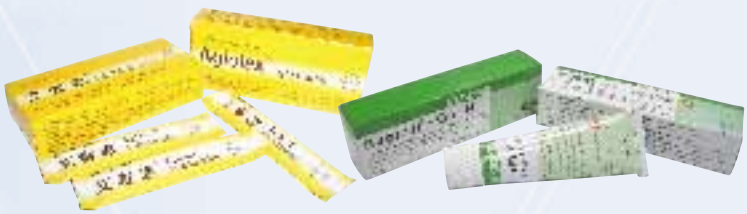
On behalf of the Board of Directors (the "Board"), I am pleased to report the audited consolidated results of Vital BioTech Holdings Limited ("Vital BioTech") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2003. In general, the Group has been growing steadily and smoothly in the right directions this year.

SALES AND DISTRIBUTION

Turnover increased tremendously and the profit margins from these activities were satisfactory. In the coming years, the Group expects a breakthrough in the distribution of overseas agency products. Through the consistent hard work of our loyal team, we have secured 3 contracts of sole and exclusive distribution right for pharmaceutical and health supplement products in China. Of these, the project with a prominent European pharmaceutical company is moving towards an intensive dialogue for forming joint ventures in China.



CORPORATE FINANCE

In August 2003, the Group changed its listing status from GEM to main board. In spite of costing the Group about HK$5 million which reduced the reporting profits for the year, both the trading volume and price of Vital BioTech's shares have increased substantially. Our investors and shareholders have enjoyed considerable investment growth. In addition, Vital BioTech has been admitted by the Hong Kong Stock Exchange as one of the 217 designated securities for short selling. This reflected an increasing awareness of the Group from the supervisory authorities and market players. I have to remind our shareholders that both the trading volume and price of our shares may become increasingly volatile as a result.

In February 2004, the Company placed 170 million new shares at HK$0.72 each to institutional investors. The net proceeds of approximately HK$119 million will mainly finance the production and distribution of the newly committed agency product business and the EPO research and development project.

FINANCIAL PERFORMANCE

Turnover increased from HK$168 million to HK$280 million, an increase of over 60%. Profit attributable to shareholders increased from HK$40 million to HK$61 million, an increase of over 50%. The Board recommended a final dividend per share of HK1.5 cents. Together with an interim dividend paid during the year of HK1 cent each, total dividends per share for the year are HK2.5 cents, representing an increase of 25%.

CHINA SALES AND DISTRIBUTION

Our flagship product, Osteoform, a compound amino acid chelate capsule, has contributed more than 90% of the Group's revenue this year. The product has been classified as an over-the-counter drug by the Pharmacopoeia Commission of the People's Republic of China and is sold in both hospitals and drug-stores. Osteoform is clinically proven for the prevention and treatment of osteoporosis. Its sales performance was outstanding. In March 2003, Osteoform was ranked first, both in terms of sales volume and dollar value in the mineral, rare elements and nutritional supplement pharmaceutical sector (*The Report of the Chinese Pharmaceutical Retail Market*). This recognized Osteoform as one of the best-sellers, placing it alongside with other major international brands on the list. In the following months, Osteoform's ranking was consistently in the top five. We are breaking the market dominating position of multi-national pharmaceutical companies in China.

RESEARCH AND DEVELOPMENT

The Group owns two proprietary pharmaceutical platform technologies: the Protein Stabilization and Delivery System (PSD) and the Skin Drug Delivery System (SDDS). The applications of PSD technology to 3 of the new drugs are on schedule. These projects will provide a blue-sky future for the Group:–

Erythropoietin (EPO) Sublingual Tablet Project "EPOTAB®"

Erythropoietin (EPO) is a natural protein produced by our kidneys which stimulates the body to produce red blood cells. It is used to treat anemia caused by kidney failure and the side-effects of cytotoxic drugs on cancer or AIDS patients. As a product, it is currently only available in injectable form. EPO is protected by international patents. The international supply of EPO is monopolized by major pharmaceutical companies. As various patents on EPO are expiring in the near future, competing products will appear and competition is expected to be extremely keen.

Two subsidiaries of the Group, Vitapharm Research Pty Ltd (Vitapharm Research) in Australia and Vital (Sichuan) Biotech Ltd in China are developing an oral sublingual tablet of Human Recombinant Erythropoietin (rHuEPO) based on our PSD technology. We have registered the trademark EPOTAB® for this product. Over the years, we have carried out a series of tests on animal disease models. The tablet was found to be as effective as EPO injections in test animals. Compared to the traditional injectable product, which requires refrigerated storage, EPOTAB has the advantages of being stable at room temperature, more patient-friendly, and more cheaply producible. EPOTAB will redress the shortcomings of injectable EPO and its clinical application is expected to be much wider. It will have enormous market potential.

This project has progressed to a critical stage. Two international pharmaceutical companies have accepted the EPOTAB concept. One of them may provide material to Vitapharm Research to support more experimental work. Another pharmaceutical company may be involved in concurrent animal testing in Australia and America to compare the results. The Group is planning to finalize all pharmacodynamic "pD" and pharmacokinetic "pK" studies by end of 2004.

To facilitate joint investigations with these international pharmaceutical companies, the Group is discussing cooperation with drug-delivery specialists in the USA.

Upon completion of the pD, pK and other studies, our next goals are to identify industry partners, finalize the considerations in the technology transfer agreements and begin human clinical trials in 2005. If all these go well, the Group will receive a considerable reward from the project.

Veterinary Project: Room Temperature Stable Animal Vaccine and RECEPTORASE®

Vaccines are biological medications for the prevention of infectious diseases. In most cases, the costs of freeze-drying and refrigerated transportation are the major contributors to high product costs for vaccines. In 2002, our partner in China independently completed biological tests on experimental vaccine samples produced with the PSD technology. The results showed that PSD technology can maintain the biological activity of vaccines, allowing them to be stable at 25°C. In 2003, there has been some significant changes in our partner's management. The new management needs more time to understand our technology which is relatively innovative in China. Meanwhile, the Group will consider partnering with another large vaccine manufacturer in order to maintain the momentum of this project in China.

Receptorase is one of the most advanced enzyme-based oral biological medications for the treatment and prevention of intestinal infections in piglets. The product contains stabilized biologically active enzymes that utilize Vital BioTech's PSD technology. Receptorase is a new generation "green farming" biological product that has a very broad spectrum of activity. It leaves no harmful residues in pig meat and, unlike antibiotics, will not cause bacterial drug resistance.

In 2003, Vitapharm Research has been liaising with an international pharmaceutical company. The potential partner has initially accepted the PSD technology concept on vaccines and Receptorase. A specialist has been appointed by this partner to focus on these two veterinary projects. We both have a mission to develop a series of animal vaccines and to broaden the scope of testing and study. The extensive outbreak of avian flu in early 2004 has however diverted the attention of most research institutions to this epidemic. This inevitably hindered our project progress.

The Group has experienced difficulties in sourcing suitable raw materials in China for Receptorase. We are opting for importing from Australia for experimental and pilot production in China. A wholly owned subsidiary was set up to work on this project. We have employed a Chinese veterinary specialist to head this subsidiary. The Group's strategy is to localize the PSD technology so as to strengthen the development of Receptorase in the China veterinary drug market.