



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

(Incorporated in the Cayman Islands with limited liability)

Annual Report
2004



- Bedding system
- Human Water
- Biotechnology

Contents

	<i>PAGES</i>
CHAIRMAN'S STATEMENT	2
MANAGEMENT DISCUSSION AND ANALYSIS	4
BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT	9
REPORT OF THE DIRECTORS	11
REPORT OF THE AUDITORS	18
CONSOLIDATED INCOME STATEMENT	19
CONSOLIDATED BALANCE SHEET	20
BALANCE SHEET	21
CONSOLIDATED CASH FLOW STATEMENT	22
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	23
NOTES TO THE FINANCIAL STATEMENTS	24
SUMMARY OF FINANCIAL INFORMATION	51
CORPORATE INFORMATION	52



Hung Kai So
Chairman

Dear shareholders,

This was a year of solid growth and a year of consolidation for continued growth ahead. Arriving at this next level in the 12-year development of Vitop Bioenergy Holdings Limited ("Vitop" or the "Company") has not been without its ups and downs. Looking back, our efforts to grow the Company had met unexpected diversions like government policy changes and the SARS (Severe Acute Respiratory Syndrome) outbreak, but we have kept the Company steadily on track. It reflects our adaptability and consistency. It reflects our expertise and perseverance in coping with change and seeking out innovation. I am proud to say that our efforts have begun to feed through to our results.

The Company and its subsidiaries (the "Group") delivered strong growth in profitability for this financial year. Profit attributable to shareholders was up 2.6 times to reach approximately HK\$20.2 million. Retail sales grew by 32.7% to approximately HK\$349.5 million, paving the way for a HK\$500.0 million breakthrough in the next financial year. Group turnover was approximately HK\$140.0 million, a 35.2% growth in line with the Group's targeted compound annual growth rate of 30%.

With the return to normal profitability, the Company made further investments in our branding, product development, distribution network, and back-end systems during the year. These initiatives have fortified the Group's leading position in the healthcare bedding and water apparatus sectors, achieving estimated market shares of 30% and 60%, respectively. Above all, we are now better equipped to serve consumers.

The relatively young history of the healthcare products industry in the People's Republic of China, excluding Hong Kong (the "PRC") has been marred by damaged consumer confidence. Against this backdrop, we go the extra length to provide consumers with premium quality, good value products with exceptional service and transparent information. At our regular conventions, consumers applaud our systematic efforts in gaining their confidence through detailed product explanations by specialists and first-hand experience sharing from users, in an atmosphere of a caring community. Our ongoing priority is to increase the loyalty of our existing customers while converting traffic at the same time.

Consumer confidence in our brand coupled with our steady execution positions the Group well for the lifting of the ban on direct selling, expected before the end of 2004 as part of China's commitment to the WTO (World Trade Organization). With this lifting comes new opportunities as well as challenges. I am confident that the Group will overcome the challenges. After all, we have a proven track record — change and innovation are steeped in our 12-year history. We are prepared to capitalize on the opportunities by developing new sales models that conform to the new regulations, while preserving what has proven to be successful.

The Company's investments this year laid the ground for continuing growth in the years to come. On this foundation we will introduce new products, new services, new outlets and new channels, through internal development, alliances and acquisitions. Ours is a relatively young company in an industry that promises tremendous opportunities, particularly after the reinstatement of direct selling. We have yet to achieve our maximum potential — this set of results is only just the beginning.

Chairman's Statement

To grow the Company in a culture of change and innovation requires a visionary, talented and disciplined team. I give my sincerest thanks to all management and staff for their hard work, consistency and unwavering spirit that prevails over difficult times to reach the success beyond. I also extend my thanks to our shareholders, customers, suppliers and business partners for helping us grow through their continuous support.

Hung Kai So
Chairman

Hong Kong, 25 August 2004

BUSINESS REVIEW

PRC Healthcare Products Market

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

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

By the end of 2004, the PRC government is expected to lift the ban on direct selling in the PRC, which was instituted in 1998 in the wake of deceptive sales and consumer losses. The new regulations are expected to bolster sales of healthcare products.

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

Anion Water Producer

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

Healthy Sleeping System

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



Kam loi
Managing Director

Application of our flagship BIOenergy® and MBF® technology has been extended to a series of nano-grade medical functional dressing products, with good inroads made into hospital distribution.

BIOenergy® compound	A superfine microelemental biochemical mixture containing titanium oxide, zirconia, silica, yttrium oxide, cerium oxide, tin dioxide, silver phosphate and other microelements. The BIOenergy® compound has been proven to be able to improve blood microcirculation in the human body.
MBF®	microelemental bioactivity fibre, a processed fibre product of polyester chips blended with the BIOenergy® compound and woven into flax fibre. A China Healthcare Association certified clinical research conducted in seven grade-A hospitals shows that MBF® offers significant alleviation to the clinical symptoms of insomnia, exhaustion, tiredness, distraction, arthralgia, acrodynia, acrocyanosis, breathe difficulty and limbs anaesthesia resulted from or related to microcirculation dysfunction.

Back-end Systems

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

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

Branding

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

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

Distribution Networks

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

FINANCIAL REVIEW

Retail sales	Sales to consumers through franchisees
Group turnover	Group revenue derived from wholesale revenue and royalties for goods sold to franchisees

Retail Sales and Group Turnover

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

The anion water producer recorded the strongest growth of 136.8% to approximately HK\$68.9 million and accounted for 49.2% of group turnover in the year. Turnover of the healthy sleeping system was approximately HK\$55.6 million representing a decrease of about 4.8% from 2003. The Group has launched several new product series targeting the newly married couples and students as well as healthy sleeping system for the summer season with fibres developed from bamboo and containing BIOenergy® compound. It is expected that the new products will improve the sales performance in the summer season. The turnover of non-bedding MBF® products decreased by 8.2% to approximately HK\$9.7 million as a result of inventory clearance program aiming to reduce the number of stock keeping units to focus sales effort on core products. Polypeptide products, driven by the albumin powder launched during the year, achieved an increase of 7.0% in turnover to approximately HK\$5.8 million.

Gross Profit

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

Net Profit

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

SIGNIFICANT INVESTMENT

During the year, there was no significant investment held by the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES/JOINTLY CONTROLLED ENTITIES

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

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

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

EMPLOYEES AND REMUNERATION POLICIES

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

MAJOR EVENTS

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

SECURITIES IN ISSUE

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

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

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

OUTLOOK AND FUTURE PROSPECTS

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

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

* For identification purpose only

EXECUTIVE DIRECTORS

Mr. Hung Kai So (洪繼蘇), aged 61, is the chairman of the Company. Mr. Hung joined the Group in February 1999 and is responsible for the strategic planning, business development and corporate management of the Group. He holds a diploma in Textile from the Hong Kong Technical School. After graduation, he has worked in the textile industry and has over 37 years of experience in the textile industry.

Mr. Kam loi (金銳), aged 48, is the managing director of the Company. Mr. Kam joined the Group in October 1992 and like Mr. Hung, he is also responsible for the strategic planning, business development and corporate management of the Group. He holds a degree in Economics from the Huaiyin Teachers College (淮陰師範學院) and has over 27 years of experience in the textile industry. Mr. Kam is one of the Group's founders and an inventor of the BIOenergy® compound. He is also the vice chairman of the China Health Care Association on Aging (中國老年保健協會副會長) and the vice president of the China Healthcare Association (中國保健協會副理事長).

