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維奧集團控股有限公司
Vital Group Holdings Limited

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

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Directors (the "Board") of Vital Group Holdings Limited ("Vital" or the "Company") announces the audited consolidated results of Vital and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010, together with the comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

	NOTES	**2010** **HK$'000**	2009 HK$'000 (Restated)
Turnover	4	**328,120**	367,056
Cost of sales		**(104,098)**	(107,345)
Gross profit		**224,022**	259,711
Other operating income	4	**16,230**	24,428
Selling and distribution expenses		**(82,178)**	(107,158)
Administrative expenses		**(82,563)**	(80,828)
Impairment loss recognised in respect of goodwill		**(22,569)**	(29,982)
Finance costs	6	**(779)**	(586)
Profit before taxation		**52,163**	65,585
Income tax expense	7	**(12,947)**	(12,615)
Profit for the year	8	**39,216**	52,970
Profit for the year attributable to:			
Owners of the Company		**36,610**	53,010
Non-controlling interests		**2,606**	(40)
		39,216	52,970
Earnings per share	10		
Basic		**HK2.36 cents**	HK3.42 cents
Diluted		**HK2.36 cents**	HK3.42 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	NOTES	**2010** **HK$'000**	2009 HK$'000
Non-current assets			
Intangible assets		**3,028**	3,030
Property, plant and equipment		**174,139**	203,015
Investment properties		**95,409**	74,384
Prepaid lease payments on land use rights		**32,922**	38,711
Deposit for acquisition of property, plant and equipment		**4,063**	4,201
Available-for-sale investments		**—**	2,331
Goodwill		**52,355**	74,924
		361,916	400,596
Current assets			
Properties under development	11	**240,561**	—
Inventories		**108,968**	73,730
Trade and other receivables	12	**69,195**	69,241
Prepaid lease payments on land use rights		**672**	800
Income tax recoverable		**8,091**	9,118
Value added tax recoverable		**—**	5,537
Held-for-trading investment		**2,173**	2,121
Bank balances and cash			
— pledged		**12,138**	668
— unpledged		**68,146**	163,291
		509,944	324,506
Current liabilities			
Trade and other payables	13	**67,148**	58,993
Value added tax payable		**3,591**	—
Income tax payable		**7,746**	—
Obligations under finance leases		**—**	446
Secured bank borrowings		**71,285**	—
		149,770	59,439
Net current assets		**360,174**	265,067
Total assets less current liabilities		**722,090**	665,663

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

NOTES:

1. GENERAL

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

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

The principal activities of the Group are selling, distributing and manufacturing of pharmaceutical and food products and property investment.

Pursuant to a special resolution passed at the annual general meeting held on 2 June 2010, the name of the Company was changed from Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司 to Vital Group Holdings Limited 維奧集團控股有限公司. The "Certificate of Incorporation on Change of Name" has been issued by the Registrar of Companies in the Cayman Islands and the change of name took effect on 2 June 2010.

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

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

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

HKFRS 3 (Revised 2008) Business Combinations

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

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

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

Amendment to HKAS 17 Leases

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

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

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

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

The application of the other new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

4. TURNOVER AND OTHER OPERATING INCOME

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

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

Notes:

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

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

(b) For the year ended 31 December 2009, the amounts represented unconditional grants from the PRC government specifically for encouraging the Group's business development in Sichuan Province, the PRC.

5. SEGMENT INFORMATION

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

During the year, a new segment of property investment was introduced as a result of the acquisition of land use rights as set out in Note 11. The Group's operating segments, based on the information reported to the chief operating decision maker, Chief Executive Officer, for the purposes of resource allocation and performance assessment are as follows:

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

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

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

Segment revenues and results

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

For the year ended 31 December 2010

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

For the year ended 31 December 2009

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

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

Segment assets and liabilities

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

Segment assets

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

Segment liabilities

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

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

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

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

Other segment information

2010

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

2009

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

Geographical information

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

Information about major customers

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

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

[1] Revenue from pharmaceutical and food segment

6. FINANCE COSTS

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

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

7. INCOME TAX EXPENSE

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

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

The Hong Kong Profits Tax amounting to HK$6,031,000 of a subsidiary of the Company in respect of the years of assessment 2000/01 and 2001/02 are under inquiries by the Inland Revenue Department ("IRD"). The subsidiary had lodged an objection against the assessments and the IRD had held over the payment of the profits tax and the equal amount of tax reserve certificates was purchased and recorded as income tax recoverable as at 31 December 2010 and 2009.

