



# VITOP BIOENERGY HOLDINGS LIMITED

## ( 天 年 生 物 控 股 有 限 公 司 ) \*

*(Incorporated in the Cayman Islands with limited liability)*

### INTERIM RESULTS

### FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

#### HIGHLIGHTS

- Subsequent to 31 December 2002, the Company successfully listed on the Main Board of the Stock Exchange from GEM on 10 February 2003.
- Total turnover of the Group for the six months ended 31 December 2002 increased by approximately 11.0% to approximately HK\$54.6 million as compared to the corresponding period in 2001 due to the contribution from the positive response on our newly launched Ionised Water Apparatus.
- In line with the continuous expansion plan of our franchise distribution network, we have continued to invest in training the newly recruited staff and franchisees in tapping into the new markets and establishing the new Vitop Health Technology Halls in Shanghai, Chengdu and Suzhou. Hence, net profit attributable to shareholders for the six months ended 31 December 2002 decreased to approximately HK\$8.5 million as compared to approximately HK\$16.2 million recorded in the corresponding period in 2001.

The directors of the Company believe that the above investments will begin to contribute by the second half of 2003.

- In addition to the continuous expansion plan, the directors of the Company believe that the existing three product lines have now formulated the basis of our philosophy of “Health”: Drink, Eat and Sleep — the three major components of human life. With the continuous encouraging feedbacks of such products, the Group is preparing to undergo a restructuring program of the existing franchise distribution network in accordance with such three lines of healthcare products.

#### INTERIM RESULTS

The board of directors (the “Board”) of Vitop Bioenergy Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2002 (the “Period”) together with comparative figures for the corresponding period in 2001. The interim results for the six months ended 31 December 2002 are not audited, but have been reviewed by the audit committee.

# CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended</b>	
		<b>31 December</b>	
		<b>2002</b>	<b>2001</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover		<b>54,632</b>	49,232
Cost of sales		<b>(20,945)</b>	(15,123)
Gross profit		<b>33,687</b>	34,109
Other revenue		<b>623</b>	476
Distribution costs		<b>(16,016)</b>	(9,489)
Administrative expenses		<b>(9,224)</b>	(7,986)
Other operating expenses		<b>(583)</b>	(714)
Profit from operating activities	3	<b>8,487</b>	16,396
Finance costs		—	(220)
Profit before tax		<b>8,487</b>	16,176
Tax	4	—	—
Net profit from ordinary activities attributable to shareholders		<b>8,487</b>	16,176
Dividends	5	—	5,000
Earnings per share	6		
Basic		<b>HK1.3 cents</b>	HK2.9 cents
Diluted		<b>N/A</b>	N/A

*Notes:*

## 1. Basis of Preparation and Principal Accounting Policies

The condensed financial information have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The condensed financial information have been prepared under the historical cost convention except for the short-term investment in equity securities which are stated at fair value on the basis of their quoted market price at the end of the Period.

The accounting policies adopted are in consistent with those followed in the Group's annual financial statements for the year ended 30 June 2002, except that the Group has adopted the new and revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

Upon adoption of SSAP 1 (revised), SSAP 15 (revised) and SSAP 25 (revised), certain changes in the presentation have been made in the condensed consolidated interim financial information.

SSAP 34 "Employee Benefits" has introduced a formal framework for the recognition of liabilities and expenses in respect of employee benefits. For the Group, no long service payment provision is necessary to be made for the existing employees.

The adoption of SSAP 34 and SSAP 11 (revised) does not have any material effects on the condensed financial information for the current or prior periods.

## 2. Segment Information

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

The Group's unaudited turnover and unaudited profit before tax analyzed by business segment are as follows:

