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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)
(formerly known as Vital Pharmaceutical Holdings Limited 維奧醫藥控股有限公司)
(Stock code: 01164)

**ANNOUNCEMENT – UNAUDITED RESULTS
FOR THE THREE MONTHS ENDED 31 MARCH 2010**

The unaudited quarterly results for the three months ended 31 March 2010 (“Unaudited Results”) of Vital Group Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) was approved by the board of directors of the Company (the “Board”) on 20 July 2010. The Company voluntarily announces its Unaudited Results pursuant to the requirements set out in chapter 13 of the Listing Rules.

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UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2010:

CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		3 months ended 31 March	
	<i>NOTES</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Turnover	2	80,746	135,043
Cost of sales		<u>(27,052)</u>	<u>(33,719)</u>
Gross profit		53,694	101,324
Other operating income		1,293	983
Selling and distribution expenses		(13,951)	(32,315)
Administrative expenses		(16,253)	(35,971)
Finance costs		<u>(44)</u>	<u>(611)</u>
Profit before taxation		24,739	33,410
Income tax expense	3	<u>(1,409)</u>	<u>(3,594)</u>
Profit for the period		<u>23,330</u>	<u>29,816</u>
Profit for the period attributable to:			
Owners of the Company		22,612	29,892
Non-controlling interests		<u>718</u>	<u>(76)</u>
		<u>23,330</u>	<u>29,816</u>
Earnings per share	5		
Basic, for profit for the period attributable to ordinary owners of the Company		<u>HK1.46 cents</u>	<u>HK1.93 cents</u>
Diluted, for profit for the period attributable to ordinary owners of the Company		<u>HK1.46 cents</u>	<u>HK1.93 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	3 months ended 31 March	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<u>23,330</u>	<u>29,816</u>
Other comprehensive income		
Gain arising on revaluation of available-for-sale financial assets	333	256
Gain arising on transfer of property, plant and equipment and prepaid lease payments to investment properties at fair value	5,709	–
Deferred tax liability arising on gain on transfer of property, plant and equipment and prepaid lease payments to investment properties at fair value	<u>(1,427)</u>	<u>–</u>
Other comprehensive income for the period, net of tax	<u>4,615</u>	<u>256</u>
Total comprehensive income for the period	<u>27,945</u>	<u>30,072</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	27,227	30,148
Non-controlling interests	<u>718</u>	<u>(76)</u>
	<u>27,945</u>	<u>30,072</u>

As the Unaudited Results may not reflect the results for the year ending 31 December 2010, investors and shareholders are advised to exercise extreme caution when dealing in the shares of the Company.

NOTES TO UNAUDITED RESULTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited results for the three months ended 31 March 2010 have been prepared in accordance with accounting principles generally accepted in Hong Kong and Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The unaudited results should be read in conjunction with the 2009 annual report. The audit committee of the Company, which consists of three independent non-executive directors, has reviewed the results announcement for the three months ended 31 March 2010.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents invoiced value of sales, net of returns, discounts allowed and sales related taxes. The Group's revenues, results, assets, liabilities and capital expenditure are primarily attributable to the selling, distributing and manufacturing of pharmaceutical and food products. The Group's principal market is in the People's Republic of China (the "PRC"). No geographical information for other country are of a significant size to be reported separately.

3. INCOME TAX EXPENSE

	(Unaudited)	
	3 months ended 31 March	
	2010	2009
	HK\$'000	HK\$'000
PRC Enterprise Income Tax		
- Current period	<u>1,409</u>	<u>3,594</u>

Hong Kong Profits Tax has not been provided for as there was no estimated assessable profit derived from Hong Kong for both periods.

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 Hong Kong Inland Revenue Department (the "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.

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 Group had received an advice from a tax expert that, the profits of that subsidiary for the years of assessment 2000/01 and 2001/02 were neither arisen in nor derived from Hong Kong. The directors of the Company believes that that subsidiary has a reasonable likelihood of success in defending its position that the income derived is non-Hong Kong sourced and therefore, are not subject to Hong Kong Profits Tax and since that subsidiary's operation has remained unchanged during the financial years 2000 to 2002. 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 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% from 1 January 2008 onwards.

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

Certain PRC subsidiaries were either in loss-making position for the current and the previous periods or had sufficient tax losses brought forward from previous period 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 the income tax in Macao.

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.

