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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1164)

ANNOUNCEMENT OF RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007

HIGHLIGHTS

	(unaudited) 6 months to	
	2007	2006
	HK$'000	*HK$'000*
Turnover	**186,354**	215,958
Profits attributable to equity holders of the Company	**22,273**	13,723
Basic earnings per share	**HK1.44 cents**	HK0.89 cents
Diluted earnings per share	**HK1.44 cents**	HK0.89 cents
Interim dividend per share	**Nil**	Nil

- Turnover of the Group was about HK$186 million, a decrease of approximately 14%, year-on-year;
- Profits attributable to equity holders of the Company increased by approximately 62% year-on-year to HK$22.2 million;
- Basic earnings per share was HK1.44 cents;
- The Board would not recommend the payment of an interim dividend.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

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

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. GENERAL

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

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate information" section to the interim report.

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

3. TURNOVER

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

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

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

4. INCOME TAX EXPENSE

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

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

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

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

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

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

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

5. PROFIT FOR THE PERIOD

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

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

6. INTERIM DIVIDEND

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

7. EARNINGS PER SHARE

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

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

8. TRADE AND OTHER RECEIVABLES

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

Notes:

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

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

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

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

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

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

9. TRADE AND OTHER PAYABLES

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

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

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

10. POST BALANCE SHEET EVENTS

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

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

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

BUSINESS REVIEW

Results

I am pleased to announce the unaudited results of the Vital BioTech Holdings Limited ("Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007 ("period under review" or "reporting period"). During the period under review, the consolidated sales turnover of the Group dropped by 14% year-on-year to approximately HK$186 million (2006: HK$216 million).

During the period under review, the profits attributable to equity holders increased by HK$8.5 million year-on-year basis to approximately HK$22.2 million (2006: HK$13.7 million). Despite a 14% decreased in sales turnover resulted from the price cut of our flagship product, Osteoform, the selling and distribution expenses have decreased by about 24% as a result of tightening expenses approach adopted by the Company. In addition, the Group has received government grants about HK$8.2 million in the reporting period. In the last corresponding period, we did not record such government grant. These improved the net profit performance.

Product Sales

Our flagship product "Osteoform" has maintained a steady market share. Its sales turnover was approximately HK$169 million in current period, which has contributed about 91% of the Group's sales turnover.

For the other house products: Depile Capsule, Fenofibrate Tablet, Aceclofenac Tablet and 2 antibiotic products developed by the Group, the sales turnover for the first half year of 2007 was around HK$5.3 million. It is slightly increased when compared to approximately HK$4.9 million for the correspondence period in 2006.

For the overseas agency products, the Group is trading products of Madaus GmbH, Germany. The Group was recorded sales of approximately HK$6.6 million in the reporting period.

Selling Expenses

The selling and distribution expenses for the period under review were approximately HK$63.8 million, decreased by about 24% when compared to approximately HK$83.9 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. In the current period, it had been shown the control was in place and effective.

In respect of selling and distribution expenses to sales turnover ratio, it was approximately 34% for the reporting period. Whereas the ratios for the last corresponding period and for the last whole year were around 39% and around 36% 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 international GMP standards. The plant produces principally the Group's flagship products "Osteoform", "Depile Capsule", "Clarithromycin Capsules", "Azithromycin Capsules", "Aceclofenac Tablets" and "Aotianping" ("Miglitol Tablets") etc.

The production base in Wuhan, Hubei Province, China

Major production in the reporting period of 2007 included "Vital Fast" – a slow release flu medication, "Opin" – a gynaecology biological drug, processing and packaging of "Uralyt U" granules and sub-contracting the processing of Osteoform.

The pharmaceutical factory in Hong Kong, China

In middle of last year, the Group established a new pharmaceutical factory in Hong Kong that complies with GMP standards, in order to proactively cope with the changes in the pharmaceutical management policy in the PRC. The construction of the factory was completed and the relevant GMP and pharmaceutical manufacturer licence is obtained in June this year. The trial production is expected to be completed by end of this year.

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

SFDA has implemented the site inspection on the workshop of freeze-dried powder for injection and the relevant GMP certificate is granted by this reporting date.

BUSINESS OUTLOOK

In the middle of 2007, the Group entered into a non-binding Letter of Intent with Hengtai Shareholders pursuant to which the Company intends to acquire from Hengtai Shareholders the entire share capital of Sichuan Hengtai Pharmaceutical Company Limited which is owned as to 100% by Hengtai Shareholders. The Group and Sichuan Hengtai have their respective niche in the upstream and downstream of the industrial chain of the pharmaceutical industry in the PRC. The immediate and direct effect of the possible acquisition is that it may create significant synergy and in turn enhance the Company's ability in tackling risks and realize the Group's growth potential in the long run.