	Healthy Sleeping System		Other BIOenergy® products		Polypeptide products		Ionised Water Apparatus		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:												
Sales to external customers	<u>34,787</u>	<u>41,940</u>	<u>6,066</u>	<u>4,447</u>	<u>1,830</u>	<u>2,845</u>	<u>11,949</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>54,632</u>	<u>49,232</u>
Segment gross profit %	<b>68.9%</b>	71.0%	<b>48.0%</b>	55.3%	<b>58.3%</b>	66.2%	<b>48.0%</b>	—	—	—	<b>61.7%</b>	69.3%
Segment results	<u>12,980</u>	<u>21,680</u>	<u>1,001</u>	<u>1,604</u>	<u>117</u>	<u>1,336</u>	<u>3,573</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17,671</u>	24,620
Unallocated other revenue											<u>623</u>	476
Unallocated expenses											<u>(9,807)</u>	<u>(8,700)</u>
Profit from operating activities											<u>8,487</u>	16,396
Finance costs											<u>—</u>	<u>(220)</u>
Profit before tax											<u>8,487</u>	16,176
Tax											<u>—</u>	<u>—</u>
Net profit from ordinary activities attributable to shareholders											<u>8,487</u>	<u>16,176</u>

No geographical analysis is presented as all of the Group's turnover and contribution to profit before tax is attributable to markets inside the People's Republic of China which excludes Hong Kong, Macau and Taiwan (the "PRC").

### 3. Profit from Operating Activities

The Group's unaudited profit from operating activities is arrived at after charging:

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of inventories sold and services provided	<b>20,945</b>	15,123
Amortisation	<b>512</b>	307
Depreciation	<b>1,538</b>	667
Provision for doubtful debts and bad debts written off	—	198
Provision for obsolete and slow-moving inventories and inventories written off	<b>68</b>	209
Loss on disposal of fixed assets	<b>17</b>	—
	<u><u>23,070</u></u>	<u><u>16,404</u></u>

### 4. Tax

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
PRC	—	—
Hong Kong	—	—
	<u><u>—</u></u>	<u><u>—</u></u>

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the Period (2001: 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 Period.

In accordance with the applicable corporate income tax law of the PRC, Vitop Bioenergy Science and Technology Co., Ltd. ("Zhuhai Bioenergy"), a wholly-owned subsidiary of the Company operating in the PRC, is exempt from corporate income tax for the first two profitable calendar years of operations and is entitled to a 50% relief on corporate income tax for the following three years. The two years' tax exemption period for Zhuhai Bioenergy commenced in the tax year ended 31 December 2001 under the local jurisdiction.

As at 31 December 2002, the Group did not have any significant unprovided deferred tax liabilities (30 June 2002: Nil).

## **5. Dividends**

The Board has resolved not to pay an interim dividend for the Period (2001: Nil).

The interim dividend for the six months ended 31 December 2001 was proposed and paid by Vitop Bioenergy Limited, a wholly-owned subsidiary of the Company, to its then shareholders prior to the completion of a group reorganization on 18 January 2002 in preparation for the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange ("GEM"). The dividend rate and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this interim results.

## **6. Earnings per Share**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the Period of approximately HK\$8,487,000 (2001: HK\$16,176,000) and the weighted average number of 665,318,197 (2001: 552,000,000) shares in issue during the Period. There were no potential dilutive ordinary shares in existence for the Period and the six months ended 31 December 2001 and accordingly, no diluted earnings per share has been presented.

# **MANAGEMENT DISCUSSION AND ANALYSIS**

## **Business Overview and Prospect**

After the continuous efforts in the past ten years and the successful listing of the Company's shares on GEM last year, our brand name of Vitop® has now been well recognized as the "high end" healthcare products in the PRC market targeting on the "high income" group who has benefited from the economic growth in the PRC. To maintain such market position, other than advertising, the directors of the Company believe that customer-oriented sales services and well planned expansion strategy are definitely necessary for maintaining the future growth of the Group's business. Thus, the directors of the Company have planned the current financial year as "investing" period by employing resources focusing on training to improve the quality of the newly recruited franchisees and staff to ensure the quality of services, to share the culture of the Group and, the most important, to have a better understanding of the functions of our products.

On top of the investment on human resources, the Group has also made investment in establishing Vitop Health Technology Halls in Shanghai, Chengdu and Suzhou. Experience told us that Vitop Health Technology Hall allowed our customers to have a better understanding on our products and their functions which could assist the franchisees to market our products.

