited) | (Audited) |
| Property, plant and equipment | 47,003 | 47,592 |
| Available-for-sale investments | – | 3,824 |
| Bank balances | 631 | 8,724 |
| Prepaid lease payments on land use rights | 12,851 | 12,988 |
| | 60,485 | 73,128 |

In addition, at the balance sheet date, one of the subsidiary's shares with net assets value of approximately HK$19,107,000 (31 December 2006: HK$20,729,000) were also pledged for banking facilities granted to the Group.

## 18. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 30 June 2007:

(a) In July 2007, 1,700,000 and 850,000 share options were exercised at a subscription price of HK$0.23 per share and HK$0.39 per share, respectively, resulting in aggregate the issue of 2,550,000 ordinary shares of HK$0.01 each in the Company.

(b) On 26 July 2007, the Group entered into a non-binding letter of intent (the "Letter of Intent") with the shareholders of Sichuan Hengtai Pharmaceutical Company Limited ("Sichuan Hengtai") pursuant to which the Group intends to acquire the entire share capital of Sichuan Hengtai. On 9 August 2007, a refundable deposit of HK$10 million has been paid to the shareholders of Sichuan Hengtai.

## 4. STATEMENT OF INDEBTEDNESS

### The Group

As at the close of business on 30 September 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total borrowing of approximately HK$123,186,000. These borrowings comprised of secured bank borrowings of approximately HK$39,500,000, unsecured bank borrowings of approximately HK$82,480,000 and obligations under finance leases of approximately HK$1,206,000. As at 30 September 2007, certain assets of the Group with net carrying values of approximately HK$48,465,000 and one of the subsidiary's share with net assets value of approximately of HK$19,171,000 were pledged to secure banking facilities granted to the Group and the Group's motor vehicles with carrying value of approximately HK$1,294,000 was charged to secure the obligations under finance leases. As at 30 September 2007, the Group had no significant contingent liabilities and had capital commitments of about HK$3,952,000 and HK$1,132,000 in respect of the acquisition of property, plant and equipment authorised but not contracted for and contracted for but not provided in the consolidated financial statements, respectively. In addition, the Group had commitment of about HK$11,370,000 in respect of the development of new products contracted for but not provided in the consolidated financial statements.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities and normal trade payables in the normal course of business, the Group did not, at the close of business on 30 September 2007, have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, obligations under hire purchases contracts or finance leases, guarantees, or other material contingent liabilities.

### Sichuan Hengtai Group

As at the close of business on 30 September 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, Sichuan Hengtai Group had an amount due to a shareholder of approximately HK$1,851,000, which is unsecured, non-interest bearing and repayable on demand. As at 30 September 2007, Sichuan Hengtai Group had bank deposits of approximately HK$12,480,000 were pledged to secure the bills facilities granted to Sichuan Hengtai Group. As at 30 September 2007, the Sichuan Hengtai Group had no significant contingent liabilities.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities and normal trade payables in the normal course of business, Sichuan Hengtai Group did not, at the close of business on 30 September 2007, have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, obligations under hire purchases contracts or finance lease, guarantees, or other material contingent liabilities.

**The Enlarged Group**

As at the close of business on 30 September 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total borrowing of approximately HK$125,037,000. These borrowings comprised of secured bank borrowings of approximately HK$39,500,000, unsecured bank borrowings of approximately HK$82,480,000, obligations under finance leases of approximately HK$1,206,000 and an amount due to a shareholder of approximately HK$1,851,000, which is unsecured, non-interest bearing and repayable on demand. As at 30 September 2007, certain assets of the Enlarged Group with net carrying values of approximately HK$60,945,000 and one of the subsidiary's share with net assets value of approximately of HK$19,171,000 were pledged to secure banking and bills facilities granted to the Enlarged Group and the Enlarged Group's motor vehicles with carrying value of approximately HK$1,294,000 was charged to secure the obligations under finance leases. As at 30 September 2007, the Enlarged Group had no significant contingent liabilities and had capital commitments of about HK$3,952,000 and HK$1,132,000 in respect of the acquisition of property, plant and equipment authorised but not contracted for and contracted for but not provided in the consolidated financial statements, respectively. In addition, the Enlarged Group had commitment of about HK$11,370,000 in respect of the development of new products contracted for but not provided in the consolidated financial statements.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities and normal trade payables in the normal course of business, the Enlarged Group did not, at the close of business on 30 September 2007, have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, obligations under hire purchases contracts or finance leases, guarantees, or other material contingent liabilities.

The Directors confirm that there has been no material adverse change in relation to the indebtedness of the Enlarged Group since 30 September 2007.

## 5. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, taking into consideration the financial resources available to the Enlarged Group including internally generated funds and the existing available credit facilities, the Enlarged Group will have sufficient working capital for its present requirements for at least twelve months from the date of this circular.

## 6. MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

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

The Directors
Vital BioTech Holdings Limited
Unit 7, 31st Floor
Tower 1, Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding 四川恒泰醫藥有限公司 (Sichuan Hengtai Pharmaceutical Company Limited) ("Hengtai") and its subsidiary (hereinafter collectively referred to as the "Target Group") for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 (the "Relevant Periods") (the "Financial Information") for inclusion in a circular dated 30 November 2007 issued by Vital BioTech Holdings Limited ("Vital") in connection with the proposed acquisition of the entire equity interest of the Target Group (the "Circular").

Hengtai was established with limited liability in the People's Republic of China ("PRC") on 26 December 1992. Hengtai is principally engaged in sales and distribution of pharmaceutical products in the PRC.

As at the date of this report, the particulars of Hengtai's subsidiary are as follows:

| Name of subsidiary | Place and date of registration | Paid up/registered capital | Percentage held by Hengtai | Principal activity |
|---|---|---|---|---|
| 四川新恒泰醫藥信息有限公司 ("四川新恒泰") *(Note)* | The PRC 30 December 2005 | RMB1,000,000 | 100% | Inactive |

*Note:* 四川新恒泰is a private limited company.

The financial year end date of the companies now comprising the Target Group is 31 December.

For each of the three years ended 31 December 2006, the statutory financial statements of Hengtai were prepared in accordance with the relevant accounting principles and financial regulations applicable in the PRC and were audited by 四川建華聯合會計師事務所 (Sichuan Jianhua United Certified Public Accountant's Firm), Certified Public Accountants registered in the PRC.

For the year ended 31 December 2006, the statutory financial statements of 四川新恒泰 were prepared in accordance with the relevant accounting principles and financial regulations applicable in the PRC and were audited by 四川建科會計師事務所有限公司 (Jianke Certified Public Accountant Co., Ltd. Sichuan), Certified Public Accountants registered in the PRC.

For the purpose of this report, the directors of Hengtai have prepared consolidated financial statements of the Target Group in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the Relevant Periods (the "Underlying Financial Statements"). We have undertaken an independent audit of the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information of the Target Group for the Relevant Periods has been prepared from the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular. No adjustment was deemed necessary to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

We have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" as recommended by the HKICPA.

The Underlying Financial Statements are the responsibility of the directors of Hengtai who approved their issue. The directors of Vital are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Hengtai and the Target Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 and of the consolidated results and consolidated cash flows of the Target Group for the Relevant Periods.

The comparative consolidated income statement, cash flow statement and statement of changes in equity of the Target Group for the six months ended 30 June 2006 together with the notes thereon have been extracted from the Target Group's unaudited consolidated financial information for the same period (the "30 June 2006 Financial Information") which was prepared by the directors of Hengtai solely for the purpose of this report. We have reviewed the 30 June 2006 Financial Information in accordance with the Statement of Auditing Standard 700 "Engagements to review Interim Financial Report" issued by the HKICPA. Our review consisted principally of making enquiries of management and applying analytical procedures to the 30 June 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2006 Financial Information.

## I. FINANCIAL INFORMATION

### CONSOLIDATED INCOME STATEMENTS

| | | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2006 | 2007 |
| | *NOTES* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | | (unaudited) | |
| Turnover | *6* | 275,045 | 327,457 | 358,297 | 151,753 | 180,557 |
| Cost of sales | | (252,207) | (298,497) | (307,745) | (136,624) | (143,055) |
| Gross profit | | 22,838 | 28,960 | 50,552 | 15,129 | 37,502 |
| Other operating income | *7* | 150 | 5,132 | 1,319 | 500 | 820 |
| Selling and distribution expenses | | (20,906) | (23,921) | (23,080) | (7,445) | (14,401) |
| Administrative expenses | | (2,619) | (8,406) | (14,822) | (7,129) | (8,223) |
| Fair value gains on investment properties | | – | 3,095 | 4,900 | 2,900 | 3,200 |
| Finance cost | *8* | (603) | (240) | (1,530) | (690) | (1,104) |
| (Loss) profit before taxation | | (1,140) | 4,620 | 17,339 | 3,265 | 17,794 |
| Income tax expense | *9* | – | (299) | (4,283) | (556) | (5,500) |
| (Loss) profit for the year/period | *10* | (1,140) | 4,321 | 13,056 | 2,709 | 12,294 |
| Attributable to: | | | | | | |
| Equity holders of Hengtai | | (1,140) | 4,321 | 13,056 | 2,710 | 12,295 |
| Minority interests | | – | – | – | (1) | (1) |
| | | (1,140) | 4,321 | 13,056 | 2,709 | 12,294 |

