VITOP BIOENERGY HOLDINGS LIMITED
(天年生物控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1178)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2006

RESULTS

The board of directors (the "Board") of Vitop Bioenergy Holdings Limited ("Vitop" or the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2006, together with the comparative figures for 2005, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**2006** ***HK$'000***	2005 *HK$'000* (Restated)
REVENUE	4	**99,988**	145,551
Cost of sales		**(54,640)**	(74,740)
Gross profit		**45,348**	70,811
Other income	5	**3,347**	2,954
Selling and distribution costs		**(35,371)**	(33,370)
Administrative expenses		**(26,148)**	(29,560)
Other operating expenses		**(23,940)**	(7,045)
Impairment loss recognised on the remeasurement of assets of disposal group		**(1,323)**	–
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	6	**(38,087)**	3,790
Finance costs	7	**(131)**	–
Share of loss of a jointly controlled entity		**(570)**	(758)
(LOSS)/PROFIT BEFORE TAXATION		**(38,788)**	3,032
Taxation	8	**(987)**	(766)
(LOSS)/PROFIT FOR THE YEAR		**(39,775)**	2,266

	Notes		
ATTRIBUTABLE TO:			
Equity holders of the Company	9	**(39,920)**	1,271
Minority interests		**145**	995
(LOSS)/PROFIT FOR THE YEAR		**(39,775)**	2,266
DIVIDENDS	10	**–**	4,910
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE YEAR	11		
Basic		**HK(5.78) cents**	HK0.19 cent
Diluted		**N/A**	HK0.19 cent

CONSOLIDATED BALANCE SHEET

	Notes	**2006** *HK$'000*	2005 *HK$'000* (Restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**12,545**	16,867
Prepaid land lease payments		**–**	7,165
Intangible assets		**1,773**	3,614
Interests in a jointly controlled entity		**–**	570
Financial assets at fair value through profit or loss		**2,480**	–
Pledged bank deposit		**20**	–
		16,818	28,216
Current assets			
Inventories		**19,096**	23,661
Trade receivables	12	**4,767**	5,829
Deposits, prepayments and other receivables		**6,470**	24,823
Short term investments		**–**	1,495
Pledged deposit		**–**	2,500
Cash and bank balances		**31,282**	42,280
		61,615	100,588
Assets classified as held for sale		**7,165**	–
		68,780	100,588

Current liabilities			
Trade payables	13	**8,948**	16,630
Accrued liabilities and other payables		**10,976**	8,370
Deposits received		**8,567**	9,920
Interest-bearing bank loans		**2,276**	500
Provision for tax		**57**	–
		30,824	35,420
Liabilities associated with assets classified as held for sale		**122**	–
		30,946	35,420
Net current assets		**37,834**	65,168
Total assets less current liabilities		**54,652**	93,384
Non-current liabilities			
Interest-bearing bank loans		**1,613**	–
Net assets		**53,039**	93,384
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**17,464**	17,048
Reserves		**33,785**	69,535
Proposed final dividend		**–**	4,910
		51,249	91,493
Minority interests		**1,790**	1,891
Total equity		**53,039**	93,384

NOTES:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). They have been prepared under the historical cost basis, except for the revaluation of certain assets and liabilities.

2. ADOPTION OF NEW OR REVISED HKFRS

From 1 July 2005, the Group has adopted the new or revised standards and interpretations of HKFRS which are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC) Int-15	Operating Leases – Incentives

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2005 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2005 comparatives contained in these financial statements differ from those published in the financial statements of the Group for the year ended 30 June 2005.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

2.1 Adoption of HKAS 1

The application of HKAS 1 led to an update of the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company are now presented as an allocation of the net result of the year. In addition, share of tax of jointly controlled entities which was previously included under taxation is now included in share of results of jointly controlled entities.

2.2 Adoption of HKAS 17

In previous years, construction in progress was included in property, plant and equipment and carried at cost less accumulated impairment losses.

Upon the adoption of HKAS 17, the land element included in construction in progress is considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and other construction cost elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments of land element can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

2.3 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 July 2005, the Group did not recognise the financial effect of share options until they were exercised. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company and its subsidiaries and other parties, determined at the date of grant of the share options, over the vesting period with a corresponding credit to equity, unless the transaction is a cash settled share-based payment. The adoption of this standard had no significant impact on the Group.

