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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)

MAJOR TRANSACTION ACQUISITION OF THE ENTIRE EQUITY INTEREST OF SICHUAN HENGTAI AND RESUMPTION OF TRADING

Financial adviser to the Company



Reference is made to the LOI Announcement of the Company in relation to, among others, the entering into of the Letter of Intent by the Company. On the basis of the Letter of Intent, the Company continued to negotiate with the Vendors and eventually agreed on the terms of the Agreement. After the trading hours on 6 November 2007, the Purchaser entered into the Agreement with the Vendors in relation to the Acquisition, pursuant to which the Purchaser agreed to acquire and the Vendors agreed to sell the Sale Interest to the Purchaser. The Consideration of RMB200,000,000 (equivalent to approximately HK\$208,000,000) shall be satisfied in cash by the Purchaser.

Sichuan Hengtai Group is principally engaged in the sale and distribution of pharmaceutical products in the PRC. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors are Independent Third Parties. The Acquisition is subject to the conditions set out in the paragraph headed "Conditions precedent to Completion" below.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the requirements of reporting, announcement and approval of the Shareholders at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, none of the Shareholders has any material interest in the Acquisition nor has any interest that is different from other Shareholders. Accordingly, no Shareholder is required to abstain from voting in relation to the resolution(s) to approve the Acquisition at the EGM.

A circular containing details of, among other things, (i) the Agreement and the Acquisition; (ii) the information about Sichuan Hengtai; and (iii) the accountants' report of Sichuan Hengtai; and (iv) the notice of EGM, will be despatched to the Shareholders as soon as practicable.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 7 November 2007 at the request of the Company pending the publication of this announcement. An application has been made by the Company for resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 13 November 2007.

Reference is made to the LOI Announcement of the Company in relation to, among others, the entering into of the Letter of Intent by the Company. On the basis of the Letter of Intent, the Company continued to negotiate with the Vendors and eventually agreed on the terms of the Agreement. After the trading hours on 6 November 2007, the Purchaser entered into the Agreement with the Vendors.

THE AGREEMENT

Date : 6 November 2007

Parties

Vendors : Ms. Zhou, Mr. Wang and Mr. Xue, who are shareholders of Sichuan Hengtai and, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are Independent Third Parties. The Company has no previous transactions (other than the Acquisition) with the Vendors which required to be aggregated with the Acquisition under Rule 14.22 of the Listing Rule and no previous relationship with any of the Vendors prior to the Acquisition.

Purchaser : 四川維奧製藥有限公司 (Vital Pharmaceuticals (Sichuan) Company Limited*), a wholly-owned subsidiary of the Company, whose principal business activities are manufacturing and trading of pharmaceutical products in the PRC.

Assets to be acquired

Pursuant to the Agreement, the Purchaser has agreed to acquire from the Vendors the Sale Interest, representing the entire equity interest in Sichuan Hengtai.

Consideration

The Consideration of RMB200,000,000 (equivalent to approximately HK\$208,000,000) shall be satisfied in cash by the Purchaser, of which:

- (i) RMB10,000,000 (equivalent to approximately HK\$10,400,000) has already been paid by the Purchaser to the Vendors as refundable deposit on 10 August 2007;
- (ii) RMB40,000,000 (equivalent to approximately HK\$41,600,000) shall be payable by the Purchaser to the Vendors within 1 week from the date on which the Company having obtained the approval by the Shareholders at the EGM in respect of the Acquisition;

- (iii) RMB60,000,000 (equivalent to approximately HK\$62,400,000) shall be payable by the Purchaser to the Vendors within 2 months from the date of Completion, in which the refundable deposit of RMB10,000,000 as referred to in (i) above (equivalent to approximately HK\$10,400,000) will be deducted; and
- (iv) the balance of RMB100,000,000 (equivalent to approximately HK\$104,000,000) shall be payable by the Purchaser to the Vendors within 3 months from the date of Completion.

As disclosed in the LOI Announcement, the Parties originally intended to have the Purchaser settled the Consideration by a combination of cash and consideration Shares. After obtaining further advices from professional advisers of the Company, the Parties determined to have the Purchaser settling the Consideration solely in cash in order to simplify the approval procedures required by the relevant PRC government authorities.

The Consideration was determined after arm's length negotiations between the Parties after taking into account the profit of Sichuan Hengtai for the year ending 31 December 2007 as estimated by the Parties. Based on the unaudited consolidated net profit of approximately RMB24.52 million (equivalent to approximately HK\$25.50 million) for the nine months ended 30 September 2007. The Company intends to settle the Consideration by internal resources and/or bank borrowings. As at the date of this announcement, the Company has not determined the breakdown of the method of financing.

The Directors (including the independent non-executive Directors) are of the opinion that, after taking into account the prospective price-to-earning ratio of Sichuan Hengtai based on the Consideration and the profit of Sichuan Hengtai for the year ending 31 December 2007 as estimated by the Parties, the Consideration is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Conditions precedent to Completion

Completion of the Acquisition is conditional upon, among other things,

- (a) Sichuan Hengtai having obtained all necessary consents and approvals required from all shareholders of Sichuan Hengtai in respect of the Agreement and the Acquisition;
- (b) the Company having obtained the approval by the Shareholders at the EGM in respect of the Acquisition;
- (c) having obtained all necessary consents and approvals from the relevant PRC government authorities in relation to the Acquisition; and
- (d) the Purchaser being satisfied with the results of its commercial, legal and financial due diligence in respect of Sichuan Hengtai.

