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

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

HIGHLIGHTS

	(unaudited) Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Turnover	**247,087**	329,657
Profits attributable to owners of the Company	**37,254**	56,264
Basic earnings per share	**HK2.40 cents**	HK3.63 cents
Diluted earnings per share	**HK2.40 cents**	HK3.61 cents
Interim dividend per share	**Nil**	Nil

- Turnover of the Group was about HK$247 million, a decrease of approximately 25%, year-on-year;
- Profits attributable to owners of the Company dropped by approximately 34% year-on-year to around HK$37 million;
- Basic earnings per share was approximately HK2.40 cents;
- The Board would not recommend the payment of an interim dividend.

The board of directors (the "Board") of Vital Pharmaceutical Holdings Limited (the "Company") are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2009, together with the comparative figures for the corresponding period of 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

	Notes	**Six months ended 30 June 2009 HK$'000 (Unaudited)**	2008 HK$'000 (Unaudited)
Turnover	*4*	**247,087**	329,657
Cost of sales		**(69,364)**	(132,973)
Gross profit		**177,723**	196,684
Other operating income		**4,631**	12,828
Selling and distribution expenses		**(59,804)**	(75,450)
Administrative expenses		**(48,839)**	(57,417)
Impairment loss recognised in respect of goodwill	*9*	**(29,982)**	–
Finance costs		**(679)**	(8,878)
Profit before taxation		**43,050**	67,767
Income tax expense	*5*	**(5,908)**	(11,551)
Profit for the period	*6*	**37,142**	56,216
Attributable to :			
Owners of the Company		**37,254**	56,264
Minority interests		**(112)**	(48)
		37,142	56,216
Earnings per share	*8*		
Basic, for profit for the period attributable to the ordinary owners of the Company		**HK2.40 cents**	HK3.63 cents
Diluted, for profit for the period attributable to the ordinary owners of the Company		**HK2.40 cents**	HK3.61 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period	**37,142**	56,216
Other comprehensive income		
Exchange differences on translation of foreign operations	**(1,195)**	21,714
Change in fair value of available-for-sale financial assets	**1,285**	468
Release of other reserve upon disposal of an available-for-sale financial investments	**5**	–
Other comprehensive income for the period, net of tax	**95**	22,182
Total comprehensive income for the period, net of tax	**37,237**	78,398
Attributable to:		
Owners of the Company	**37,349**	78,446
Minority interests	**(112)**	(48)
	37,237	78,398

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	Notes	30/6/2009 HK$'000 (Unaudited)	31/12/2008 HK$'000 (Audited)
Non-current assets			
Intangible assets		**2,313**	2,651
Property, plant and equipment		**211,681**	225,552
Investment properties		**57,032**	57,032
Prepaid lease payments on land use rights		**39,017**	39,511
Deposit for acquisition of property, plant and equipment		**5,526**	4,571
Available-for-sale investments		**1,713**	1,203
Goodwill	*9*	**74,924**	104,906
		392,206	435,426
Current assets			
Inventories		**28,403**	66,984
Trade and other receivables	*10*	**155,107**	131,660
Prepaid lease payments on land use rights		**800**	800
Income tax recoverable		**8,091**	6,031
Held-for-trading investment		**2,500**	1,667
Bank balances and cash			
– pledged		**56,224**	4,002
– unpledged		**117,637**	148,351
		368,762	359,495
Current liabilities			
Trade and other payables	*11*	**109,476**	76,008
Value added tax payable		**3,570**	17,522
Income tax payable		**431**	11,705
Obligations under finance leases			
– due within one year		**114**	114
Bank borrowings – due within one year		**–**	84,349
		113,591	189,698
Net current assets		**255,171**	169,797
		647,377	605,223

	30/6/2009	31/12/2008
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Capital and reserves		
Share capital	**15,511**	15,511
Reserves	**618,797**	581,448
Equity attributable to owners of the Company	**634,308**	596,959
Minority interests	**736**	413
	635,044	597,372
Non-current liabilities		
Obligations under finance leases		
– due after one year	**287**	344
Other payables	**4,556**	–
Deferred tax liability	**7,490**	7,507
	12,333	7,851
	647,377	605,223

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2009

1. General

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

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

2. Basis of Preparation

The 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 and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

3. Principal Accounting Policies

The condensed consolidated interim financial information have been prepared under the historical costs basis except for certain investment properties and financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Cost
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-INT 13	Customer Loyalty Programmes
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate

3. Principal Accounting Policies *(Continued)*

HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidation financial statements, and has resulted in a number of changes in presentation and disclosure.

