

Chairman's Statement

Dear shareholders,

With an aim to carry through the objective of sustainable development, Vitop Bioenergy Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") devoted a substantial amount of resources to maintain our long term competitiveness by expanding the network and building the brand image during the year. However, the Group was not well-prepared to face the challenges arising from the intense competitive environment. The research and development and the product mix structure was not able to keep up to speed. The results of the Group for the year was therefore not satisfactory. In view of this, the board of directors has agreed to endeavour to innovate and reform, bring in international professional talents to our management team, enhance the scientific and systemic management and consolidate various foundation work in order to steadily improve the results in future.

The profit of the Group for the financial year dropped dramatically when compared with last year. The profit attributable to shareholders dropped 94% to approximately HK\$1.27 million. The turnover of the Group recorded a slight increase of 4% and reached approximately HK\$146 million. The multi-functional water generators, which account for 62% of the Group's sales, recorded a 32% growth of sales. However, the failure of the new product development of BIOenergy® products, another mainstream product of the Group, has led to a decline in its sales, which in turn lowered the turnover as a whole.

Meanwhile, due to the change of product growth mix and the keen market competition, the gross profit of the Group decreased to 49%, representing a drop of 6% points. With a growth in turnover, a HK\$70.81 million of gross profit was recorded, representing a drop of 8% when compared with that of 2004.

In response to the keen market competition, the Group has injected substantial resources in product advertising and sales promotion, while the Group has also put substantial resources into the operation management of the Group to enhance the ability of operation management. All these efforts have increased the operating expenses to HK\$62.93 million in 2005, representing a 13% increase when compared with last year.

In the financial year of 2005, we have made considerable amount of investment in products, branding as well as in training, networking and supporting system, and have achieved certain results. For instance, the Group obtained in September 2005 the "**China Top Brand**" (中國名牌產品) award presented by the State General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (the "PRC") (國家質量監督檢驗檢疫總局), etc. The abovementioned investment serves as a foundation for the long term development of the Group.

Looking back over the 13-year history, the development of the Group did not go without a hitch. The Group has experienced several ups and downs; yet the Group could still maintain a steady development, which demonstrates our adaptation ability and perseverance. Personally, I have full confidence in the persistence and efforts made by the management team when facing reformation and seeking innovation. Meanwhile, with the further exploitation of the healthcare market of the PRC, we will see a chance to experience rapid growth of business where opportunities and challenges exist at the same time. I believe, the 13 years of sales experience and brand history in the PRC, coupled with the recognition and reputation gained among the customers, will become the advantages of the Group in such an intense competition. With the efforts undertaken by the entire management, the Group would certainly walk out from the bottom and achieve a satisfactory result.

The Group will further invest in quality products, well-known brands, energetic team and extensive sales network in the future. By establishing a sound foundation, the Group will steadily improve the results and maintain our market share as well as seize the opportunity from reformation. I would like to extend my sincere thanks to our shareholders, clients, suppliers and business partners for their continual support.

Hung Kai So
Chairman

Hong Kong, 21 October 2005