



Chairman's Statement

I hereby announce the year 2005 audited consolidated results of Vital BioTech Holdings Limited ("Vital" or the "Company") and its subsidiaries (the "Group") on behalf of the board of directors (the "Board"). As at the date of this report, the Group had streamlined its management structure for higher effectiveness and transparency to become market oriented, and had come up with our development strategies accordingly. Moreover, we had also effected adjustments to our operating departments upon the Group's forward looking evaluation of the market.

CORPORATE GOVERNANCE

In respect of corporate governance, the Board step up its management of the Group and exercise stringent performance measure. The Group will on one hand continue with the fine-tuning of its operations and consolidate its structure, so that our operations will become more and more scientific and sound, thereby laying a solid foundation for our long-term sustainable development. On the other hand, the Board will continue with its internal auditing on our operating units and functional and management departments, in order that our overall management standards can be enhanced.

BUSINESS REVIEW

In 2005, as a result of recognising the impairment of certain investment as well as adjustments to certain distribution operations, the Group's operations had experienced some short-lived fluctuations, and our annual results had declined to approximately HK\$21 million, which represented a decrease of 34% over the last year.

Our turnover increased from HK\$343 million to HK\$446 million, an increase of approximately 30%; our profit attributable to shareholders decreased by 34%, from HK\$32 million to HK\$21 million. With the fierce market competition and the need to market new products, the selling expenses of the Group has also increased, and the percentage of selling expenses to turnover stayed at 39% in 2004 and 2005.

Since an interim dividend of HK¢1 had been paid in 2005, the Board would not recommend the payment of a final dividend for capital to be retained for our business (2004: dividend for the year was HK¢0.5).



FUTURE PLANS AND PROSPECTS

At present, significant reform had been imposed on the pharmaceutical administration policy by the PRC government, and the industry landscape had been changed considerably. With this, the Group encountered keen competition in the pharmaceutical market, and its operations had met challenges. The management had reviewed and evaluated its various operations, and had prudently adopted countermeasures against such developments in order to adapt to the market changes.

Based on our past experience, the Board will continue to avoid over-reliance on the sale of Osteoform, our single product, by diversifying its business. As such, the group will be sparing no efforts in developing other products and introducing overseas pharmaceuticals for distribution in the PRC. The list of our products for sale has been increased to 15 in number.

During the year, we recorded an increase in our sales. However, with the increase in selling expenses, the profit margin of our sales operation was trimmed. At present, 88% of the Group's turnover came from Osteoform. The Group will continue to leverage on its strengths and market experience to identify products suitable for distribution and broaden our source of income.

During the year, Vital BioTech pursued a prudent expansion and cost control strategy. In order to advance towards a clearly defined direction with steady development, the Group has made a careful evaluation on every operation. Of which, having evaluated the scientific research operation for the past three years, we have come to realize the heavy commitment of capital required by such scientific research operation, the research and development cycle and period of return of which are long, and any results thereon are difficult to be commercialized. Having taken into account the risks and return, the Group has made adjustments to the scientific research operation in order that it will be in the interests of the Company and shareholders. The Group will be market oriented and will consolidate our strengths to ensure the performance of our operations.

ACKNOWLEDGEMENTS

On behalf of the Board, let me extend our appreciation of the continued support of our business partners, customers and shareholders. I also express my heart-felt thanks to the dedicated efforts of all of our staff over the past year. Vital BioTech will spare no efforts in adhering to and improving of our corporate governance and transparency, and in exploring our business with our bountiful market experience and technical know-how. It is my firm belief that the Group will move to a new high in its results and bring about even better return for its shareholders.

Tao lung
Chairman

Hong Kong, 13 April 2006