

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.

Revenue 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 revenue.

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 became one of the market leaders recognised by the PRC relevant medical regulatory authorities.

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

業務回顧及前景

本集團的主要業務乃於中國生產及銷售多功能製水機、天年素®系列產品及保健食品。

本集團在二零零六財政年度面對惡劣之市場環境。本集團的主營業務 - 多功能製水機 - 繼續受「十號文件」(「該文件」)的風波所影響，在該文件中，中國衛生部指責部份在中國出售的多功能製水機的虛假和浮誇不實的宣傳活動。雖然多功能製水機的銷量已明顯回升，但由於額外增加銷售及市場推廣開支以使客戶及特許商重拾信心，故溢利未見繼續回升。

由於客戶購買保健及健康產品時更為審慎，多功能製水機及天年素®系列兩線產品的整體表現均受嚴重影響。

多功能製水機

本集團的多功能製水機生產基地位於合肥(本集團佔80%股權的合肥天年環保科技有限責任公司「美菱工廠」)及在蘇州與日本的OSG Corporation Co., Ltd. (「OSG」)合資的共同控制實體(本集團佔40%股權，「蘇州工廠」)。此外，本集團亦從OSG的日本工廠進口原裝製水機，以調節本集團的製水機產品結構。

多功能製水機的收益減少約3,923萬港元，由二零零五年約9,087萬港元下滑至本年度約5,164萬港元，佔總收益約51.64%(二零零五年：約62.43%)。

除因「十號文件」的發佈而導致市場氣氛疲弱外，蘇州工廠推出中國製的OSG產品亦未能取得成功。OSG產品的銷量仍主要為進口產品。同時，美菱工廠所製產品的銷量自二零零五年七月大幅下滑後一直穩步回升。本集團藉推出市場推廣計劃及提供售後服務以重拾市場信心。本集團成功為美菱工廠生產的製水機取得醫療器械註冊證，就是積極回應客戶對製水機素質的關注的上佳例子。這使本集團成為得到中國有關藥監部門認可的市場領導者之一。

本集團相信，通過妥善教育市場、控制品質及服務，以及將OSG產品國產化後，此項業務可望重拾升軌，尤其在價格及產品配件供應上突顯競爭力。



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 revenue 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 improved core technology.

Healthcare food products

The overall revenue 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 orders 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 lining up with global partners in expanding the product line by 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

天年素®系列產品

本集團之天年素®系列產品，採用本集團獨家專利的天年素®複合物及微元生化纖維® (MBF®)，主要產品為健康睡眠系統，包括健康睡枕、床墊、健康被及其他配套之床上用品。本集團已於二零零五年九月推出了具有多種複合功效的新產品 - 「精品四季如春」，市場反應良好。

天年素®系列產品之收益約為2,720萬港元，較二零零五年下降約39.04%，佔總營業額約27.20% (二零零五年：約30.65%)。這主要是由於市場競爭不斷加劇、新產品開發的延誤、集團分配更多資源和精力在多功能製水機的業務上，以及該文件對客戶及特許商的整體信心依然造成相關影響。本集團正不斷努力，優化健康睡眠系統的產品線，並藉改進核心技術推出天年素®系列新產品。

保健食品

整體收益上升約107.85%至約1,613萬港元，佔總營業額約16.14% (二零零五年：約5.33%)。蜂膠產品之銷售一直穩健增長，亦見客戶一再訂購的利好跡象。本集團相信保健食品及補充健康食品對收入及溢利的增長將會更為重要。本集團仍貫徹始終地繼續尋求其他保健食品，並憑藉現有分銷網絡，於擴充產品線方面與全球夥伴合作。本集團期望保健食品能夠為本集團提供穩健的銷售增長。

品牌

儘管市場上挑戰處處，但天年品牌仍屹立不移，本集團仍為中國保健及健康市場上之領先品牌之一，從本集團產品之品質屢獲業界及政府機關肯定可見一斑。

於本年度內，繼「天年牌健康睡眠系列床上用品」在二零零四年九月被國家質量監督檢驗檢疫總局批准免檢，獲「國家免檢產品」資格後，本集團之天年健康被在二零零五年九月獲得國家質量監督檢驗檢疫總局根據國家名牌產品戰略推進委員會評價結果而頒發之《中國名牌產



MANAGEMENT DISCUSSION AND ANALYSIS 管理層討論及分析

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 became 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, the barrier to our competitors in entering to this market was raised and consumer confidence shall be regained with better quality product and service.

FINANCIAL REVIEW

Revenue and gross profit

For the fiscal year 2006, the financial performance of the Group is unsatisfactory. Revenue decreased by approximately 31.30% points to approximately HK\$99.99 million as compared with 2005. The revenue of the healthcare food products increased by approximately 107.85% to approximately HK\$16.14 million, but the revenue 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 offered more discount 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.