2.4 Adoption of HKAS 32 and HKAS 39

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss.

2.5 Adoption of HKFRS 5

In the current year, the Group has, for the first time, applied HKFRS 5 which requires an entity to classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. The assets classified as held for sale should be measured at the lower of carrying amount and fair value, less costs to sell. The Group has applied the relevant transitional provisions in HKFRS 5 and elected to apply HKFRS 5 from 1 July 2005 onwards. In the current year, the Group has reclassified the relevant assets and liabilities of a disposal group to assets held for sale in accordance with HKFRS 5.

2.6 Other standards adopted

The adoption of other new/revised HKFRS did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any significant changes to the amounts or disclosures in these financial statements and the 2005 financial statements.

2.7 The significant effect on the adoption of HKAS 17 on consolidated balance sheet is summarised below:

	HKAS 17#
	HK$'000
At 30 June 2006	
Increase/(decrease) in assets	
Property, plant and equipment	(7,300)
Prepaid land lease payments – included in assets classified as held for sale	7,300
At 30 June 2005	
Increase/(decrease) in assets	
Property, plant and equipment	(7,165)
Prepaid land lease payments	7,165
At 1 July 2004	
Increase/(decrease) in assets	
Property, plant and equipment	(7,165)
Prepaid land lease payments	7,165

adjustments which take effect retrospectively from 1 July 2005

2.8 New standards or interpretations that have been issued but are not yet effective:

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[2]
HKFRS 1 & HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments – Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease[2]
HK(IFRIC) – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]

HK(IFRIC) – Int 7	Apply the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC) – Int 8	Scope of HKFRS 2[5]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[6]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[7]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2006
3 Effective for annual periods beginning on or after 1 December 2005
4 Effective for annual periods beginning on or after 1 March 2006
5 Effective for annual periods beginning on or after 1 May 2006
6 Effective for annual periods beginning on or after 1 June 2006
7 Effective for annual periods beginning on or after 1 November 2006

3. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments:

	BIOenergy® products		Healthcare food products		Multi-functional water generators		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
										(Restated)
Segment revenue:										
Sales to external customers	**27,201**	44,624	**16,135**	7,763	**51,638**	90,870	**5,014**	2,294	**99,988**	145,551
Segment results	**560**	15,122	**(35)**	2,106	**3,080**	16,994	**(3,034)**	369	**571**	34,591
Unallocated other income									**3,347**	2,954
Unallocated expenses									**(42,005)**	(33,755)
(Loss)/Profit from operating activities									**(38,087)**	3,790
Finance costs									**(131)**	–
Share of loss of a jointly controlled entity									**(570)**	(758)
(Loss)/Profit before taxation									**(38,788)**	3,032
Taxation									**(987)**	(766)
(Loss)/Profit for the year									**(39,775)**	2,266

	BIOenergy® products 2006 HK$'000	2005 HK$'000	Healthcare food products 2006 HK$'000	2005 HK$'000	Multi-functional water generators 2006 HK$'000	2005 HK$'000	Others 2006 HK$'000	2005 HK$'000	Consolidated 2006 HK$'000	2005 HK$'000 (Restated)
Segment assets	**9,783**	13,280	**2,241**	5,665	**7,736**	7,789	**1,585**	1,103	**21,345**	27,837
Interests in a jointly controlled entity	**–**	–	**–**	–	**–**	570	**–**	–	**–**	570
Unallocated assets									**64,253**	100,397
Total assets									**85,598**	128,804
Unallocated liabilities									**32,559**	35,420
Total liabilities									**32,559**	35,420
Other segment information:										
Depreciation	**–**	–	**–**	–	**92**	87	**9**	5	**101**	92
Unallocated amount of depreciation									**5,257**	4,584
									5,358	4,676
Amortisation of intangible assets	**1,300**	1,305	**611**	598	**–**	–	**–**	–	**1,911**	1,903
Capital expenditure	**–**	314	**–**	–	**30**	101	**–**	52	**30**	467
Unallocated amounts of capital expenditure									**1,681**	6,619
									1,711	7,086
Provision for obsolete and slow-moving inventories	**2,523**	(20)	**1,691**	103	**246**	492	**2,859**	–	**7,319**	575
Unallocated provision for impairment of trade receivables and deposits, prepayment and other receivables									**13,211**	3,571

(b) Geographical segments

A geographical analysis of the Group's revenue, certain asset and expenditure information is not presented as the Group's revenue and assets in geographical segments other than the Peoples's Republic of China, excluding Hong Kong and Macau (the "PRC") are less than 10% of the aggregate amount of all segments.

4. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts where applicable. All significant intra-group transactions have been eliminated on consolidation.

5. OTHER INCOME

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest income	**389**	605
Dividend income	**–**	26
Government grants	**1,552**	–
Gain on disposal of short term investments	**–**	793
Others	**1,406**	1,530
	3,347	2,954

6. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

(Loss)/Profit from operating activities is arrived at after charging/(crediting):

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cost of inventories sold	**54,640**	74,740
Staff costs (excluding directors' remuneration)		
Wages and salaries	**17,344**	15,994
Pension scheme contributions	**981**	981
	18,325	16,975
Depreciation	**5,358**	4,676
Amortisation of intangible assets	**1,911**	1,903
Exchange gain, net	**(51)**	(77)
Operating lease charges in respect of land and buildings	**3,455**	3,652
Impairment loss on trade receivables	**2,254**	3,571
Impairment loss on deposits, prepayments and other receivables	**10,957**	–
Impairment loss recognised on the remeasurement of assets of disposal group	**1,323**	–
Provision for obsolete and slow-moving inventories	**7,319**	575
Loss on disposal of property, plant and equipment	**153**	16
Fair value loss on financial assets at fair value through profit or loss/short term investments	**30**	221

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans		
Wholly repayable within five years	**131**	–

8. TAXATION

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current – PRC		
Charge for the year	**987**	1,138
Overprovision in prior years	**–**	(372)
	987	766

Hong Kong Profits Tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the year.

9. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to equity holder of the Company of approximately HK$39,920,000 (2005: profit of HK$1,271,000), a loss of approximately HK$11,930,000 (2005: loss of HK$5,819,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

The directors do not recommend the payment of a final dividend to shareholders of the Company for the year ended 30 June 2006 (2005: HK0.72 cent per share).

11. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic (loss)/earnings per share is based on loss attributable to equity holders for the year ended 30 June 2006 of approximately HK$39,920,000 (2005: profit of HK$1,271,000) and the weighted average of 690,893,647 (2005: 680,897,278) ordinary shares in issue during the year.

For the year ended 30 June 2005, the calculation of diluted earnings per share is based on profit attributable to equity holders of approximately HK$1,271,000 and the weighted average number of 683,412,782 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares. The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the year ended 30 June 2005 is calculated based on the weighted average of 680,897,278 ordinary shares in issue during the year plus the weighted average of 2,515,504 ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

The diluted loss per share for the year ended 30 June 2006 was not presented as there were no potential dilutive ordinary shares.

12. TRADE RECEIVABLES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Outstanding balances with ages:		
Within 30 days	**1,661**	3,462
Between 31 to 60 days	**1,163**	230
Between 61 to 180 days	**1,683**	712
Over 180 days	**6,307**	5,218
	10,814	9,622
Less: Provision for impairment	**(6,047)**	(3,793)
	4,767	5,829

The credit terms that the Group offers to customers are generally not more than 90 days.

13. TRADE PAYABLES

As at the balance sheet date, an aged analysis of the Group's trade payables was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Outstanding balances with ages:		
Within 30 days	**3,608**	9,563
Between 31 to 60 days	**1,880**	3,231
Between 61 to 180 days	**1,392**	3,045
Over 180 days	**2,068**	791
	8,948	16,630

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW AND PROSPECT

The principal activities of the Group are manufacturing and trading of multi-functional water generators, BIOenergy® products and healthcare food products in the PRC.

The market was difficult to the Group during the financial year 2006. The Group's core business, multi-functional water generators, continued to be affected by the issuance of the "Document No. 10" (the "Document") in which the Ministry of Health of the PRC reproaches that some of the promotion activities for multi-functional water generators sold in the PRC are fake and exaggerated. Although a more obvious recovery in sales volume of multi-functional water generators has been seen, profit did not rally as additional effort in sales and marketing was spent in order to re-gain confidence of customers and franchisees.

