



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 2004

RESULTS

The board of directors (the “Board”) of Vitop Bioenergy Holdings Limited (“Vitop” or the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2004, together with the comparative figures in 2003, as follows:

Condensed Consolidated Income Statement

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
TURNOVER		139,982	103,509
Cost of sales		<u>(63,024)</u>	<u>(40,846)</u>
Gross profit		76,958	62,663
Other revenue and gain		2,925	1,539
Distribution costs		(29,389)	(33,187)
Administrative expenses		(26,261)	(18,589)
Other operating expenses		<u>(1,102)</u>	<u>(2,212)</u>
OPERATING PROFIT	3	23,131	10,214
Listing expenses incurred in connection with the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)		<u>—</u>	<u>(4,068)</u>
PROFIT BEFORE TAXATION		23,131	6,146
Taxation	4	<u>(2,281)</u>	<u>(512)</u>
PROFIT BEFORE MINORITY INTERESTS		20,850	5,634
Minority interests		<u>(664)</u>	<u>—</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>20,186</u>	<u>5,634</u>
DIVIDENDS	5	<u>6,782</u>	<u>4,789</u>
EARNINGS PER SHARE	6		
— Basic		<u>HK3.03 cents</u>	<u>HK0.85 cents</u>
— Diluted		<u>HK2.97 cents</u>	<u>N/A</u>

Notes:

1. Corporate Profile

The Group is a leading professional provider of technologically advanced healthcare products in the People's Republic of China, excluding Hong Kong (the "PRC").

The Group develops and markets three major healthcare product lines — healthy sleeping system, anion water producer and polypeptide products — under the Vitop® brand, through its nationwide network of franchised point of sales outlets.

The Group's three product lines, which correspond to the three vital components of human life — drink, eat and sleep, underpin the Vitop® brand's philosophy of all round health.

2. Segment Information

(a) Business Segments

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

	Healthy sleeping system		Other BIOenergy® products		Polypeptide products		Anion water producer		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Segment revenue:										
Sales to external customers	<u>55,615</u>	<u>58,440</u>	<u>9,706</u>	<u>10,577</u>	<u>5,788</u>	<u>5,410</u>	<u>68,873</u>	<u>29,082</u>	<u>139,982</u>	<u>103,509</u>
Segment results	<u>23,929</u>	<u>21,074</u>	<u>1,989</u>	<u>1,166</u>	<u>1,574</u>	<u>735</u>	<u>19,547</u>	<u>4,608</u>	<u>47,039</u>	<u>27,583</u>
Unallocated other revenue and gain									2,925	1,539
Unallocated expenses									(26,833)	(18,908)
Operating profit									23,131	10,214
Listing expenses									—	(4,068)
Profit before taxation									23,131	6,146
Taxation									(2,281)	(512)
Profit before minority interests									20,850	5,634
Minority interests									(664)	—
Profit attributable to shareholders									<u>20,186</u>	<u>5,634</u>

(b) Geographical Segments

A geographical analysis of the Group's revenue is not presented as the Group's revenue in geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

3. Operating Profit

The Group's operating profit is arrived at after charging/(crediting):

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Staff costs (excluding directors' remuneration)		
Wages and salaries	11,735	13,748
Pension scheme contributions	489	515
	12,224	14,263
Depreciation of fixed assets	3,982	3,275
Amortisation of intangible assets	725	911
Exchange gain, net	(76)	—
Minimum lease payments under operating leases on land and buildings	3,655	3,618
Provision for doubtful debts and bad debts expenses	102	169
Provision for obsolete and slow-moving inventories and inventories written off/(back)	(758)	1,475
Gain on disposal of short term investments	(984)	(265)
Loss on disposal of fixed assets	754	91
Unrealised loss on revaluation of short term investments	326	52
Interest income	(1,019)	(426)
Dividend income	(121)	(25)

4. Taxation

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
PRC	2,281	512
Hong Kong	—	—
Tax charge for the year	2,281	512

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2003: 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.

As at 30 June 2004, the Group did not have any significant unprovided deferred tax liabilities (2003: Nil).