品》稱號，成為珠海獲得此殊榮的第三家企業。此外，國家工商行政管理總局在二零零五年十二月三十一日認定本集團用在天年素®系列產品的天年商標為《中國馳名商標》。

本集團之多功能製水機於二零零六年三月獲中國有關藥監部門頒發醫療器械註冊證後，本集團競爭對手進入市場之門檻將會提高，而且更優質的產品及服務將會令客戶重拾信心。

財務回顧

收益及毛利

本集團於二零零六年財政年度之表現不盡理想，收益較二零零五年下降約31.30個百分點至約9,999萬港元。雖然保健食品營業額上升約107.85%至約1,614萬港元，但天年素®系列產品及多功能製水機之收益較二零零五年分別下降約39.04%至約2,720萬港元及約43.17%至約5,164萬港元。這是由於市場競爭加劇及該文件的風波，直接影響多功能製水機之銷售，並間接令銷售網絡表現轉差。

以上之市場原因亦引致本集團於本年度之毛利較二零零五年的48.65%下跌3.30個百分點至45.35%。毛利率較低的多功能製水機佔本集團總營業額的比例約為51.64%，其中毛利率最低之原裝進口製水機佔本集團總營業額約26.49%。受該文件風波之直接影響，多功能製水機之整體毛利率下降約4.91個百分點。天年素®系列產品之毛利率較二零零五年微降約2.99個百分點，原因是本集團為應付惡劣之市場環境而提高給予特許商的提貨折扣。至於保健食品方面，為與市場上其他蜂膠產品競爭，本集團採用薄利多銷之策略向特許商供貨，故毛利率較二零零五年下跌約1.47個百分點。



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 members 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 its financial position at the end of 2005 due to difficulties in operation. It may apply for bankruptcy where insolvency incurred, which would cause our 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.

純利

毛利由於上述原因，由二零零五年之約7,081萬港元下降約2,546萬港元至約4,535萬港元。為了應對激烈之市場環境，本集團採取一系列的必要措施，包括決定策略性地推展一系列營銷及品牌活動，以鞏固品牌權益及加強顧客及特許商的信心，故銷售及分銷成本上升約200萬港元。因精簡管理架構，減少人員數目及加強業務計劃及財務監管，故行政管理費用下降約341萬港元。

但是，本集團之其他營運費用較二零零五年大幅增加約1,690萬港元至約2,394萬港元。這主要由於：

1. 一名獨立第三者「法制日報社影視中心」經營困難，於二零零五年年底開始內部財務清算，如果資不抵債，可能會申請破產，導致為數約600萬港元（630萬元人民幣）的預付廣告費可能無法回收，本集團需為此作出壞帳撥備；
2. 本集團一名特許商經營失敗而在本年內結束業務，本集團需為此作出為數約278萬港元（約292萬元人民幣）之壞帳撥備；
3. 本集團為了針對全球性原材料價格大幅上漲的問題，本集團於上一個財務年度預先採購了較多的製成品作為儲備。但由於受「十號文件」風波的影響，銷售未能達到預期的目標。本集團一向堅持較嚴謹的存貨撥備政策，對陳舊及滯銷的存貨作出全額的撥備。為此，本集團作出約732萬港元（約769萬元人民幣）的存貨撥備。

同時，於二零零六年一月十八日，本集團以總代價750萬元人民幣（約相等於714萬港元）向一名獨立第三者出售本公司間接全資附屬公司上海亘輝生物制品有限公司（「上海亘輝」）的全部註冊及繳足資本，上海亘輝的主要資產是位於上海的一幅土地及有關的在建工程。為此，本集團為有關土地及在建工程作出約132萬港元的減值虧損撥備。



MANAGEMENT DISCUSSION AND ANALYSIS 管理層討論及分析

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).

PLEDGE OF ASSETS AND GEARING

As at 30 June 2006, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was approximately 7.33% (2005: approximately 0.50%), of which the bank loans of approximately HK\$3.89 million (2005: approximately HK\$0.50 million) were secured by a pledge of our financial assets at fair value through profit or loss of HK\$2.48 million and pledged bank deposit of HK\$0.02 million (2005: pledged deposit of HK\$2.5 million) and supported by a corporate guarantee executed by the Company.

SIGNIFICANT INVESTMENT

During the year, there was no significant investment held by the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES/ JOINTLY CONTROLLED ENTITIES

During the year, the Group entered into a sale and purchase agreement with an independent third party in relation to the disposal of 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 cash consideration of RMB7.50 million (equivalent to approximately HK\$7.14 million). The disposal constitutes a discloseable transaction of the Company, details of which were disclosed in the announcement of the Company dated 19 January 2006 and the circular of the Company dated 9 February 2006.

Save as disclosed above, during the year, there was no other material acquisition or disposal of subsidiaries and associated companies/ jointly controlled entities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the Group employed a total of 310 (2005: 387) employees, of which 304 were deployed in the PRC (2005: 380) and 6 (2005: 7) were deployed in Hong Kong. The total salaries and other remuneration (excluding directors' emoluments) for the year were approximately HK\$18.33 million (2005: HK\$16.98 million). Remuneration packages comprised salary, mandatory provident fund, bonus, medical allowance and share options.