With a more cautious consumer spending in healthcare and wellness products, the overall performance of both multi-functional water generators product line and BIOenergy® product line was badly affected.

Multi-functional water generators

The production bases of the multi-functional water generators of the Group are in Hefei (合肥天年環保科技有限責任公司) (the "Hefei Factory"), the shares of which are held as to 80% by the Group) and the jointly controlled entity in Suzhou (the "Suzhou Factory", the 40% owned joint venture with OSG Corporation Co., Ltd. ("OSG"). Also, the Group imports water generators from OSG's Japan factory to balance the product sales mix of the Group.

Turnover of the multi-functional water generators for the year decreased by approximately HK$39.23 million from approximately HK$90.87 million in 2005 to approximately HK$51.64 million, representing approximately 51.64% (2005: approximately 62.43%) of the total turnover.

Apart from the poor market sentiment as a result of the release of the Document, the introduction of PRC made OSG products from the Suzhou Factory has not been taken off successfully. Sales of OSG products was still dominated by imported products. At the same time, products from the Hefei Factory has picked up steadily after the dramatic drop of sales in July 2005. The Group is putting their effort in regaining confidence in the market with the introduction of marketing programs and after sale services. A good example of pro-actively addressing consumer concern in the quality of water generators was the fact that the Group has successfully obtained the registration certificate for medical device (醫療器械註冊證) for the Hefei Factory manufactured water generators. The Group becomes one of the market leaders recognised by the PRC relevant medical regulatory authorities.

The Group believes that this business can be recovered through proper market education, quality and service control as well as localising OSG products, especially with a more competitive edge in terms of pricing and the supply of product accessories.

BIOenergy® products

The BIOenergy® products line of the Group adopted the BIOenergy® compound and MBF®, and the principal products are Healthy Sleeping System, including healthy pillows, healthy mattresses, healthy quilts and other bedroom accessories. In September 2005, the Group introduced a new product with a variety of compound efficacies, "Nobel Endless Spring", with positive market response.

The turnover of the BIOenergy® products was approximately HK$27.20 million, dropping by approximately 39.04% as compared with 2005 and representing approximately 27.20% of the total turnover (2005: approximately 30.65%). The decrease was mainly attributable to the increasing competition in the market, the delay in new products development, the Group's allocation of extra resources and efforts on the business of multi-functional water generators as well as the consequential impact of the Document on the overall confidence of customers and franchisees. The Group is putting concerted effort in rationalising the product line of Healthy Sleeping System and the introduction of new BIOenergy® products based on the improvement of the core technology.

Healthcare food products

The overall turnover increased by approximately 107.85% to approximately HK$16.13 million, representing approximately 16.14% of the total turnover (2005: approximately 5.33%). Sales of propolis has been growing steadily and there is a very good signal in repeat ordering from consumers. The Group believes that healthcare food and health supplement product will play a more influential role to the growth of revenue and profit. We shall dedicate to identifying other healthcare food products and to line up with global partners in expanding the product line leveraging our existing distribution network. The Group expects a stable growth in the sales of healthcare food products.

Brand name

Despite all the challenges in the market, Vitop brand positioning has never been weakened and we are still one of the leading brands in the healthcare and wellness market in the PRC. This was demonstrated by the continuous recognition of our quality and credibility from the industry and government authorities.

During the year, after the Group's "Vitop Healthy Sleeping System" was granted the status of the "State Free of Inspection Product" (國家免檢產品) by the State General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in September 2004, the Group's Vitop healthy quilts were also granted the "China Top Brand" (《中國名牌產品》) by the State General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in September 2005 under the recommendation of the State Top Brand Promotion Committee (國家名牌產品戰略推進委員會). The Group becomes the third corporation in Zhuhai receiving this award. In addition, the Group's Vitop trademark for BIOenergy® products was assessed as the "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.

With the granting of the registration certificate for medical device to our multi-functional water generators from the PRC relevant medical regulatory authorities in March 2006, it will raise the barrier to our competitors in entering to this market and consumer confidence shall be regained with better quality product and service.