Mr. Ma Yufeng (馬余鋒), aged 38, is an executive director of the Company. Mr. Ma joined the Group in June 1998 and is primarily responsible for the general management, public relations and administration of the Group. He completed a course in business management in the PRC in 1990 and has over 12 years of experience in international trade and corporate finance. From January 1994 to June 1997, he worked as an assistant to the general manager in Shenzhen Xinyinhong Industrial Stocks Co., Ltd. (深圳新銀鴻實業股份有限公司).

Ms. Sae-lao Rakchanok (葉鈴), aged 36, is an executive director of the Company. Ms. Sae-lao joined the Group in February 1999 and is primarily responsible for the market development and strategic planning of the Group. She graduated from Assumption Business Administration College in Thailand with a Bachelor degree in Business Administration in 1990. Prior to joining the Group, she had 5 years of experience in managing a foam product plant.

Mr. Liu Jun (劉俊), aged 46, is an executive director of the Company. Mr. Liu joined the Group in October 1992 and is in charge of the new products development of the Group and the establishment of profession association. He completed a four-year course in Textile Engineering from East China Institute of Textile Science and Technology (華東紡織工學院) in January 1982. Prior to joining the Group, he had worked in the textile industry for many years. Mr. Liu is a co-inventor of the BIOenergy® compound. He is also the deputy secretary of the China Healthcare Association (中國保健協會副秘書長).

Mr. Lee Kwok Ming (李國明), aged 46, is an executive director of the Company. Mr. Lee joined the Group in January 2004 and is responsible for the financial functions and development of strategic plans of the Group. He holds a Master of Science degree in Business Administration from the University of Bath and has more than 20 years of financial management experience with extensive experience in mergers and acquisitions, as well as corporate finance. He was previously an executive director and chief financial officer of Tom.com Limited and an executive vice president and chief financial officer of Guangdong Kelon Electrical Holdings Company Ltd. Mr. Lee is a fellow of the Hong Kong Society of Accountants and an associate of the Chartered Institute of Management Accountants in the United Kingdom. He is also a fellow of the Hong Kong Institute of Directors. Mr. Lee is an independent non-executive director of Lianhua Supermarket Holdings Co., Ltd. and TravelSky Technology Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yuan Tsu I (袁祖怡), aged 56, has been appointed as an independent non-executive director of the Company since May 2001. Mr. Yuan is the president of Cottonhide Industrial Co., Limited, which is principally engaged in raw cotton product trading business in Taiwan and South East Asia. He has over 22 years of experience in the raw cotton product trading industry.

Mr. Huang Ming Da (黃明達), aged 40, has been appointed as an independent non-executive director of the Company since June 2001. After graduation from the Beijing Traditional Chinese Medication Institute (北京中醫學院) in 1988, Mr. Huang has worked in the research and development of Chinese medicine and is experienced in project management and marketing. He is the vice chairman of the National Health Promotion Committee of the China Healthcare Association (中國保健協會全民健康促進會副會長) (formerly known as the China Healthcare Science and Technology Association (中國保健科技學會)), the deputy secretary of the Professional Committee of the China Healthcare Association (中國保健協會專家委員會副秘書長) (formerly known as the China Healthcare Science and Technology Association (中國保健科技學會)), the vice chairman of the Beijing Pharmacists Association (北京藥劑師協會副會長) and the chief research officer of the Promotional Center of Institute of Traditional Chinese Medicine Research and Technology (中國中醫研究院應用科技研究推廣中心主任研究員).

Mr. Yick Wing Fat, Simon (易永發), aged 46, has been appointed as an independent non-executive director of the Company since August 2004. Mr. Yick holds a Bachelor degree in Business Administration, majoring in Accounting from the Chinese University of Hong Kong. He has over 20 years of experience in audit, direct investments, investment banking and corporate advisory services. Mr. Yick is the fellow members of both the Chartered Association of Certified Accountants in England and the Hong Kong Society of Accountants. He is an independent non-executive director of Shanghai International Shanghai Growth Investment Limited.

SENIOR MANAGEMENT

Mr. Yang Qi Biao (楊啓彪), aged 40, is a deputy general manager of Vitop Bioenergy (China) Ltd (formerly known as Vitop Bioenergy Science and Technology Co., Ltd) ("Vitop China"), a subsidiary of the Company. Mr. Yang joined the Group in April 1993 and is responsible for the anion water producer business of the Group. He graduated from the Department of Polymer Chemistry of Huazhong Normal University (華中師範大學) with a Master of Science degree in 1992 and also holds a Master degree in Business Administration from the Lawrence Technological University (美國勞倫斯科技大學) in 2004.

Mr. Ye Jun Pei (葉均培), aged 33, is a deputy general manager of Vitop China. Mr. Ye joined the Group in June 2003 and is responsible for the sales and marketing of the Group. He graduated from the School of Business Management of Renmin University of China (中國人民大學) with a Master degree in Business Administration in 1999. Prior to joining the Group, he had over 10 years of experience in sales management.

Ms. He Rui Hong (何瑞紅), aged 34, is a deputy general manager of Vitop China. Ms. He joined the Group in July 1993 and is responsible for the financial planning and management of the Group. She graduated from the Department of Economics and Management of Henan Polytechnic University (河南理工大學) major in accounting and auditing, with a Bachelor degree in Engineering in 1992 and completed a postgraduate course in accounting in the School of Management of Sun Yat-Sen University in 2003. She has over 11 years of experience in financial management.

Report of the Directors

For the year ended 30 June 2004

The directors present their report and the audited financial statements of Vitop Bioenergy Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing and trading of healthcare bedding, underclothing and other health products in the People's Republic of China, excluding Hong Kong.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2004 and the state of affairs of the Group and the Company as at that date are set out in the financial statements on pages 19 to 50.

The directors recommend the payment of a final dividend of HK1 cent per ordinary share in respect of the year ended 30 June 2004. Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the final dividend will be paid in cash on or about 20 October 2004 to the shareholders whose names appear on the registers of members of the Company on 18 October 2004.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group for the last four financial years is set out on page 51. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of the movements in the Group's fixed assets during the year are set out in note 11 to the financial statements.

INTANGIBLE ASSETS

Details of the movements in the Group's intangible assets during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 21 and 22 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Report of the Directors

For the year ended 30 June 2004

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 23 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 30 June 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$61,310,000. This includes the Company's share premium account, in the capital amount of approximately HK\$53,296,000 as at 30 June 2004, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 30.6% of the total sales for the year and sales to the largest customer included therein amounted to 8.6%. Purchases from the Group's five largest suppliers accounted for 61.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to 26.1%.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who owned more than 5.0% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors

Mr. Hung Kai So (*Chairman*)

Mr. Kam loi (*Managing director*)

Mr. Ma Yufeng

Ms. Sae-lao Rakchanok

Mr. Liu Jun

Mr. Lau Hin Hung

(resigned on 5 January 2004)

Mr. Lee Kwok Ming

(appointed on 5 January 2004)

Independent non-executive directors

Mr. Yuan Tsu I

Mr. Huang Ming Da

Mr. Yick Wing Fat, Simon

(appointed on 1 August 2004)

Report of the Directors

For the year ended 30 June 2004

DIRECTORS (Continued)

In accordance with article 86(3) of the articles of association of the Company, Mr. Lee Kwok Ming and Mr. Yick Wing Fat, Simon shall hold office only until the forthcoming annual general meeting of the Company and shall be eligible for re-election. These directors, being eligible, will offer themselves for re-election at the meeting.