由於本年度的營運費用較二零零五年增加，但毛利卻下降，導致本集團錄得約3,809萬港元之經營虧損(二零零五年：經營溢利約379萬港元)。本集團本年度交納所得稅約為99萬港元(二零零五年：約77萬港元)。同時在扣除攤佔共同控制實體虧損約57萬港元(二零零五年：約76萬港元)和少數股東權益約15萬港元(二零零五年：約99萬港元)後，本集團錄得約3,992萬港元的虧損(二零零五年：溢利約127萬港元)。

資產抵押及負債

於二零零六年六月三十日，本集團之資本負債比率(按總借貸佔股東權益總額百分比計算)約7.33%(二零零五年：約0.50%)。其中銀行貸款約389萬港元(二零零五年：約50萬港元)乃以本集團為數248萬港元之按公平值以溢利或虧損列賬之財務資產及2萬港元之已抵押銀行存款(二零零五年：已抵押銀行存款250萬港元)作抵押，並以本公司提供之公司擔保支持。

重大投資

年內，本集團概無持有重大投資。

重大收購及出售附屬公司及聯營公司/共同控制實體

年內，本集團與一名獨立第三者就出售本公司間接全資附屬公司上海亘輝生物制品有限公司(「上海亘輝」)的全部註冊及繳足資本訂立買賣協議，總現金代價為750萬元人民幣(約相等於714萬港元)。出售事項構成就本公司而言的須予披露交易，該交易的詳情載於日期為二零零六年一月十九日的本公司公佈以及日期為二零零六年二月九日的本公司通函內。

除上文所披露者外，年內，本公司概無進行任何附屬公司及聯營公司/共同控制實體的重大收購或出售。

僱員及薪酬政策

於二零零六年六月三十日，本集團聘有合共310名(二零零五年：387名)僱員，其中304名(二零零五年：380名)在國內工作，另6名(二零零五年：7名)在香港工作。本年度產生之薪金及其他薪酬(不包括董事酬金)合共約為1,833萬港元(二零零五年：1,698萬港元)。薪酬待遇包括薪金、強制性公積金、花紅、醫療津貼及購股權。



FOREIGN EXCHANGE RISK MANAGEMENT

During the year, the Group's activities were principally denominated in Hong Kong dollars and Renminbi. As the exchange rate of Renminbi against Hong Kong dollar was relatively stable during the year, the management considers the fluctuations among these currencies as minimal and the Group does not expose to excessive currency fluctuation risk.

LIQUIDITY AND FINANCIAL RESOURCE

The Group financed its business operations mainly through internally generated cash flows. For the year under review, the net cash outflow of the Group amounted to approximately HK\$25.19 million, of which approximately HK\$14.94 million and HK\$11.78 million were cash outflow from operating activities and investment activities respectively, and cash inflow approximately HK\$1.53 million generated from financing activities. As at 30 June 2006, the cash and bank balances of the Group amounted to approximately HK\$31.28 million (2005: approximately HK\$42.28 million).

CONTINGENT LIABILITIES

The Group's bank loan facility amounting to HK\$5 million (2005: HK\$5 million) is supported by a corporate guarantee executed by the Company.

Save as disclosed above, neither the Group nor the Company had any significant contingent liabilities at the balance sheet date.

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.

外匯風險管理

年內，本集團之活動主要以港元及人民幣結算。由於人民幣對港元之匯率於年內相對穩定，故管理層認為該等貨幣之波動輕微，本集團毋須承受額外之外匯風險。

流動資金及財務資源

本集團主要透過內部賺取之現金流作為其主要業務開支。回顧本年，本集團之現金流出淨額約為2,519萬港元，其中經營業務及投資活動分別產生現金流出額約1,494萬港元及約1,178萬港元，而融資活動產生現金流入額約153萬港元。於二零零六年六月三十日，本集團之現金及銀行結存約為3,128萬港元（二零零五年：約為4,228萬港元）。

或然負債

本集團為數500萬港元（二零零五年：500萬港元）之銀行貸款額度，乃由本公司提供擔保。

除上述披露外，本集團或本公司於結算日並沒有任何重大或然負債。

展望及未來前景

該文件繼續對保健及健康業構成壓力，而客戶及傳媒亦對市場上的產品提高警覺。大部份保健行業之競爭對手同樣面對相近之惡劣市場環境，並積極找尋重振業務的方法。

在此市場復甦階段，本集團相信，由於其品牌實力雄厚、聲譽昭著，並得到業界、政府機關及強大的客戶基礎所肯定，故本集團較其傳統競爭對手佔優。本集團於過往年度對品牌建立、市場推廣及客戶關係管理軟件方面之投資，為本集團重振業務穩紮根基。

本集團相信，貫徹始終地致力開發產品，加上與全球夥伴及中國之技術創新者攜手合作，將會是本集團成功重建業務之關鍵因素。此策略在保健食品業務方面已取得初步成功。本集團將繼續努力，並可能招攬外界管理人才，進一步鞏固本集團於保健市場上的領導地位，開創光輝前景。

