



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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

The Board of Directors (the “Board”) of Vital BioTech Holdings Limited (“Vital BioTech”, “Vital” or the “Company”) announces the audited consolidated results of Vital BioTech and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2006, together with the comparative amounts for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 HK\$'000	2005 HK\$'000
Turnover	3	487,147	446,437
Cost of sales		(167,822)	(151,137)
Gross profit		319,325	295,300
Other operating income	3	9,534	14,470
Selling and distribution expenses		(173,581)	(174,639)
Administrative expenses		(95,061)	(97,396)
Finance costs	4	(13,201)	(11,142)
Share of result of an associate		–	(113)
Profit before taxation		47,016	26,480
Income tax expense	5	(9,916)	(5,537)
Profit for the year	6	37,100	20,943
Attributable to:			
Equity holders of the Company		37,743	21,649
Minority interests		(643)	(706)
		37,100	20,943
Dividends	7		
– Interim		–	15,417
– Proposed final		15,417	–
		15,417	15,417
Earnings per share	8		
Basic		HK2.45 cents	HK1.41 cents
Diluted		HK2.45 cents	HK1.41 cents

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

		2006 HK\$'000	2005 HK\$'000
Non-current assets			
Intangible assets		8,856	8,333
Property, plant and equipment		246,114	200,812
Prepaid lease payments on land use rights		32,016	31,415
Interest in an associate		–	–
Available-for-sale investments		4,562	6,560
Goodwill		30,396	30,396
		<u>321,944</u>	<u>277,516</u>
Current assets			
Inventories		68,258	56,184
Trade and other receivables	9	163,385	211,310
Prepaid lease payments on land use rights		625	595
Tax recoverable		6,031	6,031
Available-for-sale investments		–	1,494
Held-for-trading investment		544	–
Bank balances and cash			
– pledged		8,724	8,133
– unpledged		126,980	52,128
		<u>374,547</u>	<u>335,875</u>
Assets classified as held for sale		–	10,581
		<u>374,547</u>	<u>346,456</u>
Current liabilities			
Trade and other payables	10	89,375	65,919
Value added tax payable		3,747	3,438
Tax payable		1,856	2,914
Obligations under finance leases – due within one year		270	259
Bank borrowings – due within one year		100,520	100,292
		<u>195,768</u>	<u>172,822</u>
Net current assets		<u>178,779</u>	<u>173,634</u>
Total assets less current liabilities		<u>500,723</u>	<u>451,150</u>
Capital and reserves			
Share capital		15,417	15,417
Reserves		414,237	380,483
Proposed final dividend		15,417	–
		<u>445,071</u>	<u>395,900</u>
Equity attributable to equity holders of the Company			
Minority interests		741	3,287
		<u>445,812</u>	<u>399,187</u>
Non-current liabilities			
Obligations under finance leases – due after one year		1,020	1,285
Bank borrowings – due after one year		53,891	50,678
		<u>54,911</u>	<u>51,963</u>
		<u>500,723</u>	<u>451,150</u>

Notes:

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 consolidated financial statements are presented in Hong Kong dollars, being the measurement currency of the Company and its subsidiaries (the “Group”).

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

2. Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRS”)

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

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

Hong Kong Accounting Standard (“HKAS”) 1 (Amendment)

HKFRS 7

HKFRS 8

HK (IFRIC) – Interpretation (“INT”) 7

HK (IFRIC) – INT 8

HK (IFRIC) – INT 9

HK (IFRIC) – INT 10

HK (IFRIC) – INT 11

HK (IFRIC) – INT 12

Capital Disclosures¹

Financial Instruments: Disclosures¹

Operating Segments²

Applying the restatement approach under HKAS 29 Financial Reporting in

Hyperinflationary Economies³

Scope of HKFRS 2⁴

Reassessment of embedded derivatives⁵

Interim Financial Reporting and Impairment⁶

HKFRS 2 – Group and Treasury Share Transactions⁷

Service Concession Arrangements⁸

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

3. Turnover and Other operating income

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

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

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

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

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

4. FINANCE COSTS

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

5. INCOME TAX EXPENSES

	2006 HK\$'000	2005 HK\$'000
Overseas income tax		
– current	11,580	7,241
– overprovision in prior years	(1,664)	(1,704)
	<u>9,916</u>	<u>5,537</u>

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

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

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

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

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

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

6. PROFIT FOR THE YEAR

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

7. DIVIDENDS

During the year ended 31 December 2005, the Company declared and paid interim dividend of HK1.0 cent per ordinary share amounting to HK\$15,417,000 (2006: Nil). The final dividend of HK1.0 cent (2005: Nil) per ordinary share has been recommended by the directors of the Company and is subject to approval by the shareholders in annual general meeting.