5. Dividends

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Proposed final: The Company — HK1.00 cent per ordinary share (2003: HK0.72 cent)	6,782	4,789

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

6. Earnings per Share

The calculation of basic earnings per share is based on profit attributable to shareholders for the year ended 30 June 2004 of approximately HK\$20,186,000 (2003: HK\$5,634,000) and the weighted average of 666,412,169 (2003: 665,247,397) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to shareholders for the year ended 30 June 2004 of approximately HK\$20,186,000 and the weighted average of 678,799,730 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 is calculated based on the weighted average of 666,412,169 ordinary shares in issue during the year plus the weighted average of 12,387,561 ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

Diluted earnings per share for the year ended 30 June 2003 was not presented because the impact of the exercise of the share options was anti-dilutive.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

Market Development

Healthcare products in the PRC have a relatively recent history. Demand for healthcare products reached RMB40 billion in 2000 but dropped to around RMB20 billion in 2001 and 2002 due to concerns over the quality of healthcare food products and a change in the licensing of such products. The market rebounded in 2003 to RMB30 billion, on the strength of increased consumer awareness of personal healthcare.

Recent regulations have been a positive development for the industry. In 2004, the China Healthcare Association replaced the China Health Food Association as the industry's regulatory body, with a mission to strengthen product approval procedures and standardize rules and regulations. Old licenses have been revoked and new ones are issued only with approval from the State Drug Administration.

The Group recognizes that the key success factors in the healthcare products industry are: quality products and technology; strong branding; and an extensive distribution network. To this end, the Group made further investments in its products, back-end systems, branding, and distribution network during the year. The investments have established a strong platform for growth.

Anion Water Producer

Sales of anion water producer maintained its growth momentum. Contribution to group turnover from this product line jumped from 28.1% to 49.2% this year. The Group further consolidated its dominant position in the anion water producer market by forming a joint venture with existing partner OSG Corporation Co., Ltd. ("OSG"), a listed company in Japan and pioneer of the anion water producer maker technology in Japan. In parallel, the Group gained control over its manufacturing partner 合肥美菱環保電子有限責任公司 (Hefei Meiling Electron Environment Protection Co., Ltd.*) ("Hefei Meiling"), a company established in the PRC, through its acquisition. The Group is now well-positioned to penetrate all price segments of the anion water producer market.

Healthy Sleeping System

Cross-pollination of customers between the Group's product lines has helped defend the Group's leading position in the highly competitive healthcare bedding market. The Group was granted the eligibility to use the "March 15" label of the China Consumers' Association on the Healthy Sleeping System signifying its premium quality. New bedding series for newly married couples and students were introduced. In addition, a series of bedding products with fibres developed from bamboo and containing BIOenergy[®] compound for the summer season was launched with a view to increasing sales of bedding products in the summer months.

Back-end Systems

The Group increased its investments in back-end systems to facilitate integration among its franchisees, enhance customer service and streamline logistics:

- An ERP (enterprise resource planning) system consolidates and standardizes operational and financial management across the Group's distribution network.
- A CRM (customer relationship management) system is under pilot-testing in Shenzhen and will be rolled out to eight key cities initially. With support from a call center, the CRM system enables the provision of customized services to the Group's customers, particularly after-sales support.
- A supply chain management system gives the Group increased flexibility and efficiency in delivering to the Group's distributors and customers.

Branding

In a milestone development of its brand, the Group was granted eligibility to use the authoritative "March 15" label of the China Consumers' Association on its products. The label is an endorsement of the premium quality of the Group's healthcare products and the Group's commitment towards consumers' rights. It is believed that Vitop® is the first in the healthcare sector eligible to use the "March 15" label.

Increased efforts were spent on corporate communication to raise consumer awareness and confidence in Vitop's positioning as a premium healthcare brand. The Group aligned the branding of its point of sales network with a new Vitop® corporate identity. Other initiatives included a co-operation with the State Sports General Administration of China to be the official provider of anion water producer and healthy sleeping system for China's Olympic athletes.

Distribution Networks

As of the end of June 2004, the Group has 355 franchisees (June 2003: 222) in 355 cities (June 2003: 240) with 647 exclusive points of sales outlets carrying the Group's products (June 2003: 387). The Group continued to invest resources into strengthening the existing franchisee network, penetrating untapped markets with new recruits, and providing professional consultation and services to franchisees. The Group is also looking into penetrating new distribution networks through alliances and acquisitions.

Financial Review

Retail Sales and Group Turnover

The Group delivered a strong financial year 2004 performance, with retail sales, being sales to consumers through franchisees, and group turnover rising by 32.7% and 35.2% over 2003 to approximately HK\$349.5 million and approximately HK\$140.0 million respectively. The increase in group turnover was broad-based with growth, ranging from 18.0% in the second quarter to 57.0% in the last quarter, in each and every quarter of financial year 2004.