FINANCIAL REVIEW

Turnover and gross profit

For the fiscal year 2006, the financial performance of the Group is unsatisfactory. Turnover decreased by approximately 31.30% points to approximately HK$99.99 million as compared with 2005. The turnover of the healthcare food products increased by approximately 107.85% to approximately HK$16.14 million, but the turnover of the BIOenergy® products and multi-functional water generators decreased by approximately 39.04% to approximately HK$27.20 million and approximately 43.17% to approximately HK$51.64 million, respectively, as compared with 2005. The drop was caused by the increasing competition in the market and the Document which directly affected the sales performance of multi-functional water generators and indirectly drove the distribution networks to the sideline.

The above-mentioned market issues also caused the gross profit of the Group for the year to decrease by 3.30% points to 45.35% from 48.65% in 2005. The proportion of Multi-functional water generators, which contributed a lower gross profit margin, represented approximately 51.64% of the total turnover of the Group, out of which imported water generators with the lowest gross profit margin represented approximately 26.49% of the total turnover of the Group. Coupled with the direct impact of the Document, the overall gross profit margin of multi-functional water generators dropped by approximately 4.91% points. The gross profit margin of the BIOenergy® products dropped slightly by approximately 2.99% points from 2005, as the Group increased the discount offered to franchisees to cope with the intensive market environment. Regarding the healthcare food products, in order to compete with other propolis products in the market, the Group adopted a low margin strategy to stimulate sales of these products to franchisees, resulting in a drop in gross profit margin by approximately 1.47% points from 2005.

Net profit

Gross profit dropped by approximately HK$25.46 million from approximately HK$70.81 million in 2005 to approximately HK$45.35 million due to the above-mentioned reasons. To meet the difficult market environment, the Group adopted a number of necessary measures, including the decision to strategically put up a series of marketing and branding campaigns in upkeeping our brand equity and solidifying the confidence of our customers and franchisees, resulting in an increase in selling and distribution costs by approximately HK$2.00 million. Streamlining the management structure, reducing the number of staff and strengthening our business planning and financial control resulted in a decrease in administration expenses by approximately HK$3.41 million.

However, other operating expenses of the Group increased significantly by approximately HK$16.90 million to approximately HK$23.94 million as compared with 2005. Major reasons are as follows:

1. "法制日報社影視中心", an independent third party, began internal evaluation of financial position at the end of 2005 due to difficulties in operation. It may apply for bankruptcy where insolvency incurred, which would cause prepaid advertising fee of approximately HK$6.00 million (RMB6.30 million) to become uncollectible. The Group made a provision for the bad debt accordingly;

2. One of the franchisees of the Group closed its business during the year due to difficulties in operation. As a result, the Group made a provision of approximately HK$2.78 million (approximately RMB2.92 million) for the bad debt;

3. To cope with the difficulties caused by the worldwide substantial increase in raw material price, the Group purchased more finished goods as reserves in advance in the previous financial year. However, sales failed to reach the expected target on the impact of the Document. The Group adopted consistently a more prudent provision policy on inventory, making full provision for these obsolete and slow-moving inventories. Therefore, the Group made a provision of approximately HK$7.32 million (approximately RMB7.69 million) for inventories.

Meanwhile, on 18 January 2006, the Group sold to an independent third party the entire registered and paid-up capital of Shanghai Heng Fai Biological Products Company Limited ("Shanghai Heng Fai"), an indirect wholly-owned subsidiary of the Company, for a total consideration of RMB7.50 million (equivalent to approximately HK$7.14 million). The principal asset of Shanghai Heng Fai is a piece of land in Shanghai and the related construction in progress. The Group made a provision of impairment loss of approximately HK$1.32 million for the relevant land and the related construction in progress accordingly.

During the year, as operating expenses increased and gross profit dropped as compared with 2005, the Group recorded an operating loss of approximately HK$38.09 million (2005: operating profit of approximately HK$3.79 million). For the year, the profits tax of the Group was approximately HK$0.99 million (2005: approximately HK$0.77 million). Meanwhile, after deducting the share of losses of a jointly controlled entity of approximately HK$0.57 million (2005: approximately HK$0.76 million) and the minority interests of approximately HK$0.15 million (2005: approximately HK$0.99 million), the Group recorded a loss of approximately HK$39.92 million (2005: profit of approximately HK$1.27 million).

