



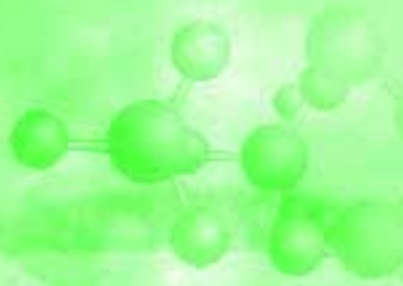
VITOP BIOENERGY HOLDINGS LIMITED
天年生物控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Interim Report
For the Period Ended
31 December 2001

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This report, for which the directors of Vitop Bioenergy Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Vitop Bioenergy Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. The information contained in this report is accurate and complete in all material respects and not misleading; 2. There are no other matters the omission of which would make any statement in this report misleading; and 3. All opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Net profit from ordinary activities attributable to shareholders for the six months ended 31 December 2001 amounted to approximately HK\$16.2 million, representing an increase of 30.8%, as compared to the corresponding period last year.
- Total turnover of the Group for the six months ended 31 December 2001 amounted to approximately HK\$49.2 million whereas the Group's turnover amounted to approximately HK\$45.6 million in the corresponding period last year.
- For the three months ended 31 December 2001, total turnover of the Group and net profit from ordinary activities attributable to shareholders increased by approximately HK\$5.5 million or 22.2% and approximately HK\$3.9 million or 53.2% respectively, as compared to the corresponding period last year.
- Strategic alliance with Polypeptide Laboratory of Shanghai Biochemistry and Cell Research Institute under China Academy of Science (中國科學院上海生物化學與細胞生物學研究所多肽研究室) for its new products, Lingzhi/Cordyceps Sinensis compounding peptide (靈芝冬蟲草复合肽).
- Successfully listed on GEM on 1 February 2002.

INTERIM RESULTS

The Board of Directors (the "Board") of Vitop Bioenergy Holdings Limited (the "Company") would like to announce the unaudited pro forma combined results of the Company and its subsidiaries (the "Group") for the three months and six months ended 31 December 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

CONDENSED PRO FORMA COMBINED PROFIT AND LOSS ACCOUNT – UNAUDITED

| | <i>Notes</i> | Three months ended 31 December | | Six months ended 31 December | |
|---|--------------|-----------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | 2001 (Unaudited) HK\$'000 | 2000 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 | 2000 (Unaudited) HK\$'000 |
| Turnover | 3 | 30,525 | 24,979 | 49,232 | 45,606 |
| Cost of sales | | (9,410) | (8,243) | (15,123) | (14,903) |
| Gross profit | | 21,115 | 16,736 | 34,109 | 30,703 |
| Other revenue | | 452 | 23 | 476 | 140 |
| Distribution costs | | (5,883) | (4,495) | (9,489) | (8,989) |
| Administrative expenses | | (4,024) | (2,703) | (7,986) | (5,541) |
| Other operating expenses | | (351) | (707) | (714) | (1,278) |
| Profit from operating activities | 4 | 11,309 | 8,854 | 16,396 | 15,035 |
| Finance costs | | (115) | (154) | (220) | (307) |
| Profit before tax | | 11,194 | 8,700 | 16,176 | 14,728 |
| Tax | 5 | – | (1,393) | – | (2,359) |
| Net profit from ordinary activities attributable to shareholders | | 11,194 | 7,307 | 16,176 | 12,369 |
| Dividends | 6 | 5,000 | 1,682 | 5,000 | 1,682 |
| Earnings per share | 7 | | | | |
| Basic | | HK2.0 cents | HK1.3 cents | HK2.9 cents | HK2.2 cents |
| Diluted | | N/A | N/A | N/A | N/A |

Other than the net profit for the three months and six months ended 31 December 2001 together with the comparative unaudited figures for the corresponding periods in 2000 attributable to the shareholders, the Group had no recognised gains or losses. Accordingly, a condensed pro forma combined statement of recognised gains and losses is not presented in this interim report.