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

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

FINANCIAL REVIEW

Capital structure, liquidity, financial resources and currency policy

During the reporting period, 6.3 million new ordinary shares were issued for share option exercised by employees and directors. As of 30 June 2007, the Company has in issue about 1.55 billion ordinary shares.

As of 30 June 2007, market capitalization of the Company was approximately HK$612 million (31 December 2006: approximately HK$213 million).

As of 30 June 2007, the Group had bank loans of approximately HK$128 million (31 December 2006: approximately HK$154 million), comprising long-term portion of HK$17 million (31 December 2006: HK$54 million), short-term portion of HK$111 million (31 December 2006: HK$100 million). Bank balances and cash amounted to approximately HK$54 million (31 December 2006: HK$136 million).

As at 30 June 2007, around 3/4 of the Group's bank borrowings were denominated in HKD, the rest were denominated in USD and RMB.

At present, the Group has obtained total banking facilities of approximately HK$227 million from banks. Unutilized banking facilities were approximately HK$99 million. The cost of financing was around 6% per annum. The group has maintained sufficient capital and banking facilities for business operation.

The sales receipts of the Group were denominated as to approximately 96% in RMB and approximately 4% in other currency. Purchases were denominated as to approximately 74% in USD, approximately 5% in EURO and approximately 21% in RMB. During the reporting period, the Group has not entered into any forward contracts to hedge against foreign currency fluctuation, as the Group's exposure to foreign exchange risk is not significant.

Key financial figures and ratios

During the reporting period, major P&L ratios remained stable. As compared to the 12 months in 2006, improvements were shown in Profit attributable to equity holders/Turnover and EBITDA to Turnover ratios. The gross profit margin after selling and distribution expense was also improved.

	6 months ended 30 June		12 months
Profit and loss item:	**2007**	2006	Year 2006
Turnover (HK$' million)	**186.3**	215.9	487.1
Gross profit margin	**66%**	68%	66%
Selling and distribution expenses (HK$' million)	**63.8**	84	173.6
Gross profit margin after selling and distribution expense	**32.1%**	28.9%	30%
Profit attributable to equity holders/Turnover	**12%**	6%	8%
EBITDA (HK$' million)	**43.8**	35	81.4
EBITDA/Turnover	**23.5%**	16.2%	16.7%

Balance sheet item:

As of 30 June 2007, reduced bank borrowing lowers gross debt equity ratio (Borrowing/Net tangible assets) to 31%. Since high level of stock is maintained to accommodate the changing production process, inventory average turnover day were longer than that at 31 December 2006. Lengthened average trade receivable turnover day indicates a need for improvement on the trade receivable management.

Balance sheet item:	**As at 30 June 2007** ***HK$' million***	As at 31 December 2006 *HK$' million*
Short-term bank loans	**110.8**	100.5
Long-term bank loans	**17.6**	53.9
Bank balances and cash	**53.7**	135.7
Bank loans net of bank balances and cash	**74.7**	18.7
Net tangible assets	**415.3**	405.8
Debt equity ratio (gross)	**31.0%**	38.0%
Debt equity ratio (net)	**17.9%**	4.6%
Average trade receivable turnover day	**136 days**	123 days
Average inventory turnover day	**281 days**	126 days

As of 30 June 2007, the Group had HK$0.6 million bank balances and cash, HK$12.9 million prepaid lease payment on land use rights, HK$47 million property, plant and equipment, and one of the subsidiary's shares were pledged as collateral to banks.

EMPLOYEE INFORMATION

As at 30 June 2007, the Group had 497 employees, comprising 13 in research and development, 298 in production, 13 in sales, and 173 in general administration and finance. 478 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. Total staff costs (including director emolument and share base payment) for the reporting period amounted to approximately HK$17 million.

CONTINGENT LIABILITIES

As at 30 June 2007, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiary relating to banking facilities up to HK$200 million, of which HK$102 million have been utilised by the subsidiary.

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.

REVIEW OF INTERIM RESULTS

The unaudited interim financial report of the Group for the six months ended 30 June 2007 have been reviewed by the Company audit committee and auditors, SHINEWING (HK) CPA Limited.

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 2007.

The Board as at the date of this announcement comprises five executive directors: Mr. Tao Lung, Mr. Huang Jianming, Mr. Xu Xiaofan, Mr. Liu James Jin, Mr. Shen Songqing 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, 21 September 2007