## CONSOLIDATED BALANCE SHEETS

| | NOTES | As at 31 December 2004 RMB'000 | 2005 RMB'000 | 2006 RMB'000 | As at 30 June 2007 RMB'000 |
|---|---|---|---|---|---|
| Non-current assets | | | | | |
| Property, plant and equipment | 12 | 288 | 9,976 | 10,044 | 9,494 |
| Investment properties | 13 | – | 26,900 | 31,800 | 35,000 |
| Prepaid lease payments on land use rights | 14 | – | 3,997 | 3,914 | 3,873 |
| | | 288 | 40,873 | 45,758 | 48,367 |
| Current assets | | | | | |
| Inventories | 15 | 24,352 | 30,506 | 13,728 | 31,256 |
| Trade and other receivables | 16 | 102,564 | 131,955 | 172,946 | 149,657 |
| Prepaid lease payments on land use rights | 14 | – | 83 | 83 | 83 |
| Amount due from a shareholder | 17 | – | – | 10,000 | – |
| Amounts due from related companies | 18 | – | – | 5,000 | 5,520 |
| Tax recoverable | | 504 | 631 | – | – |
| Valued added tax recoverable | | 2,879 | 4,032 | 1,140 | 5,688 |
| Pledged bank deposits | 19 | 9,000 | 9,000 | 18,000 | 15,000 |
| Bank balances and cash | 19 | 7,925 | 16,017 | 40,128 | 9,801 |
| | | 147,224 | 192,224 | 261,025 | 217,005 |
| Current liabilities | | | | | |
| Trade and other payables | 20 | 139,759 | 166,627 | 216,034 | 157,059 |
| Amounts due to shareholders/ then shareholders | 17 | 150 | 50 | 50 | 3,550 |
| Tax payable | | – | – | 2,772 | 4,329 |
| Bank borrowings – due within one year | 21 | – | 21,000 | 29,000 | 29,000 |
| | | 139,909 | 187,677 | 247,856 | 193,938 |
| Net current assets | | 7,315 | 4,547 | 13,169 | 23,067 |
| Total assets less current liabilities | | 7,603 | 45,420 | 58,927 | 71,434 |
| Capital and reserves | | | | | |
| Paid-up capital | 22 | 10,000 | 43,000 | 43,000 | 43,000 |
| Reserves | | (2,397) | 1,924 | 14,980 | 27,275 |
| Equity attributable to equity holders of Hengtai | | 7,603 | 44,924 | 57,980 | 70,275 |
| Minority interests | | – | 200 | 200 | 199 |
| Total equity | | 7,603 | 45,124 | 58,180 | 70,474 |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | 24 | – | 296 | 747 | 960 |
| | | 7,603 | 45,420 | 58,927 | 71,434 |

## BALANCE SHEETS

| | | As at 31 December | | | As at 30 June |
|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2007 |
| | *NOTES* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | | | | | |
| Property, plant and equipment | *12* | 288 | 9,976 | 10,044 | 9,494 |
| Investment properties | *13* | – | 26,900 | 31,800 | 35,000 |
| Prepaid lease payments on land use rights | *14* | – | 3,997 | 3,914 | 3,873 |
| Investment in a subsidiary | | – | 800 | 800 | 800 |
| | | 288 | 41,673 | 46,558 | 49,167 |
| Current assets | | | | | |
| Inventories | *15* | 24,352 | 30,506 | 13,728 | 31,256 |
| Trade and other receivables | *16* | 102,564 | 131,955 | 171,994 | 148,707 |
| Prepaid lease payments on land use rights | *14* | – | 83 | 83 | 83 |
| Amount due from a shareholder | *17* | – | – | 10,000 | – |
| Amounts due from related companies | *18* | – | – | 5,000 | 5,520 |
| Tax recoverable | | 504 | 631 | – | – |
| Valued added tax recoverable | | 2,879 | 4,032 | 1,140 | 5,688 |
| Pledged bank deposits | *19* | 9,000 | 9,000 | 18,000 | 15,000 |
| Bank balances and cash | *19* | 7,925 | 15,017 | 40,080 | 9,754 |
| | | 147,224 | 191,224 | 260,025 | 216,008 |
| Current liabilities | | | | | |
| Trade and other payables | *20* | 139,759 | 166,627 | 216,034 | 157,059 |
| Amounts due to shareholders/then shareholders | *17* | 150 | 50 | 50 | 3,550 |
| Tax payable | | – | – | 2,772 | 4,329 |
| Bank borrowings – due within one year | *21* | – | 21,000 | 29,000 | 29,000 |
| | | 139,909 | 187,677 | 247,856 | 193,938 |
| Net current assets | | 7,315 | 3,547 | 12,169 | 22,070 |
| Total assets less current liabilities | | 7,603 | 45,220 | 58,727 | 71,237 |
| Capital and reserves | | | | | |
| Paid-up capital | *22* | 10,000 | 43,000 | 43,000 | 43,000 |
| Reserves | *23* | (2,397) | 1,924 | 14,980 | 27,277 |
| Total equity | | 7,603 | 44,924 | 57,980 | 70,277 |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | *24* | – | 296 | 747 | 960 |
| | | 7,603 | 45,220 | 58,727 | 71,237 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to equity holders of Hengtai | | | | | |
|---|---|---|---|---|---|---|
| | Paid-up capital | Statutory surplus reserve | Accumulated (losses) profits | Total | Minority interests | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2004 | 10,000 | – | (1,257) | 8,743 | – | 8,743 |
| Loss for the year | – | – | (1,140) | (1,140) | – | (1,140) |
| At 31 December 2004 | 10,000 | – | (2,397) | 7,603 | – | 7,603 |
| Capital injection *(Note 22)* | 33,000 | – | – | 33,000 | – | 33,000 |
| Capital contribution by a minority shareholder of a subsidiary | – | – | – | – | 200 | 200 |
| Profit for the year | – | – | 4,321 | 4,321 | – | 4,321 |
| Transfer from accumulated profits | – | 51 | (51) | – | – | – |
| At 31 December 2005 | 43,000 | 51 | 1,873 | 44,924 | 200 | 45,124 |
| Profit for the year | – | – | 13,056 | 13,056 | – | 13,056 |
| Transfer from accumulated profits | – | 805 | (805) | – | – | – |
| At 31 December 2006 | 43,000 | 856 | 14,124 | 57,980 | 200 | 58,180 |
| Profit for the period | – | – | 12,295 | 12,295 | (1) | 12,294 |
| At 30 June 2007 | 43,000 | 856 | 26,419 | 70,275 | 199 | 70,474 |
| Unaudited | | | | | | |
| At 1 January 2006 | 43,000 | 51 | 1,873 | 44,924 | 200 | 45,124 |
| Profit for the period | – | – | 2,710 | 2,710 | (1) | 2,709 |
| At 30 June 2006 | 43,000 | 51 | 4,583 | 47,634 | 199 | 47,833 |

*Note:* As stipulated by regulations in the PRC, Hengtai established and operated in the PRC are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

## CONSOLIDATED CASH FLOW STATEMENTS

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 | 2007 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| OPERATING ACTIVITIES | | | | | |
| (Loss) profit before taxation | (1,140) | 4,620 | 17,339 | 3,265 | 17,794 |
| Adjustments for: | | | | | |
| Amortisation of prepaid lease payments on land use rights | – | 62 | 83 | 41 | 41 |
| Depreciation of property, plant and equipment | 77 | 532 | 1,340 | 836 | 775 |
| Increase in fair value of investment properties | – | (3,095) | (4,900) | (2,900) | (3,200) |
| Finance costs | 603 | 240 | 1,530 | 690 | 1,104 |
| Interest income | (150) | (132) | (334) | (91) | (155) |
| Provision for impairment of trade receivables | 124 | – | 597 | – | – |
| Operating cashflows before movements in working capital | (486) | 2,227 | 15,655 | 1,841 | 16,359 |
| (Increase) decrease in inventories | (11,206) | (6,154) | 16,778 | 13,407 | (17,528) |
| (Increase) decrease in trade and other receivables | (67,825) | (29,391) | (41,588) | (4,532) | 23,289 |
| (Increase) decrease in valued added tax recoverable | (1,057) | (1,153) | 2,892 | 2,957 | (4,548) |
| Increase (decrease) in trade and other payables | 97,466 | 26,868 | 49,407 | (12,369) | (58,975) |
| Cash generated from (used in) operations | 16,892 | (7,603) | 43,144 | 1,304 | (41,403) |
| Income tax paid | (563) | (130) | (429) | (31) | (3,730) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 16,329 | (7,733) | 42,715 | 1,273 | (45,133) |

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 | 2007 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| INVESTING ACTIVITIES | | | | | |
| (Increase) decrease in pledged bank deposits | (6,000) | – | (9,000) | (9,000) | 3,000 |
| Purchase of property, plant and equipment | (101) | (5,167) | (1,408) | (839) | (225) |
| (Advance to) repayment from a shareholder | – | – | (10,000) | – | 10,000 |
| Advances to related companies | – | – | (5,000) | – | (5,520) |
| Repayment from a related company | – | – | – | – | 5,000 |
| Interest received | 150 | 132 | 334 | 91 | 155 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | (5,951) | (5,035) | (25,074) | (9,748) | 12,410 |
| FINANCING ACTIVITIES | | | | | |
| Repayment of bank borrowings | (21,600) | – | (21,000) | – | – |
| (Repayment to) advance from shareholders/then shareholders | (4,850) | (100) | – | – | 3,500 |
| Interest paid | (603) | (240) | (1,530) | (690) | (1,104) |
| New bank borrowings raised | 15,800 | 21,000 | 29,000 | – | – |
| Capital injection from shareholders | 7,000 | – | – | – | – |
| Capital contribution by a minority shareholder of a subsidiary | – | 200 | – | – | – |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (4,253) | 20,860 | 6,470 | (690) | 2,396 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 6,125 | 8,092 | 24,111 | (9,165) | (30,327) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD | 1,800 | 7,925 | 16,017 | 16,017 | 40,128 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD, represented by bank balances and cash | 7,925 | 16,017 | 40,128 | 6,852 | 9,801 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL INFORMATION

Hengtai was established in the PRC with limited liability. The addresses of the registered office and principal place of business of Hengtai is 4th Floor, Building 5, Incubation Park, Chengdu High-tech Development Zone, Chengdu, Sichuan.

Hengtai is principally engaged in the sale and distribution of pharmaceutical products in the PRC. The subsidiary of Hengtai is principally established for the provision of pharmaceutical information on the internet, which is inactive since established.

The Financial Information of the Relevant Periods is presented in Renminbi, which is the same as the functional currency of the Target Group.

The Financial Information of the Relevant Periods has been prepared in accordance with the accounting policies adopted by Vital, details of which are set out in Note 3, which conform with Hong Kong Financial Reporting Standards ("HKFRSs"). In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

At the date of this report, HKICPA issued the following new and revised HKFRSs, Hong Kong Accounting Standards ("HKAS") and Interpretations (hereinafter collectively referred to as "new HKFRSs") that have been issued but are not yet effective. However, the Target Group has not early applied these new and revised standards or interpretations. The directors of Hengtai anticipate that the application of these new HKFRSs will have no material impact on the results and financial position of the Target Group.

| | |
|---|---|
| HKAS 23 (Revised) | Borrowing cost[1] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC)-INT 11 | HKFRS 2 – Group and Treasury Share Transactions[2] |
| HK(IFRIC)-INT 12 | Service Concession Arrangements[3] |
| HK(IFRIC)-INT 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC)-INT 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3] |

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 July 2008.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on historical cost convention except for investment properties which are measured at revalued amounts. The principal accounting policies which have been adopted in preparing the Financial Information and which conform with HKFRSs are as follows:

#### (a) Basis of consolidation

The Financial Information incorporates the financial information of Hengtai and its entities controlled by Hengtai (its subsidiaries). Control is achieved where Hengtai has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies into line with those used by other members of the Target Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Target Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Target Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**(b) Investment in a subsidiary**

Investment in a subsidiary is included in Hengtai's balance sheet at cost less any identified impairment loss.