CONDENSED PRO FORMA COMBINED BALANCE SHEET – UNAUDITED

| | | 31 December 2001 (Unaudited) HK\$'000 | 30 June 2001 (Audited) HK\$'000 |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Fixed assets | | 10,679 | 9,569 |
| Intangible assets | | 2,917 | 2,651 |
| | | <u>13,596</u> | <u>12,220</u> |
| CURRENT ASSETS | | | |
| Accounts receivable | 8 | 12,048 | 11,153 |
| Inventories | | 15,382 | 11,030 |
| Due from related parties | | 218 | – |
| Prepaid expenses, deposits and other receivables | | 13,873 | 8,109 |
| Cash and bank balances | | 10,430 | 11,695 |
| | | <u>51,951</u> | <u>41,987</u> |
| CURRENT LIABILITIES | | | |
| Accounts payable | 9 | 8,264 | 4,635 |
| Accrued liabilities and other payables | | 5,302 | 7,840 |
| Deposits received | | 8,664 | 8,107 |
| Due to related parties | | – | 363 |
| | | <u>22,230</u> | <u>20,945</u> |
| NET CURRENT ASSETS | | <u>29,721</u> | <u>21,042</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 43,317 | 33,262 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank loan, unsecured | | 3,365 | 4,486 |
| | | <u>39,952</u> | <u>28,776</u> |
| CAPITAL AND RESERVES | | | |
| Issued capital | 10 | 1 | 1 |
| Reserves | | 39,951 | 28,775 |
| | | <u>39,952</u> | <u>28,776</u> |

CONDENSED PRO FORMA COMBINED CASH FLOW STATEMENT – UNAUDITED*For the six months ended 31 December 2001*

| | 2001 (Unaudited) <i>HK\$'000</i> |
|---|--|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 7,426 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | |
| Interest received | 52 |
| Interest paid | (272) |
| Dividends paid | (5,000) |
| | <hr/> |
| Net cash outflow from returns on investments and servicing of finance | (5,220) |
| | <hr/> |
| TAX | – |
| | <hr/> |
| INVESTING ACTIVITIES | |
| Additions to intangible assets | (573) |
| Purchases of fixed assets | (1,777) |
| | <hr/> |
| Net cash outflow from investing activities | (2,350) |
| | <hr/> |
| NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES | (144) |
| | <hr/> |
| FINANCING ACTIVITIES | |
| Repayment of interest-bearing bank loan | (1,121) |
| | <hr/> |
| Net cash outflow from financing activities | (1,121) |
| | <hr/> |
| DECREASE IN CASH AND CASH EQUIVALENTS | (1,265) |
| | <hr/> |
| Cash and cash equivalents at 1 July 2001 | 11,695 |
| | <hr/> |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2001 | <u>10,430</u> |
| | <hr/> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | |
| Cash and bank balances | <u>10,430</u> |

NOTES:**1. GROUP REORGANISATION AND BASIS OF PREPARATION**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 February 2001 under the Companies Law (2000 Revision) of the Cayman Islands.

Pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the Company’s shares on GEM on 1 February 2002, the Company became the holding company of the companies now comprising the Group on 18 January 2002. This was accomplished by acquiring the entire issued share capital of Vitop Bioenergy Limited (“Vitop Bioenergy”), a company incorporated in the British Virgin Islands, which is, at the date of this report, the intermediate holding company of the other subsidiary. Details of the Reorganisation are set out in the prospectus of the Company dated 25 January 2002 (the “Prospectus”). The shares of the Company were successfully listed on GEM on 1 February 2002.

