

# Letter to Shareholders

## The Beginning of an Exciting Nu Era

On behalf of my fellow directors and Board members, I am pleased to present the Annual Report of Nubrand Group Holdings Limited for the financial year ended 31st March 2006.

The rebranding of WPH as Nubrand marks the beginning of an exciting new era in the Group's history. The March 2006 acquisition of Procare was undoubtedly the pivotal event in what has been a truly landmark year for us. The acquisition represents a major step forward in establishing the Group as one of the leading brand management and distribution companies in Greater China.

Equally important for the Group's sustained long-term success is the ongoing restructuring of the Board, which was initiated in September 2005. The new Board of directors comprises a dynamic combination of visionary entrepreneurs whose collective expertise and business acumen is far greater than the sum of its parts.

## Overview of FY2005/06

The year under review saw the sale of medical equipment become the Group's core source of revenue as the sale of medicinal and winery products both experienced a significant fall. While accurately reflecting the performance of the Group during FY2005/06, the Board believes that the lower than expected figures contained in this Report fall some way short of the Group's true potential. I and my fellow directors have resolved to do everything possible to ensure that this potential is realised during the coming years.



On the business front, FY2005/06 was notable for the continued slow down in sales of the Group's medicinal ginseng products and the Confucius Family range of spirits both here in Hong Kong and overseas. As a result, the Group has now discontinued distribution and disposed of its trading arm for both these lines of business.

The Group's revenues through its subsidiary company's sale of medical equipment were far more encouraging. The new Board has implemented a number of cost control measures in this area which have already started to bear fruit. However, as stated in last year's Annual Report, the Board believes keen competition from overseas and Mainland Chinese manufacturers means the potential for future expansion of our medical equipment sales is uncertain.

### China - A Bold Step Forward

As the Group moves forward, the emphasis on medical equipment will diminish. In its place will be exciting new expansionary initiatives that leverage our strong customer base of health-conscious individuals and proven distribution network of pharmacies, hypermarkets and wholesalers across Hong Kong and Greater China. Building upon the trading experience and expertise it has gained across its various divisions over the years, the Group is now eagerly exploring and penetrating new markets, both geographical- and category-specific.

To this end, we are already actively expanding our business into the lucrative health and beauty market. The Group's acquisition of Procure was the first step in this direction and has given us a solid skincare and personal care production and marketing foundation on which to build for the future. Ultimately, the Board believes this acquisition will help to establish the Group as one of the leading health and beauty brand management and distribution companies in Greater China.

China's consistently high single-digit year-on-year GDP growth remains the envy of the global economy. With this growth looking set to continue for the foreseeable future, Chinese consumers are becoming more affluent and eagerly seeking out new products with which to enhance their quality of life. Offering affordably-priced, top quality customised daily essentials, the health and beauty industry remains a major beneficiary of this trend.

By actively expanding into China, the Group is determined to avoid the mistakes that many overseas companies have made in the past. Rather than manage our Mainland interests remotely, we will leverage our strong PRC distribution and sales network and expertise to maintain a nationwide physical presence. Our network will cover not only first-tier cities such as Beijing, Shanghai and Guangzhou, but also second-tier cities such as Chengdu, Wuhan and Chongqing. In some cities, this presence will take the form of our own dedicated local team; in others, we will establish joint ventures with business partners. While vital, market presence will be only a small component of our winning formula.

Economic history shows that single-industry businesses are increasingly a phenomenon of the past. In embracing a "multiple-industry model", we plan to create a portfolio of products whose synergies will ensure our sustained long-term success. To this end, we are leveraging sophisticated qualitative and quantitative research methodologies to identify and set priorities for all major Chinese markets and submarkets. With significant socioeconomic, demographic and cultural diversity across China's vast population, the next 3 to 6 months will see us focus our activities within Southern China. This strategy will leverage the region's close geographical proximity to Hong Kong, making it easier to monitor and manage the vital initial stages of our expansion. The similarity of our target Southern Chinese consumers to their Hong Kong counterparts, in terms of their skin complexion and buying habits, also plays an important role in our adoption of this strategy.

## Paving the Way for Three Years of Growth and Advancement

The primary objective of our first three-year plan is to achieve a turnover of HK\$300 million by 2008. We will achieve this aim by aggressively investing management resources in our established domestic skincare range and lucrative Chinese health and beauty care business.