In accordance with article 87(1) of the articles of association of the Company, Mr. Huang Ming Da will retire by rotation at the forthcoming annual general meeting of the Company. Mr. Huang Ming Da has indicated to the board of directors of the Company that he does not offer himself for re-election.

In accordance with article 87(2) of the articles of association of the Company, Ms. Sae-lao Rakchanok has informed the Company of her wish to retire at the forthcoming annual general meeting of the Company and does not offer herself for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors (other than Mr. Lee Kwok Ming) has entered into a director's service agreement with the Company for an initial term of two years commencing on 10 February 2003. The agreement will thereafter be automatically renewed for successive terms of one year each unless otherwise terminated in accordance with the terms of the relevant service agreement, or by either party to the service agreement giving to the other not less than six months' written notice expiring no earlier than the end of the initial term, or not less than three months' written notice during any renewed term.

Mr. Lee Kwok Ming has entered into a director's service agreement with the Company for an initial term of two years commencing on 5 January 2004. The agreement will thereafter be automatically renewed for successive terms of one year each unless otherwise terminated in accordance with the terms of the service agreement, or by either party to the service agreement giving to the other not less than six months' prior notice in writing at any time either during the initial term or anytime thereafter.

Each of the independent non-executive directors (other than Mr. Yick Wing Fat, Simon) has entered into a non-executive director's contract with the Company for an initial fixed period of one year commencing on 10 February 2003. The contract will continue thereafter for further successive periods of one year, provided that the Company may terminate the appointment at the end of each one-year period by giving to the director at least one month's written notice thereof.

The Company has not entered into service contract with Mr. Yick Wing Fat, Simon. He is not appointed for a specific term but is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company. Either the Company or he may terminate the appointment by giving at least one month's notice in writing.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2004, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in the shares and underlying shares of the Company

Name of director	Type of interest	Capacity	Number of shares held	Number of underlying shares held pursuant to share options	Aggregate interest	Approximate percentage of interest
Hung Kai So	Personal	Beneficial owner	130,131,229	1,600,000	131,731,229	19.42%
Kam loi	Personal	Beneficial owner	113,282,743	1,600,000	114,882,743	16.94%
Ma Yufeng	Corporate	Beneficial owner	44,467,115	—		
	(Note)					
	Personal	Beneficial owner	—	6,651,700	51,118,815	7.54%
Sae-lao Rakchanok	Personal	Beneficial owner	47,056,975	6,651,700	53,708,675	7.92%
Liu Jun	Personal	Beneficial owner	16,181,819	6,651,700	22,833,519	3.37%
Lee Kwok Ming	Personal	Beneficial owner	14,432,000	20,000,000	34,432,000	5.08%

Note: The 44,467,115 shares are held by Longway Group Ltd., a company incorporated in the British Virgin Islands and wholly-owned by Mr. Ma Yufeng.

Save as disclosed above, as at 30 June 2004, none of the directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

For the year ended 30 June 2004

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 22 to the financial statements, at no time during the year 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 acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option scheme are set out in note 22 to the financial statements.

Concerning the share options granted during the year to the directors, employees, suppliers and others as detailed in note 22 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the options based on various speculative assumptions might not be meaningful, and could be misleading to the shareholders of the Company.

SUBSTANTIAL SHAREHOLDERS

Long positions in the shares and underlying shares of the Company

According to the records entered into the register required to be kept by the Company pursuant to section 336 of the SFO, so far as the directors of the Company are aware of and having made due enquiries, as at 30 June 2004, the interests and short positions of the persons (other than the directors of the Company) in the shares and underlying shares of the Company were as follows:

Name	Capacity	Number of shares held	Percentage of the Company's issued share capital
Martin Currie China Hedge Fund Limited	Beneficial owner	44,830,000 (Note)	6.61%
Martin Currie Investment Management Limited	Investment manager	44,830,000 (Note)	6.61%
UBS AG	Security interest	40,600,000	5.98%

Note: These shares refer to the same block of shares.

Save as disclosed above, as at 30 June 2004, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in securities" above, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Report of the Directors

For the year ended 30 June 2004

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the directors of the Company is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code. The audit committee consists of three independent non-executive directors of the Company, namely Mr. Yick Wing Fat, Simon, Mr. Yuan Tsu I and Mr. Huang Ming Da, and Mr. Yick Wing Fat, Simon has been appointed as the chairman of the audit committee of the Company since 1 August 2004. The principal duties of the audit committee of the Company include the review of the completeness, accuracy and fairness of the Company's financial statements and the effectiveness of the Company's internal control system. During the year, two regular meetings of the audit committee have been held. The audited financial statements of the Company for the year ended 30 June 2004 have been reviewed by the audit committee.

MODEL CODE

During the year, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to govern purchase and sales of the Company's securities by the directors of the Company. The Company has also made enquiry in writing with each director as to whether he/she has complied with the Model Code. Each director replied to the Company in writing and confirmed that he/she has complied with the Model Code.

PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at 3 September 2004 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained in this report).

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers Mr. Yuan Tsu I, Mr. Huang Ming Da and Mr. Yick Wing Fat, Simon to be independent.

Report of the Directors

For the year ended 30 June 2004

AUDITORS

The financial statements of the Company for the year ended 30 June 2004 were audited by Messrs. Grant Thornton. A resolution to re-appoint the retiring auditors, Messrs. Grant Thornton, will be put at the forthcoming annual general meeting of the Company.

Messrs. Ernst & Young tendered their resignation as auditors of the Company with effect from 2 July 2004 and Messrs. Grant Thornton were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Messrs. Ernst & Young, by the shareholders of the Company at the extraordinary general meeting of the Company held on 30 July 2004.

The financial statements of the Company for the years ended 30 June 2002 and 2003 were audited by Messrs. Ernst & Young and there have been no other changes of the auditors of the Company in the past three years.

On behalf of the Board

Kam loi
Managing Director

Hong Kong, 25 August 2004

Certified Public Accountants

Member of

Grant Thornton International

Grant Thornton 
均富會計師行

To the members of Vitop Bioenergy Holdings Limited 天年生物控股有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 19 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 30 June 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton

Certified Public Accountants

Hong Kong

25 August 2004

Consolidated Income Statement

For the year ended 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	4	139,982	103,509
Cost of sales		(63,024)	(40,846)
Gross profit		76,958	62,663
Other revenue and gains	5	2,925	1,539
Selling and distribution costs		(29,389)	(33,187)
Administrative expenses		(26,261)	(18,589)
Other operating expenses		(1,102)	(2,212)
Operating profit	6	23,131	10,214
Listing expenses incurred in connection with the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited		—	(4,068)
Profit before taxation		23,131	6,146
Taxation	7	(2,281)	(512)
Profit before minority interests		20,850	5,634
Minority interests		(664)	—
Profit attributable to shareholders	8	20,186	5,634
Dividends	9	6,782	4,789
Earnings per share	10		
— Basic		HK3.03 cents	HK0.85 cent
— Diluted		HK2.97 cents	N/A