**(c) Revenue recognition**

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Interest income from a financial asset 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.

Operating lease rental income is recognised on a straight-line basis over the period of the relevant lease terms.

**(d) Property, plant and equipment**

Property, plant and equipment is stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the costs of item of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continuing use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statements in the year/period in which the item is derecognised.

**(e) Investment properties**

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year/period in which the item is derecognised.

**(f) Land use rights**

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to consolidated income statement over the period of the rights using the straight-line method.

**(g) Inventories**

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

**(h) Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and 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 Target Group's financial assets are classified as loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a shareholder, amounts due from related companies and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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 the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. The Target Group's financial liabilities are generally classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Other financial liabilities*

Other financial liabilities (including trade and other payables, amounts due to shareholders/then shareholders and bank borrowings) are subsequently measured at amortised cost, using the effective interest rate method.

Equity *instruments*

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

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Target Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**(i) Impairment**

At each balance sheet date, the Target Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**(j) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other assets are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The Group as lessee*

Rentals payable under operating leases are charged to profit or loss 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.

**(k) Borrowing costs**

Borrowing costs are charged to the consolidated income statement in the year/period in which they are incurred.

**(l) Retirement benefit costs**

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

**(m) 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/period. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year/period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(n) Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated 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 re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of Hengtai's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the Financial Information. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the Financial Information, the assets and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group's (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Target Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical judgement that can significantly affect the amounts recognised in the Financial Information are disclosed below:

**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 value. The determination of the useful lives and residual values involve management's estimation. Management 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/period and the estimate will be changed in future period.

**Provision for impairment of trade receivables**

The Target Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Target 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 Target Group's expectations and the Target Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

**Impairment of property, plant and equipment**

The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceeds its recoverable amounts, in accordance with the Target 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. No impairment was provided during the year/periods.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's major financial instruments include trade and other receivables, amount due from a shareholder, amounts due from related companies, bank balances, trade and other payables, amounts due to shareholders/then shareholders and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

**Interest rate risk**

The Target Group's exposure to market risk for changes in interest rates relates primarily to the Target Group's interest-bearing borrowings. The Target Group's exposure to interest rate risk is minimal as all the Target Group's bank borrowings are at fixed interest rate.

**Credit risk**

The Target Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in the Relevant Periods in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Target 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 Target Group regularly reviews the recoverable amount of each individual trade receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Hengtai considers that the Target Group's credit risk is significantly reduced.

The Target Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

**Liquidity risk**

The Target Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Target Group's exposure to liquidity risk is minimal.

**Foreign currency risk**

Most of the Target Group's monetary assets and liabilities are denominated in Renminbi and therefore the exchange rate risk to the Target Group is not significant.

**Fair value**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market conditions.

The directors of Hengtai consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

**Categories of financial instruments**

**THE TARGET GROUP**

| | Year ended 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Loans and receivables | 111,272 | 153,170 | 245,126 | 179,043 |
| Financial liabilities at amortised cost | 137,957 | 185,682 | 243,787 | 186,741 |

**HENGTAI**

| | Year ended 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Loans and receivables | 111,272 | 152,170 | 244,126 | 178,046 |
| Financial liabilities at amortised cost | 137,957 | 185,682 | 243,787 | 186,741 |

**Capital risk management**

The Target Group manages its capital to ensure that entities in Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balance.

The capital structure of Target Group consists of debt, which includes amounts due to shareholders/then shareholders and bank borrowings as disclosed in notes 17 and 21 respectively, bank balances and equity attributable to equity holders of Hengtai, comprising paid- up capital, reserves and accumulated losses/profits.

Hengtai's directors review the capital structure on a regular basis. As a part of this review, the directors of Hengtai consider the cost of capital and the associated risks, and take appropriate actions to adjust the Target Group's capital structure and gearing ratio.

The overall strategy of Target Group remained unchanged during the Relevant Periods.

**6. TURNOVER**

Turnover represents the amount received and receivable for goods sold by the Target Group, net of returns, discounts allowed and sales taxes where applicable.

No geographical segment information is presented as the activities of the Target Group during the Relevant Periods were carried out in the PRC and all assets and liabilities of the Target Group were located in the PRC at the respective balance sheet dates.

No business segment information is presented as the Target Group was only engaged in trading of pharmaceutical products during the Relevant Periods.

## 7. OTHER OPERATING INCOME

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Interest income | 150 | 132 | 334 | 91 | 155 |
| Rental income from investment properties | – | – | 824 | 248 | 655 |
| Exchange gain | – | – | 161 | 161 | – |
| Others | – | 5,000 | – | – | 10 |
| | 150 | 5,132 | 1,319 | 500 | 820 |

## 8. FINANCE COST

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Interest on bank borrowings wholly repayable within five years | 603 | 240 | 1,530 | 690 | 1,104 |

## 9. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made in the Financial Information as the Target Group's income for the three years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 2007, neither arises in, nor is derived from, Hong Kong.

PRC Enterprise Income Tax is calculated at the applicable tax rate on the estimated assessable profits for each of the Relevant Periods and the six months ended 30 June 2006.

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Current tax: | | | | | |
| PRC Enterprise Income Tax | – | 3 | 3,832 | 330 | 5,287 |
| Deferred tax *(note 24)* | – | 296 | 451 | 226 | 213 |
| | – | 299 | 4,283 | 556 | 5,500 |

The income tax expense for the year/period can be reconciled to the (loss) profit before taxation per the consolidated income statements as follows:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| (Loss) profit before taxation | (1,140) | 4,620 | 17,339 | 3,265 | 17,794 |
| Tax at the domestic income tax rate of 33% | (376) | 1,525 | 5,722 | 1,077 | 5,872 |
| Tax effect of expenses not deductible for tax purpose | 68 | 104 | 178 | 436 | 684 |
| Tax effect of income not taxable for tax purpose | – | (1,022) | (1,617) | (957) | (1,056) |
| Tax effect of tax losses not recognised | 308 | – | – | – | – |
| Utilisation of tax losses previously not recognised | – | (308) | – | – | – |
| Income tax expense for the year/period | – | 299 | 4,283 | 556 | 5,500 |

## 10. (LOSS) PROFIT FOR THE YEAR/PERIOD

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 | 2007 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| (Loss) profit for the year/period has been arrived at after charging (crediting): | | | | | |
| Directors' remuneration *(note 11)* | 46 | 16 | 24 | 3 | 38 |
| Other staff costs | 1,351 | 7,107 | 11,527 | 4,766 | 9,118 |
| Retirement benefits scheme contribution (excluding directors) | 50 | 1,314 | 1,955 | 895 | 1,479 |
| Total staff costs | 1,447 | 8,437 | 13,506 | 5,664 | 10,635 |
| Amortisation of prepaid lease payments on land use rights | – | 62 | 83 | 41 | 41 |
| Auditors' remuneration | 20 | 30 | 30 | – | – |
| Cost of inventories sold | 252,207 | 298,497 | 307,745 | 136,624 | 143,055 |
| Depreciation of property, plant and equipment | 77 | 532 | 1,340 | 836 | 775 |
| Operating lease rental in respect of land and buildings | 103 | 194 | 258 | 150 | 109 |
| Provision for impairment of trade receivables | 124 | – | 597 | – | – |
| Gross rental income from investment properties | – | – | (824) | (248) | (655) |
| *Less:* direct operating expenses for investment properties that generated rental income | – | – | 86 | 15 | 166 |
| | – | – | (738) | (233) | (489) |

## 11. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the directors of Hengtai during the Relevant Periods and the six months ended 30 June 2006 are as follows:

| | Fee<br>*RMB'000* | Salaries and other allowances<br>*RMB'000* | Retirement benefit scheme contributions<br>*RMB'000* | Bonus<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| **For the year ended 31 December 2004:** | | | | | |
| Chen Wei (陳唯) | – | 24 | 4 | – | 28 |
| Yi Yang (易易) *(Note 1)* | – | – | – | – | – |
| Peng Shujun (彭蜀軍) *(Note 2)* | – | – | – | – | – |
| Zeng Jixuan (曾繼宣) *(Note 3)* | – | 14 | 4 | – | 18 |
| | – | 38 | 8 | – | 46 |
| **For the year ended 31 December 2005:** | | | | | |
| Chen Wei (陳唯) | – | 13 | 3 | – | 16 |
| **For the year ended 31 December 2006:** | | | | | |
| Chen Wei (陳唯) *(Note 4)* | – | 2 | 1 | – | 3 |
| Liu Feijin (劉飛進) *(Note 5)* | – | – | – | – | – |
| Wang Ji (王驥) *(Note 6)* | – | 18 | 3 | – | 21 |
| | – | 20 | 4 | – | 24 |
| **For the period ended 30 June 2006 (Unaudited):** | | | | | |
| Chen Wei (陳唯) *(Note 4)* | – | 2 | 1 | – | 3 |
| Liu Feijin (劉飛進) *(Note 5)* | – | – | – | – | – |
| | – | 2 | 1 | – | 3 |
| **For the period ended 30 June 2007:** | | | | | |
| Wang Ji (王驥) | – | 33 | 5 | – | 38 |

*Notes:*

1. Resigned on 16 January 2004.

2. Resigned on 21 October 2004.

3. Appointed on 16 January 2004 and resigned on 21 October 2004.

4. Resigned on 27 January 2006.

5. Appointed on 27 January 2006 and resigned on 31 August 2006.

6. Appointed on 31 August 2006.

**(b) Employee's emoluments**

Of the five highest paid individuals with the highest emoluments in the Target Group, one, one, nil, one and one were directors of Hengtai, whose emoluments are included in note 11(a) above for the three years ended 31 December 2004, 2005 and 2006, and six months ended 30 June 2006 and 2007 respectively. The aggregate emoluments of the remaining four, four, five, four and four individuals whose emoluments were among the five highest in the Target Group and which have not been included in directors' emoluments above for non-director, highest paid employees during the Relevant Periods and the six months ended 30 June 2006 were as follows:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Salaries and other allowances | 76 | 52 | 229 | 93 | 118 |
| Retirement benefit scheme contributions | – | 4 | 16 | 7 | 8 |
| Bonus | – | – | – | – | 7 |
| | 76 | 56 | 245 | 100 | 133 |

During the Relevant Periods and the six months ended 30 June 2006, the emoluments of each of the above employees were below RMB1,000,000 per annum.