As mentioned earlier, China's phenomenal economic expansion has resulted in a "trickle down" effect which will continue to have hugely lucrative ramifications for the country's beauty and skincare market. Our acquisition of Procare and its successful "LaVie" skincare brand represents a huge head start for our expansion plans. Targeted at mature, independent women aged 30 and over who value quality over mere branding, LaVie is already hugely successful. Now undergoing a major revamp, the brand's appeal to Mainland Chinese women who make up its target market is sure to increase.

The Board is well aware of the challenges it faces in leveraging the huge potential of the China market. For this reason, we have taken great care to ensure that our roll-out of the newly revitalised "LaVie" brand in Southern China in September 2006 will be a success. To this end, in addition to its existing distribution points, we have already signed a distribution agreement covering some 250 beauty specialty stores in key cities across Guangdong Province. Plans are in place to gradually increase the distribution of "LaVie" to more than 1,000 beauty outlets by the end of 2008.

## Eagerly Exploring All New Business Avenues

While China will remain the Group's core focus during the next three years, the Board is also actively investigating distribution possibilities in other potential overseas markets. To this end, we are now evaluating enquiries from potential distributors in the Middle East, North America and Eastern Europe. The Group will endeavour to fully realise all potential leads that the Board deems to be sufficiently feasible.

The strengthening of our domestic and Greater China product portfolios with the addition of renowned foreign brands is another central element of our long-term expansion strategy. The Group's proven track record in the area of brand management and distribution will prove to be a major asset in this area. Negotiations are already underway with several independent international skincare and beauty brands who have expressed a genuine interest in our distributing or manufacturing their products under licence for Hong Kong and Greater China. I hope to provide you with full details of our successes in this area in next year's Annual Report.

## OEM will be the Engine that Drives Our Expansion

The Group's OEM Division is currently a supplier of skincare, personal care and tissue products to the Dairy Farm Group of Companies, which includes Mannings personal stores in Hong Kong and China, Wellcome supermarkets in Hong Kong, and the Guardian chain of personal stores in Singapore. The OEM Division also manufactures products for a number of domestic and overseas skin care and personal care brands.

OEM is yet another area we intend to enhance during the coming months and years. The benefits of doing so will be multifold. As a successful stand-alone profit centre, OEM will provide a steady source of income with which to fund our ambitious expansion plans. More importantly, greater involvement in the sourcing of ingredients and manufacturing process will ensure we enjoy far greater control of the formulation quality and prompt delivery of our own products.

With spending in the health and beauty market rising steadily and growing demand for outsourcing, the Group foresees solid growth of its “one-stop-shop” OEM health and beauty business. The steady income generated by our activities in this area will continue to be an important source of future profitability and a major revenue stream for our expansion. The Board will, however, exercise all necessary restraint to ensure that the OEM Division’s external activities do not compromise the quality or availability of the Group’s own brands.

### An Ongoing Commitment to Good Corporate Governance

The Board fully understands that a good reputation is something which is impossible to put a price on, and which once tarnished is forever compromised in the minds of consumers. For this reason, the Group continues to adhere to the highest standards of transparency, independence and accountability in ensuring that its corporate obligations and responsibilities are fully discharged at all times.

In taking charge of the Group, I and my fellow directors vouched to uphold a belief in “quality at source” of the very highest level at every stage of the production process. To this end, the Group will continue to source its raw materials from world-class suppliers and work exclusively with Good Manufacturing Practices (“GMP”)

accredited factories despite mounting pressure to cut costs. The Group is currently in negotiation with a number of new GMP-accredited factories both in China and overseas. If successful, these negotiations will result in long-term strategic relationships that are sure to significantly strengthen our production capabilities.

### Facing the Future with Confidence

In closing, I would like to express my deepest gratitude to my fellow Board members for their continued commitment, contribution and support. I would also like to extend my appreciation to our management team and employees for their dedication and hard work during the past year.

While the preparation for expansion is already well underway, the Board will continue to closely monitor the progress of its plans, amending its tactics as and when necessary. As the Chairman of the Group, I relish the opportunity to discharge my obligations to our shareholders by delivering on my passionate belief in transforming ideas into realities, and potential into profits.



**KWOK Wing Leung, Andy**

Chairman

Hong Kong, 20th July 2006