Chairman's Statement

I, on behalf of the board of directors (the "Board"), hereby announces the audited consolidated results of Vital BioTech Holdings Limited (the "Company" or "Vital BioTech") together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2004. During the year, the Group underwent various transitional adjustments or changes in several important areas. The Group has tried the best effort to carry on and settled all these major transitional adjustments at the date of this statement.

The successive changes in management together with the adjustments of the distribution business strategies were among the reasons for the adverse fluctuation of the Group's annual results. In the 4th quarter of 2004, the Group recorded for the first time an operating quarterly loss of up to HK$9 million. The quarterly loss dragged down the full-year results to HK$33 million. On a year-on-year basis, the Group recorded a negative growth of 46%.

THE CHANGES IN MANAGEMENT

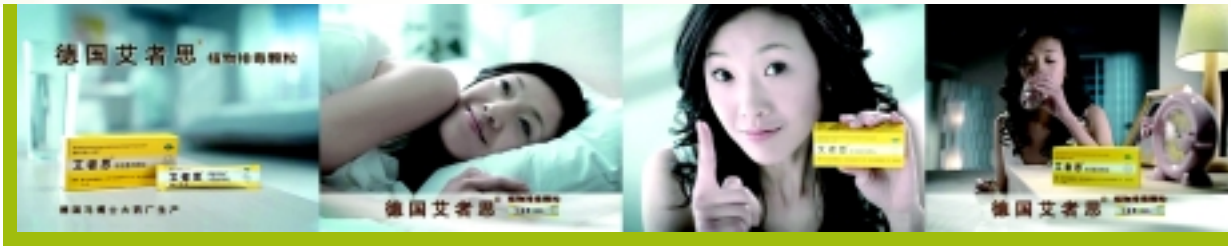
In the annual general meeting held in April 2004, the shareholders newly appointed, from amongst the founders of the Group: Mr. Shen Songqing and Mr. Huang Jianming; Mr. Jin Wei and Mr. Liao Yong Guang as Executive Directors. In addition, Mr. Liu James Jin, one of the founders of the Group, was re-designated from the position of Executive Director to Non-executive Director.

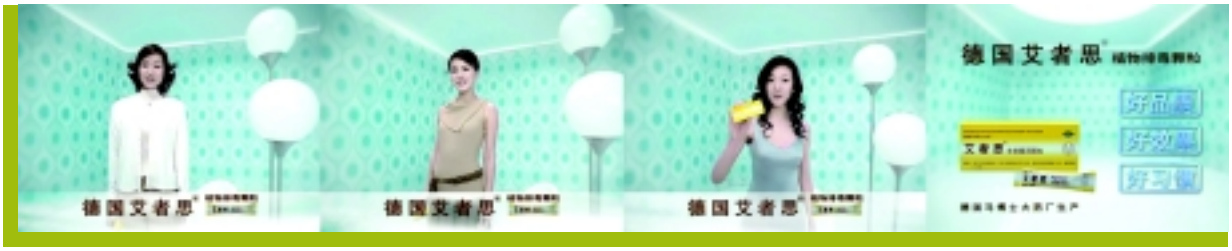
In the 4th quarter of 2004, there were major changes to the management of the Company. Mr. Ko Sai Ying retired as Chairman and Executive Director and I, Tao Lung, have taken up the Chairmanship in succession. Mr. Ko has further resigned from all of his positions held within the subsidiaries of the Company and as of March 2005 thereby holds no official position within the Vital BioTech Group. Mr. Au Yeung Terence Ping Yuen has resigned as Deputy Chairman and Executive Director and was appointed as the general manager of Vitapharm Research Pty Ltd ("Vitapharm"), a subsidiary of the Company in Australia. Mr. Liao Yong Guang resigned as Executive Director while Mr. Xu Xiaofan, who recently joined the Group, was appointed as Executive Director and Chief Executive Officer. Mr. Liu James Jin has been re-designated back to Executive Director again. In addition, Mr. Yeung Chi Tat has filled the vacant position of Qualified Accountant, Chief Financial Officer and Company Secretary of the Company.