Completion

Completion will take place upon the fulfillment of all conditions precedent as stipulated in the Agreement. Unless agreed otherwise by the Parties, the Agreement will lapse if any of the conditions precedent under the Agreement is not fulfilled on or before 30 April 2008, in which case, the Vendors shall refund the entire amount already paid by the Purchaser at that time without interest. Upon Completion, Sichuan

Hengtai will become a wholly-owned subsidiary of the Company and the results of Sichuan Hengtai will be consolidated into the account of the Company. Save for Mr. Wang who will remain as the director and corporate representative (法人代表) of Sichuan Hengtai Group, none of the Vendors will hold any position in the Company and/or its subsidiaries upon Completion.

INFORMATION ON SICHUAN HENGTAI

Sichuan Hengtai Group is principally engaged in the sale and distribution of pharmaceutical products in the PRC. The sales network of Sichuan Hengtai Group covers over 7,700 distributors in the PRC and it has established a mature sale and distribution system with more than 40 branch offices and around 300 promotion and service stations located in major cities in the PRC, coordinating a sales and promotion team with over 1,200 members throughout the country. It is also the strategic partner of more than 2,000 pharmaceutical companies and has successfully set up sales channels in over 160,000 pharmacies, 49,000 medical centers and a number of supermarkets and shopping centers in the PRC.

As at the date of this announcement, Sichuan Hengtai is owned as to 40%, 30% and 30% by Ms. Zhou, Mr. Wang and Mr. Xue respectively.

Financial information of Sichuan Hengtai

As at 30 September 2007, the unaudited consolidated net assets value of Sichuan Hengtai based on the PRC GAAP was approximately RMB76.08 million (equivalent to approximately HK\$79.12 million).

Set out below are the unaudited financial information of Sichuan Hengtai for the two financial years ended 31 December 2005 and 2006 based on the PRC GAAP:

	For the year ended 31 December			
	2005		2006	
	<i>RMB million</i>	<i>HK\$ million equivalent</i>	<i>RMB million</i>	<i>HK\$ million equivalent</i>
Turnover	322.99	335.91	366.33	380.98
Profit before taxation	0.37	0.38	12.03	12.51
Profit after taxation	0.21	0.22	8.05	8.37

REASONS FOR THE ACQUISITION

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

In view of the pharmaceutical industry in the PRC has commenced a resource re-allocation process and given that the structural changes in the market as a result of keen competition and its own development trend, the Directors consider that the Group has to take a proactive approach in order to cope with the changes. Accordingly, the acquisition of quality downstream assets in the PRC by the Group for the vertical expansion of the Group's business is in line with the business development strategies of the Group.

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. And given that the connectivity of operations, complementariness of assets and consistency of business strategies, the Acquisition may give rise to a leading pharmaceutical company with a focus on the market needs. The immediate and direct effect of the Acquisition is that it creates significant synergies in terms of financial performance, operation scale and industrial organization and in turn enhance the Company's ability in tackling risks and realize the Group's growth potential in the long run.

GENERAL

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the requirements of reporting, announcement and approval of the Shareholders at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, none of the Shareholders has any material interest in the Acquisition nor has any interest that is different from other Shareholders. Accordingly, no Shareholder is required to abstain from voting in relation to the resolution(s) to approve the Acquisition at the EGM.

A circular containing details of, among other things, (i) the Agreement and the Acquisition; (ii) the information of Sichuan Hengtai; (iii) the accountants' report of Sichuan Hengtai; and (iv) the notice of EGM, will be despatched to the Shareholders as soon as practicable.

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DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“Acquisition”	the acquisition of the Sale Interest pursuant to the Agreement
“Agreement”	the conditional agreement dated 6 November 2007 entered into between the Purchaser and the Vendors in relation to the Acquisition
“Board”	the board of Directors
“Company”	Vital BioTech Holdings Limited, a company incorporated in Cayman Islands with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Agreement
“Consideration”	the consideration for the Acquisition

“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Shareholders to be convened to consider and if thought fit, approve the Agreement and the Acquisition
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	independent third party(ies), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, which is/are independent of the Company and its connected persons (as such term is defined in the Listing Rules)
“Letter of Intent”	the non-binding letter of intent entered into between the Company and the Vendors dated 26 July 2007, details of which have been disclosed in the LOI Announcement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“LOI Announcement”	the announcement of the Company dated 27 July 2007 in relation to, among other things, the entering into the Letter of Intent by the Company
“Mr. Wang”	Mr. Wang Ji (王驥先生), who is interested in 30% of the equity interest in Sichuan Hengtai
“Mr. Xue”	Mr. Xue Yang (薛洋先生), who is interested in 30% of the equity interest in Sichuan Hengtai
“Ms. Zhou”	Ms. Zhou Xuanchuan (周旋川女士), who is interested in 40% of the equity interest in Sichuan Hengtai
“Parties”	the Purchaser and the Vendors
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	PRC Generally Accepted Accounting Principles
“Purchaser”	四川維奧製藥有限公司 (Vital Pharmaceuticals (Sichuan) Company Limited*), a company incorporated in the PRC with limited liability, a wholly-owned subsidiary of the Company

“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interest”	the entire equity interest in Sichuan Hengtai
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Sichuan Hengtai”	四川恆泰醫藥有限公司 (Sichuan Hengtai Pharmaceutical Company Limited*), a company incorporated in the PRC
“Sichuan Hengtai Group”	collectively, Sichuan Hengtai and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendors”	Ms. Zhou, Mr. Wang and Mr. Xue
“%”	per cent.

For the purpose of this announcement, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1 to HK\$1.04. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.

By order of the Board
Vital BioTech Holdings Limited
Leung Wai Pong
Company Secretary

Hong Kong, 12 November 2007

* *for identification purpose only*

As at the date of this announcement, the Board 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.