During the Relevant Periods and the six months ended 30 June 2006, no emoluments were paid by the Target Group to any of the directors of Hengtai or the five highest paid individuals as an inducement to join or upon joining the Target Group, or as compensation for loss of office. In addition, no directors of the Target Group had waived any emoluments during the Relevant Periods and the six months ended 30 June 2006.

## 12. PROPERTY, PLANT AND EQUIPMENT

### THE TARGET GROUP AND HENGTAI

| | Buildings | Motor vehicles | Leasehold improvement | Furniture fixtures and office equipment | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | |
| At 1 January 2004 | – | 161 | – | 191 | 352 |
| Additions | – | – | – | 101 | 101 |
| At 31 December 2004 | – | 161 | – | 292 | 453 |
| Capital injections by equity shareholders | 5,053 | – | – | – | 5,053 |
| Additions | – | 1,794 | 1,851 | 1,522 | 5,167 |
| At 31 December 2005 | 5,053 | 1,955 | 1,851 | 1,814 | 10,673 |
| Additions | – | 139 | – | 1,269 | 1,408 |
| At 31 December 2006 | 5,053 | 2,094 | 1,851 | 3,083 | 12,081 |
| Additions | – | – | – | 225 | 225 |
| At 30 June 2007 | 5,053 | 2,094 | 1,851 | 3,308 | 12,306 |
| DEPRECIATION | | | | | |
| At 1 January 2004 | – | – | – | 88 | 88 |
| Provided for the year | – | 32 | – | 45 | 77 |
| At 31 December 2004 | – | 32 | – | 133 | 165 |
| Provided for the year | 85 | 116 | 163 | 168 | 532 |
| At 31 December 2005 | 85 | 148 | 163 | 301 | 697 |
| Provided for the year | 114 | 393 | 389 | 444 | 1,340 |
| At 31 December 2006 | 199 | 541 | 552 | 745 | 2,037 |
| Provided for the period | 57 | 241 | 194 | 283 | 775 |
| At 30 June 2007 | 256 | 782 | 746 | 1,028 | 2,812 |
| CARRYING AMOUNTS | | | | | |
| At 31 December 2004 | – | 129 | – | 159 | 288 |
| At 31 December 2005 | 4,968 | 1,807 | 1,688 | 1,513 | 9,976 |
| At 31 December 2006 | 4,854 | 1,553 | 1,299 | 2,338 | 10,044 |
| At 30 June 2007 | 4,797 | 1,312 | 1,105 | 2,280 | 9,494 |

The above items of property, plant and equipment are depreciated on a straight-line basis with at the following rates per annum:

| | |
|---|---|
| Buildings | Over shorter of the term of the lease or 40 years |
| Motor vehicles | 19% |
| Leasehold improvement | 20% |
| Furniture, fixtures and office equipment | 19% |

**13. INVESTMENT PROPERTIES**

| | **THE TARGET GROUP AND HENGTAI** *RMB'000* |
|---|---|
| FAIR VALUE | |
| At 1 January 2004 and 31 December 2004 | – |
| Capital injection by equity shareholders, at cost | 23,805 |
| Increase in fair value recognised in the consolidated income statement | 3,095 |
| At 31 December 2005, at fair value | 26,900 |
| Increase in fair value recognised in the consolidated income statement | 4,900 |
| At 31 December 2006, at fair value | 31,800 |
| Increase in fair value recognised in the consolidated income statement | 3,200 |
| At 30 June 2007, at fair value | 35,000 |

The fair values of the Target Group's investment properties at 31 December 2005, 2006 and 30 June 2007 have been arrived at on the basis of a valuation carried out by Messrs. BMI Appraisals Limited, an independent firm of professional valuers not connected with the Target Group. BMI Appraisals Limited is a member of the Hong Kong Institute of Surveyors ("HKIS"), and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties published by the HKIS, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Target Group's property interests held under operating leases to earn rental are measured using the fair value model and are classified and accounted for as investment properties.

The Target Group's investment properties are situated in the PRC and held under medium-term lease.

## 14. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

### THE TARGET GROUP AND HENGTAI

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| The prepaid lease payments on land use rights comprise: | | | | |
| Land use rights in the PRC held under medium-term lease | – | 4,080 | 3,997 | 3,956 |
| Analysed for reporting purposes as: | | | | |
| Non-current asset | – | 3,997 | 3,914 | 3,873 |
| Current asset | – | 83 | 83 | 83 |
| | – | 4,080 | 3,997 | 3,956 |

Prepaid lease payments on land use rights are amortised over 50 years.

## 15. INVENTORIES

### THE TARGET GROUP AND HENGTAI

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Finished goods | 24,352 | 30,506 | 13,728 | 31,256 |

The inventories are stated at cost at 31 December 2004, 2005 and 2006 and 30 June 2007.

## 16. TRADE AND OTHER RECEIVABLES

### THE TARGET GROUP

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills receivables | 22,857 | 20,466 | 47,369 | 35,624 |
| Prepayments and deposits | 8,217 | 3,802 | 948 | 934 |
| Other receivables | 71,614 | 107,811 | 125,350 | 113,820 |
| | 102,688 | 132,079 | 173,667 | 150,378 |
| *Less:* Provision for impairment of trade receivables | (124) | (124) | (721) | (721) |
| | 102,564 | 131,955 | 172,946 | 149,657 |

**HENGTAI**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills receivables | 22,857 | 20,466 | 47,369 | 35,624 |
| Prepayments and deposits | 8,217 | 3,802 | 946 | 934 |
| Other receivables | 71,614 | 107,811 | 124,400 | 112,870 |
| | 102,688 | 132,079 | 172,715 | 149,428 |
| *Less:* Provision for impairment of trade receivables | (124) | (124) | (721) | (721) |
| | 102,564 | 131,955 | 171,994 | 148,707 |

The Target Group's and Hengtai's sales are on open account terms. The Target Group and Hengtai's normally grants to its customers credit periods ranging from 30 days to 90 days which are subject to periodic review by the management of the Target Group.

At the respective balance sheet dates, the aging analysis of the trade and bills receivables of the Target Group and Hengtai, net of provision for impairment of trade receivables were as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 30 days | 12,137 | 10,960 | 40,373 | 16,827 |
| 31-60 days | 5,152 | 5,241 | 4,510 | 10,942 |
| 61-90 days | 1,791 | 2,655 | 459 | 3,016 |
| Over 90 days | 3,653 | 1,486 | 1,306 | 4,118 |
| | 22,733 | 20,342 | 46,648 | 34,903 |

Movement in the provision for impairment loss of trade receivables were as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at beginning of the year/period | – | 124 | 124 | 721 |
| Increase in provision recognised in consolidated income statement | 124 | – | 597 | – |
| Balance at end of the year/period | 124 | 124 | 721 | 721 |

In determining the recoverability of a trade receivable, the Target Group considers any change in credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of Hengtai believe that there is no further credit provision required in excess of the provision for impairment of trade receivables.

At 31 December 2004, 2005 and 2006, and 30 June 2007 other receivables of the Target Group and Hengtai, were unsecured and non-interest bearing. Other than an amount of approximately RMB627,000 represented the amounts advanced to staff as at 30 June 2007 remain unsettled, the amounts were repaid during the Relevant Periods and fully settled in September 2007.

**17. AMOUNTS DUE FROM (TO) SHAREHOLDERS/THEN SHAREHOLDERS**

Amounts due from (to) shareholders/then shareholders were unsecured, non-interest bearing and fully settled/repaid during and subsequent to the Relevant Periods.

**18. AMOUNTS DUE FROM RELATED COMPANIES**

**THE TARGET GROUP AND HENGTAI**

Particulars of the amounts due from related companies:

| Name of company | Balance as at 31 December 2004 | Balance as at 31 December 2005 | Balance as at 31 December 2006 | Balance as at 30 June 2007 | Maximum amount outstanding during the year ended 31 December 2004 | Maximum amount outstanding during the year ended 31 December 2005 | Maximum amount outstanding during the year ended 31 December 2006 | Maximum amount outstanding during the period ended 30 June 2007 |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 四川賽思醫藥有限公司 ("四川賽思") *(Note 1)* | – | – | 5,000 | – | – | – | 5,000 | 5,000 |
| Hengtai Enterprise Company Limited ("Hengtai Enterprise") *(Note 2)* | – | – | – | 5,520 | – | – | – | 5,520 |
| | – | – | 5,000 | 5,520 | | | | |

*Notes:*

1. Mr. Wang Ji (王驥), a director and shareholder of Hengtai ("Mr. Wang") had beneficial interests in 四川賽思 in 2006. Mr. Wang ceased to be a shareholder of 四川賽思 since 18 January 2007 and starting from that day, 四川賽思 ceased to be a related party of the Target Group and the amount was reclassified to other receivables. The amount due from 四川賽思 was unsecured, non-interest bearing and was fully settled in August 2007.

2. Mr. Wang is also the director and shareholder of Hengtai Enterprise. The amount due from Hengtai Enterprise was unsecured, non-interest bearing and was fully settled in September 2007.

## 19. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

**THE TARGET GROUP AND HENGTAI**

*Pledged bank deposits*

The amount represents deposits pledged to bank to secure bills facilities granted to the Target Group and Hengtai and are therefore classified as current assets. In accordance with the facilities agreements, the Target Group and Hengtai are required to place deposits, which is amounted to certain percentage of the face value of the issued bills to the banks. The deposits carry interest at market rates of 0.72% per annum during the Relevant Periods. The pledged bank deposits will be released upon the settlement of relevant bills payables.

*Bank balances and cash*

The amounts comprises cash held by Target Group and Hengtai and short-term bank deposits and cash with an original maturity of three months or less. The bank deposits carried interest at market rates of 0.72% per annum during the Relevant Periods.

## 20. TRADE AND OTHER PAYABLES

**THE TARGET GROUP AND HENGTAI**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills payables | 130,219 | 146,450 | 186,618 | 144,748 |
| Accrued charges and other payables | 9,540 | 20,177 | 29,416 | 12,311 |
| | 139,759 | 166,627 | 216,034 | 157,059 |

The following is an aged analysis of trade and bills payables at the respective balance sheet dates:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 30 days | 34,214 | 61,429 | 51,494 | 49,892 |
| 31-60 days | 69,180 | 35,628 | 62,222 | 30,823 |
| 61-90 days | 26,256 | 36,137 | 2,211 | 8,387 |
| Over 90 days | 569 | 13,256 | 70,691 | 55,646 |
| | 130,219 | 146,450 | 186,618 | 144,748 |

**21. BANK BORROWINGS**

**THE TARGET GROUP AND HENGTAI**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Bank loans | – | 21,000 | 29,000 | 29,000 |
| Analysed as: | | | | |
| Secured | – | 21,000 | 21,000 | 21,000 |
| Unsecured *(Note)* | – | – | 8,000 | 8,000 |
| | – | 21,000 | 29,000 | 29,000 |

The above bank loans bear interest at prevailing market rates and repayable on demand or within one year.

