



VITOP BIOENERGY HOLDINGS LIMITED

天年生物控股有限公司

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2002/2003



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 GEM of the Stock Exchange for the purpose of giving information with regard to Vitop Bioenergy Holdings Limited. The directors of Vitop Bioenergy Holdings Limited, 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

- Turnover of the Group for the three months ended 30 September 2002 was approximately HK\$19.8 million, representing an increase of approximately 5.8% as compared to the corresponding period last year.
- The Group's net profit from ordinary activities attributable to shareholders for the three months ended 30 September 2002 was approximately HK\$2.8 million, representing a decrease of approximately 44.0% as compared to the corresponding period last year.
- Earnings per share for the three months ended 30 September 2002 was approximately HK0.42 cent.
- On 18 September 2002, the Group submitted an advance booking of an application for the proposed listing of its shares on the Main Board of the Stock Exchange (*Note*).
- The Board does not recommend the payment of dividend for the three months ended 30 September 2002 (2001: Nil).

Note: The listing of the Company's shares on the Main Board of the Stock Exchange by way of introduction may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

FIRST QUARTERLY RESULTS (UNAUDITED)

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 three months ended 30 September 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	<i>Notes</i>	For the three months ended	
		2002	2001
		(Unaudited)	(Unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER		19,795	18,707
Cost of sales		<u>(7,718)</u>	<u>(5,713)</u>
Gross profit		12,077	12,994
Other revenue		195	24
Distribution costs		(5,165)	(3,606)
Administrative expenses		(3,941)	(3,962)
Other operating expenses		<u>(365)</u>	<u>(363)</u>
PROFIT FROM OPERATING ACTIVITIES		2,801	5,087
Finance costs		<u>(11)</u>	<u>(105)</u>
PROFIT BEFORE TAX		2,790	4,982
Tax	2	<u>-</u>	<u>-</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>2,790</u>	<u>4,982</u>
DIVIDENDS	3	<u>-</u>	<u>-</u>
EARNINGS PER SHARE	4		
Basic		<u>HK0.42 cent</u>	<u>HK0.90 cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Notes:

1. BASIS OF PREPARATION

The financial information have been prepared in accordance with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

2. TAX

Hong Kong profits tax has not been provided for the three months ended 30 September 2002 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 People's Republic of China excluding Hong Kong (the "PRC"), Vitop Bioenergy Science and Technology Co., Ltd. ("Zhuhai Bioenergy"), a wholly-owned 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.

	For the three months ended	
	30 September	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The PRC	-	-
Hong Kong	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

3. DIVIDENDS

The Board does not recommend the payment of dividend for the three months ended 30 September 2002 (2001: Nil).

4. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the three months ended 30 September 2002 of approximately HK\$2,790,000 (2001: approximately HK\$4,982,000) and the weighted average number of 665,477,065 (2001: 552,000,000 ordinary shares deemed in issue) ordinary shares in issue during the period. No diluted earnings per share is presented for the three months ended 30 September 2002 as there are no dilutive potential ordinary shares.

5. STATEMENT OF MOVEMENT TO AND FROM RESERVES

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

	Statutory Reserve (Note) (unaudited) HK\$'000	Share Premium (unaudited) HK\$'000	Retained Profits (unaudited) HK\$'000	Total (unaudited) HK\$'000
As at 1 July 2001	1,447	7,201	6,328	14,976
Profit for the period	–	–	4,982	4,982
Transfer to statutory reserve	498	–	(498)	–
	<u>1,945</u>	<u>7,201</u>	<u>10,812</u>	<u>19,958</u>
As at 30 September 2001	<u>1,945</u>	<u>7,201</u>	<u>10,812</u>	<u>19,958</u>
As at 1 July 2002	4,758	31,312	18,837	54,907
Profit for the period	–	–	2,790	2,790
Transfer to statutory reserve	279	–	(279)	–
	<u>5,037</u>	<u>31,312</u>	<u>21,348</u>	<u>57,697</u>
As at 30 September 2002	<u>5,037</u>	<u>31,312</u>	<u>21,348</u>	<u>57,697</u>

Note: 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 AND PROSPECTS

Business Review

For the three months ended 30 September 2002, the Group recorded a total turnover of approximately HK\$19.8 million, representing an increase of approximately 5.8% as compared with approximately HK\$18.7 million recorded in the corresponding period last year. The products containing the BIOenergy® compound continued to be the major contributor of the Group's revenue and accounted for approximately 96.0% of the total turnover. The Group's net profit from ordinary activities attributable to shareholders for the three months ended 30 September 2002 was approximately HK\$2.8 million, representing a decline of approximately 44.0% as compared to the corresponding period last year, mainly due to the decrease in gross profit margin and additional staff costs incurred for the enhancement of the Group's distribution network.

Total turnover of products containing the BIOenergy® compound was approximately HK\$19.0 million, representing an increase of approximately 6.8% as compared to the corresponding period last year. The increase was mainly attributable to the newly launched Ionised Water Apparatus which recorded a turnover of approximately HK\$4.9 million while the Healthy Sleeping System posted a turnover of approximately HK\$12.1 million for the three months ended 30 September 2002, representing a decline of approximately 22.0% mainly due to the Group having focused on promoting the newly launched product – Ionised Water Apparatus. In the coming quarter, which traditionally is the peak season of the year, the Group will resume its strategy to promote the products with higher profit margin, e.g. Healthy Sleeping System.