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised 2008)	Business Combinations[1]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-INT 18	Transfers of Assets from Customers[4]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January, 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

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

4. Turnover and Segment Information

Turnover represents amount received and receivable from sales of pharmaceutical products net of returns, discounts allowed and sales related taxes during the period. On first-time adoption of HKFRS 8 "Operating segments", the Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 Segment Reporting. The Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the sales, distributing and manufacturing of pharmaceutical products. The directors of the Company consider that there is only one operating segment for the Group.

5. Income Tax Expense

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Overseas income tax		
– current period	**5,925**	10,598
– under provision in prior year	**–**	962
	5,925	11,560
Deferred taxation	**(17)**	(9)
	5,908	11,551

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period ended 30 June 2009 and 2008.

Hong Kong Profits Tax has not been provided for in the condensed consolidated Interim Financial Information for the period ended 30 June 2009 as there was no estimated assessable profit derived from Hong Kong in that period.

For the period ended 30 June 2008, no tax was provided on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

The Hong Kong Profits Tax amounting in total to approximately HK$6,031,000 of a subsidiary of the Company for the two financial years 2000 and 2001 are under inquiries by the Hong Kong Inland Revenue Department ("IRD"). The subsidiary had lodged an objection against the assessments and the IRD has held over the payment of the profits tax and the equal amount of Tax Reserve Certificates was purchased and recorded as tax recoverable as at 30 June 2009 and 31 December 2008.

5. Income Tax Expense *(Continued)*

During the period ended 30 June 2009, the HKIRD further issued protective profits tax assessments of approximately HK$1,760,000 to that subsidiary of the Company relating to the year of assessment 2002/2003, that is, for the financial year ended 31 December 2002. The Group lodged objections with the HKIRD against the protective assessments and purchase a tax reserve certificate of approximately HK$1,760,000 during the period ended 30 June 2009 as demanded by the HKIRD.

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 that subsidiary has a reasonable likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, are not subject to Hong Kong Profits Tax and since that subsidiary's operation has remained unchanged during the financial year 2000 to 2002, Accordingly, no provision for profits tax is required.

During the period ended 30 June 2009, the HKIRD issued protective profits tax assessments of approximately HK$599,000 to another subsidiary of the Company relating to the year of assessment 2002/2003, that is, for the financial year ended 31 December 2002. The Group lodged objections with the HKIRD against the protective assessments. The HKIRD agreed to hold over the tax claim subject to the purchasing of a tax reserve certificate of approximately HK$300,000, the Group purchased the tax reserve certificate during the period ended 30 June 2009 as demanded by the HKIRD.

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

In accordance with the relevant regulations, approval from relevant local tax bureaus and Foreign Enterprise Income Tax Law in the PRC, one subsidiary operating in the PRC are entitled to exemption from PRC enterprise income tax in the first profit-making year, followed by a 50% reduction of PRC enterprise income tax for the next three years (the "Tax Exemption"). During the period ended 30 June 2009, the Tax Exemption period has been expired and this subsidiary has obtained approval from the relevant tax bureau and are qualified as a High and New Technology Enterprise which is subject to a tax rate of 15%.

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

Certain PRC subsidiaries were either in loss-making position for the current period and the previous years 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.

