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 2007

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 2007, together with the comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	**2007** *HK$'000*	2006 *HK$'000*
Turnover	*3*	**507,494**	487,147
Cost of sales		**(183,053)**	(167,822)
Gross profit		**324,441**	319,325
Other operating income		**17,980**	9,534
Selling and distribution expenses		**(168,754)**	(173,581)
Administrative expenses		**(96,091)**	(95,061)
Finance costs	*4*	**(12,605)**	(13,201)
Profit before taxation		**64,971**	47,016
Income tax expense	*5*	**(14,512)**	(9,916)
Profit for the year	*6*	**50,459**	37,100
Attributable to:			
Equity holders of the Company		**50,622**	37,743
Minority interests		**(163)**	(643)
		50,459	37,100
Dividends	*7*		
– Interim		**–**	–
– Proposed final		**–**	15,417
		–	15,417
Earnings per share	*8*		
Basic		**HK3.27 cents**	HK2.45 cents
Diluted		**HK3.25 cents**	HK2.45 cents

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007

	NOTES	**2007**	2006
		HK$'000	*HK$'000*
Non-current assets			
Intangible assets		**4,745**	8,856
Property, plant and equipment		**250,821**	246,114
Prepaid lease payments on land use rights		**33,416**	32,016
Deposit for acquisition of a subsidiary		**52,553**	–
Deposit for acquisition of property, plant and equipment		**2,732**	–
Available-for-sale investments		**4,782**	4,562
Goodwill		**30,396**	30,396
		379,445	321,944
Current assets			
Inventories		**108,362**	68,258
Trade and other receivables	*9*	**139,281**	163,385
Prepaid lease payments on land use rights		**754**	625
Tax recoverable		**6,031**	6,031
Held-for-trading investment		**–**	544
Bank balances and cash			
– pledged		**639**	8,724
– unpledged		**106,525**	126,980
		361,592	374,547
Current liabilities			
Trade and other payables	*10*	**105,814**	89,375
Value added tax payable		**11,818**	3,747
Tax payable		**3,152**	1,856
Obligations under finance leases			
– due within one year		**300**	270
Bank borrowings – due within one year		**115,089**	100,520
		236,173	195,768
Net current assets		**125,419**	178,779
Total assets less current liabilities		**504,864**	500,723

	NOTES	**2007**	2006
		HK$'000	*HK$'000*
Capital and reserves			
Share capital		**15,511**	15,417
Reserves		**487,942**	414,237
Proposed final dividend		**–**	15,417
Equity attributable to equity holders of the Company		**503,453**	445,071
Minority interests		**589**	741
Total equity		**504,042**	445,812
Non-current liabilities			
Obligations under finance leases			
– due after one year		**822**	1,020
Bank borrowings – due after one year		**–**	53,891
		822	54,911
		504,864	500,723

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$"), being the measurement currency of the Company and its subsidiaries (the "Group").

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

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Interpretation ("INT") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationery Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position 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 and revised standards and interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Cost[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-INT 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC)-INT 12	Service Concession Arrangements[3]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[4]
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

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

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. TURNOVER AND OTHER OPERATING INCOME

The Group 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. Revenues recognised during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**507,494**	487,147
Other operating income		
Interest income	**995**	744
Government subsidies income *(Note)*	**10,193**	3,154
Exchange gain	**5,667**	4,399
Gain on deregistration/disposal of a subsidiary	**90**	81
Gain on deemed disposal of a subsidiary	**–**	76
Gain on disposal of held-for-trading investments	**652**	107
Gain on disposal of intangible assets	**–**	585
Gain on fair value changes of held-for-trading investment	**–**	44
Impairment loss reversed in respect of trade receivables	**–**	170
Sundry income	**383**	174
	17,980	9,534
Total revenues	**525,474**	496,681

Note: For the year ended 31 December 2007, the amounts represented unconditional grants from the People's Republic of China (the "PRC") government specifically for encouraging the Group's business development in Sichuan Province, the PRC and an one-off government grant for the Group's enlarged investment in a subsidiary.

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 PRC.

No geographical segment in other country are of a sufficient size to be reported separately.

4. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest expenses on:		
– bank borrowings and overdrafts wholly repayable within five years	**7,402**	8,397
– obligations under finance leases	**155**	141
– discounted bills of exchange	**4,509**	4,024
– bank borrowings not wholly repayable within five years	**194**	213
Other incidental borrowing costs	**345**	426
Total borrowing costs charged to the consolidated income statement	**12,605**	13,201

5. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
Overseas income tax		
– current	**15,632**	11,580
– overprovision in prior years	**(1,120)**	(1,664)
	14,512	9,916

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 in total to HK$6,031,000 of a subsidiary of the Company for the two financial years 2000 and 2001 are under inquiries by the Hong Kong Inland Revenue Department ("IRD"). The subsidiary had lodged an objection against the assessments and the IRD has held over the payment of the profits tax and the equal amount of Tax Reserve Certificates was purchased and recorded as tax recoverable as at 31 December 2007 and 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 believe 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 PRC income tax in the first two years from the first profit-making year, followed by a 50% reduction of PRC income tax for the next three years and thereafter, preferential treatments which are subject to the relevant law and regulation. One subsidiary was taxed at 13% (2006: 10.5%). Another subsidiary has incurred a loss and no income tax is payable for the year (2006: 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.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for the PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008. The tax rate applicable to the PRC subsidiaries are subject to approval by the tax authority.

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

	2007	2006
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Amortisation of intangible assets		
– development costs	**2,769**	2,351
Amortisation of prepaid lease payments on land use rights	**726**	649
Auditors' remuneration	**1,389**	1,513
Cost of inventories sold	**182,034**	166,812
Depreciation of property, plant and equipment	**19,614**	18,139
Impairment loss recognised in respect of trade receivables	**5,722**	–
Impairment loss recognised in respect of intangible assets	**1,899**	–
Impairment losses recognised in respect of available-for-sale investments	**–**	2,864
Impairment loss recognised in respect of payments for pharmaceutical projects	**–**	17,538
Loss on deemed acquisition of a subsidiary	**–**	6
Loss on disposal of property, plant and equipment	**324**	1,822
Operating lease rental on land and buildings	**2,598**	2,544
Research and development costs	**1,747**	2,203
Staff costs (including directors' emoluments)	**52,048**	34,643
Written off of inventories	**165**	–
Write down of inventories (included in administrative expenses)	**4,063**	5,078

7. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2007, nor has any dividend been proposed since the balance sheet date (2006: HK$15,417,000).

8. EARNINGS PER SHARE

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

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	**50,622**	37,743
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,546,319,870**	1,541,706,993
Effect of dilutive ordinary shares in respect of share options	**9,226,864**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,555,546,734**	1,541,706,993

9. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade and bills receivables *(note a)*	**127,474**	149,250
Prepayments and deposits	**14,345**	10,165
Payments for pharmaceutical projects *(note b)*	**19,324**	19,178
Other receivables	**2,863**	3,760
	164,006	182,353
Less: Impairment loss recognised in respect of trade receivables	**(7,187)**	(1,430)
Impairment loss recognised for payments for pharmaceutical projects *(note c)*	**(17,538)**	(17,538)
	139,281	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 impairment loss recognised was as follows:

	2007	2006
	HK$'000	*HK$'000*
Within 30 days	**39,704**	58,847
31–60 days	**40,078**	40,447
61–90 days	**17,844**	38,397
Over 90 days	**22,661**	10,129
	120,287	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 as at 31 December 2006 and considered that in light of the new drugs policies in the PRC and the 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 impairment loss of approximately 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 the corresponding carrying amounts due to their short-term maturities.

10. TRADE AND OTHER PAYABLES

	2007	2006
	HK$'000	*HK$'000*
Trade and bills payables	**14,965**	10,706
Accrued expenses and other payables	**90,849**	78,669
	105,814	89,375

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

	2007	2006
	HK$'000	*HK$'000*
Within 30 days	**12,783**	4,307
31–60 days	**1,777**	3,569
61–90 days	**30**	573
Over 90 days	**375**	2,257
	14,965	10,706

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

BUSINESS REVIEW

Year 2007 witness the start of a new round of reform for the PRC pharmaceutical industry. On one hand, the industry was still suffering from the adverse impact of the price cut on pharmaceutical products, while the emergence of OTC and tertiary end user market, change of end user sales model for prescription drugs, the merger and acquisition activities in the pharmaceutical industry, and the rising importance of research and development of pharmaceutical products within the production chain, have all presented more market opportunities.