As stated in the 2002 annual report, the Group had adopted a conservative approach on marketing the polypeptide products before the completion of acquisition of the manufacturing technology of albumin polypeptide in July 2002. In anticipation of the launch of the currently developing Cordyceps Sinensis Peptide, the Group launched the albumin polypeptide with the Cordyceps Sinensis powder product in early August 2002. The Group recorded a turnover for the polypeptide products of approximately HK\$0.8 million for the three months ended 30 September 2002, as compared with approximately HK\$0.9 million recorded in the corresponding period last year.

As disclosed in the Company's prospectus dated 25 January 2002 for the listing of the Company's shares on GEM, the Group was considering relocating its headquarters in Zhuhai to one of the major cities in the PRC. The relocation plan has been proceeding as it is scheduled. In order to minimise the impact of the relocation on the Group's operation, the Directors decided, for the time being, to relocate the sales headquarters of the Group to Shanghai. As the Group's sales headquarters will be relocated to Shanghai, the Group would take the opportunity to restructure its marketing strategy towards the Shanghai market. The franchise agreement with the Shanghai franchisee, who contributed to approximately 14.1% of the Group's turnover for the year ended 30 June 2002, will be ceased. Because of the aforesaid reason, the contribution of sales from the Shanghai market to the Group decreased during this quarter.

Due to new products mix with different profit margin, the overall gross profit margin achieved for the three months ended 30 September 2002 was approximately 61.0% as compared to approximately 69.5% achieved in the corresponding period last year.

Net profit from ordinary activities attributable to shareholders of the Group for the three months ended 30 September 2002 decreased to approximately HK\$2.8 million from approximately HK\$5.0 million recorded in the corresponding period in 2001. Apart from the decrease in gross profit margin, the decrease was also attributable to the increase of selling expenses by approximately HK\$1.6 million mainly because additional sales and marketing staff were hired to enhance the Group's distribution network. Due to stricter cost control, general and administrative expenses amounted to approximately HK\$3.9 million for the period under review was maintained at the same level as the corresponding period last year.

As at 30 September 2002, the Group had cash and bank balance of approximately HK\$47.0 million, no outstanding bank borrowings and no banking facilities available.

Future prospects

Considering the potential growth of the healthcare products market in the PRC, with the Group's well-established brand name and franchise distribution network, the directors of the Company believe that the right strategy for the Group is to continue its efforts in expanding its existing distribution network to pursue the business objective to become the leading developer and distributor of the healthcare products industry in the PRC.

In September 2002, the Group opened the second Exhibition and Technology Showroom in Beijing through the franchisee in Beijing after the opening of Chengdu Exhibition and Technology Showroom in July 2002, as part of the Group's expansion plan for enhancing its distribution network and conducting national promotional campaign. Due to positive response from the market, the Group will continue to discuss with other franchisees to assist them to establish such Exhibition and Technology Showrooms to promote the Group's Vitop® brand name and to cultivate the Group's philosophy on healthcare.

PROPOSED LISTING OF SHARES ON THE MAIN BOARD OF THE STOCK EXCHANGE

To further increase the public profile and recognition of the Company, on 18 September 2002, the Company submitted an advance booking of an application for the proposed listing of its shares on the Main Board of the Stock Exchange and informed the Stock Exchange of its intention to voluntarily withdraw the listing of its shares on GEM (*Note*).

Note: The listing of the Company's shares on the Main Board of the Stock Exchange by way of introduction may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2002, the interests of the directors of the Company in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Name	Type of interest	Number of shares of the Company held
Hung Kai So	Personal	131,759,529
Kam Ioi	Personal	108,231,043
Ma Yufeng	Personal	88,467,115
Sae-lao Rakchanok	Personal	47,056,975
Liu Jun	Personal	26,181,819

Save as disclosed above, none of the directors of the Company had, as at 30 September 2002, any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the share option scheme conditionally adopted by the Company on 18 January 2002, the Board is authorized at its absolute discretion to grant options to eligible participants (including directors of the Company) to subscribe for shares in the Company. As at 30 September 2002, no option has been granted to any eligible participants (including directors of the Company) under the share option scheme of the Company.

Save as disclosed above, at no time during the three months ended 30 September 2002 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or their respective spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the following persons had an interest of 10% or more in the issued share capital of the Company that was recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of issued share capital
Hung Kai So	131,759,529	19.8%
Kam Ioi	108,231,043	16.3%
Ma Yufeng	88,467,115	13.3%

Save as disclosed above, no persons had an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register pursuant to Section 16(1) of the SDI Ordinance as at 30 September 2002.

SPONSOR'S INTERESTS

As at 30 September 2002, UOB Asia (Hong Kong) Limited, its directors, employees or associates did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

COMPETING INTERESTS

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company, or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interest with the Group.

AUDIT COMMITTEE

An audit committee was established on 18 January 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee has two members, namely Mr. Yuan Tsu I and Mr. Huang Ming Da, both of whom are independent non-executive directors of the Company, and 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 four times since its establishment.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the three months ended 30 September 2002, the Company repurchased on the Stock Exchange a total of 1,130,000 shares of HK\$0.025 each in the share capital of the Company at an aggregate price of HK\$294,398.71, details of which are as follows:

Month of repurchase	No. of shares repurchased	Price per share		Aggregate price paid HK\$
		Highest HK\$	Lowest HK\$	
July 2002	<u>1,130,000</u>	0.260	0.255	<u>294,398.71</u>

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

By Order of the Board
Hung Kai So
Chairman

Hong Kong, 8 November 2002