The anion water producer recorded the strongest growth of 136.8% to approximately HK\$68.9 million and accounted for 49.2% of group turnover in the year. Turnover of the healthy sleeping system was approximately HK\$55.6 million representing a decrease of about 4.8% from 2003. The Group has launched several new product series targeting the newly married couples and students as well as a healthy sleeping system for the summer season with fibres developed from bamboo and containing BIOenergy® compound. It is expected that the new

products will improve the sales performance in the summer season. The turnover of non-bedding MBF[®] products decreased by approximately 8.2% to HK\$9.7 million as a result of inventory clearance programs aiming to reduce the number of stock keeping units to focus sales effort on core products. Polypeptide products, driven by the albumin powder launched during the year, achieved an increase of 7.0% in turnover to approximately HK\$5.8 million.

Gross Profit

Gross margin decreased by 5.5 percentage points to 55.0% as compared to 60.5% in 2003. The decrease in gross margin is due to a change in sales mix, the lower margin anion water producer amounted to nearly half of group turnover. Segment-wise, the anion water producer recorded a drop in gross margin to 46.3% from 48.0% last year as new models were introduced to complement the current product range. Bedding products recorded a gross margin of 67.9% and was in line with the gross margin of 70.0% last year. The gross margin of non-bedding MBF[®] products decreased from 45.9% recorded last year to 35.4% this year as a result of inventory clearance program aiming to reduce the number of stock keeping units to focus sales effort on the core products. Polypeptide products, driven by the recently launched albumin powder, achieved an increase in gross margin to 66.4% as compared to 54.6% recorded last year.

Net Profit

Gross profit increased by 22.8% to HK\$77.0 million from HK\$62.7 million in 2003. Other income, comprised of tax refund, investment and interest income increased by approximately HK\$1.4 million to approximately HK\$2.9 million in 2004. The marketing initiatives in brand building and network development as well as the investments in back-end systems attributed to the increase of 5.1% in operating expenses to HK\$56.8 million in 2004 as compared to total operating expenses of HK\$54.0 million last year.

Though expenses were higher in 2004, they lagged the growth in turnover and gross profit. Consequently, operating profit increased by 126.5% to approximately HK\$23.1 million and operating profit margin expanded by 6.6 percentage points to 16.5%. The tax exemption period of the Group's operating subsidiary in the PRC ended in 2003 and the Group is subject to profit tax in the PRC which led to the increase of HK\$1.8 million tax charge from HK\$0.5 million to HK\$2.3 million in 2004. After deducting minority interest of HK\$0.6 million, group net profit increased by 2.6 times to HK\$20.2 million from HK\$5.6 million recorded in 2003.

Liquidity and Financial Resources

During the year, the Group recorded an inflow of approximately HK\$17.9 million from the operating activities, after the payments of approximately HK\$10.1 million for capital expenditures and intangible assets, and the final dividend of financial year 2003 of approximately HK\$4.8 million partly financed by the inflow of HK\$3.6 million on exercise of share options, cash on hand increased by approximately HK\$6.6 million to approximately HK\$48.8 million at 30 June 2004. The Group had no outstanding bank borrowing and no banking facilities available.

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 an acquisition agreement with 合肥美菱集團控股有限公司 (Hefei Meiling Group Holdings Company Limited*) for the acquisition of 80% interests in Hefei Meiling for a consideration of RMB3.57 million (equivalent to approximately HK\$3.37 million). The acquisition was completed in April 2004, after which Hefei Meiling had been converted into a sino-foreign joint venture and renamed as 合肥天年美菱環保科技有限責任公司 (Hefei Vitop Meiling Environmental Technologies Co. Ltd.*) (“Vitop Meiling”). Vitop Meiling is principally engaged in the manufacturing of anion water producer.

During the year, the Company entered into an agreement with OSG to form a joint venture named Vitop OSG Environmental Technology (Suzhou) Co., Ltd. 天年三愛環保科技(蘇州)有限公司 (“Vitop OSG”) in the PRC and is owned as to 40% by the Company with an investment of 60,000,000 yen (equivalent to approximately HK\$4.3 million). The joint venture was formed in May 2004, after which Vitop OSG became a jointly controlled entity of the Group and is principally engaged in the manufacturing of anion water producer.

Save as disclosed above, there were no material acquisitions or disposals of subsidiaries and associated companies/jointly controlled entities during the year.

Employees and Remuneration Policies

As at 30 June 2004, the Group employed a total of 334 employees, of which 327 are based in the PRC and 7 are based in Hong Kong. The total salaries and other remuneration (excluding directors’ emoluments) of approximately HK\$12.22 million were incurred for the year. Remuneration packages comprised salary, mandatory provident fund, bonus, medical coverage and share options.