6. Profit for the Period

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

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Amortisation of intangible assets – development costs	**737**	1,161
Amortisation of prepaid lease payments on land use rights	**494**	457
Depreciation of property, plant and equipment	**10,668**	9,478
Exchange (gain) loss	**(495)**	1,539
Impairment loss recognised in respect of trade receivables	**1,243**	4,202
Impairment loss recognised in respect of other receivables	**1,501**	3,333
Loss on disposal of property, plant and equipment	**140**	87
Provision for compensation of staff redundant	**6,666**	–
Research and development costs	**507**	608
Loss (gain) on disposal of available-for-sale investments	**5**	(2,030)
Bank interest income	**(106)**	(283)
Government subsidies income	**(541)**	(9,793)

7. Interim Dividend

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (30 June 2008: Nil).

8. Earnings Per Share

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

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**37,254**	56,264
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,551,056,993**	1,551,056,993
Effect of dilutive ordinary shares in respect of share options	**–**	5,303,645
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,551,056,993**	1,556,360,638

For the six months ended 30 June 2009, the computation of diluted earnings per share did not assume the exercise of the Company's outstanding share options as the exercise prices of those options were higher than the average market prices for the period.

9. Goodwill

The amount represents goodwill in relation to the acquisition of the entire equity interest in Sichuan Hengtai Pharmaceutical Company Limited and its subsidiary ("Hengtai Group") in 2008.

At 30 June 2009, the management of the Group assessed the recoverable amount of Hengtai Group with reference to the value-in-use and determined that goodwill was further impaired by approximately HK$29,982,000 (for the year ended 31 December 2008: HK$7,500,000). The main factor contributing to the impairment of the cash generating unit was due to the uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule" (the "Capsule"), it may lead the Group cannot carry on its packing process and sale of the Capsule in the PRC. The basis of calculating the recoverable amount and the principal underlying assumptions are summarised as below:

That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 14.53% (2008: 15.3%). Cash flows beyond the 5-year period has been extrapolated using a steady 3% growth rate (2008: 3%).

The growth rate and budgeted gross margin are determined based on the unit's past performance and management's expectations for the market development.

10. Trade and Other Receivables

	30/6/2009 **HK$'000** **(Unaudited)**	31/12/2008 HK$'000 (Audited)
Trade and bills receivables	**148,195**	132,647
Less: Impairment loss recognised in respect of trade receivables	**(12,458)**	(11,215)
	135,737	121,432
Prepayments and deposits	**18,785**	7,698
Payments for pharmaceutical projects	**21,253**	21,253
Other receivables	**4,120**	4,564
	179,895	154,947
Less: Impairment loss recognised for payments for pharmaceutical projects	**(20,509)**	(20,509)
Impairment loss recognised in respect of other receivables	**(4,279)**	(2,778)
	155,107	131,660

10. Trade and Other Receivables *(Continued)*

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 end of reporting date, the aging analysis of the trade and bills receivables net of impairment loss recognised was as follows:

	30/6/2009	31/12/2008
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Within 30 days	**45,859**	46,842
31 – 60 days	**50,099**	28,192
61 – 90 days	**22,977**	31,297
Over 90 days	**16,802**	15,101
	135,737	121,432

11. Trade and Other Payables

At the end of reporting date, the aging analysis of the trade and bills payables were as follows:

	30/6/2009	31/12/2008
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Trade and bills payables		
Within 30 days	**954**	274
31 – 60 days	**55,643**	114
61 – 90 days	**–**	6
Over 90 days	**1,106**	11,515
	57,703	11,909
Accrued expenses and other payables	**51,773**	64,099
	109,476	76,008

12. Commitments

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

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

	30/6/2009 HK$'000 (Unaudited)	31/12/2008 HK$'000 (Audited)
Contracted but not provided for	**4,053**	5,356

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

	30/6/2009 HK$'000 (Unaudited)	31/12/2008 HK$'000 (Audited)
Contracted but not provided for	**10,810**	10,877

13. Pledge of Assets

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

	30/6/2009 HK$'000 (Unaudited)	31/12/2008 HK$'000 (Audited)
Property, plant and equipment	**40,833**	40,862
Investment properties	**39,700**	39,700
Bank balances and cash	**56,224**	4,002
Prepaid lease payments on land use rights	**16,459**	16,647
	153,216	101,211

BUSINESS REVIEW

Results

I am pleased to announce the unaudited results of Vital Pharmaceutical Holdings Limited ("Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2009 ("period under review" or "reporting period"). During the period under review, the consolidated turnover of the Group decreased by 25% year-on-year to approximately HK$247 million from HK$330 million.