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

4. INTERIM DIVIDEND

The Board does not recommend any interim dividend for the three months ended 31 March 2010 (three months ended 31 March 2009: Nil).

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2010 is based on the profit for the period attributable to owners of the Company of approximately HK\$22,612,000 (three months ended 31 March 2009: HK\$29,892,000) and the weighted average number of ordinary shares in issue during the period of 1,551,056,993 (three months ended 31 March 2009: 1,551,056,993).

For the three months ended 31 March 2010 and 2009, the computation of dilutive earnings per shares does not assume the exercise of the Company’s outstanding share options as the exercise price of those options is higher than the average market price for shares. Hence, the dilutive earnings per share are the same as basic earnings per share for the three months ended 31 March 2010 and 2009.

BUSINESS REVIEW

For the first quarter of 2010, in regard to uncertainties of renewing the import drug license of “Osteoform calcium amino acid chelate capsule”, the Group had ceased the sales of “Osteoform calcium amino acid chelate capsule” which leads the consolidated sales turnover of the Group dropped to around HK\$81 million, which represent a decrement of approximately 40% year-on-year. During the period under review, the Group had focused on cost cutting and resulted in the decrease in selling and distributing expenses and administrative expenses. The profits attributable to owners of the Company decreased to approximately HK\$22.6 million, representing a decrement of approximately 24% as compared to HK\$29.9 million for the first quarter of 2009.

Product Sales

“Osteoform Calcium Food”, a new food product of the Group

The Group’s new 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 forth quarter of 2009. Turnover during the first quarter of year 2010 was approximately HK\$50 million.

“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 year 2009. The sales turnover for the first quarter of year 2010 was around HK\$4 million.

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

“Vital Fast”, a new flu medication of the Group, turnover during the first quarter of 2010 was approximately HK\$2 million, representing a draw back of approximately 23% when compare to the corresponding period.

Madaus products

For the overseas agency products, the Group is trading products of Madaus GmbH, Germany, which including Legalon (Silymarin), Agiolax (Platain and Senna Granules) and Uralyt-U (Potassium Sodium Hydrogen Citrate Granules), etc. The Group has recorded sales of approximately HK\$21 million in this quarter.

Selling and Distribution Expenses

The selling and distribution expenses for the period under review were approximately HK\$14 million, decreased significantly by about 56% when compared to approximately HK\$32 million year-on-year. The Group had identified that high selling and distribution expenses is a business risk, and aimed at tightening the outflow in years ago, and has achieved a satisfactory outcome in recent years. The selling and distribution expenses to sales turnover ratios were maintained at a low level, the ratio for the reporting period was approximately 17%, whereas the ratios for the corresponding period and for the last whole year were around 24% and around 29% respectively.

Sichuan Hengtai Pharmaceutical Company Limited

Under the strategic deployment for 2010, Sichuan Hengtai's new and existing products have witnessed rapid and successful development in a majority of districts in China, and facilitated academic promotion in new hospitals, laying a solid foundation for launching new products to the market of prescription drugs. In addition, our established commercial network channels ensured the steady growth in sales of "Osteoform Calcium Food". Finally, positive results in our OTC client management have promised relatively stable sales of "Osteoform Vitamins with minerals dispersible tablet" in dispensaries in first and second tier cities. Cooperation with relevant institutions and step-up recruitment of professionals are expected to follow. As to business, we strengthen management and further optimize our commercial channels. Our existing marketing team will step up their efforts in academic promotion in hospitals, with a view to increasing our end user coverage rate as well as profit margins.

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. 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". Due to adjustment of production planning of the Group, the factory temporary suspended its production in the first quarter and has resumed in the second quarter.

The Production Base in Wuhan, Hubei Province, the PRC

During the first quarter of year 2010, 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 new food product "Osteoform Calcium Food".

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

Preparation work for trial production has been launched in the first quarter of year 2010 and GMP certification on the specification of solution for injection will take place in the 2nd half of the year. Meanwhile, "Diammonium Glycyrrhizinate" and "Tetracaine Hydrochloride for Injection" are expected to put into production by end of this year. Sales and marketing team are established and prepared for launching these products.

BUSINESS OUTLOOK

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

In addition, the Directors have been continuing in exploring suitable business opportunities to broaden the revenue base 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.

By order of the Board
VITAL GROUP HOLDINGS LIMITED
Xu Xiaofan
Chairman

Hong Kong, 20 July 2010

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.