8. EARNINGS PER SHARE

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

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

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

9. TRADE AND OTHER RECEIVABLES

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

Notes:

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

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

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

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

10. TRADE AND OTHER PAYABLES

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

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

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

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

BUSINESS REVIEW

During the year under review, the Group continued to move towards product diversification. In addition to promoting its own products, the Group stepped up the marketing of overseas products in the capacity as an agent.

Last year, a series of severe quality issues dealt a heavy blow to the pharmaceutical industry. The PRC Government therefore strengthened the regulation and rectification of the industry, resulting in a more stringent adjustment to the industry landscape and changes and intensified competitions in the pharmaceutical market. The Group took the initiatives to conduct self-examination on its products and submitted the results of such examination to the SFDA. While enhancing its public relationship, the move also strengthened quality control over its products so as to reduce market and product risk.

In addition, in order to implement risk management and prepare for the new challenges ahead, the Group established a plant that complies with GMP specifications in Hong Kong to fully capture the advantages brought by CEPA. While the effect of policy reform on the Group's products is mitigated, the future business performance is also guaranteed. Furthermore, the Group will continue to uphold the strategy of attaching equal importance to the introduction and distribution of quality overseas products and the development of the Group's own products.

Due to certain severe quality issues that hit the pharmaceutical industry of the PRC, 2006 was a year marked by tremendous reform and surviving pressure for the industry. With the view to solving the problem of excessive applications for drug registration, SFDA has stepped up the amendment to the "Administrative Measures on Drug Registration" and related technical criterion, so as to raise the technical entry barrier and implement more stringent review and approval policies.

In view of the current new drugs policies in the PRC, Vital has terminated projects that involved high risks in a timely manner and ceased on its own initiative the application of projects of minimal benefit. Hence, research and development of and application for some 20 new drugs projects have been ceased or suspended during the year. As such, the Group made a provision of approximately HK\$18 million for the impairment of relevant assets.

Sales of Product

During the year, our consolidated turnover amounted to HK\$487 million, an increase of around 9% over HK\$446 million of last year.

Flagship product

"Osteoform", a compound calcium amino acid chelate capsule for the treatment of osteoporosis and calcium deficiency

Sale of "Osteoform", our flagship product, had seen a steady increase with a turnover of approximately HK\$451 million, compared with approximately HK\$397 million of last year, an increase of over 13% was recorded. In 2007, the Company anticipated that sale of "Osteoform" will continue to enjoy a steady increase. In 2006, turnover of the 60-capsule package recorded approximately HK\$44 million compared with approximately HK\$22 million of last year, an increase of around 100% was recorded.

The production base in Chengdu, Sichuan Province, the PRC

Equipped with advanced production facilities and staffed with outstanding domestic experts, the highly effective drug manufacturing plant adopts innovative technology of drug manufacture and manufactures drugs in accordance with the international GMP standards. The plant produces principally the Group's flagship products such as "Osteoform", "Depile Capsule", "Clarithromycin Capsules", "Azithromycin Capsules" and "Aceclofenac Tablets".

The newly constructed No. 2 compound workshop, which is GMP certified to produce the drug substance "Aotianping" ("Miglitol Tablets"), had been commenced production in mid 2006.

The production base in Wuhan, Hubei Province, the PRC

At present, the factory has five GMP pharmaceutical workshops, including the suppository workshop for "Opin"; and the workshops which process and package products in dosage forms of granules, capsules, gel and tablets. All 5 GMP pharmaceutical preparation workshops had passed the review and examination of the SFDA and obtained the certificate which is valid for "five years".

In addition to producing "Vital Fast" tablets and "Opin" suppositories, the factory commenced the processing of "Osteoform" capsules as well as the processing and packaging of "Reparil-Gel N" gel and "Uralyt-U" granules, products from Madaus AG, Germany, in 2006.

Weiao (Chengdu) Pharmaceutical Company Limited (維奧(成都)製藥有限公司)

Sichuan Vital San Jiang Pharmaceutical Co., Ltd. was renamed as Weiao (Chengdu) Pharmaceutical Co., Ltd. in 2006. Weiao (Chengdu) Pharmaceutical Co., Ltd. is the new pharmaceutical factory of the Group, and the construction of its new workshops has basically been completed with production permit on relevant dosage forms obtained. Currently, the factory is mainly preparing for the GMP certification of the workshop of freeze-dried powder for injection and the workshop of solution for injection.