During the year ended 31 December 2009, the IRD further issued protective profits tax assessments of approximately HK$1,760,000 to that subsidiary of the Company relating to the year of assessment 2002/03, that is, for the financial year ended 31 December 2002. The Group lodged objections with the IRD against the protective assessments and purchased a tax reserve certificate of approximately HK$1,760,000 during the year ended 31 December 2009 as demanded by the IRD. The amount was recorded as income tax recoverable as at 31 December 2010 and 2009.

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

The directors of the Company believes that that subsidiary has a reasonable likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, are not subject to Hong Kong Profits Tax and since that subsidiary's operation has remained unchanged during the financial years 2000 to 2003. Accordingly, no provision for profits tax is required.

During the year ended 31 December 2009, the IRD issued protective profits tax assessments of approximately HK$599,000 to another subsidiary of the Company relating to the year of assessment 2002/03, that is, for the financial year ended 31 December 2002. The Group lodged objections with the IRD against the protective assessments. The IRD agreed to hold over the tax claim subject to the purchasing of a tax reserve certificate of approximately HK$300,000, the Group purchased the tax reserve certificate during the year ended 31 December 2009 as demanded by the IRD. The amount was recorded as income tax recoverable as at 31 December 2010 and 2009.

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

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

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

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

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

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

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

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

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

8. PROFIT FOR THE YEAR

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

9. DIVIDENDS

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

10. EARNINGS PER SHARE

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

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

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

11. PROPERTIES UNDER DEVELOPMENT

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

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

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

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

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

12. TRADE AND OTHER RECEIVABLES

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

Notes:

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

(b) As at 31 December 2009, the directors of the Company reviewed the carrying values of the payments for pharmaceutical projects and considered that in light of the market conditions in the PRC, the Group had terminated projects which involved high risks and ceased on its own initiative the application of projects of minimal benefit, therefore accumulated impairment loss of approximately HK$20,509,000 had been recognised.

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

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

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

As at 31 December 2009, included in the impairment loss are individually impaired payments for pharmaceutical projects with an aggregate balance of approximately HK$20,509,000 which are of high risks and the application of these projects provides minimal benefits. The Group does not hold any collateral over these balances.

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

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

As at 31 December 2010, included in the impairment loss are individually impaired prepayments, deposits and other receivables with an aggregate balance of approximately HK$3,273,000 (2009: HK$4,275,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

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

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

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

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

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

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

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

	Total	Neither past due nor impaired	Past due but not impaired			
			<90days	91 to 180 days	181 to 365 days	1 to 2 years
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2010	42,560	42,560	—	—	—	—
31 December 2009	52,201	41,800	10,401	—	—	—

For the year ended 31 December 2010 and 2009, trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

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

13. TRADE AND OTHER PAYABLES

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

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

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

The average credit period on purchases of goods is 30 days (2009: 30 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

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

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

14. COMMITMENTS

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

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

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

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

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

(c) Commitments for the properties under development

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

(d) Commitments under operating leases

The Group as a lessor

Property rental income earned during the year was approximately HK$4,166,000 (2009: HK$3,034,000). The investment properties are expected to generate rental yields of 4.37% (2009: 4.08%) on an ongoing basis. The investment properties held have committed tenants for the next one to four years.

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

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

The Group as lessee

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

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

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

15. PLEDGE OF ASSETS

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

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

16. EVENTS AFTER THE REPORTING PERIOD

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

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

(iii) On 18 March 2011, the Company entered into a subscription agreement with China Uranium Development Company Limited ("China Uranium"). Please refer to the holding announcement of the Company dated 28 March 2011 for the details of the subscription agreement.

17. COMPARATIVE FIGURES

Certain comparative figures had been reclassified to conform to current year's presentation. The directors of the Company consider that reclassification of rental income and other taxes from other operating income to turnover and to cost of sales in the consolidated income statement is more meaningful in view of the introduction of new property investment segment as detailed in Note 5.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

Sales of Product

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

Osteoform family products

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

The Group's food product "Osteoform compound calcium amino acid chelate food capsule" consists of multiple minerals and vitamins. Its nutrition facilitates the absorption of calcium by human body, thus helping the formation of bone matrix and the maintenance of bone density. It has been launched into the market during the fourth quarter of 2009 and the market response is satisfactory. The turnover of "Osteoform compound calcium amino acid chelate food capsule" amounted to approximately HK$206 million in 2010, representing an increase of approximately 930% as compared with last year.

