

Chairman's Statement

I hereby announce the audited consolidated results of Vital BioTech Holdings Limited ("Vital" or the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006 on behalf of the board of directors (the "Board"). During the year, Vital implemented prudent expansion and budget strategies to consolidate its leading business and lay a more solid foundation for its future development.

CORPORATE GOVERNANCE

Since the adoption of the new corporate governance rules, Vital underwent reforms and implemented sound corporate governance practices and policies through a more organized governance structure. With transparency and openness enhanced, the reformed corporate governance structure discloses all aspects of its corporate governance practices to enable shareholders to judge whether the Group's various governance practices meet their expectation. In the coming year, we will continue to strengthen the Group's management and strictly examine the operational efficiency to consolidate the structure. We will also review the existing principles and practices on an ongoing basis, so as to respond to the ever-changing corporate governance practices and regulatory changes.

BUSINESS REVIEW

In 2006, as a result of the satisfactory sales of our flagship product "Osteoform", and the Group's continuous effort in controlling the cost of sales, selling and administrative expenses, coupled with the appreciation of RMB, the Group's profit before tax for the year increased to approximately HK\$47 million, representing an increase of approximately 77% over last year.

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The turnover of the Group increased from approximately HK\$446 million to approximately HK\$487 million, representing an increase of approximately 9%. Profit attributable to equity holders increased approximately 74% from approximately HK\$22 million to approximately HK\$38 million. Due to fierce market competition and the launch of new products, the Group had to continue to incur sales expenses so as to maintain its market reputation. While the Group endeavours to promote its products, it also pays much attention to and control the selling and distribution expenses, resulting in a drop of the proportion of selling and distribution expenses to turnover from approximately 39% in 2005 to approximately 36% in 2006.

Since profit attributable to the Group's shareholders for the year increased substantially from last year, the Board recommends a final dividend of HK 1 cent per share (2005: final dividend for the year was nil) to bring stable income to its shareholders.

FUTURE PLANS AND PROSPECTS

At present, the pharmaceutical management policy in the PRC is still at an unstable stage. A series of reforms have led to a significant adjustment to the industry landscape. We therefore monitor, assess and review our business on a continuous basis and implement corresponding reforms. In order to capture the business opportunities brought by the reforms, we integrate our strengths and resources to enhance the Group's competitiveness and market share.

During the year, we implemented prudent expansion and budget strategies to strengthen business in which we have advantages. In addition, in order to be prepare for the new challenges ahead, we took the initiatives to establish a plant which complies with GMP specifications in Hong Kong. The new plant will commence production in 2007 to fully capture the advantages brought by CEPA. While the effect of policy reform on the Group's products was mitigated, the future business performance is also guaranteed, enabling the Company and its shareholders to enjoy more stable and fruitful income.



During the year, the Group's growth in turnover and its effort in controlling selling and distribution expenses contributed to an increase in profit in 2006. Approximately 93% of the Group's existing turnover is generated from "Osteoform". Capitalizing its strength and market experience, the Group will seek to develop other pharmaceuticals and distribute pharmaceuticals introduced from overseas into PRC. This move not only increases the Group's income stream, but also reduces the business risk of relying on single product. The Group currently sells more than 10 types of products, a portfolio larger than before.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express our heartfelt gratitude to our business partners, customers and shareholders for their relentless support. I would also like to thank all our staff for their dedicated efforts over the past year. It is my firm belief that, by sparing no efforts in adhering to and improving our corporate governance and transparency, and in exploring our business with our bountiful market experience and expertise in the industry, we have succeeded in laying a solid foundation. We are confident that we will create a prosperous future for the Company in the long run and bring about even better return for our shareholders.

Tao Lung

Chairman

Hong Kong, 23 March 2007