The Reorganisation involved companies under common control. Because the Reorganisation was completed subsequent to 31 December 2001, according to the Statement of Standard Accounting Practice (“SSAP”) No. 2.127, “Accounting for Group Reconstructions” issued by the Hong Kong Society of Accountants (“HKSA”), the Company together with its subsidiaries should only be regarded and accounted for as a continuing group in the preparation of the Group’s financial statements for the financial periods ending on or after 18 January 2002. Nevertheless, for the benefit of shareholders, the pro forma combined financial statements for the current

financial periods and the related notes thereto have also been presented in this interim report on the basis that the Company is treated as the holding company of its subsidiaries for the financial periods presented rather than from the subsequent date of acquisition of the subsidiaries on 18 January 2002. The pro forma combined results of the Group for the current periods include the results of the Company and its subsidiaries with effect from 1 July 2000 or since their respective dates of incorporation/establishment, where this is a shorter period. The pro forma combined balance sheets as at 30 June 2001 and 31 December 2001 have been prepared on the basis that the current group structure was in place at those dates.

In particular, pursuant to the Reorganisation, certain of the assets and liabilities, including ongoing business concerns and intellectual property rights, but excluding all real properties and those bank and other loans not related to the ongoing business, (the "Business") of Vitop Hi-Tech International Industrial Co., Ltd. ("Zhuhai Vitop") were transferred to a subsidiary of the Company with effect from 31 December 2000 (the "Transfer") at a consideration of approximately RMB22,315,809, which was determined by reference to the net asset position of the Business of Zhuhai Vitop as at 30 November 2000. Zhuhai Vitop is a company established in the People's Republic of China, except Hong Kong (the "PRC") with limited liability which was principally engaged in the manufacturing and trading of healthcare bedding, underclothing and other health products. Zhuhai Vitop discontinued its activities of manufacturing and trading of healthcare bedding, underclothing and other health products since the date of the Transfer. For the Business of Zhuhai Vitop, it has been included in this interim report on a carve out combined basis as if the Business was transferred to the Group from Zhuhai Vitop as of the beginning of the earliest period presented.

2. ACCOUNTING POLICIES

During the financial periods presented, the Group has adopted the following revised or new SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

| | |
|-------------------|--|
| SSAP 9 (revised): | Events after the balance sheet |
| SSAP 28: | Provisions, contingent liabilities and contingent assets |
| SSAP 29: | Intangible assets |
| SSAP 30: | Business combinations |
| SSAP 31: | Impairment of assets |
| SSAP 32: | Consolidated financial statements and accounting for investments in subsidiaries |

These unaudited pro forma combined financial statements of the Group have been prepared under the historical cost convention and in accordance with the SSAP 25 "Interim Financial Reporting" issued by the HKSA.

There is no material impact on the financial results and the financial positions of the Group by the adoption of the revised or new SSAPs mentioned above. The accounting policies and methods of computation adopted in the preparation of these pro forma combined financial statements are consistent with those adopted in the accountants' report as set out in the Prospectus.

3. SEGMENTAL INFORMATION – TURNOVER

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 combination.

The Group's unaudited turnover and unaudited contribution to profit after finance costs analysed by the business segment are as follows:

| | Turnover | | | |
|--------------------------|-----------------------------------|---------------------|---------------------------------|---------------------|
| | Three months ended 31 December | | Six months ended 31 December | |
| | 2001 (Unaudited) | 2000 (Unaudited) | 2001 (Unaudited) | 2000 (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| By business segment: | | | | |
| Healthy Sleeping System | 26,465 | 17,434 | 41,940 | 28,920 |
| Other BIOenergy® product | 2,140 | 3,871 | 4,447 | 7,105 |
| Polypeptide product | 1,920 | 3,674 | 2,845 | 9,581 |
| | <u>30,525</u> | <u>24,979</u> | <u>49,232</u> | <u>45,606</u> |

