



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

(Incorporated in the Cayman Islands with limited liability)

Quarterly Report
For the Third Quarter Ended
31 March 2002

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

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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

- Total turnover of the Group for the three months and nine months ended 31 March 2002 amounted to approximately HK\$20.3 million and HK\$69.6 million, respectively, representing respective increases of approximately 2.7% and 6.4% as compared to the corresponding periods last year.
- Gross profit margin for the three months and nine months ended 31 March 2002 was approximately 71.4% and 69.9%, respectively, as compared to 67.5% and 67.4% achieved in the corresponding periods last year.
- Net profit from ordinary activities attributable to shareholders of the Group for the three months and nine months ended 31 March 2002 amounted to approximately HK\$5.1 million and HK\$21.3 million as compared to approximately of HK\$6.1 million and HK\$18.5 million recorded in the corresponding periods last year.
- Widening the applications of the BIOenergy® compound into home appliance products.
- Commencing to launch the polypeptide products in the pharmaceutical and medicine market through dispensary stores in order to widen the coverage of the distribution network of the Group.

THIRD QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Vitop Bioenergy Holdings Limited (the “Company”) would like to announce the unaudited consolidated/combined results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 31 March 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

	<i>Notes</i>	Three months ended 31 March		Nine months ended 31 March	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
TURNOVER		20,324	19,791	69,556	65,397
Cost of sales		(5,811)	(6,424)	(20,934)	(21,327)
Gross profit		14,513	13,367	48,622	44,070
Other revenue		55	691	531	831
Distribution costs		(5,334)	(4,330)	(14,823)	(13,319)
Administrative expenses		(3,639)	(3,488)	(11,625)	(9,029)
Other operating expenses		(391)	(50)	(1,105)	(1,328)
PROFIT FROM OPERATING ACTIVITIES		5,204	6,190	21,600	21,225
Finance costs		(80)	(83)	(300)	(390)
PROFIT BEFORE TAX		5,124	6,107	21,300	20,835
Tax	2	–	–	–	(2,359)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		5,124	6,107	21,300	18,476
DIVIDENDS	3	–	–	5,000	1,682
EARNINGS PER SHARE	4				
Basic		<u>HK0.82 cents</u>	<u>HK1.11 cents</u>	<u>HK3.69 cents</u>	<u>HK3.35 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</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 the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “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, 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 consolidated financial statements have been prepared using the merger basis of accounting as a result of Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented rather than from the date of their acquisitions pursuant to the Reorganisation. Accordingly, the consolidated results of the Group for the financial periods presented include the results of the Company and its subsidiaries with effect from 1 July 1999 or since their respective dates of incorporation where this is a shorter period.

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 Republic of China, except Hong Kong (the “PRC”) with limited liability which was principally engaged in the manufacturing and trading of health-care bedding, underclothing and other health products. Zhuhai Vitop discontinued its activities of manufacturing and trading of health-care bedding, underclothing and other health products since the date of the Transfer. For the Business of Zhuhai Vitop, it has been included in this announcement 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. TAX

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the period (2001: 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		Nine months ended	
	31 March	2001	31 March	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	-	-	-	2,359
Hong Kong	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,359</u>

3. DIVIDEND

The Directors do not recommend the payment of dividend for the three months ended 31 March 2002. (2001: Nil).

4. EARNINGS PER SHARE

The calculation of earnings per share for the three months and nine months ended 31 March 2002 is based on the respective net profit from ordinary activities attributable to shareholders of approximately HK\$5.1 million and HK\$21.3 million, respectively, and the weighted average number of shares in issue during the periods of 628,200,000 and 577,400,000 respectively. No diluted earnings per share are presented for the three months and nine months ended 31 March 2002 as there are no dilutive potential ordinary shares.

The basic earnings per share in respect of the three months and nine months ended 31 March 2001 is based on the net profit from ordinary activities attributable to shareholders of approximately HK\$6.1 million and HK\$18.5 million, respectively, and the 552,000,000 shares deemed in issue throughout the periods. No diluted earnings per share are presented for the three months and nine months ended 31 March 2001 as there are no dilutive potential ordinary shares.

5. STATEMENT OF MOVEMENT TO AND FROM RESERVES

The movements in the consolidated/ combined reserves of the Group are as follows:

	Statutory Reserve (unaudited)	Share Premium (unaudited)	Retained Profits (unaudited)	Total (unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 July 2000	–	–	5,706	5,706
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	–	27,328	28,775
Arising on acquisition of Vitop Bioenergy Limited	–	(13,800)	–	(13,800)
Issue of 98,000,000 share of HK\$0.025 each at HK\$0.31 each	–	27,930	–	27,930
Over-allotment of 16,300,000 shares of HK\$0.025 at HK\$0.31 each	–	4,646	–	4,646
Issuing expenses	–	(7,824)	–	(7,824)
Profit for the period	–	–	21,300	21,300
Transfer to statutory reserve (<i>Note 1</i>)	2,130	–	(2,130)	–
Dividends	–	–	(5,000)	(5,000)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 March 2002	<u>3,577</u>	<u>10,952</u>	<u>41,498</u>	<u>56,027</u>

Note:

1. 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.