Moreover, the existing product lines, namely (1) Ionised Water Apparatus, (2) polypeptide products and (3) Healthy Sleeping System have now formulated the basis of our philosophy of "Health": Drink, Eat and Sleep — the three major components of human life. The directors of the Company believe that these three major lines of products will become the direction of the Group's future products and market development. As different products require different resources for promotion, the Group is preparing to undergo a restructuring program of the existing franchise distribution network by segregating it into three distribution networks which will be more efficient for the management to allocate resources through the new operational structure.

The directors of the Company believe that the above investments will begin to contribute by the second half of 2003.

In addition, we are now planning to expand our distribution network and undergoing a study on the market potential.

## **Financial Review**

### *Turnover*

For the Period, the total turnover of the Group increased by approximately 11.0% to approximately HK\$54.6 million as compared to the corresponding period in 2001. The increase was mainly attributable to the encouraging response to Ionised Water Apparatus which has just been launched in May 2002 and has already contributed approximately 21.9% of the total turnover of the Group. The Healthy Sleeping System continued to be the major contributor of our turnover which accounted for approximately 63.7% of the total turnover of the Group. The other BIOenergy® products have shown a sign of turn around on turnover while polypeptide products posted a decrease in turnover but the situation is expected to be improved after the full launch of the new product of albumin polypeptide capsules with Cordyceps Sinensis powder in January 2003.

### *Gross Profit*

For the Period, the overall gross profit margin achieved was approximately 61.7% as compared to approximately 69.3% recorded in the corresponding period in 2001. The decrease in gross profit margin was mainly attributable to the new product mix with different profit margins of which the newly launched Ionised Water Apparatus contained a lower profit margin as compared with our traditional product, Healthy Sleeping System.

In terms of individual product line, the gross profit margin of Healthy Sleeping System decreased marginally to approximately 68.9% from approximately 71.0% recorded in the corresponding period in 2001. The decrease was mainly attributable to sales rebate having been granted to the new franchisees to encourage them to improve the sales. The Ionised Water Apparatus launched in May last year maintained its profit margin at 48.0%. For the polypeptide products, the gross margin was approximately 58.3% as compared to approximately 66.3% recorded in the corresponding period in 2001 but it has already shown a sign of turn around as compared to approximately 45.9% recorded in the second half of the last financial year.

### *Net Profit*

For the Period, net profit from ordinary activities attributable to shareholders of the Group decreased to approximately HK\$8.5 million as compared to approximately HK\$16.2 million recorded in the corresponding period in 2001. The decrease in net profit attributable to shareholders was mainly due to additional expenses having incurred for, as explained above, (i) the investment in staff and franchisees training, (ii) the establishment of new Vitop Health Technology Halls in Shanghai, Chengdu and Suzhou as part of our long-term expansion plan, and (iii) the preparation for restructuring of the existing franchise distribution network. These expenses are mainly for the plan on future growth of the Group but have been reflected as expenses in the Period. Thus, distribution costs and administration expenses increased to approximately HK\$16.0 million and approximately HK\$9.2 million as compared to approximately HK\$9.5 million and approximately HK\$8.0 million respectively in the corresponding period in 2001.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2002, the Group had a current ratio of approximately 3.5 as compared to that of 4.0 as at 30 June 2002.

As at 31 December 2002, the Group had a bank balance of approximately HK\$50.6 million and no outstanding bank borrowing and no banking facilities available.

The management of the Company considered that the Group's satisfactory financial position can provide sufficient financial resources for further expansion of the Group's business operations, as and when required. Should investment opportunities arise requiring additional funding, the management believes that the Group is in a good position to obtain additional financing on favourable terms.

As most of the Group's monetary assets are denominated in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is considered insignificant. The Group did not have any charges on its assets during the Period. The gearing ratio of the Group, based on total bank loans to shareholders equity, was zero as at 31 December 2002 (2001: 8.4%).

As at 31 December 2002, the Group had no contingent liabilities (2001: Nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2002, the Group employed a total of 410 employees, of which 403 are based in the PRC and 7 are based in Hong Kong. The total salaries and other remunerations (excluding directors' emoluments) of approximately HK\$6.9 million were incurred for the six months ended 31 December 2002. Remuneration packages comprised salary, mandatory provident fund, bonus, medical coverage and share options.

## **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

By Order of the Board  
**Hung Kai So**  
*Chairman*

Hong Kong, 28 February 2003

\* *For identification purpose only*

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