| | Contribution to profit after finance costs | | | |
|--------------------------|---|--------------------|-------------------------|---------------|
| | Three months ended | | Six months ended | |
| | 31 December | | 31 December | |
| | 2001 | 2000 | 2001 | 2000 |
| (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | |
| <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| By business segment: | | | | |
| Healthy Sleeping System | 13,715 | 9,225 | 21,680 | 14,614 |
| Other BIOenergy® product | 762 | 1,354 | 1,604 | 2,640 |
| Polypeptide product | 755 | 1,662 | 1,336 | 4,460 |
| | <u>15,232</u> | <u>12,241</u> | <u>24,620</u> | <u>21,714</u> |
| Unallocated expenses | (4,038) | (3,541) | (8,444) | (6,986) |
| | <u>11,194</u> | <u>8,700</u> | <u>16,176</u> | <u>14,728</u> |

No geographical analysis is presented as all of the Group's turnover and contribution to profit after finance costs is attributable to markets inside the PRC.

4. PROFIT FROM OPERATING ACTIVITIES

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

| | Three months ended | | Six months ended | |
|--|---------------------------|--------------------|-------------------------|--------------------|
| | 31 December | | 31 December | |
| | 2001 | 2000 | 2001 | 2000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| Cost of inventories sold and services provided | 9,410 | 8,243 | 15,123 | 14,903 |
| Amortisation | 99 | 50 | 307 | 70 |
| Depreciation | 327 | 360 | 667 | 738 |
| Provision for doubtful debts and bad debt written off | 122 | 25 | 198 | 44 |
| Provision for obsolete and slow-moving inventories and inventories written off | 130 | 632 | 209 | 1,090 |
| Loss on disposal of fixed assets | – | – | – | 74 |
| | <u>–</u> | <u>–</u> | <u>–</u> | <u>74</u> |

5. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the three months and six months ended 31 December 2001 (2000: Nil). Provision for tax of profits of subsidiaries operating in the PRC have been calculated at the rates applicable, based on existing legislation, interpretations and practices, during the period.

Zhuhai Vitop, a company established in the special economic zone of Zhuhai in the PRC with limited liability, is subject to PRC corporate income tax on its assessable profits at a rate of 15% as approved by the relevant tax authorities.

In accordance with the applicable corporate income tax law of the PRC, Vitop Bioenergy Science and Technology Company Limited, ("Zhuhai Bioenergy"), a subsidiary of the Company operating in the PRC, is exempted 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.

| | Three months ended | | Six months ended | |
|-----------------|---------------------------|--------------------|-------------------------|--------------------|
| | 31 December | | 31 December | |
| | 2001 | 2000 | 2001 | 2000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| The PRC | – | 1,393 | – | 2,359 |
| Hong Kong | – | – | – | – |
| | <u>–</u> | <u>1,393</u> | <u>–</u> | <u>2,359</u> |

6. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation. The dividends paid or declared by Vitop Bioenergy and Zhuhai Vitop to their then equity holders in respect of each of the financial periods presented were as follows:

| | Three months ended 31 December | | Six months ended 31 December | |
|-----------------|-----------------------------------|-------------------------|---------------------------------|-------------------------|
| | 2001 | 2000 | 2001 | 2000 |
| | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 |
| Vitop Bioenergy | 5,000 | – | 5,000 | – |
| Zhuhai Vitop | – | 1,682 | – | 1,682 |
| | <u>5,000</u> | <u>1,682</u> | <u>5,000</u> | <u>1,682</u> |

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 report.

7. EARNINGS PER SHARE

The calculation of earnings per share for the three months and six months ended 31 December 2001 is based on the respective net profit from ordinary activities attributable to shareholders of approximately HK\$11,194,000 and HK\$16,176,000 respectively, and the 552,000,000 shares in issue throughout the periods. No diluted earnings per share are presented for the three months and six months ended 31 December 2001 as there are no dilutive potential ordinary shares.

The basic earnings per share in respect of the three months and six months ended 31 December 2000 is based on the net profit from ordinary activities attributable to shareholders of approximately HK\$7,307,000 and HK\$12,369,000 respectively, and the 552,000,000 shares in issue throughout the periods. No diluted earnings per share are presented for the three months and six months ended 31 December 2000 as there are no dilutive potential ordinary shares.