OUTLOOK AND PROSPECT

The Document continues to put pressure onto the healthcare and wellness industry while consumers and media are more alerting to the product offerings in this market. Most of our competitors are also facing similar difficult market environment and actively looking for ways in re-vitalizing their business.

In this stage of market recovery, we believe that the Group has competitive edges over our traditional competitors mainly gained from the strength of our strong and reputable brand name together with recognition from the industry, government authorities and more importantly, our customers. The investment we made in previous years in branding, marketing and customer relationship management software offer us a solid foundation to re-vitalize our business.

We believe that our dedicated product development effort and the cooperation with our global partners and technology innovators in the PRC are the key factors in successful rebuilding of our business. Early success of such approach has been demonstrated in the business line of healthcare food. We shall continue such effort, probably with the introduction of outside management talent, to path our way to a bright future and further strengthen our leadership position in the healthcare product market.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend to shareholders of the Company for the year ended 30 June 2006 (2005: HK0.72 cent per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 December 2006 to 22 December 2006, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at Room 1803 Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong for registration by 4:00 p.m. on 15 December 2006.

SECURITIES IN ISSUE

During the year, a total of 16,619,356 shares were issued under the scrip dividend scheme of the Company.

As a result of the issue of 16,619,356 new shares under the scrip dividend scheme of the Company as referred to above, the total number of issued shares of the Company as at the date of this announcement is 698,543,104.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities.

CORPORATE GOVERNANCE

During the year, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules, except for the following code provisions:

Under code provision A.1.1 of the Code, at least four regular board meetings should be held a year at approximately quarterly intervals with active participation of a majority of directors of the Company, either in person or through other electronic means of communication. As the Company did not announce its quarterly results, two regular board meetings were held during the year for reviewing and approving the interim and annual financial performance of the Group.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and be subject to re-election. The independent non-executive directors of the Company (other than Mr. Yuan Tsu I) were not appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company.

Under code provision A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The chairman of the Board and the managing director of the Company were not subject to retirement by rotation or be taken into account in determining the number of directors to retire at the annual general meeting of the Company held on 25 November 2005 in accordance with article 87(1) of the articles of association of the Company before amendment. To comply with the code provision A.4.2 of the Code, the Company passed a special resolution at the annual general meeting of the Company held on 25 November 2005 to amend its articles of association so that all directors (including the chairman of the Board and the managing director of the Company) are now subject to retirement by rotation at least once every three years, and all directors appointed to fill a casual vacancy are now subject to election by shareholders at the first general meeting after their appointment.

Under code provision E.1.2 of the Code, the chairman of the Board should attend, and the chairman of the audit and remuneration committees should be available to answer questions at, the annual general meeting of the Company. The chairman of the Board and the chairman of the remuneration committee were unable to attend the annual general meeting of the Company held on 25 November 2005 in person, but the chairman of the Board has already delegated to one of the executive directors of the Company to chair the meeting on his behalf and has also arranged for the chairman of the audit committee to be available to answer questions at the annual general meeting on behalf of the chairman of the remuneration committee.

Details of the Company's corporate governance practices are set out in the Corporate Governance Report, contained in the 2006 annual report.

REVIEW OF ACCOUNTS

The audit committee has reviewed the audited annual results of the Group for the year ended 30 June 2006.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 22 December 2006. The notice of the annual general meeting will be published and dispatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Stock Exchange has recently amended the Listing Rules, inter alia, to enable the removal of a director by an ordinary resolution in general meeting instead of a special resolution, which came into effect on 1 March 2006. The Board therefore proposed to the shareholders of the Company to approve a special resolution at the forthcoming annual general meeting to amend the articles of association of the Company in order to, inter alia, ensure compliance with the amended Listing Rules. Details of the proposed amendments to the articles of association of the Company will be set out in the circular and the notice of the annual general meeting to be dispatched to the shareholders of the Company together with the annual report for the year 2006.

APPRECIATION

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.

MEMBERS OF THE BOARD

As at the date of this announcement, the executive directors of the Company are Hung Kai So, Kam Ioi, Chan Yuk Tong, Ma Yufeng and Liu Jun; and the independent non-executive directors are Yuan Tsu I, Li Li Te and Chan Chiu Hung Alex.

By Order of the Board
Kam Ioi
Managing Director

Hong Kong, 20 October 2006

* *For identification purpose only*

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