Consolidated Balance Sheet

As at 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	11	21,975	14,509
Intangible assets	12	5,203	2,694
Interests in a jointly controlled entity	14	640	—
		27,818	17,203
Current assets			
Inventories	15	21,269	12,043
Trade receivables	16	10,958	8,804
Deposits, prepayments and other receivables	17	19,242	11,128
Short term investments	18	2,424	4,238
Cash at banks and in hand	19	48,771	42,144
		102,664	78,357
Current liabilities			
Trade payables	20	15,941	2,171
Accrued liabilities and other payables		7,706	8,008
Deposits received		8,578	8,075
Provision for tax		846	401
		33,071	18,655
Net current assets		69,593	59,702
Total assets less current liabilities		97,411	76,905
Minority interests		1,499	—
Net assets		95,912	76,905
CAPITAL AND RESERVES			
Share capital	21	16,955	16,629
Reserves	23	72,175	55,487
Proposed final dividend	9	6,782	4,789
Shareholders' funds		95,912	76,905

Kam loi
Director

Lee Kwok Ming
Director

Balance Sheet

As at 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	13	65,567	59,870
Interests in a jointly controlled entity	14	640	—
		66,207	59,870
Current assets			
Dividends receivable		11,000	13,000
Deposits, prepayments and other receivables		200	164
Cash at banks and in hand	19	1,624	4
		12,824	13,168
Current liabilities			
Accrued liabilities and other payables		737	523
Net current assets		12,087	12,645
Net assets		78,294	72,515
CAPITAL AND RESERVES			
Share capital	21	16,955	16,629
Reserves	23	54,557	51,097
Proposed final dividend	9	6,782	4,789
Shareholders' funds		78,294	72,515

Kam loi
Director

Lee Kwok Ming
Director

Consolidated Cash Flow Statement

As at 30 June 2004

	Note	2004 HK\$'000	2003 HK\$'000
Cash flows from operating activities			
Profit before taxation		23,131	6,146
Adjustments for:			
Interest income		(1,019)	(426)
Dividend income from listed investments		(121)	(25)
Depreciation of fixed assets		3,982	3,275
Amortisation of intangible assets		725	911
Loss on disposal of fixed assets		754	91
Operating profit before working capital changes		27,452	9,972
(Increase)/Decrease in inventories		(6,399)	3,902
(Increase)/Decrease in trade receivables		(159)	5,589
Increase in deposits, prepayments and other receivables		(7,867)	(6,087)
Decrease/(Increase) in short term investments		1,814	(4,238)
Increase/(Decrease) in trade payables		10,069	(2,189)
(Decrease)/Increase in accrued liabilities and other payables		(5,695)	392
Increase in deposits received		503	132
Cash generated from operations		19,718	7,473
PRC corporate income taxes paid		(1,836)	(111)
Net cash generated from operating activities		17,882	7,362
Cash flows from investing activities			
Purchase of fixed assets		(6,603)	(6,379)
Proceeds from disposal of fixed assets		2,071	356
Additions to intangible assets		(3,234)	(984)
Acquisition of subsidiaries	29	(2,614)	—
Capital contribution to a jointly controlled entity		(640)	—
Interest received		823	426
Dividends received from listed investments		121	25
Net cash used in investing activities		(10,076)	(6,556)
Cash flows from financing activities			
Payment for repurchase of shares		—	(294)
Exercise of share options		3,624	—
Repayment of bank loans		—	(1,673)
Dividend paid		(4,789)	(6,663)
Net cash used in financing activities		(1,165)	(8,630)
Net increase/(decrease) in cash and cash equivalents		6,641	(7,824)
Cash and cash equivalents at 1 July		42,144	49,968
Effect of foreign exchange rate changes		(14)	—
Cash and cash equivalents at 30 June		48,771	42,144
Analysis of balances of cash and cash equivalents			
Cash at banks and in hand		48,771	42,144

Consolidated Statement of Changes in Equity

For the year ended 30 June 2004

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 July 2002	16,658	31,312	4,758	—	—	—	18,837	6,663	78,228
Repurchase of shares	(29)	(265)	—	—	—	—	—	—	(294)
Final 2002 dividend paid	—	—	—	—	—	—	—	(6,663)	(6,663)
Transfer upon repurchase of shares	—	—	—	29	—	—	(29)	—	—
Net profit for the year	—	—	—	—	—	—	5,634	—	5,634
Transfer to statutory reserve	—	—	1,713	—	—	—	(1,713)	—	—
Proposed final 2003 dividend	—	—	—	—	—	—	(4,789)	4,789	—
At 30 June 2003 and 1 July 2003	16,629	31,047	6,471	29	—	—	17,940	4,789	76,905
Share options exercised	326	3,298	—	—	—	—	—	—	3,624
Final 2003 dividend paid	—	—	—	—	—	—	—	(4,789)	(4,789)
Net profit for the year	—	—	—	—	—	—	20,186	—	20,186
Transfer to capital reserve	—	—	—	—	28,764	—	(28,764)	—	—
Transfer to statutory reserve	—	—	856	—	—	—	(856)	—	—
Translation adjustment	—	—	—	—	—	(14)	—	—	(14)
Proposed final 2004 dividend	—	—	—	—	—	—	(6,782)	6,782	—
At 30 June 2004	16,955	34,345	7,327	29	28,764	(14)	1,724	6,782	95,912
Reserves retained by:									
Company and subsidiaries	16,955	34,345	7,327	29	28,764	(14)	1,724	6,782	95,912
A jointly controlled entity	—	—	—	—	—	—	—	—	—
At 30 June 2004	16,955	34,345	7,327	29	28,764	(14)	1,724	6,782	95,912
Company and subsidiaries	16,629	31,047	6,471	29	—	—	17,940	4,789	76,905
A jointly controlled entity	—	—	—	—	—	—	—	—	—
At 30 June 2003	16,629	31,047	6,471	29	—	—	17,940	4,789	76,905

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 15 February 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company withdrew the listing of its shares on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 February 2003, and on the same date, by way of introduction, listed its entire issued share capital on the Main Board of the Stock Exchange.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing and trading of healthcare bedding, underclothing and other health products in the People's Republic of China, excluding Hong Kong (the "PRC").

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 19 to 50 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by the revaluation of short term investments.

Adoption of revised SSAP

In the current period, the Group has adopted SSAP 12 (Revised) Income taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional arrangement in SSAP 12 (Revised), the new accounting policy as detailed in note 2(l) below has been applied retrospectively. The adoption of SSAP 12 (Revised) has not resulted in any significant changes to the current and prior period's net assets and results and accordingly, no prior year adjustment is required.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The financial statements also include the Group's share of post-acquisition results and reserves of its jointly controlled entity.

Notes to the Financial Statements

For the year ended 30 June 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of the subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less impairment losses.

(d) Joint ventures

A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Company's interests in jointly controlled entities are stated at cost less any impairment losses. Results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

The Group's interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

(e) Fixed assets

(i) Depreciation

Depreciation is provided to write off the cost of each asset over its estimated useful life, using the straight-line method. The estimated useful lives of the fixed assets are as follows :

Leasehold improvements	5 years or over the lease terms, whichever is shorter
Machinery and equipment	8 to 12 years
Furniture and office equipment	3 to 8 years
Motor vehicles	8 years

(ii) Measurement bases

Fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to fixed assets is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Fixed assets (Continued)

(ii) Measurement bases (Continued)

Construction in progress represents a building under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises direct cost of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

(f) Trade receivables

Trade receivables, which generally have credit terms of not more than 90 days, are recognised and carried at original invoiced amount less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(h) Short term investments

Short term investments are investments in equity securities held for trading purpose and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

(i) Patents and technical know-how

Patents represent the initial cost of registration in respect of the Group's patent rights. The cost of acquiring the rights to technical know-how for the manufacture of new products is recognised as intangible assets. Capitalised patents and technical know-how are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line basis over the estimated useful lives of not exceeding ten years, commencing from the date when the new products are put into commercial production or use.