*Note:* The unsecured bank loans are secured by land and buildings owned by an independent third party.

The range of effective interest rates (which are also equal to contract interest rate) on Hengtai's fixed rate borrowings are as follows:

| | **Interest rates** |
|---|---|
| Year ended 31 December 2004 | 5.040% – 6.903% per annum |
| Year ended 31 December 2005 | 5.580% – 6.903% per annum |
| Year ended 31 December 2006 | 5.580% – 7.956% per annum |
| Six months ended 30 June 2007 | 5.580% – 7.956% per annum |

**22. PAID-UP CAPITAL**

| | *RMB'000* |
|---|---|
| At 1 January 2004 and 31 December 2004 | 10,000,000 |
| Contribution from equity shareholders | 33,000,000 |
| At 31 December 2005, 31 December 2006 and 30 June 2007 | 43,000,000 |

On 8 April 2005, approval was obtained from the relevant government authority to increase Hengtai's registered and paid-up capital from RMB10,000,000 to RMB43,000,000. The capital increase was contributed by capitalising aggregate amounts of RMB33,000,000 of prepaid lease payments on land use rights, buildings and investment properties injected from the equity shareholders at revalued amounts based on the asset valuation carried out by 四川建科會計師事務所有限公司 (Jianke Certified Public Accountant Co., Ltd. Sichuan).

**23. RESERVES OF HENGTAI**

| | Statutory surplus reserve | Accumulated (losses) profits | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note)* | | |
| At 1 January 2004 | – | (1,257) | (1,257) |
| Loss for the year | – | (1,140) | (1,140) |
| At 31 December 2004 | – | (2,397) | (2,397) |
| Profit for the year | – | 4,321 | 4,321 |
| Transfer from accumulated profits | 51 | (51) | – |
| At 31 December 2005 | 51 | 1,873 | 1,924 |
| Profit for the year | – | 13,056 | 13,056 |
| Transfer from accumulated profits | 805 | (805) | – |
| At 31 December 2006 | 856 | 14,124 | 14,980 |
| Profit for the period | – | 12,297 | 12,297 |
| At 30 June 2007 | 856 | 26,421 | 27,277 |

*Note:* As stipulated by regulations in the PRC, Hengtai established and operated in the PRC are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

**24. DEFERRED TAXATION**

The followings are the major deferred tax liabilities recognised by the Target Group and Hengtai and movements thereon during the Relevant Periods:

| | Accelerated tax depreciation |
|---|---|
| | *RMB'000* |
| At 1 January 2004 and 31 December 2004 | – |
| Charged to consolidated income statement for the year | 296 |
| At 31 December 2005 | 296 |
| Charged to consolidated income statement for the year | 451 |
| At 31 December 2006 | 747 |
| Charged to consolidated income statement for the period | 213 |
| At 30 June 2007 | 960 |

The followings are the major deferred tax assets not recognised by the Target Group and Hengtai and movement thereon during the Relevant Periods:

| | **Estimated tax losses** |
|---|---|
| | *RMB'000* |
| At 1 January 2004 | – |
| Movement during the year | (308) |
| At 31 December 2004 | (308) |
| Movement during the year | 308 |
| At 31 December 2005 and 2006 and at 30 June 2007 | – |

At 31 December 2004, the Target Group and Hengtai had unused tax losses of RMB935,000 available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of the future profits stream.

The tax loss was fully utilised during the year ended 31 December 2005.

**25. RETIREMENT BENEFIT CONTRIBUTION SCHEME**

Certain employees of the Target Group are members of state-managed retirement benefit scheme operated by the government in the PRC. Pursuant to relevant regulations, the Target Group is required to contribute an amount equivalent to a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Target Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Target Group to the schemes operated in the PRC. There was no forfeited contribution throughout the Relevant Periods.

**26. PLEDGE OF ASSETS**

At the respective balance sheet dates, certain assets of the Target Group and Hengtai were pledged to secure bank loans and bills facilities granted to the Target Group and Hengtai are as follows:

| | **As at 31 December** | | | **As at 30 June** |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Investment properties | – | 26,900 | 31,800 | 35,000 |
| Buildings | – | 4,968 | 4,854 | 4,797 |
| Prepaid lease payments on land use rights | – | 4,080 | 3,997 | 3,956 |
| Bank deposits | 9,000 | 9,000 | 18,000 | 15,000 |

## 27. OPERATING LEASE COMMITMENTS

**As lessee**

The Target Group and Hengtai leases its office under operating lease arrangements. Lease for properties are negotiated for a term ranging from one to two years.

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

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | – | 187 | 86 | 203 |
| In the second to fifth year inclusive | – | 86 | – | 179 |
| | – | 273 | 86 | 382 |

**As lessor**

At the respective balance sheet dates, the Target Group and Hengtai had commitments for future minimum lease receivables under non-cancellable operating leases in respect of premises which would fall due as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | – | – | 1,145 | 1,639 |
| In the second to fifth year inclusive | – | – | 3,435 | 3,171 |
| | – | – | 4,580 | 4,810 |

Property rental income earned during the year ended 31 December 2006 and the six months ended 30 June 2006 and 2007 was approximately RMB824,000, RMB248,000 and RMB655,000 respectively. No property rental income was earned during the year ended 31 December 2004 and 2005.

As at 30 June 2007, all of the properties held have committed tenants for the next nine months to three years. The properties are expected to generate rental yields of 2.79% per annum (2006: 2.32% per annum) on an ongoing basis.

**28. RELATED PARTY DISCLOSURES**

**(a)** Other than the balances with the related parties as at the balance sheet dates are set out in the balance sheets of the Target Group and Hengtai, during the Relevant Periods and the six months ended 30 June 2006, the Target Group entered into the following transactions with the related company:

| Name of company | Nature of transaction/ balances | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2006 | 2007 |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| 四川賽思 | Purchase of finished goods | – | – | 2,158 | – | – |
| | Balances due to 四川賽思 included in trade payables at 31 December 2006 | – | – | 1,502 | – | – |

The directors of Hengtai are of the opinion that the above related company transactions were conducted on normal commercial terms and in the ordinary course of business.

**(b) Compensation to key management personnel**

Details of remuneration of the directors and key management personnel of the Target Group during the Relevant Periods are set out in note 11.

In the opinion of the directors of Hengtai, the remuneration of directors and key management personnel is determined having regard to the performance of individuals and market trends.

**(c)** At 31 December 2004, 31 December 2005 and 31 December 2006, certain shareholders of Hengtai pledged their fixed bank deposits of RMB7,000,000, RMB5,000,000 and RMB5,000,000 respectively to secure bills facilities granted to the Target Group and Hengtai.

## II. SUBSEQUENT EVENTS

Subsequent to 30 June 2007, Hengtai entered into an agreement with Mr. Wang, who is also a shareholder of 四川新恒泰, to acquire the remaining 20% equity interest in 四川新恒泰 at a consideration of RMB200,000. The transaction was completed on 29 August 2007. After the transaction, 四川新恒泰 became a wholly owned subsidiary of Hengtai.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Hengtai, the Target Group or any its subsidiary have been prepared in respect of any period subsequent to 30 June 2007.

Yours faithfully,
**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
**Lau Miu Man**
Practising Certificate Number: P03603
Hong Kong

## MANAGEMENT DISCUSSION AND ANALYSIS

**For the year ended 31 December 2004**

*Review of operations*

The turnover was RMB275,045,000 for the year ended 31 December 2004. The loss was RMB1,140,000 for the year ended 31 December 2004.

*Segmental information*

No geographical segment information as the activities of the Sichuan Hengtai Group during the year were carried out in the PRC and all assets and liabilities of the Sichuan Hengtai Group were located in the PRC as at 31 December 2004.

No business segment information as the Sichuan Hengtai Group was only engaged in trading of pharmaceutical products during the year.

*Significant investments, material acquisitions and disposals*

Sichuan Hengtai Group did not have any significant investments, material acquisitions and disposals during the year.

*Capital structure, liquidity and financial resources*

The Sichuan Hengtai Group bank balances and cash (including pledged bank deposits) as at 31 December 2004 amounted to RMB16,925,000, and there is no bank borrowings. The Sichuan Hengtai Group generally finances its operations with internally generated cash flows. All bank balances and cash are denominated in RMB.

*Contingent liabilities*

The Sichuan Hengtai Group did not have any material contingent liabilities as at 31 December 2004.

*Employees*

The number of persons employed by the Sichuan Hengtai Group as at 31 December 2004 was 84, comprising 8 in general administration and finance, and 76 in sales and marketing. All of these employees were located in PRC.

The policy of employee remuneration, bonus and training are commensurate with performance and comparable to market rate. Sichuan Hengtai Group encourages employees to participate in both internal and external training programs to develop themselves on a continuous basis. Total staff costs, including directors, for the year 2004 amounted to RMB1,447,000, including RMB58,000 relating to retirement benefits scheme contribution.

*Foreign currency exposure*

The transactions of Sichuan Hengtai Group were denominated in RMB. Therefore, the exposure of Sichuan Hengtai Group to foreign currency fluctuation was low. The Sichuan Hengtai Group did not entered into any financial instrument for hedging purposes.

*Pledge of assets*

As at 31 December 2004, the Sichuan Hengtai Group had RMB9,000,000 bank deposits were pledged to secure banking facilities granted to the Sichuan Hengtai Group.

*Gearing ratio*

The gearing ratio is nil (bank overdraft and bank loans expressed as a percentage of total equity), as the Sichuan Hengtai Group had no bank overdraft and bank loans as at 31 December 2004.

*Treasury policies*

Sichuan Hengtai Group consistently maintains a prudent financial policy and its operations generally financed by its internal resources.

*Prospects and future plan*

Sichuan Hengtai Group will continue to engage in trading of pharmaceutical products in the coming year. Sichuan Hengtai Group is constantly looking for investment opportunities, no concrete new investment projects have been identified.

**For the year ended 31 December 2005**

*Review of operations*

The turnover was RMB327,457,000 for the year ended 31 December 2005. The profit after taxation was RMB4,321,000 for the year ended 31 December 2005.

*Segmental information*

No geographical segment information as the activities of the Sichuan Hengtai Group during the year were carried out in the PRC and all assets and liabilities of the Sichuan Hengtai Group were located in the PRC as at 31 December 2005.

No business segment information as the Sichuan Hengtai Group was only engaged in trading of pharmaceutical products during the year.