During the year under review, the Group continued to diversify product development, expand and optimize product range, strengthen its branding strategies and accelerate the reform of quality control system in order to raise the competitiveness of our products. Our flagship product "Osteoform" was being awarded as a national famous trade mark (全國馳名商標). In view of the resource re-allocation process undergoing in the PRC pharmaceutical industry, the structural change of market as a result of fierce competition as well as our own development trend, the Directors consider that, apart from promoting its own products, the Group has to take the initiatives to make changes. Accordingly, the Group further expands its business by acquiring quality downstream assets in the PRC, which is in line with our business development strategies.

On 6 November 2007, the Group and the shareholders of Sichuan Hengtai Pharmaceutical Company Limited ("Sichuan Hengtai") entered into an agreement in relation to the acquisition, details of which have been disclosed in the announcement dated 12 November 2007. 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. Given the connection of both companies' operations, the complementarity of assets and the consistency in business strategies, the acquisition may lead to the creation of a market-oriented leading pharmaceutical company. The immediate direct effect of the acquisition is the significant synergies created in terms of financial performance, operation scale and industrial organization, which in turn enhances the Company's ability to withstand risks and realizes the Group's growth potential in the long run.

Our production base in Mainland China has already adopted a comprehensive quality control approach. By enhancing the quality control system and our various management policies, critical standards in respect of material sourcing, production craftsmanship and production environment are well under control. By focusing our production management firmly on the above issues, the Group has taken the primary responsibility for the safety of its pharmaceutical products. In addition, through the implementation of rationalization proposals and innovative initiatives, together with all the employees' participations in reducing production cost, our technical difficulties have been readily solved.

During the year under review, our GMP-compliance pharmaceutical factory in Hong Kong has commenced production in 2007 to leverage on the advantages brought by CEPA. This factory not only mitigates the impact of policy reform on the Group's products, but also ensures our future performance, which will provide steady and remarkable revenue for both the Company and its shareholders.

Sales of Product

During the year, the Group's consolidated turnover amounted to approximately HK$507 million, an increase of approximately 4% as compared with approximately HK$487 million for the corresponding period last year.

Flagship product

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

Sales of our flagship product "Osteoform" increase steadily, with a turnover of approximately HK$461 million for the year 2007, representing a modest increase of approximately 2% as compared with approximately HK$451 million for the corresponding period last year. The 60-capsule package recorded a turnover of approximately HK$54 million as compared with approximately HK$44 million for the corresponding period last year, an increase of approximately 23%. The Company anticipates that sale of "Osteoform" will continue to grow steadily in 2008.

Since the introduction of "Osteoform" to the PRC market in 1997, the Group never stops its brand building process. By continuous advertising campaigns, featured academic promotion and community marketing by building up effective and interactive model with consumers, we have received general recognition and acceptance from consumers and the public and have built up the brand image of "Osteoform".

"The 500 Most Valuable Trademarks" (《最有價值商標500強》) assesses the trademark value of different brands mainly for research purpose and provides comparable data for reference to the corporations to realize the value of their own trademarks and other trademarks. The assessment data is derived from the financial reports of the listed companies, industry organizations or governmental statistic data. Its reliability is highly recognised in the industry. On 10 January 2008, the China Brand Research Institute (中國品牌研究院) announced the "Third 500 Most Valuable Trademarks" in the PRC. According to the ranking, the "Osteoform" trademark of Vital Pharmaceuticals (Sichuan) Co., Ltd. was among the 45 most valuable pharmaceutical products trademarks with trademark value of RMB707 million. The "Osteoform" trademark was ranked number 495 in the "Third 500 Most Valuable Trademarks".