(j) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Costs incurred on development projects whereby research findings or other knowledge are applied to a plan or design for the production of new or substantially improved products and processes, are recognised as intangible assets if the products or processes are technically or commercially feasible and the Group has sufficient resources to complete the development. The development costs capitalised include the cost of materials, direct labour and an appropriate proportion of overheads. Other development costs are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Notes to the Financial Statements

For the year ended 30 June 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Research and development costs (Continued)

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line basis over a period of not exceeding five years, commencing from the date when the products are put into commercial production or use.

(k) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the income statements are translated at an average rate for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(l) Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Income tax (Continued)

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any banks or other financial institutions. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(n) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Employee benefits

(i) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Retirement Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Retirement Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Retirement Scheme. The assets of the Retirement Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Retirement Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Retirement Scheme.

Pursuant to the relevant regulations of the government of the PRC, subsidiaries of the Group operating in the PRC are required to participate in an employee pension scheme operated by the relevant local government authorities in the PRC and to make contributions for employees who are registered as permanent residents in the PRC. Such contributions are charged to the income statement as they become payable.

(ii) Equity compensation benefits

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(p) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Rental income is recognised on a time proportion basis over the lease term.

Dividend income is recognised when the Group's right as a shareholder to receive payment is established.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(r) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(s) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they sell. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- the healthy sleeping system segment consists of the manufacturing and trading of bedding products containing the BIOenergy® compound;
- the other BIOenergy® products segment consists of the manufacturing and trading of underclothing and body protection accessories containing the BIOenergy® compound;
- the polypeptide products segment consists of the trading of polypeptide products; and
- the anion water producer segment consists of the trading of anion water producer (formerly named as ionised water apparatus) containing the BIOenergy® compound.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments on the location of the assets.

Notes to the Financial Statements

For the year ended 30 June 2004

3. SEGMENT INFORMATION (Continued)

(a) Business segments

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

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

Notes to the Financial Statements

For the year ended 30 June 2004

3. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Healthy sleeping system		Other BIOenergy® products		Polypeptide products		Anion water producer		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	13,668	8,597	2,279	2,676	2,334	2,982	8,693	482	26,974	14,737
Unallocated assets									103,508	80,823
Total assets									130,482	95,560
Unallocated liabilities									33,071	18,655
Total liabilities									33,071	18,655
Other segment information:										
Depreciation	–	–	–	–	–	–	18	–	18	–
Unallocated amount									3,964	3,275
									3,982	3,275
Amortisation of intangible assets	20	107	84	84	621	720	–	–	725	911
Capital expenditure	3,234	3	–	–	–	981	519	–	3,753	984
Unallocated amounts									13,754	6,379
									17,507	7,363
Provision for obsolete and slow-moving inventories and inventories written off/(back)	76	997	(612)	221	(232)	249	10	8	(758)	1,475
Unallocated provision for doubtful debts and bad debts expenses									102	169

(b) Geographical segments

A geographical analysis of the Group's revenue, certain asset and expenditure information is not presented as the Group's revenue and assets in geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

Notes to the Financial Statements

For the year ended 30 June 2004

4. TURNOVER

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

5. OTHER REVENUE AND GAINS

	2004 HK\$'000	Group 2003 HK\$'000
Interest income	1,019	426
Dividend income	121	25
Gain on disposal of short term investments	984	265
Others	801	823
	2,925	1,539

6. OPERATING PROFIT

Operating profit is arrived at after charging/(crediting):

	2004 HK\$'000	Group 2003 HK\$'000
Auditors' remuneration	480	480
Cost of inventories sold	63,024	40,846
Staff costs (excluding directors' remuneration (note 25(a)))		
Wages and salaries	11,735	13,748
Pension scheme contribution	489	515
	12,224	14,263
Depreciation of fixed assets	3,982	3,275
Amortisation of intangible assets	725	911
Exchange gain, net	(76)	—
Operating lease charges in respect of land and buildings	3,655	3,618
Provision for doubtful debts and bad debts expenses	102	169
Provision for obsolete and slow-moving inventories and inventories written off/(back)	(758)	1,475
Loss on disposal of fixed assets	754	91
Unrealised loss on revaluation of short term investments	326	52

Notes to the Financial Statements

For the year ended 30 June 2004

7. TAXATION

	2004 HK\$'000	Group 2003 HK\$'000
PRC	2,281	512
Hong Kong	—	—
	2,281	512

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2003: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the year.

The income tax expenses for the year can be reconciled to the profit before taxation per the income statement as follows:

	2004 HK\$'000	Group 2003 HK\$'000
Profit before taxation	23,131	6,146
Tax at the applicable tax rate	3,623	635
Tax effect of non-deductible expenses	981	1,512
Tax effect of non-taxable revenue	(97)	(1,771)
Tax effect of tax losses not recognised	951	647
Tax benefit from tax holiday	(3,177)	(511)
Actual tax expense	2,281	512

The Group has tax losses arising in Hong Kong of approximately HK\$16,966,000 (2003: HK\$11,530,000) that are available indefinitely for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profits will be available against which these unused tax losses can be utilised.

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

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated profit attributable to shareholders of approximately HK\$20,186,000 (2003: HK\$5,634,000), a profit of approximately HK\$6,944,000 (2003: HK\$5,780,000) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 30 June 2004

9. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Proposed final dividend of HK1.00 cent (2003: HK0.72 cent) per ordinary share	6,782	4,789

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

10. EARNINGS PER SHARE

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

The calculation of diluted earnings per share is based on profit attributable to shareholders for the year ended 30 June 2004 of approximately HK\$20,186,000 and the weighted average of 678,799,730 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 666,412,169 ordinary shares in issue during the year plus the weighted average of 12,387,561 ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

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

Notes to the Financial Statements

For the year ended 30 June 2004

11. FIXED ASSETS

Group

	Construction in progress HK\$'000	Leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At 1 July 2003	—	6,665	3,000	11,810	2,930	24,405
Additions	22	4,758	36	1,315	472	6,603
Acquisition of subsidiaries	7,184	—	35	105	346	7,670
Disposals	—	(3,492)	—	(922)	(257)	(4,671)
At 30 June 2004	7,206	7,931	3,071	12,308	3,491	34,007
Accumulated depreciation						
At 1 July 2003	—	1,868	1,799	4,744	1,485	9,896
Depreciation for the year	—	1,343	253	2,009	377	3,982
Disposals	—	(1,108)	—	(631)	(107)	(1,846)
At 30 June 2004	—	2,103	2,052	6,122	1,755	12,032
Net book value						
At 30 June 2004	7,206	5,828	1,019	6,186	1,736	21,975
At 30 June 2003	—	4,797	1,201	7,066	1,445	14,509

Notes to the Financial Statements

For the year ended 30 June 2004

12. INTANGIBLE ASSETS

Group

	Patents and technical know-how <i>HK\$'000</i>	Deferred development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 July 2003	1,311	3,131	4,442
Additions	48	3,186	3,234
At 30 June 2004	1,359	6,317	7,676
Aggregate amortisation			
At 1 July 2003	790	958	1,748
Amortisation for the year	127	598	725
At 30 June 2004	917	1,556	2,473
Net book value			
At 30 June 2004	442	4,761	5,203
At 30 June 2003	521	2,173	2,694