*Significant investments, material acquisitions and disposals*

Sichuan Hengtai Group did not have any significant investments, material acquisitions and disposals during the year.

*Capital structure, liquidity and financial resources*

The Sichuan Hengtai Group bank balances and cash (including pledged bank deposits) as at 31 December 2005 amounted to RMB25,017,000, and there is RMB21,000,000 bank borrowings. The Sichuan Hengtai Group generally finances its operations with internally generated cash flows and bank borrowings. All bank balances and cash, and bank borrowing are denominated in RMB. Bank borrowing bear fixed interest at prevailing market rates and repayable on demand or within one year.

*Contingent liabilities*

The Sichuan Hengtai Group did not have any material contingent liabilities as at 31 December 2005.

*Employees*

The number of persons employed by the Sichuan Hengtai Group as at 31 December 2005 was 619, comprising 70 in general administration and finance, and 549 in sales and marketing. All of these employees were located in PRC.

The policy of employee remuneration, bonus and training are commensurate with performance and comparable to market rate. Sichuan Hengtai Group encourages employees to participate in both internal and external training programs to develop themselves on a continuous basis. Total staff costs, including directors, for the year 2005 amounted to RMB8,437,000, including RMB1,317,000 relating to retirement benefits scheme contribution.

*Foreign currency exposure*

The transactions of Sichuan Hengtai Group were denominated in RMB. Therefore, the exposure of Sichuan Hengtai Group to foreign currency fluctuation was low. The Sichuan Hengtai Group did not entered into any financial instrument for hedging purposes.

*Pledge of assets*

As at 31 December 2005, the Sichuan Hengtai Group had RMB9,000,000 bank deposits, RMB26,900,000 investment properties, RMB4,968,000 buildings, and RMB4,080,000 prepaid lease payments on land use rights, were pledged to secure bank loans and banking facilities granted to the Sichuan Hengtai Group.

*Gearing ratio*

The gearing ratio is 46.54% (bank overdraft and bank loans expressed as a percentage of total equity).

*Treasury policies*

Sichuan Hengtai Group consistently maintains a prudent financial policy and its operations generally financed by its internal resources and banking facilities, if necessary.

*Prospects and future plan*

Sichuan Hengtai Group will continue to engage in trading of pharmaceutical products in the coming year. Sichuan Hengtai Group is constantly looking for investment opportunities, no concrete new investment projects have been identified.

**For the year ended 31 December 2006**

*Review of operations*

The turnover was RMB358,297,000 for the year ended 31 December 2006. The profit after taxation was RMB13,056,000 for the year ended 31 December 2006.

*Segmental information*

No geographical segment information as the activities of the Sichuan Hengtai Group during the year were carried out in the PRC and all assets and liabilities of the Sichuan Hengtai Group were located in the PRC as at 31 December 2006.

No business segment information as the Sichuan Hengtai Group was only engaged in trading of pharmaceutical products during the year.

*Significant investments, material acquisitions and disposals*

Sichuan Hengtai Group did not have any significant investments, material acquisitions and disposals during the year.

*Capital structure, liquidity and financial resources*

The Sichuan Hengtai Group bank balances and cash (including pledged bank deposits) as at 31 December 2006 amounted to RMB58,128,000, and there is RMB29,000,000 bank borrowings. The Sichuan Hengtai Group generally finances its operations with internally generated cash flows and bank borrowings. All bank balances and cash, and bank borrowing are denominated in RMB. Bank borrowing bear fixed interest at prevailing market rates and repayable on demand or within one year.

*Contingent liabilities*

The Sichuan Hengtai Group did not have any material contingent liabilities as at 31 December 2006.

*Employees*

The number of persons employed by the Sichuan Hengtai Group as at 31 December 2006 was 892, comprising 92 in general administration and finance, and 800 in sales and marketing. All of these employees were located in PRC.

The policy of employee remuneration, bonus and training are commensurate with performance and comparable to market rate. Sichuan Hengtai Group encourages employees to participate in both internal and external training programs to develop themselves on a continuous basis. Total staff costs, including directors, for the year 2006 amounted to RMB13,506,000, including RMB1,959,000 relating to retirement benefits scheme contribution.

*Foreign currency exposure*

The transactions of Sichuan Hengtai Group were denominated in RMB. Therefore, the exposure of Sichuan Hengtai Group to foreign currency fluctuation was low. The Sichuan Hengtai Group did not entered into any financial instrument for hedging purposes.

*Pledge of assets*

As at 31 December 2006, the Sichuan Hengtai Group had RMB18,000,000 bank deposits, RMB31,800,000 investment properties, RMB4,854,000 buildings, and RMB3,997,000 prepaid lease payments on land use rights, were pledged to secure bank loans and banking facilities granted to the Sichuan Hengtai Group.

*Gearing ratio*

The gearing ratio is 49.85% (bank overdraft and bank loans expressed as a percentage of total equity).

*Treasury policies*

Sichuan Hengtai Group consistently maintains a prudent financial policy and its operations generally financed by its internal resources and banking facilities, if necessary.

*Prospects and future plan*

Sichuan Hengtai Group will continue to engage in trading of pharmaceutical products in the coming year. Sichuan Hengtai Group is constantly looking for investment opportunities, no concrete new investment projects have been identified.

**For the 6 months ended 30 June 2007**

*Review of operations*

The turnover was RMB180,557,000 for the 6 months ended 30 June 2007. The profit after taxation was RMB12,294,000 for the 6 months ended 30 June 2007.

*Segmental information*

No geographical segment information as the activities of the Sichuan Hengtai Group during the period were carried out in the PRC and all assets and liabilities of the Sichuan Hengtai Group were located in the PRC as at 30 June 2007.

No business segment information as the Sichuan Hengtai Group was only engaged in trading of pharmaceutical products during the period.

*Significant investments, material acquisitions and disposals*

Sichuan Hengtai Group did not have any significant investments, material acquisitions and disposals during the period.

*Capital structure, liquidity and financial resources*

The Sichuan Hengtai Group bank balances and cash (including pledged bank deposits) as at 30 June 2007 amounted to RMB24,801,000, and there is RMB29,000,000 bank borrowings. The Sichuan Hengtai Group generally finances its operations with internally generated cash flows and bank borrowings. All bank balances and cash, and bank borrowing are denominated in RMB. Bank borrowing bear fixed interest at prevailing market rates and repayable on demand or within one year.

*Contingent liabilities*

The Sichuan Hengtai Group did not have any material contingent liabilities as at 30 June 2007.

*Employees*

The number of persons employed by the Sichuan Hengtai Group as at 30 June 2007 was 1,019, comprising 114 in general administration and finance, and 905 in sales and marketing. All of these employees were located in PRC.

The policy of employee remuneration, bonus and training are commensurate with performance and comparable to market rate. Sichuan Hengtai Group encourages employees to participate in both internal and external training programs to develop themselves on a continuous basis. Total staff costs, including directors, for the 6 months ended 30 June 2007 amounted to RMB10,635,000, including RMB1,484,000 relating to retirement benefits scheme contribution.

*Foreign currency exposure*

The transactions of Sichuan Hengtai Group were denominated in RMB. Therefore, the exposure of Sichuan Hengtai Group to foreign currency fluctuation was low. The Sichuan Hengtai Group did not entered into any financial instrument for hedging purposes.

*Pledge of assets*

As at 30 June 2007, the Sichuan Hengtai Group had RMB15,000,000 bank deposits, RMB35,000,000 investment properties, RMB4,797,000 buildings, and RMB3,956,000 prepaid lease payments on land use rights, were pledged to secure bank loans and banking facilities granted to the Sichuan Hengtai Group.

*Gearing ratio*

The gearing ratio is 41.15% (bank overdraft and bank loans expressed as a percentage of total equity).

*Treasury policies*

Sichuan Hengtai Group consistently maintains a prudent financial policy and its operations generally financed by its internal resources and banking facilities, if necessary.

*Prospects and future plan*

Sichuan Hengtai Group will continue to engage in trading of pharmaceutical products in the coming year. Sichuan Hengtai Group is constantly looking for investment opportunities, no concrete new investment projects have been identified.

## (A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The accompanying unaudited pro forma financial information of Vital BioTech Holdings Limited and its subsidiaries (hereinafter collectively referred to as the "Group") and 四川恒泰醫藥有限公司 (Sichuan Hengtai Pharmaceutical Company Limited) ("Hengtai") and its subsidiary (hereafter collectively referred to as the "Hengtai Group") (together with the Group, hereinafter collectively referred to as the "Enlarged Group") has been prepared to illustrate the effect of the Group's proposed acquisition of the entire equity interest in Hengtai Group at a cash consideration of RMB200,000,000 (equivalent to HK$208,000,000) (the "Acquisition").

The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based on (i) the unaudited consolidated balance sheet of the Group as at 30 June 2007, which has been extracted from the Company's interim report for the period then ended as set out in the Appendix I to this circular; and (ii) the audited consolidated balance sheet of Hengtai Group as at 30 June 2007 as extracted from the accountants' report thereon set out in Appendix II to this circular, after making pro forma adjustments relating to the acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition had been completed on 30 June 2007.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition. As it is prepared for illustration purposes only, it does not purport to represent what the financial position of the Enlarged Group will be on completion of the Acquisition.

