



# 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 2007

### 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 2007, together with the comparative figures for 2006, as follows:

### CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
<b>Revenue</b>	4	<b>104,247</b>	99,988
Cost of sales		<u>(60,826)</u>	<u>(54,640)</u>
<b>Gross profit</b>		<b>43,421</b>	45,348
Other income	5	4,922	3,347
Selling and distribution costs		(28,234)	(35,371)
Administrative expenses		(27,201)	(26,148)
Other operating expenses		(6,525)	(23,940)
Impairment loss recognised on the remeasurement of assets of disposal group		—	(1,323)
<b>Loss from operating activities</b>	6	<b>(13,617)</b>	(38,087)
Finance costs	7	(273)	(131)
Gain on disposal of subsidiaries		682	—
Gain on disposal of a jointly-controlled entity		1,161	—
Share of loss of a jointly-controlled entity		—	(570)
<b>Loss before income tax expense</b>		<b>(12,047)</b>	(38,788)
Income tax expense	8	(174)	(987)
<b>Loss for the year</b>		<b><u>(12,221)</u></b>	<b><u>(39,775)</u></b>
<b>Attributable to :</b>			
Equity holders of the Company	9	(12,681)	(39,920)
Minority interests		460	145
<b>Loss for the year</b>		<b><u>(12,221)</u></b>	<b><u>(39,775)</u></b>
Dividends	10	—	—
<b>Loss per share attributable to equity holders of the Company during the year</b>	11		
Basic		<b><u>HK(1.82) cents</u></b>	<b><u>HK(5.78) cents</u></b>
Diluted		<b><u>N/A</u></b>	<b><u>N/A</u></b>

## CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>8,902</b>	12,545
Prepaid land lease payments		–	–
Intangible assets		<b>3,626</b>	1,773
Interests in a jointly-controlled entity		–	–
Financial assets designated at fair value through profit or loss		<b>2,356</b>	2,480
Pledged bank deposit		<b>20</b>	20
		<b>14,904</b>	16,818
<b>Current assets</b>			
Inventories		<b>12,760</b>	19,096
Trade receivables	12	<b>2,226</b>	4,767
Deposits, prepayments and other receivables		<b>14,904</b>	6,470
Cash and bank balances		<b>30,563</b>	31,282
		<b>60,453</b>	61,615
Assets classified as held for sale		–	7,165
		<b>60,453</b>	68,780
<b>Current liabilities</b>			
Trade payables	13	<b>6,417</b>	8,948
Accrued liabilities and other payables		<b>13,691</b>	10,976
Deposits received		<b>8,656</b>	8,567
Interest-bearing bank loans		<b>1,842</b>	2,276
Provision for income tax		<b>37</b>	57
		<b>30,643</b>	30,824
Liabilities associated with assets classified as held for sale		–	122
		<b>30,643</b>	30,946
<b>Net current assets</b>		<b>29,810</b>	37,834
<b>Total assets less current liabilities</b>		<b>44,714</b>	54,652
<b>Non-current liabilities</b>			
Interest-bearing bank loans		<b>770</b>	1,613
<b>Net assets</b>		<b>43,944</b>	53,039
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		<b>17,464</b>	17,464
Reserves		<b>24,571</b>	33,785
		<b>42,035</b>	51,249
<b>Minority interests</b>		<b>1,909</b>	1,790
<b>Total equity</b>		<b>43,944</b>	53,039

## NOTES:

### 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) 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 AMENDED HKFRSs

From 1 July 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 July 2006 and relevant to the Group. The adoption of these HKFRSs has resulted in changes in the Group’s accounting policies on financial guarantee contracts.

The amendments to HKAS 39 require an entity to account for certain financial guarantee contracts in accordance with the standard. To comply with the requirements of the amended HKAS 39, the Group has adopted a new accounting policy to recognise financial guarantee contracts. On initial recognition, these contracts are measured at fair value and they are subsequently stated at the higher of :

- the amount initially recognised less where appropriate, cumulative amortisation recognised in accordance with the Group’s revenue recognition policies; and
- the amount of the obligation under the contract, as determined in accordance with HKAS 37 – “Provision, Contingent Liabilities and Contingent Assets” (“HKAS 37”).