13. INTERESTS IN SUBSIDIARIES

	2004 <i>HK\$'000</i>	Company 2003 <i>HK\$'000</i>
Unlisted investments, at cost	39,952	39,952
Amounts due from subsidiaries	28,771	22,754
Amounts due to subsidiaries	(3,156)	(2,836)
	65,567	59,870

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 30 June 2004

13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries as at 30 June 2004 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			Direct	Indirect	
Vitop Bioenergy Limited	British Virgin Islands ("BVI")	US\$1	100%	—	Investment holding
Vitop Bioenergy (China) Ltd (formerly known as Vitop Bioenergy Science and Technology Co., Ltd) ("Vitop China") *	PRC	HK\$50,000,000	—	100%	Manufacturing and trading of healthcare bedding, underclothing, anion water producer and other health products
Vitop Healthcare Product Limited	Hong Kong	HK\$2	—	100%	Trading of healthcare bedding, underclothing and other health products
Star Ocean Limited #	BVI	US\$1	—	100%	Investment holding
合肥天年美菱環保科技 有限責任公司 ***	PRC	RMB5,840,000	—	80%	Manufacturing of anion water producer
上海亘輝生物制品 有限公司 ("Shanghai Heng Fai")**	PRC	US\$435,000	—	100%	Property investment
Vitop Functional Water Holdings Limited #	BVI	US\$1	—	100%	Investment holding
Vitop Functional Water Development Limited #	BVI	US\$1	—	100%	Inactive
Vitop Environmental Protection Technology Limited #	BVI	US\$1	—	100%	Inactive
Vitop Franchise Distribution Network Limited	BVI	US\$1	100%	—	Inactive

Acquired during the year.

* Registered as wholly-foreign owned enterprise ("WFOE") under the PRC law.

** Registered as Sino-foreign joint venture under the PRC law.

Notes to the Financial Statements

For the year ended 30 June 2004

13. INTERESTS IN SUBSIDIARIES (Continued)

During the year ended 30 June 2004, the turnover and profit attributable to shareholders from subsidiaries acquired during the year were approximately HK\$10,082,000 and HK\$3,322,000, respectively.

14. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	640	—

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	640	—

Particulars of the jointly controlled entity as at 30 June 2004 are as follows:

Name	Principal business structure	Place of establishment and operation	Nature of business	ownership interest	Percentage of voting power	profit sharing
Vitop OSG Environmental Technology (Suzhou) Co., Ltd ("Vitop OSG") *	Corporate	PRC	Inactive	40%	33%	40%

* Registered as WOFE under the PRC law.

Notes to the Financial Statements

For the year ended 30 June 2004

15. INVENTORIES

	2004 HK\$'000	Group 2003 HK\$'000
Raw materials	8,268	5,536
Work in progress	2,973	2,978
Finished goods	10,706	4,965
	21,947	13,479
Less: Provision for obsolete and slow-moving inventories	(678)	(1,436)
	21,269	12,043

As at 30 June 2004, no inventories were stated at net realisable value (2003: Nil).

16. TRADE RECEIVABLES

	2004 HK\$'000	Group 2003 HK\$'000
Outstanding balances with ages:		
Within 30 days	5,144	2,526
Between 31 to 60 days	1,151	984
Between 61 to 180 days	2,103	3,685
Over 180 days	2,782	1,778
	11,180	8,973
Less: Provision for doubtful debts	(222)	(169)
	10,958	8,804

The credit terms that the Group offers to customers are generally not more than 90 days.

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

As at the balance sheet date, the balance of the Group's deposits, prepayments and other receivables included a refundable security deposit of approximately HK\$5,608,000 (2003: HK\$7,477,000) paid to 法制日報社 ("Legaldaily"), an independent third party, as a refundable security deposit for the Group's advertising campaign. The advertising period is one year from 20 January 2004 to 19 January 2005. The deposit is unsecured and bears interest at RMB420,000 in total for the advertising period.

Notes to the Financial Statements

For the year ended 30 June 2004

18. SHORT TERM INVESTMENTS

	2004 HK\$'000	Group 2003 HK\$'000
Listed equity investments in Hong Kong, at market value	2,424	4,238

19. CASH AT BANKS AND IN HAND

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	30,967	11,798	1,624	4
Time deposits	17,804	30,346	—	—
	48,771	42,144	1,624	4

As at the balance sheet date, the cash at banks and in hand of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$38,959,000 (2003: HK\$34,408,000). The RMB is not freely convertible into other currencies. However, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. TRADE PAYABLES

As at the balance sheet date, an aged analysis of trade payables, based on invoice date, was as follows:

	2004 HK\$'000	Group 2003 HK\$'000
Outstanding balances with ages:		
Within 30 days	10,029	1,325
Between 31 to 60 days	953	604
Between 61 to 180 days	4,929	212
Over 180 days	30	30
	15,941	2,171

Notes to the Financial Statements

For the year ended 30 June 2004

21. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.025 each	500,000	500,000
Issued and fully paid:		
678,198,400 (2003: 665,170,000) ordinary shares of HK\$0.025 each	16,955	16,629

The subscription rights attaching to 5,695,000 and 7,333,400 share options were exercised at the subscription price of HK\$0.25 and HK\$0.30 per share, respectively (note 22), resulting in the issue of 13,028,400 ordinary shares of HK\$0.025 each in the capital of the Company for a total cash consideration, before expenses, of approximately HK\$3,624,000.

During the year ended 30 June 2003, in July 2002, the Company repurchased on the Stock Exchange a total of 1,130,000 ordinary shares of HK\$0.025 each in the capital of the Company (the "Share Repurchase") at an aggregate price of approximately HK\$294,000. The repurchased shares were duly cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

A summary of movements in the authorised and issued share capital of the Company is as follows:

	Number of authorised shares	Number of shares issued	Nominal value of shares issued HK\$'000
At 1 July 2002	20,000,000,000	666,300,000	16,658
Share Repurchase	—	(1,130,000)	(29)
At 30 June 2003 and 1 July 2003	20,000,000,000	665,170,000	16,629
Share options exercised	—	13,028,400	326
At 30 June 2004	20,000,000,000	678,198,400	16,955

22. SHARE OPTION SCHEME

In connection with the listing of the Company's shares on the Main Board of the Stock Exchange, the Company conditionally adopted a share option scheme (the "Scheme") pursuant to an ordinary resolution passed by the shareholders of the Company on 23 January 2003. The Scheme became effective on 10 February 2003 upon the listing of the Company's shares on the Main Board of the Stock Exchange by way of introduction and, unless otherwise cancelled or amended, the Scheme remains in force for ten years from that date.

The purpose of the Scheme is to provide incentives or rewards to participants for their contribution to the Group or any entity in which the Group has an equity interest (the "Invested Entity") and/or to enable the Group or an Invested Entity to recruit and retain high-calibre employees and attract human resources that are valuable to the Group or an Invested Entity.

Notes to the Financial Statements

For the year ended 30 June 2004

22. SHARE OPTION SCHEME (Continued)

The participants of the Scheme include: (a) any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (b) any non-executive director (including any independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of the Group or any Invested Entity; (e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their associates, are subject to approval in advance by independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in any twelve-month period up to the date of grant, are subject to shareholders' approval in advance in a general meeting.

The total number of shares of the Company in respect of which options may be granted under the Scheme must not exceed 66,517,000 shares, being 10% of the total number of shares of the Company in issue on the date when the 10% Scheme limit has been refreshed. The 10% Scheme limit was refreshed at the last annual general meeting of the Company held on 26 November 2003. The total number of shares in respect of which options are issuable under the Scheme was 58,280,100, representing approximately 8.6% of the issued share capital of the Company at 30 June 2004.