8. ACCOUNTS RECEIVABLE

The aging analysis of the accounts receivable is as follows:

| | 31 December 2001 (Unaudited) HK\$'000 | 30 June 2001 (Audited) HK\$'000 |
|------------------------------------|--|--|
| | Outstanding balances with ages | |
| Within 30 days | 7,042 | 7,236 |
| Between 31 to 60 days | 2,491 | 1,133 |
| Between 61 to 180 days | 1,966 | 2,752 |
| Over 180 days | 776 | 259 |
| | <u>12,275</u> | <u>11,380</u> |
| Less: Provision for doubtful debts | (227) | (227) |
| | <u>12,048</u> | <u>11,153</u> |

The general credit terms of the Group was not more than 90 days.

9. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

| | 31 December 2001 (Unaudited) HK\$'000 | 30 June 2001 (Audited) HK\$'000 |
|------------------------|--|--|
| | Within 30 days | 6,854 |
| Between 31 to 60 days | 375 | 555 |
| Between 61 to 180 days | 16 | 330 |
| Over 180 days | 1,019 | 867 |
| | <u>8,264</u> | <u>4,635</u> |

10. STATEMENT OF MOVEMENT IN EQUITY

The movements in the pro forma combined shareholders' equity of the Group are as follows:

| | Statutory reserve (Unaudited) <i>(Note 1)</i> <i>HK\$'000</i> | Issued capital (Unaudited) <i>(Note 2)</i> <i>HK\$'000</i> | Retained profits (Unaudited) <i>HK\$'000</i> | Total (Unaudited) <i>HK\$'000</i> |
|------------------------------------|---|--|---|---|
| As at 1 July 2000 | – | 1 | 5,706 | 5,707 |
| Profit for the year | – | – | 24,751 | 24,751 |
| Transfer to statutory reserve | 1,447 | – | (1,447) | – |
| Dividends | – | – | (1,682) | (1,682) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 30 June 2001 and 1 July 2001 | 1,447 | 1 | 27,328 | 28,776 |
| Profit for the period | – | – | 16,176 | 16,176 |
| Transfer to statutory reserve | 1,618 | – | (1,618) | – |
| Dividends | – | – | (5,000) | (5,000) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 31 December 2001 | <u>3,065</u> | <u>1</u> | <u>36,886</u> | <u>39,952</u> |

Notes:

- In accordance with the relevant PRC regulations applicable to wholly owned foreign enterprises, Zhuhai Bioenergy is required to transfer 10% of its profit after tax, if any, to the statutory reserve. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against the accumulated losses of Zhuhai Bioenergy.
- The Group's issued capital as at 30 June 2001 and 31 December 2001 represented the nominal value of the share capital of Vitop Bioenergy as at those dates. Subsequent to 31 December 2001, on 18 January 2002, the Company acquired the entire issued share capital of Vitop Bioenergy in consideration for the issue and allotment of 551,999,996 shares of the Company of HK\$0.025 each to the ultimate shareholders of Vitop Bioenergy.

On 30 January 2002, 98,000,000 shares of the Company of HK\$0.025 each were issued to the public by way of a new issue and placement of shares at HK\$0.31 each, for a total cash consideration of HK\$30,380,000 before related issuing expenses.

On 4 February 2002, pursuant to the exercise of the over-allotment option granted by the Company to UOB Asia in connection with the listing of the Company's shares on GEM, the Company further issued 16,300,000 shares of HK\$0.025 each at HK\$0.31 each, for a total cash consideration of HK\$5,053,000 before related issuing expenses.