THE ADJUSTMENTS TO THE DISTRIBUTION BUSINESS

Although the sales turnover has recorded a growth, the net profit margin to the distribution business was counterbalanced by the substantial increase in selling and distribution expenses. Approximately 90% of the Group's turnover for the year was contributed by the sales of Osteoform. Opin is expected to be re-launched in mid 2005. Additional promotional efforts were spent on other new products, whereas, the breakthroughs expected from the distribution of overseas agency products were not realized. As the financial resources were focused on the promotion of pharmaceutical drugs, the health supplement agency business of the branded product: VitaHealth and Herbs of Gold from South-east Asia and Australia respectively, were suspended. The agency and packaging business of the 2 products from Madaus AG, Germany were launched as scheduled, although the market penetration of the products still required further effort. By late 2004, the unsatisfactory results from the distribution of the vaccine for treatment of allergies supplied by a Danish vaccine factory forced an early termination to this agency distribution business. Nevertheless, the directors have pursuited their strategy of distribution of imported drugs with advance formulation and shall reconsider the feasibility of distribution of health supplements cautiously.

Chairman's Statement





THE ADJUSTMENTS TO SELLING AND DISTRIBUTION EXPENSES

Historically, the income of the Group was mainly generated from the sales of Osteoform. The directors recognized the need to offset the commercial risk from the over-reliance on a single product. Commencing in 2003, the Group prioritized the development of in-house products and import of foreign drugs for distribution into China and we have approximate nine products on the product list currently. Selling and distribution expenses soared considerably as the marketing activities for launch of new products gathered momentum. The ratio of selling and distribution expenses to the sales turnover figure increased from 26% in 2003 to 39% in 2004. Among the total expense items, 18% was spent on new products.

Our ex-auditors Messrs PricewaterhouseCoopers drew our attention to the substantial increase in the transaction volume and value of the selling and distribution expenses of the Group. The need to review internal control procedures for selling and distribution expenses was expressly conveyed to the Company. The management recognized the issue but nevertheless could not reach a conclusion with Messrs PricewaterhouseCoopers about the procedures and timelines for completion of the recommendations. Moreover, the lack of communication between the management and auditors resulted in the resignation of Messrs PricewaterhouseCoopers as auditors of the Company and negative impact of the corporate image of the Company.

The administration of selling and distribution expenses was always the preference of the Group. The internal audit department has reviewed the existing control procedures. We have strengthened the control points and have penalized the incompetent staff. We shall adjust the size of the marketing team from time to time.

Chairman's Statement

FINANCIAL PERFORMANCE

Sales turnover for the year increased from HK$281 million to HK$343 million at a growth rate of above 20% year-on-year. The profit attributable to shareholders dropped 46% year-on-year from HK$61 million to HK$33 million. Since the Company has paid an interim dividend of HK0.5 cent per share, the Board does not recommend a final dividend for the year in order to retain the cash flow for business operation. (The total dividends last year were HK2.5 cents per share.)

RESEARCH AND DEVELOPMENT

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. The present dosage form is by injection only.

The on-going pharmacological studies in animal models in China and Australia, including pharmacokinetic, pharmacodynamic and stability studies are progressing steadily. Subject to the satisfactory results from these studies, the information obtained will be reviewed and submitted for ethical approval in preparation for phase 1 clinical trial in late 2005 to early 2006.

PSD technology on non-injection form of Animal Vaccine:

Vaccines are biological medications for the prevention of infectious diseases. In most cases, the costs of aseptic production of injection products, freeze-drying and refrigerated transportation are the major contributors to high product costs for vaccines. Opportunity for further development of Protein Stabilisation and Delivery System ("PSD") technology for enteric mucosal delivery is proceeding as planned after the signing of an agreement with a renowned international pharmaceutical company in 2004. The raw materials and instructions on the first work order have been received in the 4th quarter 2004 and Vitapharm has commenced prototype preparations.

In the initial phase, Vitapharm will further develop PSD formulations for enteric mucosal delivery with different pH stability profiles. Quantitative markers have been selected and assay procedures are under development. Appropriate polymers with defined specifications for prototype preparation & testing are scheduled for investigation during 2005.

Receptorase®:

Receptorase is one of the most advanced enzyme-based oral biological medications for the treatment and prevention of intestinal infections in piglets. Vitapharm is working to improve the product quality to international standards and establish an in-house product QC capacity according to international standards in 2004. Vitapharm will evaluate active raw materials to international standards in 2005.

Chairman's Statement

APPRECIATION

Last but not least, on behalf of the Board, I would like to take this opportunity to express my sincerest gratitude to our business partners, customers and shareholders for their unwavering support as well as to all our staff for their enthusiasm and dedicated efforts. Vital BioTech endeavours to maintain and further enhance its corporate governance standards and transparency. Also, the Group will capitalize on its extensive market experience and industry know-how to extend its business reach. I believe the Group will continue to strive for better results for its shareholders in the coming year.

TAO Lung
Chairman

Hong Kong, 25 April 2005