The total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised and outstanding options) in any twelve-month period up to the date of grant shall not exceed 1% of the total number of shares of the Company in issue as at the date of grant (the "Individual Limit"). Any further grant of options in excess of the Individual Limit must be subject to shareholders' approval in general meeting with such participant and his or her associates abstaining from voting.

An option may be exercised at any time during a period as the board of directors of the Company (the "Board") may determine which shall not be more than ten years from the date of grant of the option.

Save as determined by the Board, there is no minimum period for which an option must be held before it can be exercised.

The acceptance of an offer of the grant of an option must be made within 28 days from the date upon which such offer is made with a non-refundable payment of HK\$1.00 from the grantee to the Company by way of consideration for the grant thereof.

The subscription price of a share of the Company in respect of any option shall be such price as the Board in its absolute discretion shall determine, save that such price will not be lower than the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a trading day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the option; and (c) the nominal value of the share.

Subject to early termination of the Company by resolution in general meeting, the Scheme shall be valid and effective till 9 February 2013. After the expiry of such valid period, no further options will be offered but in all other respects the provisions of the Scheme shall remain in full force and effect.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Notes to the Financial Statements

For the year ended 30 June 2004

22. SHARE OPTION SCHEME (Continued)

Particulars of the share options granted and remained outstanding under the Scheme during the year were as follows:

Name or category of participant	At 1 July 2003	Granted during the year	Number of share options		Exercised during the year	At 30 June 2004	Date of grant*	Exercise period	Exercise price** HK\$
			Reclassification	Lapsed during the year					
Directors:									
Hung Kai So	4,000,000	–	–	–	(2,400,000)	1,600,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	2,651,700	–	–	(2,651,700)	–	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Kam Ioi	4,000,000	–	–	–	(2,400,000)	1,600,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	2,651,700	–	–	(2,651,700)	–	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Ma Yufeng	2,500,000	–	–	–	–	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	4,151,700	–	–	–	4,151,700	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Sae-lao Rakchanok	2,500,000	–	–	–	–	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	4,151,700	–	–	–	4,151,700	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Liu Jun	2,500,000	–	–	–	–	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	4,151,700	–	–	–	4,151,700	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Lau Hin Hung (Note 1)	500,000	–	–	(350,000)	(150,000)	–	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	500,000	–	–	(500,000)	–	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Lee Kwok Ming (Note 2)	–	20,000,000	–	–	–	20,000,000	5 Jan. 2004	5 Jan. 2004 to 4 Jan. 2009	0.495
	16,000,000	38,258,500	–	(350,000)	(10,753,400)	43,155,100			
Other employees:									
In aggregate	2,300,000	–	(1,100,000)	–	(450,000)	750,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
In aggregate	–	5,900,000	–	–	(1,530,000)	4,370,000	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
In aggregate	–	5,700,000	–	–	–	5,700,000	1 June 2004	1 June 2004 to 31 May 2007	0.425
	2,300,000	11,600,000	(1,100,000)	–	(1,980,000)	10,820,000			
Suppliers:									
In aggregate	1,500,000	–	–	–	–	1,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
Customers:									
In aggregate	2,000,000	–	1,100,000	–	(295,000)	2,805,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	21,800,000	49,858,500	–	(350,000)	(13,028,400)	58,280,100			

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Notes to the Financial Statements

For the year ended 30 June 2004

22. SHARE OPTION SCHEME (Continued)

Notes:

1. On 5 January 2004, Mr. Lau Hin Hung resigned as the executive director of the Company. On 1 February 2004, upon his cessation of eligible employee of the Group, all of his outstanding unexercised share options ceased to be exercisable and were lapsed.
2. On 5 January 2004, the Company granted the share options to subscribe for up to 20,000,000 ordinary shares of HK\$0.025 each (the "Lee Options") in the capital of the Company to Mr. Lee Kwok Ming ("Mr. Lee"). The Lee Options are exercisable during the period of five years commencing from 5 January 2004 provided that Mr. Lee shall only be entitled to exercise the subscription rights attaching to the Lee Options to subscribe for not more than 5,000,000 shares upon the occurrence of each of the events set out below:
 - (i) upon the expiration of the twelve-month period commencing from 5 January 2004;
 - (ii) the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group for the financial year ending 30 June 2005 as shown in the audited final results of the Group for the financial year ending 30 June 2005 published by the Company as required under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") is not less than HK\$25 million;
 - (iii) upon the expiration of the initial term of two years commencing from 5 January 2004; and
 - (iv) the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group for the financial year ending 30 June 2006 as shown in the audited final results of the Group for the financial year ending 30 June 2006 published by the Company as required under the Listing Rules is not less than HK\$50 million.

Further details of the Lee Options are set out in the circular to shareholders of the Company dated 21 January 2004. On 9 February 2004, the independent shareholders' approval for the grant of the Lee Options was obtained at an extraordinary general meeting of the Company.

The share options granted on 30 April 2003 shall be exercisable up to 30%, 60% and 100% on or before the first, second and third anniversary of the date of grant, respectively, for all categories of participants.

The share options granted on 4 November 2003 shall be exercisable up to 30%, 60% and 100% on or before the first, second and third anniversary of the date of grant, respectively, for categories of participants other than the directors of the Company.

The share options granted on 1 June 2004 shall be exercisable up to 30%, 60% and 100% on or before 31 May 2005, 2006 and 2007, respectively.

The consideration for the grant of share options is HK\$1.00 and the closing prices of the Company's shares traded on the Stock Exchange immediately before the dates of grant of share options on 30 April 2003, 4 November 2003, 5 January 2004 and 1 June 2004 are HK\$0.25, HK\$0.295, HK\$0.425 and HK\$0.435, respectively. The weighted average closing prices of the Company's shares traded on the Stock Exchange immediately before the dates of exercise of 5,695,000 share options at the exercise price of HK\$0.25 per share and 7,333,400 share options at the exercise price of HK\$0.3 per share, are HK\$0.424 and HK\$0.483, respectively.

No share options under the Scheme were cancelled during the year.

Notes to the Financial Statements

For the year ended 30 June 2004

23. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

The Group's capital reserve represented the amount of retained earnings of Vitop China applied for the increase in its registered and paid-up capital.

In accordance with the relevant PRC regulations applicable to WOFEs, Vitop China and Shanghai Heng Fai, being the wholly-owned subsidiaries of the Company, are required to transfer 10% of their profit after tax, if any, to the statutory reserve until the balance of the fund reach 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against their respective accumulated losses.

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2002	50,263	—	108	50,371
Share Repurchase	(265)	—	—	(265)
Transfer upon the Share Repurchase	—	29	(29)	—
Net profit for the year	—	—	5,780	5,780
Proposed final 2003 dividend	—	—	(4,789)	(4,789)
At 30 June 2003 and at 1 July 2004	49,998	29	1,070	51,097
Share options exercised	3,298	—	—	3,298
Net profit for the year	—	—	6,944	6,944
Proposed final 2004 dividend	—	—	(6,782)	(6,782)
At 30 June 2004	53,296	29	1,232	54,557

The share premium account of the Group mainly includes: (i) shares issued at a premium; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the reorganisation scheme (the "Group Reorganisation") in preparation for the public listing of the Company's shares on the GEM of the Stock Exchange over the nominal value of the share capital of the Company issued in exchange therefor.