Vital Pharmaceuticals Company Limited

In mid 2006, 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. As at the date of this announcement, the construction of the factory was basically completed and the relevant GMP and pharmaceutical manufacturer licence is expected to be obtained in the middle of year 2007.

BUSINESS PROSPECT

In the coming year, the Group will continue to pursue its existing marketing strategy of being an agent and distributor and moving towards product diversification. Other than importing and trading products, the Group is also engaged in the logistics services, processing and re-packaging business, so as to increase the return of the Company and its shareholders.

Moreover, the Group will adopt a prudent expansion and budget strategy. Sophisticated and effective logistics management and inventory management systems will be put in place to enhance the operational efficiency and reduce costs, and ultimately consolidate its leading business. Regarding the quality management effort, the Group will improve the quality assurance and packaging procedures to boost the confidence of the international market in Vital's products, and enable the Group to strengthen risk management while capturing business opportunities brought by the reform of pharmaceutical policies.

The operating environment of the pharmaceutical industry will still be challenging in 2007. Research and development, production and market sales will be subject to changes due to the continuous adjustments of the PRC policies. Therefore, the Group will continue to step up its effort in capturing opportunities brought by the pharmaceutical policies and will examine and improve every segment to avoid suffering from enormous loss due to minor mistakes.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2006, the Group has bank loans of approximately HK\$154 million (31 December 2005: approximately HK\$151 million), comprising long-term portion of approximately HK\$54 million (31 December 2005: approximately HK\$51 million), short-term portion of approximately HK\$100 million (31 December 2005: approximately HK\$100 million). Bank balances and cash amounted to approximately HK\$136 million (31 December 2005: approximately HK\$60 million), including pledged bank deposits of approximately HK\$8,724,000 (2005: approximately HK\$8,133,000).

As of 31 December 2006, the Group has obtained banking facilities of approximately HK\$241 million from banks in HK and China. Unutilised banking facilities amounted to approximately HK\$88 million. The cost of financing was around 6% per annum. The Group has maintained sufficient financial resources for business operation purpose.

KEY FINANCIAL FIGURES AND RATIOS

In the year 2006 several profit and loss items and ratios were enhanced by a lowering level of selling and distribution, and general and administrative expenses. Compared with last year, there was tightening its budget control and expenses, which leads to maintain a steady gross profit margin. Furthermore, both of the gross profit ratio after selling and distribution expenses and profit attributable to equity holders ratio of the Company were climbed by 3%.

Taken into account of a significant increase of cash and bank balances as at 2006 year end over 2005 year end, with a comparable bank borrowings level to last year. The gross debt equity ratio decreased to 38% and net debt equity ratio was decrease to 4.6%. Average trade receivable turnover day was maintained at around 4 months. However, inventory (excluding goods in transit) average turnover day was climbed up to about 4 months.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material contingent liabilities. (2005: Nil)

CORPORATE GOVERNANCE

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

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.

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.

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 2006.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the Company (www.vitalbiotech.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). The 2006 annual report will be despatched to the shareholders and available on the same websites on or before 13 April 2007.

DIVIDEND

The Directors recommended a final dividend of HK1 cent per ordinary share for the year ended 31 December 2006 to the shareholders whose names appear on the register of members on 11 May 2007. Subject to shareholders’ approval of payment of the final dividend, the dividend will be payable on 21 May 2007. The effect of the final dividend herein would be payment of approximately HK\$15,417,000.

BOOK CLOSURE

The register of members of the Company will be closed from 7 May 2007 (Monday) to 11 May 2007 (Friday), both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the final dividend of year 2006 and attending the Annual General Meeting of the Company, all transfers accompanied with relevant share certificates must be lodged with the Company’s share registrar, Union Registrars Limited, Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, at no later than 4:00 p.m. on 4 May 2007 (Friday).

ANNUAL GENERAL MEETING

An annual general meeting of the Company will be convened on 11 May 2007 (Friday), 11:00 a.m., a notice of the meeting will be dispatched to the shareholders on or before 13 April 2007.

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

On behalf of the Board
Vital BioTech Holdings Limited
Tao Lung
Chairman

Hong Kong, 23 March 2007

“Please also refer to the published version of this announcement in China Daily.”