Facing the economic strength and resource advantage of numerous large corporations and enterprises, Osteoform is still able to rank among the 500 Most Valuable Trademarks and is only one of the two Sichuan pharmaceutical companies' trademarks being given the award. This achievement is primary attributable to our long term emphasis on brand building, brand management and branding strategies, and it also reflects the brand value of Osteoform.

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 production and manufactures drugs in accordance with the GMP standards. During the period under review, the plant produced principally the Group's flagship products "Osteoform", "Depile Capsule", "Clarithromycin Capsules", "Azithromycin Capsules", "Aceclofenac Tablets" and "Aotianping" ("Miglitol Tablets").

The production base in Wuhan, Hubei Province, the PRC

Major production during the year under review included "Vital Fast" – a slow release flu medication, "Opin" – a gynaecology biological drug, processing and packaging of "Uralyt U" granules and certain processing subcontracting works.

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

SFDA has implemented the site inspection in June 2007 on the workshop of freeze-dried powder for injection, and the relevant GMP certificate had been granted. In the second half of 2007, "Sterile water for injection" production permit had been obtained.

The pharmaceutical factory in Hong Kong, China

In 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. The construction of the factory was completed and the relevant GMP and pharmaceutical manufacturer licence is obtained in June 2007. The trial production was completed and production had been commenced at the end of 2007.

BUSINESS PROSPECT

In 2008, the PRC medical reform scheme (中國醫療改革方案) resolved to drive the growth of pharmaceutical industry by internal demand. The industry anticipated that medical expenditure attributed to the medical insurance of urban citizens will increase significantly in 2008. In addition, due to ageing PRC population with increasing number of senior citizens over 60 years old in the population, it will eventually lead to an increase in medical consumption. On the other hand, with the disposable income per capita of urban citizens gradually increasing, their economic strength will support their need towards medical expenditure. As a result, the industry anticipated that in 2008, the pharmaceutical industry will grow following the footstep of the medical reforms, and it is estimated that the overall revenue of the PRC pharmaceutical industry will increase by double digit.

In the coming year, once the acquisition of Sichuan Hengtai is successfully completed, the immediate direct effect will be the significant synergies created in terms of financial performance, operation scale and industrial organization, which will enhance the ability of the Group to withstand risks. On the other hand, the Group will continue to adopt a prudent expansion and budget approach. Sophisticated and effective logistics management system and inventory management systems will be put in place to boost our operational efficiency and reduce costs, and in turn strengthen our own advantageous businesses. In the long run, the above approach will enable the Group to realize its growth potential.

In the extraordinary general meeting of the Company convened on 7 March 2008, the shareholders have approved the proposed change of name from "Vital BioTech Holdings Limited 維奧生物科技控股有限公司" to "Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司". The newly adopted name will more accurately reflect the Group's extensive investment strategies, which is in the interest of the Company and its shareholders as a whole.

In the coming year, the Group will continue to expand its product portfolios, optimize product categories, expand sale and distribution network, and identify acquisition opportunities which can create synergy effects for the Group's existing business, with an aim to lay a solid foundation to implement our future strategies. We will concentrate our resources on domestic sales and marketing efforts in the PRC. The Group will provide packaging services to multi-national companies in the PRC in appropriate manners. By establishing an effective, fast and flexible marketing system to accommodate different needs of marketing solutions for different products, we will be able to deliver remarkable results to the Company and our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group has bank loans of approximately HK$115 million (31 December 2006: approximately HK$154 million), without long-term portion (31 December 2006: comprising long-term portion of approximately HK$54 million), with short-term portion of approximately HK$115 million (31 December 2006: approximately HK$100 million). Bank balances and cash amounted to approximately HK$107 million (31 December 2006: approximately HK$136 million), including pledged bank deposits of approximately HK$0.6 million (31 December 2006: approximately HK$8.7 million).

As at 31 December 2007, the Group has obtained banking facilities of approximately HK$223 million from banks in China. Unutilised banking facilities amounted to approximately HK$108 million. The average cost of financing was around 7.5% per annum. The Group has maintained sufficient financial resources for business operation purpose.