#### **New or amended HKFRSs that have been issued but are not yet effective**

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group’s financial statements.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment <sup>3</sup>
HK(IFRIC) – Int 11	Group and Treasury Share Transactions <sup>4</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>5</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>6</sup>
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2008

### 3. SEGMENT INFORMATION

#### (a) Business segments

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

	BIOenergy® products		Healthcare food products		Multi-functional water generators		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue :										
Sales to external customers	<u>20,998</u>	<u>27,201</u>	<u>24,631</u>	<u>16,135</u>	<u>55,759</u>	<u>51,638</u>	<u>2,859</u>	<u>5,014</u>	<u>104,247</u>	<u>99,988</u>
Segment results	<u>2,698</u>	<u>560</u>	<u>2,463</u>	<u>(35)</u>	<u>7,410</u>	<u>3,080</u>	<u>(1,302)</u>	<u>(3,034)</u>	<u>11,269</u>	<u>571</u>
Unallocated other income									<u>4,922</u>	<u>3,347</u>
Unallocated expenses									<u>(29,808)</u>	<u>(42,005)</u>
Loss from operating activities									<u>(13,617)</u>	<u>(38,087)</u>
Finance cost									<u>(273)</u>	<u>(131)</u>
Gain on disposal of subsidiaries									<u>682</u>	<u>-</u>
Gain on disposal of a jointly-controlled entity									<u>1,161</u>	<u>-</u>
Share of loss of a jointly- controlled entity									<u>-</u>	<u>(570)</u>
Loss before income tax									<u>(12,047)</u>	<u>(38,788)</u>
Income tax expense									<u>(174)</u>	<u>(987)</u>
Loss for the year									<u>(12,221)</u>	<u>(39,775)</u>

	BIOenergy® products		Healthcare food products		Multi-functional water generators		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment assets</b>	<b>10,214</b>	9,783	<b>1,165</b>	2,241	<b>4,724</b>	7,736	<b>796</b>	1,585	<b>16,899</b>	21,345
Interests in a jointly-controlled entity	-	-	-	-	-	-	-	-	-	-
Unallocated assets									<b>58,458</b>	64,253
Total assets									<b>75,357</b>	<b>85,598</b>
<b>Segment liabilities</b>										
Unallocated liabilities									<b>31,413</b>	32,559
Total liabilities									<b>31,413</b>	<b>32,559</b>
<b>Other segment information:</b>										
Depreciation	-	-	-	-	<b>103</b>	92	<b>11</b>	9	<b>114</b>	101
Unallocated amount of depreciation									<b>4,930</b>	5,257
									<b>5,044</b>	<b>5,358</b>
Amortisation of intangible assets	<b>1,425</b>	1,300	<b>575</b>	611	-	-	-	-	<b>2,000</b>	1,911
Capital expenditure	-	-	-	-	<b>105</b>	30	<b>12</b>	-	<b>117</b>	30
Unallocated amounts of capital expenditure									<b>612</b>	1,681
									<b>729</b>	<b>1,711</b>
Provision for obsolete and slow-moving inventories	<b>286</b>	2,523	-	1,691	<b>295</b>	246	<b>1,338</b>	2,859	<b>1,919</b>	<b>7,319</b>
Unallocated provision for impairment of trade receivables and deposits, prepayment and other receivables									<b>1,766</b>	<b>13,211</b>

**(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 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**

	<b>2007</b> <i>HK\$'000</i>	<b>Group</b> 2006 <i>HK\$'000</i>
Interest income	<b>864</b>	389
Government grants	<b>2,700</b>	1,552
Others	<b>1,358</b>	1,406
	<u><b>4,922</b></u>	<u>3,347</u>

## 6. LOSS FROM OPERATING ACTIVITIES

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

	<b>2007</b>	<b>Group</b>
	<i>HK\$'000</i>	2006
		<i>HK\$'000</i>
Cost of inventories sold	<b>60,826</b>	54,640
Staff costs		
Directors' remuneration	<b>3,835</b>	3,770
Wages and salaries	<b>16,543</b>	17,344
Pension scheme contributions	<b>988</b>	981
	<b>21,366</b>	22,095
Depreciation	<b>5,044</b>	5,358
Amortisation of intangible assets*	<b>2,000</b>	1,911
Exchange gain, net	<b>(73)</b>	(51)
Operating lease charges in respect of land and buildings	<b>3,341</b>	3,455
Impairment loss on trade receivables	<b>1,766</b>	2,254
Impairment loss on deposits, prepayments and other receivables	<b>–</b>	10,957
Provision for obsolete and slow-moving inventories	<b>1,919</b>	7,319
Loss on disposal of property, plant and equipment	<b>104</b>	153
Fair value loss on financial assets designated at fair value through profit or loss	<b>124</b>	30

\* included in other operating expenses

## 7. FINANCE COSTS

	<b>2007</b>	<b>Group</b>
	<i>HK\$'000</i>	2006
		<i>HK\$'000</i>
Interest on bank loans wholly repayable within five years	<b>273</b>	131

## 8. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2006: 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.

	<b>2007</b>	<b>Group</b>
	<i>HK\$'000</i>	<i>2006</i>
		<i>HK\$'000</i>
Current – PRC		
Charge for the year	<u>174</u>	<u>987</u>

## 9. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to equity holder of the Company of approximately HK\$12,681,000 (2006: loss of HK\$39,920,000), a loss of approximately HK\$9,090,000 (2006: loss of HK\$11,930,000) has been dealt with in the financial statements of the Company.