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

"Osteoform Vitamins with minerals dispersible tablet", a compound vitamin and minerals product, for the prevention and treatment of disease caused by lack of vitamins and minerals, has been launched into the market during the second quarter of 2009. The sales turnover in 2010 was around HK$18 million, representing an increase of approximately HK$2 million as compared with last year.

Madaus products

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

"Legalon", a product imported from Madaus, Germany brought in a turnover of approximately HK$40 million, a slight decrease of approximately HK$1 million when compared to approximately HK$41 million in corresponding year.

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

"Uralyt-U", a drug used for dissolution of uric acid stones and preventing the formation of new stones (prophylaxis of recurrent calculi), to prevent the formation or enlargement of calcium oxalate stones, also as a supportive measure in the treatment of cystine stones and cystinuria and alkalisation of the urine during treatment with uricosurics and chemotherapy. It contributes a sales turnover of approximately HK$11 million in 2010. It is slightly increased by HK$1 million when compared to approximately HK$10 million for the corresponding year.

Other products

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

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

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

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

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

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

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

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

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

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

"Hongjinxiaojie Tablet", another gynecological product of the Group

It is a gynaecological medication with features like soothing the liver while channeling liver Qi (舒肝理氣), activating blood circulation while removing blood stasis (血瘀), eliminating tumescence while killing pain. It cures hyperplasia of the lobular mammary gland caused by Qi stagnation (氣滯) and blood stasis, cervical tumor and ovary tumor. Turnover of "Hongjinxiaojie Tablet" for 2010 was amounted to approximately HK$2.3 million.

Sichuan Hengtai Pharmaceutical

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

The production base in Chengdu, Sichuan Province, the PRC

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

The production base in Wuhan, Hubei Province, the PRC

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

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

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

Property Investment Industry

Property development

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

Leased investment property

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

BUSINESS PROSPECT

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

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

FINANCIAL REVIEW

Capital structure

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

Liquidity and financial resources

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

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

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

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

Exposure to foreign exchange risk and Currency policy

The sales receipts of the Group were mainly denominated in RMB. Purchases were denominated as to approximately 42% in USD (2009: 12%), 32% in RMB (2009: 30%) and 26% in EURO (2009: 58%). Operating expenditures including selling and distribution expenses and administrative expenses were denominated as to approximately 76% in RMB (2009: 80%), others are in HKD, AUD, USD and Macau Pataca, etc. In 2010, in order to minimize the exposure to exchange rate fluctuation, the Group has entered into several forward foreign exchange contracts to lock in the price of purchasing. However, the Group did not entered into any interest or currency swaps, or other financial derivatives for hedging purpose. During the year 2010, the Group did not experience any material difficulty or negative effect on its operations or liquidity as a result of fluctuations on currency exchange rates.

Contingent liabilities

As at 31 December 2010, the Group had no material contingent liabilities (2009: Nil).

Key financial figures and ratios

Profit and loss item:

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

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

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

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

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

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

Balance sheet item:

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

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

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

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

EMPLOYEE INFORMATION

As at 31 December 2010, the Group had 779 employees, comprising 20 in research and development, 204 in production, 383 in sales and marketing, and 172 in general administration and finance. 756 of these employees were located in China and 23 in Hong Kong and Macau.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to market rate. The Group encourages employees to participate in external training programs to develop themselves on a continuous basis, so as to improve staff quality to meet future challenges and gain a competitive edge. Total staff costs for the year 2010 amounted to approximately HK$69.8 million.

MAJOR TRANSACTION

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

CODE ON CORPORATE GOVERNANCE PRACTICES

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules, and that having made specific enquiry of all Directors, the Company confirms that all the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2010.

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

None of the Company and its subsidiaries redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year 2010.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the Shareholders in the annual general meeting held on 2 June 2010, the Company had changed its name from "Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司" to "Vital Group Holdings Limited 維奧集團控股有限公司" to better reflect the Group's broaden investment strategies.

AUDIT COMMITTEE

The Audit Committee reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2010.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

DIVIDEND

Since the Group intends to retain sufficient capital for the business expansion, the Board would not recommend the payment of a final dividend of 2010 (2009 final dividend: Nil).

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

Hong Kong, 28 March 2011

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