BUSINESS 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. During the period, the Group has continued to expand its franchise distribution network. The total number of franchisees was increased from 174 as at 31 December 2001 to 185 as at 31 March 2002.

Total turnover of the Group for the three months and nine months ended 31 March 2002 amounted to approximately HK\$20.3 million and HK\$69.6 million, respectively, representing respective increases of approximately 2.7% and 6.4% as compared to the corresponding periods last year. The increases were mainly because the Healthy Sleeping System continued to post a growth of turnover during the periods. The increase in turnover of the Healthy Sleeping System was partly offset by the decrease in turnover of other BIOenergy[®] products. It has always been the Group’s strategy to focus on products with higher profit margin. The same situation has also applied to the Group’s polypeptide product for which the Group is now adjusting its marketing strategy by introducing this product through the dispensary stores in order to widen it’s market coverage in the PRC.

Due to the continued growth in the turnover of the Healthy Sleeping System, which recorded a higher profit margin than that of the other BIOenergy[®] products, the overall gross profit margin achieved for the three months and nine months ended 31 March 2002 was approximately 71.4% and 69.9% as compared to 67.5% and 67.4% achieved in the corresponding periods last year. The Directors believe that the Group will continue its current strategy in focusing on marketing products with higher profit margin, such as the Healthy Sleeping System, in order to enhance the overall gross profit margin of the Group.

Net profit from ordinary activities attributable to shareholders of the Group for the three months and nine months ended 31 March 2002 was approximately HK\$5.1 million and HK\$21.3 million, respectively, as compared to approximately HK\$6.1 million and HK\$18.5 million recorded in the corresponding periods last year. The decrease in net profit from ordinary activities attributable to shareholders of the Group for the quarter ended 31 March 2002 was mainly due to additional expenses of approximately HK\$1.1 million in enhancing the Group’s distribution network and promoting the brand name, “Vitop[®]”. The Directors believe that the economic benefit of the expenses incurred will begin to contribute in the second half of this year.

FUTURE PROSPECTS

It has always been the Directors’ intention to widen the application of the Group’s BIOenergy[®] compound. The basic functional principle of its BIOenergy[®] compound derives from the emitting of 4-14um infra rays. In the recent research reports prepared by Tsing Hua University and Fudan University, it is shown that the BIOenergy[®] compound could reduce the cluster of water molecules and increase the activities of water molecules. The research reports further support that the increase of activities of water molecules could also enhance the ionising of water when applied in an Ionised Water Apparatus, which is used in some home appliance products. On 29 April 2002, the Group entered into a cooperative agreement with a Ionised Water Apparatus manufacturer in the PRC to apply the BIOenergy[®] compound to develop a new product to launch into the home appliance market. Pursuant to the agreement, the new product will be marketed by using the Group’s brand name, “Vitop[®]”. The Directors expect that the new product will be launched through the Group’s franchisee distribution network in June 2002. It will be the first product applying the Group’s BIOenergy[®] compound technology to be launched into the home appliance market. The Directors believe that the Group’s proprietary technology in the manufacture of BIOenergy[®] compound can have wide commercial applications and the Group will continue to devote its resources in exploring new commercial application of the BIOenergy[®] compound.

In addition to the Group's existing franchise distribution network, the Directors have been placing a great emphasis in diversifying into other market channels. Since March 2002, the Directors have adjusted the Group's marketing strategy in an effort to tap into the pharmaceutical market by introducing its polypeptide products through dispensary stores in the PRC to widen the market coverage of the products. The Directors believe that the success of the existing franchise distribution network of the Group could also be applied to this market channel, thereby diversifying the market coverage of the Group.

HUMAN RESOURCES

As at the date of this report, the Group had approximately 285 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 quarterly report covers activities up to 31 March 2002 only, saved 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 Prospectus are still in progress and no further update is applicable.

DIRECTORS' AND CHIEF EXECUTIVE INTERESTS IN SECURITIES

As at the date of this report, the interests of the Directors in the shares of the Company 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	Other 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 the share option scheme ("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 report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the date of this report, the following entity had or deemed to have interest of 10% 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% or more of the entire issued share capital of the Company as at the date of this 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 of the Company during the period from 1 February 2002 (being the listing date) to the date of this report.

SPONSOR'S INTERESTS

Pursuant to a sponsorship agreement dated 24 January 2002 between the Company and UOB Asia (Hong Kong) Limited ("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 report.

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 of the Group 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 two members, namely Mr. Yuan Tsu I and Mr. Huang Ming Da, both being independent non-executive directors. 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.

By order of the Board

Hung Kai So

Chairman

Hong Kong, 14 May 2002