## 10. DIVIDENDS

No dividend has been paid or declared by the Company during the years presented in these financial statements.

## 11. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on loss attributable to equity holders for the year ended 30 June 2007 of approximately HK\$12,681,000 (2006: loss of HK\$39,920,000) and the ordinary shares of 698,543,104 (2006: the weighted average of 690,893,647) ordinary shares in issue during the year.

Diluted results per share for the years ended 30 June 2007 and 2006 were not presented because the impact of the exercise of share option was anti-dilutive.



## 12. TRADE RECEIVABLES

The credit terms that the Group offers to customers are generally not more than 90 days. The ageing analysis of the Group's trade receivables at the balance sheet date is as follows :

	<b>2007</b> <i>HK\$'000</i>	<b>Group</b> 2006 <i>HK\$'000</i>
Outstanding balances with ages:		
Within 30 days	1,264	1,661
Between 31 to 60 days	704	1,163
Between 61 to 180 days	1,044	1,683
Over 180 day	7,572	6,307
	<u>10,584</u>	<u>10,814</u>
Less: Provision for impairment	(8,358)	(6,047)
	<u><u>2,226</u></u>	<u><u>4,767</u></u>

## 13. TRADE PAYABLES

The credit terms of trade payables varies according to the terms agreed with different suppliers. The ageing analysis of the Group's trade payables as at the balance sheet date is as follows:

	<b>2007</b> <i>HK\$'000</i>	<b>Group</b> 2006 <i>HK\$'000</i>
Outstanding balances with ages:		
Within 30 days	3,677	3,608
Between 31 to 60 days	741	1,880
Between 61 to 180 days	979	1,392
Over 180 days	1,020	2,068
	<u>6,417</u>	<u>8,948</u>

# 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 Group has faced severe market competition from healthcare products during the financial year 2007. With an aim to increase our corporate operating results and minimize the losses, the Group endeavored to strengthen the management and lower our expenses. The Group recorded a loss for the year of approximately HK\$12.22 million (2006: a loss of approximately HK\$39.78 million), representing a significant decrease of 69.27% or approximately HK\$27.55 million as compared with last year.

### Multi-functional water generators

The production bases of the multi-functional water generators of the Group are in Hefei (合肥天年美菱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 “Vitop OSG”), the 40% owned joint venture with OSG Corporation CO., LTD. (“OSG”). As part of the Group’s strategic business realignment plan, in December 2006, the Group disposed its 40% equity interest in Vitop OSG to its joint venture partner OSG, resulting in a gain on disposal of approximately HK\$1.16 million. At this stage, the Group has entered into an exclusive distributorship agreement for Vitop OSG’s products in the PRC market. Also, the Group imports the multi-functional water generators from OSG to supplement and enhance the product sales mix of the Group.

Revenue of the multi-functional water generators increased by HK\$4.12 million or approximately 8% as compared with last year, from approximately HK\$51.64 million in the financial year 2006 to HK\$55.76 million this year, representing approximately 53.48% of the total revenue (2006: approximately 51.64%).

In the past financial years, the Group has been focusing on product’s after-sales services. We differentiated ourselves from other competitors with the excellent services and has built up good reputation among our customers. As a result, we have acquired groups of stable customers and consumers.

### 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 May 2007, the Group introduced the latest new product with a variety of compound efficacies, “Endless Warmth”, with positive market response.

The revenue of the BIOenergy® products was approximately HK\$20.99 million, dropping by approximately 22.80% as compared with 2006 and representing approximately 20.14% of the total turnover (2006: approximately 27.20%). The decrease was mainly attributable to the increasing competition in the functional textile market. Ordinary home textile has converted into functional textile industry, resulting in an intense competition of healthcare textile products. The Group will put concerted effort in exploring new products, rationalizing the product line and exploring new distribution channels, extending the sales of product line to other industry such as the hotel industry.

## **Healthcare food products**

The overall revenue increased by approximately 52.66% to approximately HK\$24.63 million, representing approximately 23.63% of the total turnover (2006: approximately 16.14%). Subsequent to the launch of propolis, the Group introduced another new bone-health product called Bone-Shukang, which has been very well received by the market. The Group expects a stable growth in the sales of introducing new healthcare food products.