11. COMMITMENTS

- The total of minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

| | 31 December 2001 (Unaudited) <i>HK\$'000</i> | 30 June 2001 (Audited) <i>HK\$'000</i> |
|---|---|---|
| Not later than one year | 2,273 | 2,243 |
| Later than one year and not later than five years | 6,729 | 7,850 |
| | <hr/> | <hr/> |
| | <u>9,002</u> | <u>10,093</u> |

- The Group had capital commitments as follows:

| | 31 December 2001 (Unaudited) <i>HK\$'000</i> | 30 June 2001 (Audited) <i>HK\$'000</i> |
|----------------------------------|---|---|
| Contracted, but not provided for | <hr/> | <hr/> |
| | <u>3,433</u> | <u>379</u> |

12. RELATED PARTY TRANSACTIONS

On 26 October 2000, a tenancy agreement was entered into between Zhuhai Vitop and the Group in respect of leasing of leasehold land and buildings owned by Zhuhai Vitop to the Group for a period of five years commencing from the date of the Transfer at a monthly rental of RMB200,000 by reference to the comparable market rental. The Group incurred rental expenses of approximately HK\$561,000 and approximately HK\$1,121,000 for the three months ended 31 December 2001 and the six months ended 31 December 2001, respectively.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the usual course of business.

13. SUBSEQUENT EVENTS

Subsequent to 31 December 2001, the following significant events took place:

- (a) The companies now comprising the Group underwent Reorganisation in preparation for the listing of the Company's shares on GEM. Pursuant to the Reorganisation, on 18 January 2002, the Company acquired the entire issued share capital of Vitop Bioenergy in consideration for the issue and allotment of 551,999,996 shares of the Company of HK\$0.025 each to the ultimate shareholders of Vitop Bioenergy. On 18 January 2002, the Company became the holding company of the Group accordingly;
- (b) On 30 January 2002, 98,000,000 shares of the Company of HK\$0.025 each were issued to the public by way of a new issue and placement of shares at HK\$0.31 each, for a total cash consideration of HK\$30,380,000 before related issuing expenses. The shares of the Company were successfully listed on GEM on 1 February 2002; and
- (c) On 4 February 2002, pursuant to the exercise of the over-allotment option granted by the Company to UOB Asia in connection with the listing of the Company's shares on GEM, the Company further issued 16,300,000 shares of HK\$0.025 each at HK\$0.31 each, for a total cash consideration of HK\$5,053,000 before related issuing expenses.

Save as aforesaid, no other significant events took place subsequent to 31 December 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group is principally engaged in the development and distribution of healthcare products in the PRC under the brand name, "Vitop[®]", through its franchise distribution network in the PRC. Currently, the Group is distributing two main lines of products, namely BIOenergy[®] products and polypeptide products.

Net profit from ordinary activities attributable to shareholders of the Group for the six months ended 31 December 2001 amounted to approximately HK\$16.2 million, representing an increase of 30.8%, as compared to the Group's net profit from ordinary activities attributable to shareholders amounted to approximately HK\$12.4 million for the six months ended 31 December 2000. The increase was mainly due to the continuing growth of the turnover of Healthy Sleeping System products.

Total turnover of the Group for the six months ended 31 December 2001 amounted to approximately HK\$49.2 million whereas the Group's turnover amounted to approximately HK\$45.6 million in the corresponding six months ended 31 December 2000. Such increase was mainly attributable to the continuing growth of sales of the Healthy Sleeping System products.

For the three months ended 31 December 2001, total turnover of the Group and net profit from ordinary activities attributable to shareholders increased by approximately HK\$5.5 million or 22.2% and HK\$3.9 million or 53.2% respectively, as compared to the corresponding period last year. The increases were because of the aforementioned increase in the Group's turnover.