| | The Group | Hengtai Group | Hengtai Group | Pro forma adjustments: Fair value adjustment to Hengtai Group | Hengtai Group at fair value | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *RMB'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | *(Note a)* | | *(Note b)* | | *(Note c)* | *(Note d)* | |
| **Non-current assets** | | | | | | | | |
| Intangible assets | 7,554 | – | – | | – | | | 7,554 |
| Property, plant and equipment | 241,625 | 9,494 | 9,874 | 1,358 | 11,232 | | | 252,857 |
| Investment properties | – | 35,000 | 36,400 | | 36,400 | | | 36,400 |
| Prepaid lease payments on land use rights | 31,675 | 3,873 | 4,028 | 3,507 | 7,535 | | | 39,210 |
| Available-for-sale investments | 4,562 | – | – | | – | | | 4,562 |
| Goodwill | 30,396 | – | – | | – | 131,604 | | 162,000 |
| | 315,812 | 48,367 | 50,302 | | 55,167 | | | 502,583 |
| **Current assets** | | | | | | | | |
| Inventories | 135,088 | 31,256 | 32,506 | | 32,506 | | | 167,594 |
| Trade and other receivables | 155,783 | 149,657 | 155,643 | | 155,643 | | (71,667) | 239,759 |
| Prepaid lease payments on land use rights | 625 | 83 | 86 | 75 | 161 | | | 786 |
| Amounts due from related companies | – | 5,520 | 5,741 | | 5,741 | | | 5,741 |
| Tax recoverable | 6,031 | – | – | | – | | | 6,031 |
| Value added tax recoverable | – | 5,688 | 5,916 | | 5,916 | | | 5,916 |
| Held-for-trading investment | 544 | – | – | | – | | | 544 |
| Pledged bank deposits | 631 | 15,000 | 15,600 | | 15,600 | | | 16,231 |
| Bank balances and cash | 53,078 | 9,801 | 10,193 | | 10,193 | (53,078) | | 10,193 |
| | 351,780 | 217,005 | 225,685 | | 225,760 | | | 452,795 |
| **Current liabilities** | | | | | | | | |
| Trade and other payables | 80,482 | 157,059 | 163,342 | | 163,342 | | (71,667) | 172,157 |
| Amount payable on acquisition of subsidiaries | – | – | – | | – | 154,922 | | 154,922 |
| Amounts due to shareholders/then shareholders | – | 3,550 | 3,692 | | 3,692 | | | 3,692 |
| Value added tax payable | 766 | – | – | | – | | | 766 |
| Tax payable | 2,957 | 4,329 | 4,502 | | 4,502 | | | 7,459 |
| Obligations under finance leases – due within one year | 285 | – | – | | – | | | 285 |
| Bank borrowings – due within one year | 110,779 | 29,000 | 30,160 | | 30,160 | | | 140,939 |
| | 195,269 | 193,938 | 201,696 | | 201,696 | | | 480,220 |
| **Net current assets (liabilities)** | 156,511 | 23,067 | 23,989 | | 24,064 | | | (27,425) |
| **Total assets less current liabilities** | 472,323 | 71,434 | 74,291 | | 79,231 | | | 475,158 |

| | The Group | Pro forma adjustments: Hengtai Group | Hengtai Group | Fair value adjustment to Hengtai Group | Hengtai Group at fair value | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *RMB'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | *(Note a)* | | *(Note b)* | | *(Note c)* | *(Note d)* | |
| **Capital and reserves** | | | | | | | | |
| Share capital | 15,480 | 43,000 | 44,720 | | 44,720 | (44,720) | | 15,480 |
| Reserves | 437,776 | 27,275 | 28,366 | 3,310 | 31,676 | (31,676) | | 437,776 |
| Equity attributable to equity holders of the parent | 453,256 | 70,275 | 73,086 | | 76,396 | | | 453,256 |
| Minority interests | 580 | 199 | 207 | | 207 | | | 787 |
| **Total equity** | 453,836 | 70,474 | 73,293 | | 76,603 | | | 454,043 |
| **Non-current liabilities** | | | | | | | | |
| Obligations under finance leases – due after one year | 877 | – | – | | – | | | 877 |
| Bank borrowings – due after one year | 17,610 | – | – | | – | | | 17,610 |
| Deferred tax liabilities | – | 960 | 998 | 1,630 | 2,628 | | | 2,628 |
| | 18,487 | 960 | 998 | | 2,628 | | | 21,115 |
| | 472,323 | 71,434 | 74,291 | | 79,231 | | | 475,158 |

*Notes:*

a. The figures are extracted from the accountants' report as set out in Appendix II to this circular and translated from RMB to HK$ at the exchange rate of RMB1.00 = HK$1.04.

b. The adjustments represent the excess of fair values of the buildings and prepaid lease payments on land use rights over their carrying values as at 30 June 2007. The valuation of these assets was carried out by BMI Appraisals Limited, an independent qualified professional valuer not connected to the Group. The deferred tax liability on the fair value adjustment, calculated at the income tax rate of 33%, amounts to approximately HK$1,630,000.

c. The adjustments represent the acquisition by the Group of the entire equity interest in Hengtai Group for a cash consideration of RMB200,000,000 (equivalent to HK$208,000,000).

For the purpose of the unaudited pro forma financial information, the available bank balances and cash totaling HK$53,078,000 was utilised in the settlement of the Acquisition while the remaining amount of HK$154,922,000 was included in current liabilities. The remaining consideration will be financed by bank borrowings and internally generated funds.

Goodwill of approximately HK$131,604,000 arising from the Acquisition represents the difference between the consideration and the fair value of Hengtai Group's net assets as at 30 June 2007 amounted to approximately HK$76,396,000.

On completion of the Acquisition, the fair values of the consideration and the net identifiable assets and liabilities of Hengtai Group will have to be assessed. As a result of the assessment, the amount of goodwill may be different from that estimated based on the basis stated above for the purpose of preparation of the unaudited pro forma financial information.

d. The adjustments reflect the intra-group current accounts elimination as if the Acquisition had been completed on 30 June 2007.

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

30 November 2007

The Directors
Vital BioTech Holdings Limited
Unit 7, 31st Floor
Lippo Centre
Tower 1, 89 Queensway
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Vital BioTech Holdings Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") set out on pages 116 to 119 in Appendix IV to the circular dated 30 November 2007 issued by the Company to its shareholders (the "Circular"), which has been prepared by the directors of the Company for illustration purpose only, to provide information about how the proposed acquisition of the entire equity interest in 四川恒泰醫藥有限公司 (Sichuan Hengtai Pharmaceutical Company Limited) ("Hengtai") and its subsidiary, might have affected the financial information presented. The basis of preparation for the unaudited pro forma financial information is set out in Appendix IV to the Circular.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

## BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustration purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or at any future date.

## OPINION

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
**Lau Miu Man**
*Practicing Certificate Number: P03603*
Hong Kong

*The following is the text of a letter, a summary of value and a valuation certificate, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation of the property located in the PRC to be acquired by the Group.*

BMI APPRAISALS

BMI Appraisals Limited 邦盟匯駿評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

30 November 2007

The Directors
**Vital BioTech Holdings Limited**
Room 3107, Tower 1
Lippo Centre
No. 89 Queensway
Admiralty, Hong Kong

Dear Sirs,

**INSTRUCTIONS**

We refer to the instructions from Vital BioTech Holdings Limited (the "Company") for us to value the property to be acquired by the Company and/or its subsidiaries (together referred to as the "Group") located in the People's Republic of China (the "PRC"). We confirm that we have conducted an inspection, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the market value of the property to be acquired by the Group as at 30 September 2007.

**BASIS OF VALUATION**

Our valuation of the property has been based on the market value ("Market Value"), which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

**VALUATION METHODOLOGY**

We have valued the property on the open market basis by the Comparison Approach assuming sale in the existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Comparison based on actual prices realized on sales of comparable properties is made. Comparable properties of similar size, character and location are analyzed and weighted against all the respective advantages and disadvantages of the property being valued in order to arrive at a fair comparison of value.

For the leased portions of the property, we have also adopted the Investment Approach where appropriate by taking into account the current rents passing or the hypothetical rents and the reversionary potential of the tenancies of the constituent units if they have been or would be let to tenants.

## TITLE INVESTIGATION

We have been provided with extracts of title documents relating to the title of such property and have been advised by the Group that no further relevant documents have been produced. Due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. Therefore, in the course of our valuation, we have relied on the advice and information given by the Group and its PRC legal advisor regarding the title of such PRC property. All documents have been used for reference only.

## VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the property is sold in the open market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

In valuing the property, we have relied on the advice given by the Group that the owner has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

## VALUATION CONSIDERATIONS

We have inspected the exterior and wherever possible, the interior of the property. During the course of our inspection, we did not note any serious defects. However, no structural surveys have been made. We are, therefore, unable to report whether the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, completion dates of building, particulars of occupancy, site/floor areas, identification of the property and other relevant information.

We have not carried out detailed on-site measurement to verify the correctness of the site/floor areas in respect of the property but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimension, measurement and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information so supplied.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation, which may be incurred in affecting a sale.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuation has been prepared under the generally accepted valuation procedures and is in compliance with the Listing Rules under Chapter 5 and Practice Note 12 Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**REMARKS**

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

Our Summary of Value and the Valuation Certificate are attached herewith.

Yours faithfully,
For and on behalf of
**BMI APPRAISALS LIMITED**

**Dr. Tony C.H. Cheng**
*BSc, MUD, MBA (Finance), MSc (Eng), PhD (Econ), MHKIS, MCIArb, AFA, SIFM, FCIM, MASCE, MIET, MIEEE, MASME, MIIE*
*Director*

**Joannau W.F. Chan**
*BSc. MSc. MRICS MHKIS RPS(GP)*
*Director*

*Note:*

Dr. Tony C.H. Cheng is a Chartered Surveyor who has about 15 years' experience in valuations of properties in Hong Kong and the People's Republic of China.

Ms. Joannau W.F. Chan is a Chartered Surveyor who has about 15 years' experience in valuations of properties in Hong Kong and over 9 years' experience in valuations of properties in the People's Republic of China.

## SUMMARY OF VALUE

| Property to be acquired by the Group | Market Value in existing state as at 30 September 2007 *RMB* |
|---|---|
| Office Unit Nos. 15-16 on 1st Floor, 2nd Floor and 3rd Floor and entire units on 4th Floor and 5th 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 | 49,000,000 |
| **Total:** | **49,000,000** |

## VALUATION CERTIFICATE

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 30 September 2007 *RMB* |
|---|---|---|---|
| Office Unit Nos. 15-16 on 1st Floor, 2nd Floor and 3rd Floor and entire units on 4th Floor and 5th Floor of an office building known as "科技財富中心", No. 318 Tianfuda Road North Section, inside Gaoxin District Technology Incubate Park (高新區科技孵化園內), Chengdu City, Sichuan Province, the PRC | The property comprises 6 units on 1st to 3rd floors and entire units on 4th and 5th floors of a 5-storey office building, which was completed on 29 September 2004.<br><br>The gross floor area (the "GFA") of the property is approximately 7,263.37 sq.m. (or about 78,182.9 sq.ft.).<br><br>The land use rights of the property have been granted for a term expiring on 24 November 2054 for industrial use. | The 6 office units on 1st to 3rd floors and 5 office units on 4th floor with a total GFA of about 5,239.63 sq.m. are subject to various tenancies with an aggregate monthly rent of RMB140,001.12 for various terms with the latest expiry date on 8 January 2011.<br><br>The remaining portions of the property are owner-occupied for office use. | 49,000,000 |

*Notes:*

1. Pursuant to a State-owned Land Use Rights Certificate, Cheng Kao Gao Yong (2006) Di No. 5985 (成高國用(2006)第5985號), issued by Chengdu City People's Government (成都市人民政府) dated 18 September 2006, the land use rights of the property with a site area of 1,843.73 sq.m. have been granted to Sichuan Hengtai Pharmaceutical Co. Ltd. (四川恒泰醫藥有限公司) ("Sichuan Hengtai") for a term expiring on 24 November 2054 for industrial use.