During the period under review, in regard to uncertainties of renewing the import drug license of "Osteoform calcium amino acid chelate capsule", it may lead the Group cannot carry on its packing process and sale of "Osteoform calcium amino acid chelate capsule" in the PRC. Therefore, the Group had slowed down its marketing promotion and selling forces in the reporting period, and the Group had provided for amounted to approximately of HK$30 million impairment of goodwill, which lead to a fall back of the consolidated results. The profits attributable to owners of the Company decreased by approximately HK$19 million year-on-year basis to approximately HK$37 million from HK$56 million.

Product Sales

Our flagship product "Osteoform calcium amino acid chelate capsule" has suffered from uncertainties of renewing the import drug license, sales volume in the period under review were dropped. Its sales turnover was approximately HK$213 million in the reporting period, which has contributed about 86% of the Group's sales turnover.

For the other house products: "Aotianping" Miglitol Tablets, Fenofibrate Tablet, Aceclofenac Tablet and 2 antibiotic products developed by the Group, the sales turnover for the reporting period was around HK$4.1 million. It is slightly increased when compared to approximately HK$3.2 million for the corresponding period.

For the overseas agency products, the Group is trading products of Madaus GmbH, Germany. Due to the reason that the Group was undergoing a reform on its distributors in the first quarter of 2009, the sales of its agency products were affected. Since the reform had been implemented and the sales in the second quarter has been picked up. The Group has recorded sales of approximately HK$16.4 million in the reporting period. It had decreased by around 27% when compared to approximately HK$22.5 million for the corresponding period.

"Osteoform Vitamins with minerals dispersible tablet", a compound vitamin product, for the prevention and treatment of disease caused by lack of vitamins and minerals, has been launched into the market during the second quarter of 2009. The sales turnover for the reporting period was around HK$5.7 million.

BUSINESS REVIEW *(Continued)*

Selling and Distribution Expenses

The selling and distribution expenses for the period under review were approximately HK$59.8 million, decreased by about 21% when compared to approximately HK$75.5 million year-on-year. The Group had identified that high selling and distribution expenses is a business risk, and aimed at tightening the outflow in years ago, and has achieved a satisfactory outcome in recent years. The selling and distribution expenses to sales turnover ratios were maintained at a low level, the ratio for the reporting period was approximately 24%, whereas the ratios for the corresponding period and for the last whole year were around 23% and around 26% respectively.

The production base in Chengdu, Sichuan Province, China

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

The production base in Wuhan, Hubei Province, China

Major production in the reporting period included "Vital Fast" – a slow release flu medication, "Opin" – a gynaecology biological drug. A new product, medication for diabetes, "Glimepiride orally disintegrating tablets" has put into manufacturing and launched into the market during the report period.

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

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

Sichuan Hengtai Pharmaceutical

During the reporting period, Sichuan Hengtai has been striving for introducing new products to the market and has obtained the dealership for Taurolite® Tauroursodeoxycholic acid capsules, a medication for cholelithiasis, manufactured by Bruschettini S.r.l. Genova (Italy). Besides, since the launch of "Osteoform vitamins with minerals dispersible tablet" in the second quarter, has made impressive headway in sales and marketing, laying solid foundation for the implementation of our product diversification strategy.

BUSINESS OUTLOOK

In regard to uncertainties of renewing the import drug license of Osteoform calcium amino acid chelate capsule, it may lead the Group cannot carry on its packing process and sale of Osteoform calcium amino acid chelate capsule in the PRC. As at the date of this announcement, the Group has not yet received an outcome from the State Food and Drug Administration in the PRC. The Company is doing its best endeavours to assist with the renewal application and hopes that a successful renewal would follow as soon as possible. Inventory of Osteoform calcium amino acid chelate capsule had been sold out in third quarter of 2009. In view of the possible discontinuation of packing process and sale of Osteoform calcium amino acid chelate capsule, the Group intends to diversify its product range based on the Group's relevant experiences and expertise.