BIOenergy[®] Products

For the six months ended 31 December 2001, the Group recorded a total turnover of HK\$46.4 million for the BIOenergy[®] products (which include the Health Sleeping System products and other BIOenergy[®] products), representing an increase of 28.8% as compared to the corresponding six months ended 31 December 2000 which amounted to approximately HK\$36.0 million. The increase was mainly because the Healthy Sleeping System continued to post a strong growth of turnover as a result of the soft launching of a new series of Healthy Sleeping System which was well-received by the market. The

increase in turnover of the Healthy Sleeping System was partly offset by the decrease in turnover of the other BIOenergy® products which post a decline of approximately 37.4% as compared to the corresponding period last year. For the six months ended 31 December 2001, overall profit margin of the BIOenergy® products was on average 69.4% as compared to 67.6% in the correspondence period last year. The Healthy Sleeping System continued to contribute a higher gross profit margin of approximately 71% as compared to the gross profit margin of the other BIOenergy® products of approximately 55%. Due to such difference in gross profit margin of these products, the Directors expect that the Group will continue to focus on promoting the Healthy Sleeping System.

Polypeptide Products

For the six months ended 31 December 2001, the Group recorded a total turnover of approximately HK\$2.8 million for the polypeptide products, namely albumin polypeptide, representing a decline of approximately of 70.3% as compared to the corresponding six months ended 31 December 2000 which amounted to approximately HK\$9.6 million. The reason for such decline was mainly because of the Group's slowing down of its marketing activities on these products as the Group was in negotiation with Wuhan Tallyho, which is the sole supplier of the Group's albumin polypeptide products, to acquire the technology in manufacturing the albumin polypeptide. The Group and Wuhan Tallyho eventually reached an agreement on 13 November 2001 for the acquisition of the technology. The Directors expect the acquisition of the technology will be completed in February 2002.

BUSINESS REVIEW

In January 2002, the Group completed laboratory tests and commenced clinical tests for its new product, namely Lingzhi/Cordyceps Sinensis compounding peptide (靈芝冬蟲草复合肽). Lingzhi and Cordyceps Sinensis are traditional Chinese medicine widely accepted for improving the immune system of mankind and are believed to be able to inhibit cancer cells.

The management of the Company understands that strong research and development capabilities play an important role to the Group's success. During the period, the Group continued to look for renowned scientific and academic institutions to form strategic alliances so as to enhance the Group's research and development capabilities. The Group entered into a strategic alliance agreement dated 28 January 2002 with Polypeptide Laboratory of Shanghai Biochemistry and Cell Research Institute under China Academy of Science (中國科學院上海生物化學與細胞生物學研究所多肽研究室) (the "Polypeptide Laboratory") to study the effect of Lingzhi/Cordyceps Sinensis compounding peptide in reducing blood lipid and cholesterol level in human body. The Directors believe that forming the strategic alliance with the Polypeptide Laboratory could enhance the Group's current research capabilities in the development of new polypeptide products and speed up the development of the Lingzhi/Cordyceps Sinensis compounding peptide.

PROSPECTS

On 1 February 2002, the Group was successfully listed on GEM by way of placing of 98,000,000 new shares and 65,000,000 sale shares at an issue price of HK\$0.31 each to professional, institutional investors and individual investors. Due to the encouraging response to the offer, UOB Asia (Hong Kong) Limited ("UOB Asia"), the sponsor to the Company, has exercised the Over-allotment Option by allotting an additional 16,300,000 shares of the Company. The Group raised approximately HK\$29 million through listing.

In line with the continuing aging population and the growing awareness of the importance of personal healthcare in the PRC, the Directors believe that the sales of the Group's products will continue to grow. In particular, the Directors expect a strong growth in turnover of the Healthy Sleeping System. The Directors believe that the Healthy Sleeping System will continue to be the main contribution to the growth in the turnover of the Group.

For the Group's polypeptide products, the Directors expect that once the acquisition of the technology of manufacturing the albumin polypeptide from Wuhan Tallyho is completed, the turnover of this product will eventually improve, as the technology would enable the Group to develop its own polypeptide products and hence widen its product range.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2001, the Group had a current ratio of approximately of 2.3 as compared to that of 2.0 as at 30 June 2001.

