

CHAIRMAN'S STATEMENT 主席報告

Dear Shareholders,

The fiscal year ended 30 June 2006 is probably the most challenging year for the Group for the last 14 years of operation in the People's Republic of China, excluding Hong Kong and Macau (the "PRC"). The result is that the Group posted a loss of approximately HK\$39.92 million for the fiscal year. The losses are mainly contributed by a continual decline in revenue. Moreover, although the Group has been striving to tightly control over the operating overheads, it is still necessary to strategically increase distribution and promotion cost under such a difficult market environment.

The Group's revenue declined by approximately 31.30% when compared with the fiscal year 2005. Multi-functional water generators sales hit the biggest fall, followed by BIOenergy® products. The impact from the issuance of the "Document No. 10" (the "Document") issued by the Ministry of Health in the PRC back in July 2005 has drastically slowed down the sales of multi-functional water generators. The management team has put concerted effort to minimise the downside through a series of marketing and branding campaigns in upkeeping our brand equity and solidifying the confidence of our customers and franchisees. All these actions have helped to a slow recovery of the water generator business but it is still approximately 43.17% less than the business in 2005. To further mitigate the regulatory pressure, in addition to continuing with our marketing and branding efforts, the Group has successfully obtained the registration certificate for medical device (醫療器械註冊證) for our Hefei factory manufactured multi-functional water generators in March 2006 and confirmed that the multi-functional water generators have adjuvant functions for certain illnesses. The shift of operation idea from "health-care oriented" to "medical oriented" greatly enhanced its competitiveness.

The media attention to exaggeration of healthcare product promotion has made consumer buying more cautious and picky. This led to a higher overhead for the Group's sales activities, which resulted in lowering our operating margin. The overall gross margin of the Group has declined by approximately 3.30% points in the fiscal year, with sales and distribution costs increased by approximately 6.00% in order to help regaining confidence from our customers and franchisees under the difficult market environment.

Despite all these, our brand continues to gain endorsement from government authorities. We are pleased to announce that our "Vitop" brand for BIOenergy® products has been named "China Well-known Trademark" 《中國馳名商標》 by the State Administration for Industry & Commerce (國家工商行政管理總局) on 31 December 2005. This offers a solid credibility to our intellectual properties, BIOenergy®, in competing against our competitors.

各位股東：

本集團過去十四載於中華人民共和國(不包括香港及澳門,「中國」)經營業務以來,截至二零零六年六月三十日止財政年度可能是最具挑戰的一年。於本財政年度,本集團錄得虧損約3,992萬港元。出現虧損的主要原因是收入持續減少;此外,本集團雖然盡力嚴格控制經常性經營成本,但由於市場環境惡劣,仍須策略性地增加分銷及促銷成本。

本集團收入較二零零五年財政年度減少約31.30%。多功能製水機的銷量錄得最大跌幅,其次為天年素®系列產品。受中國衛生部於二零零五年七月發出的「十號文件」(「該文件」)所影響,多功能製水機的銷情大幅放緩。管理團隊同心協力,致力減輕所受影響,透過推行一系列市場推廣及品牌宣傳活動,保持本集團的品牌權益,並加強客戶及特許商的信心。以上一切行動均有助逐步重振製水機業務,惟仍較二零零五年下降約43.17%。為進一步舒緩監管壓力,在繼續配合市場推廣及品牌宣傳活動外,本集團於二零零六年三月成功為美菱工廠生產的多功能製水機取得醫療器械註冊證,並確認該多功能製水機對部份疾病有輔助治療功效,由此實現從「保健」到「醫療」的轉變,大大加強了產品的競爭力。

由於傳媒廣泛報道部份保健行業經營者的虛假和浮誇不實的宣傳活動,令客戶在購買產品時更為審慎。因此,增加了本集團銷售活動的經常性成本,導致經營利潤下降。於本財政年度,本集團整體的毛利率減少約3.30個百分點,而銷售及市場推廣開支則約增加6.00%,以助本集團於惡劣市況下令客戶及特許商重拾信心。

儘管遇上困難,本集團的品牌仍繼續得到政府機關的認可。本集團欣然宣佈,天年素®系列產品所使用的「天年」品牌於二零零五年十二月三十一日榮獲國家工商行政管理總局評定為「中國馳名商標」。與競爭對手競爭時,此項殊榮將賦予本集團的知識產權——天年素®殷實的口碑。



Given the changes in market sentiment and increase in competitive pressure for both multi-functional water generators and BIOenergy® sleeping systems, the Group has committed to continuous improvement and development of our products. Together with Japan's OSG (our Japanese partner in multi-functional water generators), and the effort of our Hefei factory, we are driving to a more efficient supply chain for the products, spare parts and filters. We aimed at offering a full range of PRC made multi-functional water generators in the coming year. In BIOenergy® products, the Group is working on the next generation BIOenergy® products that incorporate both nanotechnology and electro-magnetic technology.

Distribution strategy is another area that the Group will continue to innovate. Together with the existing distribution network, the Group is putting resources in marketing our products to commercial and industrial customers. At the same time, we see the need to help our franchisees improve their points of presence and efficiency in selling the products. Service support is another area that allows Vitop add more value to our customers, the Group is strengthening our service offering that bundle with the multi-functional water generators in order to ease out concerns of on-going maintenance and support from consumers.

Without doubt, we have not been performing well. The annual result is a reflection of challenges from both the market and human resources for the Group. The board of directors has recognised that there is an urgent need to broaden our management bottleneck and the Group is now actively hunting for talent with multinational sales and marketing experience to lead the Group forward.

On behalf of the Board, I would like to extend my sincere thanks to our shareholders, customers, suppliers and business partners for their continual support throughout this period of tough time. We have all the confidence to overcome these difficulties and we are committed to re-engineering the Group as a leader in the healthcare and wellness market.

Hung Kai So
Chairman

Hong Kong, 20 October 2006

鑑於市場氣氛有變，加上多功能製水機及天年素®睡眠系統的競爭壓力日重，因此，本集團孜孜不倦地改善及開發其產品。除日本OSG（本集團多功能製水機的日方夥伴）及本集團的美菱工廠外，本集團正致力為產品、零件及過濾器尋求更具效益的供應鏈。本集團已擬定目標，於來年提供全系列的中國製多功能製水機。至於天年素®系列產品方面，本集團正增加力度去開發使用納米技術及磁電技術的新一代天年素®系列產品。

分銷策略方面，本集團亦會繼續推陳出新。除現有分銷網絡外，本集團正不斷投放資源，向工商客戶推廣其產品。與此同時，本集團亦發覺有需要協助特許商改善銷售點及提升產品銷售的效益。服務支援亦可讓天年為客戶增值，本集團正提升多功能製水機相關服務的質素，藉以消除客戶對持續保養及支援方面的疑慮。

無庸置疑，本集團的表現未如理想。全年業績反映了本集團在市場及人力資源方面所面對的挑戰。董事會確認，突破管理層瓶頸已成為刻不容緩的任務，本集團現正積極物色具備跨國銷售及市場推擴經驗的人才領導集團邁步前進。

在此困難時期，各位股東、客戶、供應商及業務夥伴仍對本集團不離不棄，本人謹代表董事會衷心致謝。本集團深信，這些問題定可一一迎刃而解，並矢志將本集團重新打造為保健及健康市場的翹楚。

主席
洪繼蘇

香港，二零零六年十月二十日