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

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

FINANCIAL REVIEW

Capital structure

As at 30 June 2009, the Company had in issue 1,551,056,993 ordinary shares (31 December 2008: 1,551,056,993 shares). During the first half of year 2009, no new shares were issued (Year 2008: nil).

The market capitalization of the Company as at 30 June 2009 was approximately HK$364 million (31 December 2008: approximately HK$256 million).

Liquidity and financial resources

As at 30 June 2009, the Group has no bank borrowing (31 December 2008: approximately HK$84 million, wholly short-term portion). Bank balances and cash amounted to approximately HK$174 million (31 December 2008: approximately HK$152 million), including pledged bank deposits of approximately HK$56 million (31 December 2008: approximately HK$4 million).

As at 30 June 2009, the Group has obtained banking facilities of approximately HK$197 million (31 December 2008: HK$319 million) from banks in China. Unutilised banking facilities amounted to approximately HK$197 million (31 December 2008: HK$235 million). The average cost of financing was around 6% per annum (Year 2008 average: 6.5% per annum). The Group has maintained sufficient financial resources for business operation purpose. The Group has no seasonality of borrowing requirement.

The Group adopts a conservative funding and treasury policies and objectives. The Group had repaid all banks borrowings during the reporting period. As at 30 June 2009, there was no bank borrowing (31 December 2008: HK$59 million) denominated in Hong Kong dollars and was no bank borrowing (31 December 2008: HK$25 million) denominated in RMB (31 December 2008: loans are repayable by 31 December 2009, of which 88% at fixed rate ranging from 5.35% to 7.84% per annum, the rest are at floating rate of HIBOR + 4.5% per annum).

In relation to cash and bank balances amounting to approximately HK$174 million (31 December 2008: HK$152 million), approximately 88% (2008: 87%) of which was denominated in RMB, approximately 9% (2008: 4%) was denominated in Hong Kong dollar and approximately 3% (2008: 9%) was denominated in other currencies, as at 30 June 2009.

Exposure to foreign exchange risk and Currency policy

During the reporting period and the corresponding period of last year, the sales receipts of the Group were mainly denominated in RMB. Purchases were denominated as to approximately 59% in RMB and approximately 41% in EURO (First half of year 2008: 57% in USD, 21% in RMB and 22% in EURO). Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 88% in RMB (First half of year 2008: 80%), others are in HKD, AUD, USD and Macau Pataca, etc. For the six months ended 30 June 2009, the Group did not enter into any forward contracts, interest or currency swaps, or other financial derivatives for hedging purpose. During the reporting period, the Group did not experience any material difficulty or negative effect on its operations or liquidity as a result of fluctuations on currency exchange rates.

FINANCIAL REVIEW *(Continued)*

Contingent liabilities

As at 30 June 2009, the Group had no material contingent liabilities (2008: Nil).

Key financial figures and ratios

Income Statement item:

During the reporting period, because of the selling and distribution expenses were kept at a low level, several income statement items and ratios were enhanced. The synergies effect on the corporate organisation since the acquisition of Sichuan Hengtai has enhanced the gross profit margin, and the Group had repaid all banks borrowings during the first half of 2009 which lead to a decrease on interest expense. Nevertheless, during the reporting period, the Group only received government grant amounted to approximately HK$0.5 million (2008: HK$9.8 million), in addition to the Group had provided for amounted to approximately of HK$30 million impairment of goodwill, which lead to a fall back of the consolidated results. Profits attributable to owners of the Company to turnover ratio decreased to around 15%. Profits attributable to owners of the Company decreased to approximately HK$37 million, representing a decrement of approximately 34% as compared to HK$56 million for the corresponding period of year 2008.