As at 31 December 2001, the Group had aggregate banking facilities of approximately HK\$3.4 million. As at 31 December 2001, other than the unsecured interest-bearing bank loans of approximately RMB3.6 million (approximately HK\$3.4 million) which bears interest at rates ranging from 7.6% to 12.0% per annum and is repayable within two years, the Group did not have any outstanding borrowings.

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 reported. The gearing ratio of the Group, based on total bank loans to shareholders' equity, was 8.4% as at 31 December 2001.

As at 31 December 2001, the Group had no contingent liabilities.

The management of the Company considered that the Group's satisfactory financial position and operating results can provide sufficient financial resources for further expansion of the Group's business operation, 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.

HUMAN RESOURCES

The Group had approximately 287 full-time employees. Remuneration of the Group's employees includes basic salaries, discretionary bonuses, comprehensive medical coverage, insurance plan and contribution pension schemes.

BUSINESS OBJECTIVE REVIEW

As this interim report covers activities up to 31 December 2001 only, save as disclosed above, all business objectives stated in the paragraph headed "The Group's strategy and implementation" under the section headed "Statement of business objectives" of the Company's Prospectus are still in progress and no further update is applicable.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at the date of this interim report, the interests of the Directors and chief executives in the Shares as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") was as follows:—

Number of Shares of the Company

| Name | Personal interests | Family interests | Corporate interests | Percentage of voting power |
|-----------------------|--------------------|------------------|---------------------|----------------------------|
| Mr. Hung Kai So | 131,759,529 | — | — | 19.8% |
| Mr. Kam Ioi | 108,231,043 | — | — | 16.2% |
| Mr. Ma Yufeng | 88,467,115 | — | — | 13.3% |
| Ms. Sae-lao Rakchanok | 47,056,975 | — | — | 7.1% |

SHARE OPTION SCHEME

On 18 January 2002, the Company has conditionally adopted a share option scheme (the "Scheme"), the principal terms of which are set out in the Prospectus.

Since the adoption of the Scheme, the Company has not granted any option under the Scheme to its Directors and employees.

DIRECTORS' RIGHT TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

None of the Directors or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any body corporate, or had exercised any such right as at the date of this interim report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the date of this interim report, the following entity had or deemed to have interest of 10 percent or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

| Name | Number of shares held | Percentage of voting power |
|-----------------|------------------------------|-----------------------------------|
| Mr. Hung Kai So | 131,759,529 | 19.8% |
| Mr. Kam Ioi | 108,231,043 | 16.2% |
| Mr. Ma Yufeng | 88,467,115 | 13.3% |

Save as disclosed above, the Company has not been notified of any other interests representing 10 percent or more of the entire issued share capital of the Company as at the date of this interim report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

None of the members of the Group had purchased, sold or redeemed any of the Shares during the period from 1 February 2002 (being the listing date) to the date of this interim report.

SPONSOR'S INTERESTS

Pursuant to a sponsorship agreement dated 24 January 2002 between the Company and UOB Asia, UOB Asia will be retained as the sponsor of the Company for the purpose of Chapter 6 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the period from 1 February 2002 (being the listing date) to 30 June 2004.

None of UOB Asia, its directors, employees nor associates had any shareholding interests in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for the securities of the Company or any member of the Group as at the date of this announcement.

COMPETING INTERESTS

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in business which competed or might compete with business of the Group.

COMPLIANCE WITH RULE 5.28 TO 5.39 OF THE GEM LISTING RULES

Since the date of listing on 1 February 2002, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee has 3 members, namely Mr. Yuan Tsu I, Mr. Huang Ming Da, both being independent non-executive directors, and Mr. Ma Ying Lung, the financial controller of the Group. Mr. Yuan Tsu I is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's annual reports and accounts, and half yearly and quarterly reports. The audit committee has met once since its formation on 18 January 2002.

By order of the Board
Hung Kai So
Chairman

Hong Kong, 11 February 2002