## **FINANCIAL REVIEW**

### **Revenue and gross profit**

For the financial year 2007, the financial performance of the Group was unsatisfactory. Overall revenue slightly increased by approximately 4.25% or approximately HK\$4.26 million as compared with the financial year 2006, of which revenue generated from healthcare food products and multi-functional water generators increased by 52.66% to HK\$24.63 million and increased by 8% to HK\$55.76 million respectively. However, BIOenergy® products decreased by 22.80% to HK\$20.10 million, which lowered the overall increase rate of our revenue. This is caused by the intense competition of the healthcare textile industry.

Due to the intense competition of the overall healthcare product industry, the Group's revenue increased by 4.25% this year, while gross profit dropped HK\$1.93 million as compared with 2006. Gross profit margin decreased by 3.70 percentage points to 41.65%. The decrease was attributable to the sales of the multi-functional water generators produced by OSG with lower gross profit margin, which represent 19.6% of the sales. At the same time, the Group increased the discounts offered to the franchisees under adverse market environment and therefore the gross profit margin of each product line has decreased.

### **Expenses**

With respect to expenses, with more resources contributed on brand building and obtaining the certificates and awards, including "State Free of Inspection Product", "China Top Brand" and "China Well-known Trademark" in the financial year 2006, the Group is free from contributing further resources on marketing promotion. Therefore, in the financial year 2007, the Group recorded a substantial drop of approximately 20.18% or approximately HK\$7.14 million to HK\$28.23 million (2006: HK\$35.37 million) in selling and distribution costs. In the meantime, the Group strengthened its management in order to enhance its enterprise management standard. Although administrative expenses increased by approximately HK\$1.05 million, there was a sharp decrease in other operating expenses of approximately 72.74% or approximately HK\$17.42 million to HK\$6.53 million (2006: HK\$23.94 million).

### **Net Profit**

Although the gross profit of the Group dropped by HK\$1.93 million, the Group recorded a significant decrease in the expenses. As a result, the Group recorded an operating loss of approximately HK\$13.62 million (2006: approximately HK\$38.09 million). The income tax of the Group for the year was HK\$0.17 million (2006: approximately HK\$0.99 million). Meanwhile, the Group gained a profit of HK\$1.16 million as a result of the disposal of its 40% equity interest in Vitop OSG. Thus, the Group recorded a loss of approximately HK\$12.22 million (2006: approximately HK\$39.78 million).

## **Outlook and Prospect**

While the global healthcare product industry has been growing rapidly, the same industry in China remained almost stagnant. The slight expansion in the overall market scale was incapable of alleviating the difficulties faced by the enterprises in the healthcare industry that were mainly caused by the short-sighted and overly speculative measures undertaken by the owners of the enterprises, and have resulted in the fierce competition in the entire industry. Such problem could not be solved instantly.

In spite of such adverse environment, the Group still benefited from its strong core competitiveness. The Group played an important role in the PRC healthcare industry with its household brand name. The Group's cornerstones include its comprehensive products portfolio, steady after-sale service system and nationwide sales network, as well as its loyal staff members and staunch customers across the PRC.

The Group will regard gathering distributors' efforts as its major operating strategy in the future. Through establishing a system to study distributors' needs and an instant response system, the Group will make operational decisions according to the market information provided by the distributors. The Group will also pay more attention to marketing methods, channels and products innovation with development led by innovation. The Group believes that through sustained efforts, the Group will develop steadily and healthily, and this represents a step forward for the Group to become a healthcare enterprise with a century of history.

## **FINAL DIVIDEND**

The Board does not recommend the payment of a final dividend to shareholders of the Company for the year ended 30 June 2007 and 2006 respectively.

## **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 PRACTICES**

During the year, the Company has applied the principles and 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 deviations from code provisions A.4.1 and E.1.2 as stated and explained below.

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 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 22 December 2006 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 2007 annual report.

## **REVIEW OF ACCOUNTS**

The audit committee has reviewed the audited annual results of the Group for the year ended 30 June 2007.

## **ANNUAL GENERAL MEETING**

The annual general meeting of the Company will be held on 10 December 2007. 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.

## **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, Han Xiaoyue, Chen Henglong, Zhang He, Chan Yuk Tong 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 of  
**VITOP BIOENERGY HOLDINGS LIMITED**  
**Han Xiaoyue**  
*Joint Chairman*

Hong Kong, 29 October 2007

*\* For identification purpose only*