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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)

## CHANGE OF AUDITORS

The Board announces that Messrs. PricewaterhouseCoopers resigned as auditors of the Company with effect from 17 December 2004 and Messrs. Ho and Ho & Company have been appointed as new auditors of the Company with effect from 20 December 2004 to fill the causal vacancy until the conclusion of the next annual general meeting of the Company.

The board of directors (the "Board") of Vital BioTech Holdings Limited (the "Company") announces that Messrs. PricewaterhouseCoopers (the "Resigning Auditors") resigned as auditors of the Company with effect from 17 December 2004.

The Resigning Auditors have issued a letter to the Board (the "Letter") with detailed explanations about their resignation.

The Board summarizes the following points from the Letter and explains:-

1. The Board has noticed that the selling expenses of a major subsidiary of the group, Vital Pharmaceuticals (Sichuan) Co. Ltd. (the "Subsidiary") have increased due to launching new products and intensification of marketing activities in 2004. On 14 July 2004, the Board has proactively engaged PricewaterhouseCoopers Limited to perform an investigation on a sampling basis the selling expenses of the Subsidiary to tighten internal controls in accordance with the request of the Audit Committee of the Company. PricewaterhouseCoopers Limited have completed that special engagement with findings of internal control weaknesses that drawn to the attention of the Board. The Resigning Auditors have prioritized that issue and have requested a more thorough and detailed review of the selling expenses of the Subsidiary to be completed and endorsed by the Board and the Audit Committee of the Company by 10 December 2004 (the "Tasks"). The Board has taken the necessary actions internally with reference to the work done by PricewaterhouseCoopers Limited. However, the Board is not able to complete the Tasks to the entire satisfaction of the Resigning Auditors by 10 December 2004. The Board regards that the review of selling expenses is an on-going process with an objective to improve our internal controls from time to time. The Board will complete the Tasks by our internal audit division with the findings and recommendations approved by the Audit Committee of the Company before the issuance of the 2004 Annual Report.
2. On 26 November 2004, the Board has replied to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in connection with certain unfounded allegations (the "First Inquiry"). The Resigning Auditors have requested a clarification letter from the Company to the Stock Exchange to address the questions and issues in a clearer and more logical manner. While the Board was preparing for an additional submission to the Stock Exchange, the Board has received a second inquiry (the "Second Inquiry") from the Stock Exchange on 15 December 2004 in connection with those unfounded allegations which has rendered the additional submission in connection with the First Inquiry unnecessary. On 20 December 2004, the Board has replied to the Stock Exchange about the Second Inquiry which is still under review by the Stock Exchange. The Board believes that it has failed to handle the First Inquiry from the Stock Exchange to the satisfaction of the Resigning Auditors.
3. The Resigning Auditors have read an informal message (the "Informal Message") written by two Executive Directors, Mr. Shen Songqing and Mr. Huang Jianming which the Resigning Auditors regarded that message to be unusual and disturbing. The Board clarifies that the Informal Message contained certain emotional expressions about the First Inquiry which was intended for warning the staff only and should not be presented to the Resigning Auditors. The Board has made a formal apology to the Resigning Auditors on 20 December 2004 for the misunderstandings caused by the inappropriate communication manner of our directors and staff.

Finally, the Board believes that the Company has failed to maintain a good communication manner with the Resigning Auditors. The Board further expresses its sincere appreciation to the diligent works delivered by the Resigning Auditors for these past years.

The Board further announces that Messrs. Ho and Ho & Company were appointed as new auditors of the Company with effect from 20 December 2004 to fill the casual vacancy following the resignation of the Resigning Auditors until the conclusion of the next annual general meeting of the Company.

The Board as at the date of this announcement comprises six executive directors: Mr. Tao Lung, Mr. Xu Xiaofan, Mr. Liu James Jin, Mr. Jin Wei, Mr. Shen Songqing and Mr. Huang Jianming and three independent non-executive directors: Mr. Lui Tin Nang, Mr. Lee Kwong Yiu and Mr. Lo Wa Kei Roy.

By order of the Board  
**VITAL BIOTECH HOLDINGS LIMITED**  
**Tao Lung**  
Chairman

Hong Kong, 21 December 2004

"Please also refer to the published version of this announcement in China Daily."