Outlook and Future Prospects

The coming five years will be an exciting next-stage development for the Group. It will be a period of change and expansion. Reinventing our sales model to maximize opportunities in direct sales will be a priority. Another is to step up merger and acquisition activities and other strategic initiatives. The Group will introduce new products and multi-brands to increase domestic market share, while also looking abroad for opportunities in the international markets. Distribution complementary to the Group’s existing franchisee network will be developed. The investments in branding, product development, distribution network, and back-end systems fortified the Group’s leading position in the non-food healthcare sector and paved a solid foundation to achieve the long term growth rate of 30% per annum.

The ongoing priority for the Group will be to focus on better execution in all parts of its value chain. While much has already been achieved, further improvements can still be made in operating efficiency, information systems and customer service. This will ensure that the Group can manage change and expansion with success.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK1 cent per share for the year ended 30 June 2004 to shareholders whose names appear on the Company’s register of members as at the close of business on 18 October 2004, subject to shareholders’ approval at the annual general meeting of the Company to be held on 18 October 2004. The final dividend is expected to be paid to shareholders by post on or around 20 October 2004.

CLOSE OF REGISTERS OF MEMBERS

The Company's registers of members will be closed from 13 October 2004 to 18 October 2004, both dates inclusive, during which period no share transfers shall be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by 4:00 p.m. on 12 October 2004.

MAJOR EVENTS

During the year, on 5 January 2004, Mr. Lee Kwok Ming ("Mr. Lee") was appointed as an executive director of the Company and entered into with the Company (i) a director's service agreement for a term of two years and (ii) a subscription agreement in relation to the subscription of an aggregate of 7,752,000 new shares by Mr. Lee at the subscription price of HK\$0.31 per share. On the same day, Mr. Lee was also granted options to subscribe for up to 20,000,000 shares at the exercise price of HK\$0.495 per share exercisable during the period of five years from the date of grant, subject to approval of the grant by the independent shareholders of the Company. At the extraordinary general meeting of the Company held on 9 February 2004, the subscription agreement and the grant of the options were approved by the independent shareholders of the Company. Details of these transactions have been disclosed in the Company's announcement dated 5 January 2004 and the Company's circular dated 21 January 2004.

SECURITIES IN ISSUE

During the year, a total of 13,028,400 shares were issued pursuant to the exercise of the subscription rights attaching to the options by the option holders of the Company at an exercise price of HK\$0.25 per share as to 5,695,000 shares and HK\$0.30 per share as to 7,333,400 shares, respectively.

Subsequent to the year end, a total of 1,938,000 shares were issued pursuant to the subscription of the first tranche of the subscription shares by Mr. Lee at the subscription price of HK\$0.31 per share as referred to in the subscription agreement dated 5 January 2004 and made between Mr. Lee and the Company.

As a result of the new issue of 14,966,400 shares upon the exercise of share options and the subscription of shares as referred to above, the total number of issued shares of the Company as at the date of this announcement is 680,136,400.

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

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code. The audit committee consists of three independent non-executive directors of the Company, namely Mr. Yick Wing Fat, Simon, Mr. Yuan Tsu I and Mr. Huang Ming Da, and Mr. Yick Wing Fat, Simon is the chairman of the audit committee of the Company. The principal duties of the audit committee of the Company include the review of the completeness, accuracy and fairness of the Company's financial statements and the effectiveness of the Company's internal control system. During the year, two regular meetings of the audit committee have been held. The audited financial statements of the Company for the year ended 30 June 2004 have been reviewed by the audit committee.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Stock Exchange has revised the Listing Rules and the new Listing Rules have become effective on 31 March 2004. 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, bring them in line with the amended provisions of Appendix 3 to the 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 2004.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE WEBSITE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation to our shareholders, customers, suppliers and business partners for their continuous support to the Company and to all management and staff members for their contributions, commitment and dedicated efforts during the year.

GENERAL

As at the date of this announcement, the executive directors of the Company are Hung Kai So, Kam Ioi, Ma Yufeng, Sae-lao Rakchanok, Liu Jun and Lee Kwok Ming; and the independent non-executive directors of the Company are Yuan Tsu I, Huang Ming Da and Yick Wing Fat, Simon.

By Order of the Board
Hung Kai So
Chairman

Hong Kong, 25 August 2004

* *For identification purpose only*

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