As at 31 December 2007, bank borrowings amounted of HK$60 million are denominated in HK dollars and amounted of HK$55 million are denominated in RMB, and are fully repayable by 31 December 2008, with 87% at fixed rates of interest ranging from 5.80% to 8.96% per annum, and the rest are at floating rates of interest at Hong Kong Interbank Offered Rate plus 1.80% per annum. In relation to cash and bank balances amounted of approximately HK$107 million, approximately 86% of which was denominated in RMB, approximately 12% was denominated in Hong Kong dollar and approximately 2% was denominated in other currencies.

KEY FINANCIAL FIGURES AND RATIOS

In the year 2007 several profit and loss items and ratios were enhanced by a lowering level of selling and distribution expenses. Compared with last year, although manufacturing and production cost has risen, the Group was focused on tightening its budget control and expenses, which leads to the gross profit margin after selling and distribution expenses climbed up slightly by around 0.7%, and profit attributable to equity holders of the Company to turnover ratio increased by around 2%.

Taken into account of a significant decrease of bank borrowing balances as at 2007 year end over 2006 year end, the gross debt equity ratio (total bank borrowings/equity attributable to equity holders of the Company, net of intangible assets and goodwill) was decreased to 24.5% and net debt equity ratio was decreased to 1.7%. Average trade receivable turnover day was shortening to around 96 days. However, inventory (excluding goods in transit) average turnover day was climbed up to about 169 days.

As at 31 December 2007, the Group had HK$0.6 million in bank balances and cash, HK$35.1 million in property, plant and equipment and HK$9.8 million in prepaid lease payments on land use rights pledged as collateral to banks. For year 2007, return on equity was on average 10%.

MATERIAL ACQUISITION

On 6 November 2007, the Group and the shareholders of Sichuan Hengtai Pharmaceutical Company Limited ("Sichuan Hengtai") entered into an agreement in relation to the acquisition of the entire equity interest of Sichuan Hengtai, at a consideration of RMB200,000,000, details of which have been disclosed in the announcement dated 12 November 2007, and circular dated 30 November 2007. The acquisition was approved by the shareholders of the Company at the extraordinary general meeting on 20 December 2007. Relevant consents and approvals from the PRC government authorities had been obtained and the acquisition had been completed by this announcement date.

EMPLOYEE INFORMATION

As at 31 December 2007, the Group had 474 employees, comprising 13 in research and development, 284 in production, 9 in sales and marketing, and 168 in general administration and finance. 429 of these employees were located in China and 45 in Hong Kong and Macau.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to market rate. The Group encourages employees to participate in external training programmes to develop themselves on a continuous basis, so as to improve staff quality to meet future challenges and gain a competitive edge. Total staff costs for the year 2007 amounted to approximately HK$52 million.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no material contingent liabilities (2006: Nil).

POST BALANCE SHEET EVENT

The following subsequent events took place subsequent to the balance sheet date:

(a) On 29 January 2008, 67,500,000 share options at an exercise price of HK$0.28 per share were granted to certain directors, employees and consultants of the Group under the share option scheme. Of the 67,500,000 share options granted, 20,250,000 share options are exercisable from 1 October 2008 to 6 February 2012 and the remaining 47,250,000 share options are exercisable from 1 January 2009 to 6 February 2012.

(b) On 7 March 2008, a resolution has been passed by the shareholders for the approval of the change of the company name, and is now pending for obtaining the Certificate of Incorporation on Change of Name at the Registrar of Companies in Hong Kong.

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 2007.

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 2007 annual report will be dispatched to the shareholders and available on the same websites on or before 18 April 2008.

DIVIDEND

Since the Group intends to retain sufficient capital for the business expansion, the Board would not recommend the payment of a final dividend (2006 final dividend: HK1 cent per share).

BOOK CLOSURE

The register of members of the Company will be closed from 13 May 2008 (Tuesday) to 19 May 2008 (Monday), both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for 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, Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, at no later than 4:00 p.m. on 9 May 2008 (Friday).

ANNUAL GENERAL MEETING

An annual general meeting of the Company will be convened on 19 May 2008 (Monday), 11:00 a.m., a notice of the meeting will be dispatched to the shareholders on or before 18 April 2008.

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

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

Hong Kong, 28 March 2008