	6 months ended 30 June		12 months
Income Statement item:	**2009**	2008	2008
Turnover (HK$' million)	**247.1**	329.7	698.2
Gross profit margin	**72%**	60%	64%
Selling and distribution expenses (HK$' million)	**59.8**	75.5	182.6
Gross profit margin after selling and distribution expense	**48%**	37%	38%
Profits attributable to owners of the Company/Turnover	**15%**	17%	9%
EBITDA (HK$' million)	**55.6**	87.7	120.4
EBITDA/Turnover	**22.5%**	26.6%	17.2%

FINANCIAL REVIEW *(Continued)*

Key financial figures and ratios *(Continued)*

Financial position statement item:

As of 30 June 2009, because of the Group had repaid all banks borrowings during the first half of 2009 which lead to a decrease on debt equity ratio (Borrowing/Net tangible assets) substantially to 0%. Since the Group had slowed down marketing promotion and selling forces of "Osteoform calcium amino acid chelate capsule" in the reporting period, average inventory turnover day were slightly longer than that at 31 December 2008. In relation to the average trade receivable turnover day, since the Group had granted a longer credit period to the customers for the new products and extended the use of bills receivable, average trade receivable turnover day was risen.

Financial position statement item:	**As at 30 June 2009 HK$' million**	As at 31 December 2008 HK$' million
Short-term bank loans	**–**	84.4
Long-term bank loans	**–**	–
Bank balances and cash	**173.9**	152.4
Net tangible assets	**557.8**	489.8
Debt equity ratio	**0%**	17.2%
Average trade receivable turnover day	**95 days**	63 days
Average inventory turnover day	**125 days**	123 days

As of 30 June 2009, the Group had approximately HK$56.2 million bank balances and cash, HK$16.5 million prepaid lease payment on land use rights, HK$40.8 million property, plant and equipment, and HK$39.7 million investment properties were pledged as collateral to banks.

For the 6 months ended 30 June 2009, return on equity (annualised) was on average of approximately 12%.

EMPLOYEE INFORMATION

As at 30 June 2009, the Group had 1,302 employees (31 December 2008: 1,494), comprising 4 in research and development, 167 in production, 966 in sales, and 165 in general administration and finance. 1,283 of these employees were located in China, and 19 in Hong Kong and Macau.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to market rate. The Group encourages employees to participate in external training programmes to develop themselves on a continuous basis, so as to improve staff quality to meet future challenges and gain a competitive edge. Total staff costs (including director emolument, share base payment, and compensation on staff redundant) for the reporting period amounted to approximately HK$44 million (First half of 2008: HK$39 million).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

DIVIDEND

The Board would not recommend the payment of an interim dividend for the six months ended 30 June 2009 (30 June 2008: Nil).

REVIEW OF INTERIM RESULTS

The unaudited interim financial report of the Group for the six months ended 30 June 2009 have been reviewed by the Company's audit committee and auditors, SHINEWING (HK) CPA Limited.

AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external and internal audit, internal controls and risk evaluation.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters with the management. The Group's financial statements for the six months ended 30 June 2009 have been reviewed and adopted by the Audit Committee, who is of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made. The Audit Committee comprises three independent non-executive directors of the Company, namely, Mr. Lui Tin Nang (Audit Committee chairman), Mr. Lee Kwong Yiu and Mr. Chong Cha Hwa.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive directors, the chairman and an executive director of the Company, is responsible for reviewing and evaluating the remuneration packages of the executive directors and senior management and making recommendations to the board of directors from time to time.

MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the principle standards of securities transactions for directors of the Company. All directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the period.

CORPORATE GOVERNANCE

The Company is in compliance with all the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2009.

The Board as at the date of this announcement comprises six executive directors: Mr. Tao Lung, Mr. Huang Jianming, Mr. Shen Songqing, Mr. Liu James Jin, Mr. Xu Xiaofan and Madam Guo Lin, and three independent non-executive directors: Mr. Lui Tin Nang, Mr. Lee Kwong Yiu and Mr. Chong Cha Hwa.

On behalf of the Board
TAO Lung
Chairman

Hong Kong, 22 September 2009