The share premium account of the Company mainly includes: (i) shares issued at a premium; and (ii) the difference between the nominal value of the share capital of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying net assets of the subsidiaries acquired pursuant to the Group Reorganisation. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Notes to the Financial Statements

For the year ended 30 June 2004

24. OPERATING LEASE COMMITMENTS

The Group leases certain of its offices and warehouses under non-cancellable operating lease arrangements with lease terms ranging from one to five years.

As at 30 June 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2004 HK\$'000	Group 2003 HK\$'000
Within one year	3,060	3,742
In the second to fifth years	6,900	6,495
	9,960	10,237

The Company did not have any significant operating lease arrangements as at the balance sheet date (2003: Nil).

25. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

(a) Directors' emoluments

The directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2004 HK\$'000	Group 2003 HK\$'000
Fees	168	228
Other emoluments :		
Salaries, allowances and benefits in kind	5,060	3,695
Discretionary bonus	1,960	—
Pension scheme contributions	35	33
	7,055	3,728

Fees include HK\$168,000 (2003: HK\$228,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

Notes to the Financial Statements

For the year ended 30 June 2004

25. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (Continued)

(a) Directors' emoluments (Continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
HK\$Nil – HK\$1,000,000	6	6
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	1	—
	9	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 38,258,500 share options (2003: 16,000,000) were granted to the directors in respect of their services to the Group and further details of which were set out in note 22 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above directors' remuneration disclosures.

(b) Five highest paid individuals

The five highest paid individuals during the year included five (2003: five) directors, details of whose remuneration have been disclosed above.

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

26. CAPITAL COMMITMENTS

As at 30 June 2004, the Group and the Company had outstanding capital commitments in respect of the capital injection to Vitop OSG, a jointly controlled entity of the Group, of approximately HK\$3,675,000 which have been contracted but not provided for in the financial statements.

27. OTHER COMMITMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Commitments in respect of:		
– fixed assets contracted, but not provided for	2,860	—
– technical know-how contracted, but not provided for	—	888
	2,860	888

The Company did not have any significant other commitments as at the balance sheet date (2003 : Nil).

Notes to the Financial Statements

For the year ended 30 June 2004

28. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with certain related parties:

	Notes	2004 HK\$'000	Group 2003 HK\$'000
Sales to a minority shareholder of a subsidiary of the Company	(i)	919	—
Rental expenses paid to a minority shareholder of a subsidiary of the Company	(i)	118	—
Purchase of goods from the joint venture partner of the jointly controlled entity of the Group	(i)	2,560	—
Rental expenses paid to a related company	(ii)	748	2,243

Notes:

- (i) The Group's transactions with a minority shareholder of a subsidiary of the Company and the joint venture partner of the jointly controlled entity of the Group were made in accordance with the agreements entered into between both parties.
- (ii) On 26 October 2000, a tenancy agreement (the "Tenancy Agreement") was entered into between the Group and a company in which a relative of Mr. Ma Yufeng, a director of the Company, has a minority interest (the "Related Company") in respect of the leasing of leasehold land and buildings owned by the Related Company to the Group for a period of five years from 1 January 2001 to 31 December 2005 at a monthly rental of RMB200,000 determined by reference to comparable market rental. On 27 June 2003, a supplementary agreement was entered into between the Group and the Related Company under which both contracted parties agreed to terminate the Tenancy Agreement on 31 October 2003 with neither party incurring any compensation for such early termination of the lease.
- (iii) On 5 January 2004, the Company and Mr. Lee, an executive director of the Company, entered into a subscription agreement (the "Subscription Agreement") relating to the subscription of an aggregate of 7,752,000 ordinary shares of HK\$0.025 each in the capital of the Company at HK\$0.31 per share (the "Subscription Price"). The Subscription Price is determined by reference to the average closing price of the Company's shares for the ten trading days on the Stock Exchange immediately preceding the date of the Subscription Agreement. Completion of the subscription would take place in four tranches, as to 1,938,000 subscription shares each on the seventh business days after the expiration of each six-month period, with the first six-month period commencing from 5 January 2004.

The entering into of the Subscription Agreement constituted a connected transaction for the Company under the Listing Rules and was subject to independent shareholders' approval. Further details of the Subscription Agreement are set out in the circular to shareholders of the Company dated 21 January 2004. On 9 February 2004, the independent shareholders' approval was obtained at an extraordinary general meeting of the Company.

Subsequent to the balance sheet date, the first tranche of 1,938,000 shares has been subscribed by Mr. Lee at HK\$0.31 each pursuant to the Subscription Agreement.

Notes to the Financial Statements

For the year ended 30 June 2004

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Purchase of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Fixed assets	7,670	—
Inventories	2,827	—
Trade and other receivables	2,046	—
Cash at banks and in hand	4,222	—
Trade and other payables	(9,094)	—
Minority interests	(835)	—
	6,836	—
Satisfied by		
Cash consideration	6,836	—

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(6,836)	—
Cash at banks and in hand acquired	4,222	—
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(2,614)	—

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 19 to 50 were approved and authorised for issue by the Board on 25 August 2004.

Summary of Financial Information

	Year ended 30 June			
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Results				
Turnover	139,982	103,509	96,031	88,660
Profit before taxation	23,131	6,146	27,483	13,758
Taxation	(2,281)	(512)	—	(2,359)
Profit before minority interests	20,850	5,634	27,483	11,399
Minority interests	(664)	—	—	—
Profit attributable to shareholders	20,186	5,634	27,483	11,399
30 June				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Assets and liabilities				
Total assets	130,482	95,560	99,820	54,207
Total liabilities	(33,071)	(18,655)	(21,592)	(25,431)
Minority interests	(1,499)	—	—	—
	95,912	76,905	78,228	28,776

Note: The summary of the published consolidated results and of the assets and liabilities of the Group for the years ended 30 June 2001, 2002 and 2003 has been extracted from the Company's published audited financial statements for the years ended 30 June 2002 and 2003. The results of the Group for the year ended 30 June 2004 and its assets and liabilities as at 30 June 2004 are those set out on pages 19 and 20 of this annual report.

BOARD OF DIRECTORS

Executive Directors

Hung Kai So (*Chairman*)
Kam loi (*Managing Director*)
Ma Yufeng
Sae-lao Rakchanok
Liu Jun
Lee Kwok Ming

Independent Non-executive Directors

Yuan Tsu I
Huang Ming Da
Yick Wing Fat, Simon

COMPANY SECRETARY

Lo Oi Lan

QUALIFIED ACCOUNTANT

Lee Kwok Ming

AUTHORISED REPRESENTATIVES

Sae-lao Rakchanok
Lee Kwok Ming

AUDIT COMMITTEE

Yuan Tsu I
Huang Ming Da
Yick Wing Fat, Simon

LEGAL ADVISER TO THE COMPANY

Marie Tsang, Dustin Chan & Co.

AUDITORS

Grant Thornton
Certified Public Accountants

PRINCIPAL BANKERS

Bank of Communications
China Everbright Bank
Industrial and Commercial Bank of China

REGISTERED OFFICE

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Grand Cayman
British West Indies

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Jida
Zhuhai SEZ
The People's Republic of China

SHARE REGISTRARS AND TRANSFER OFFICES

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Butterfield House
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Grand Cayman
Cayman Islands

Hong Kong

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56 Gloucester Road
Wanchai
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STOCK CODE

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WEBSITE ADDRESS

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