2. Pursuant to a Building Ownership Certificate, Cheng Fang Quan Zheng Jian Zheng Zi Di No. 1176166 (成房權証監証字第1176166號), issued by Chengdu City Real Estate Management Bureau (成都市房產管理局) dated 7 April 2005, the building ownership rights of the property with a total GFA of 7,263.37 sq.m. are legally vested in Sichuan Hengtai.

| Floor Level | Unit No. | Uses | GFA *(sq.m.)* |
|---|---|---|---|
| 1 | 15-16 | Office | 1,018.42 |
| 2 | 15-16 | Office | 1,040.44 |
| 3 | 15-16 | Office | 1,758.26 |
| 4 | 1-12 | Office | 3,016.78 |
| 5 | 1 | Office | 429.47 |
| | | **Total:** | **7,263.37** |

3. Pursuant to a Business License, Registration No. 5100001802704, issued by Sichuan Province Administration of Industry and Commerce (四川省工商行政管理局) dated 22 September 2006, Sichuan Hengtai was established with a registered capital of RMB43,000,000 and was authorized to carry on the wholesale business of medicines, biological products, Chinese medicines, chemical medicines and antibiotic products and sales of common food and healthy food for a permanent period commencing on 26 December 1992.

4. Pursuant to 4 tenancy agreements entered into between Sichuan Hengtai and three independent third parties, portions of the property with a total GFA of about 5,239.63 sq.m. have been leased out with an aggregate monthly rent of RMB140,001.12 for various terms with the latest expiry date on 8 January 2011. The salient details of the tenancies are as follows:

| Tenancy | Unit No. | Monthly Rent *(RMB)* | Lease Term **(From)** | Lease Term **(To)** | GFA *(sq.m.)* |
|---|---|---|---|---|---|
| 1 | 115<br>215<br>216<br>315<br>316 | 82,697.75 | 1-04-2006 | 08-01-2011 | 3,307.91 |
| 2 | 116 | 12,730.25 | 1-07-2006 | 1-01-2011 | 509.21 |
| 3 | 401<br>403 | 30,780.12 | 1-05-2007 | 30-04-2009 | 732.86 |
| 4 | 405<br>406<br>407 | 13,793.00 | 1-04-2007 | 1-03-2008 | 689.65 |
| | **Total:** | **140,001.12** | | | **5,239.63** |

5. The opinion given by the PRC legal advisor to the Company, contains, inter alia, the following:

   a. Sichuan Hengtai is in possession of a proper legal title to the property and is entitled to freely transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government

   b. All land premium and other costs of ancillary utilities services have been settled in full;

   c. The property is not subject to mortgage or any other material encumbrances;

   d. The existing use of the property is in compliance with the local planning regulations and have been approved by the relevant government authorities; and

   e. The property may be disposed of freely to both local and overseas purchasers.

6. The status of title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:

| | |
|---|---|
| State-owned Land Use Rights Certificate | Yes |
| Building Ownership Certificate | Yes |
| Tenancy Agreements | Yes |
| Business Licence | Yes |

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained herein misleading.

## 2. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, the interests and short positions of the Directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

| Name of Director | Company/name of associated corporation | Capacity | Number and class of securities *(Note 1)* | Percentage shareholding in the same class of securities |
|---|---|---|---|---|
| Mr. Tao Lung | Company | Beneficial owner | 110,891,648(L) | 7.16% |
| | Company | Interest of a controlled corporation *(Note 2)* | 522,526,940(L) | 33.76% |
| | Perfect Develop Holding Inc. ("Perfect Develop") | Beneficial owner | 4,000 ordinary shares of US$0.01 each (L) | 58.28% |
| Mr. Liu James Jin | Company | Beneficial owner | 14,630,400(L) | 0.95% |
| Mr. Shen Song Qing | Company | Beneficial owner | 12,160,000(L) | 0.79% |
| Mr. Lee Kwong Yiu | Company | Beneficial owner | 1,500,000(L) | 0.10% |

*Notes:*

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

2. The interests in the shares are held by Perfect Develop. The issued share capital of Perfect Develop is beneficially owned as to 58.28% by Mr. Tao Lung, 30.67% by Mr. Huang Jianming and 11.05% by Mr. Liu James Jin. Accordingly, Mr. Tao Lung is deemed to be interested in all the Shares which Perfect Develop is interested by virtue of the SFO.

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

As at the Latest Practicable Date, 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<br>*(Note 1)* | Exercise price per Share<br>*(HK$)* | No. of Shares involved in the options outstanding at the Latest Practicable Date |
|---|---|---|---|---|
| Mr. Tao Lung<br>*(Executive director and Chairman)* | 12 September 2005 | 1 January 2006 to 6 February 2012 | 0.23 | 15,000,000 |
| Mr. Xu Xiao Fan<br>*(Executive Director)* | 12 September 2005 | 1 January 2006 to 6 February 2012 | 0.23 | 15,000,000 |

*Note 1:* Grantees 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.

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 for Securities Transactions by Directors of Listed Issuers 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 the Latest Practicable Date, 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 1)* | Approximate percentage of shareholding |
|---|---|---|---|---|
| Perfect Develop *(Note 2)* | Company | Beneficial owner | 522,526,940(L) | 33.76% |

*Notes:*

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

2. The issued share capital of Perfect Develop is beneficially owned as to 58.28% by Mr. Tao Lung, 30.67% by Mr. Huang Jianming and 11.05% by Mr. Liu James Jin. All of them are founders of the Group and executive directors of the Company.

Save as disclosed above, the Directors are not aware of any person as at the Latest Practicable Date 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 under the provisions of 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.

## 3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and/or their respective associates had any interests in a business which competes or may compete with the business of the Group or had any other conflict of interests with the Group.

## 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing and any proposed service contract, excluding contract expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation), between the Directors with the Company.

## 5. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

## 6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any member of the Group.

## 7. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinion and advise, which is contained in this circular:

| Name | Qualification |
|---|---|
| SHINEWING (HK) CPA Limited | Certified Public Accountants |
| BMI Appraisals Limited | Professional valuer |

Each of SHINEWING (HK) CPA Limited and BMI Appraisals Limited has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective letters and references to their respective names in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above experts are not beneficially interested in any shareholding in the Company nor have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company, nor did they have any interest, either direct or indirect, in any assets of the Company which have been, since 31 December 2006 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of or leased to, or are proposed to be acquired or disposed of or leased to, the Company.

## 8. MATERIAL CONTRACTS

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried out by the Enlarged Group) have been entered into by any member of the Enlarged Group within the two years preceding the date of this circular:

(a) the Agreement;

(b) the sale and purchase agreement dated 5 July 2006 entered into between Vital Pharmaceuticals Company Limited, a wholly-owned subsidiary of the Company, and Sun Palace Limited, details of which have been referred to in the announcement of the Company dated 29 June 2006; and

(c) the sale and purchase agreement dated 28 March 2006 entered into between Wide Triumph Limited, a wholly-owned subsidiary of the Company, and Golden Dragon Properties Development Limited, details of which are referred to in the announcement of the Company dated 28 March 2006.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company at Room 3107, Tower 1, Lippo Centre, 89 Queensway, Hong Kong during normal business hours from 9:00 a.m. to 1:00 p.m. and 2:00 p.m. to 5:00 p.m. on any weekday (except Saturdays and public holidays) for a period of 14 days from the date of this circular:

(a) the Agreement;

(b) the memorandum and articles of association of the Company;

(c) the unaudited proforma financial information of the Enlarged Group as set out in Appendix IV to this circular and a letter from SHINEWING (HK) CPA Limited in relation to the unaudited proforma financial information of the Enlarged Group;

(d) the valuation report on the properties of Sichuan Heungtai prepared by BMI Appraisals Limited, the text of which is set out in Appendix V to this circular;

(e) the written consents referred to in the section headed "Experts and consent" of this Appendix;

(f) the material contracts referred to in the section headed "Material Contracts" in this Appendix;

(g) the interim report 2006/2007 and the annual reports of the Company for each of the three financial years ended 31 December 2004, 2005 and 2006;

(h) the accountants' report of Sichuan Hengtai, the text of which is set out in Appendix II to this circular; and

(i) this circular.

## 10. GENERAL

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1–1111, Cayman Islands and the head office and the principal place of business of the Company in Hong Kong is at Unit 7, 31st Floor, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

(b) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at Room 1901–02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Roard, Wanchai, Hong Kong.

(c) The qualified accountant and the company secretary of the Company is Mr. Leung Wai Pong, who is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant (Aust.) of CPA Australia.

(d) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

# Vital BioTech Holdings Limited
# 維奥生物科技控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1164)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting of Vital BioTech Holdings Limited will be held at Kennedy Room, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 20 December 2007 at 9:30 a.m. for the following purposes:

"**THAT**:

**AS ORDINARY RESOLUTIONS**

1. the conditional agreement (the "**Agreement**") dated 6 November 2007 entered into among (1) Vital Pharmaceuticals (Sichuan) Company Limited as purchaser (the "**Purchaser**"), (2) Mr. Wang Ji ("**Mr. Wang**"), (3) Mr. Xue Yang ("**Mr. Xue**") (4) Ms. Zhou Xuanchuan ("**Ms. Zhou**") (Mr. Wang, Mr. Xue and Ms. Zhou are collectively referred to as the "**Vendors**") pursuant to which the Purchaser agrees to acquire the entire equity interest in Sichuan Hengtai Pharmaceutical Company Limited from the Vendor at a consideration of RMB200,000,000, upon the terms and subject to the conditions set out in the Agreement, be and is hereby approved; and

2. the directors of the Company be and are hereby authorised for and on behalf of the Company to sign, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to carry out the Agreement into effect."

Yours faithfully,
For and on behalf of the Board of
**Vital BioTech Holdings Limited**
**Tao Lung**
*Chairman*

Hong Kong, 30 November 2007

*Registered Office:*
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal place of business in Hong Kong:*
Unit 7, 31st Floor
Tower 1, Lippo Centre
89 Queensway
Hong Kong

*Notes:–*

(1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, in the event of a poll, to vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of that power or authority) must be deposited at the Company's Hong Kong branch share registrar, Union Registrars Limited at Rooms 1901–02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 48 hours before the appointed time for holding the meeting or any adjourned meeting.

(2) The Register of Members of the Company will be closed for a period commencing from 17 December 2007 to 20 December 2007, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at Rooms 1901–02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 14 December 2007.

(3) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting or any adjournment thereof and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(4) In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.