



VITOP BIOENERGY HOLDINGS LIMITED

天年生物控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2003

物质和能量交换
Exchange of mass
and energy

微循环
Very small vessel



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Hung Kai So (*Chairman*)
Kam loi (*Managing Director*)
Ma Yufeng
Sae-lao Rakchanok
Liu Jun
Lau Hin Hung

Independent Non-executive Directors

Yuan Tsu I
Huang Ming Da

COMPANY SECRETARY

Lo Oi Lan

AUTHORISED REPRESENTATIVES

Sae-lao Rakchanok
Lau Hin Hung

AUDIT COMMITTEE

Yuan Tsu I
Huang Ming Da

LEGAL ADVISER TO THE COMPANY

Morrison & Foerster

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

Bank of China
Industrial and Commercial Bank of China
Shenzhen Development Bank Co. Ltd.

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 702, 7th Floor
Aon China Building
29 Queen's Road Central
Hong Kong
Tel : (852) 2868 2588
Fax : (852) 2991 4711

HEAD OFFICE IN THE PRC

33rd Floor, Everbright International Trade Centre
47 South Haibin Road
Jida
Zhuhai SEZ
The People's Republic of China

SHARE REGISTRARS AND TRANSFER OFFICES

Cayman Islands

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Hong Kong

Tengis Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

1178

WEBSITE ADDRESS

<http://www.vitop.com>

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Vitop Bioenergy Holdings Limited (the "Company") and its subsidiaries (the "Group"), I present the results of the Group for the financial year ended 30 June 2003 to all of you.

On 10 February 2003, the shares of our Company have been successfully switched its listing from The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board of the Stock Exchange by way of introduction. It marked a milestone on the development of our Company, which we believe could enhance the overall image and the public profile of our Company in the investment community.

During the year, our Company has experienced a serious challenge from the impact of the Severe Acute Respiratory Syndrome (the "SARS") which had seriously affected the overall performance and strategy of our Company in the second half of this financial year. We understand that the SARS has inevitably dampened the overall retail sector in the People's Republic of China, excluding Hong Kong (the "PRC") but in another respect to a certain degree, it also offered us an opportunity to expand our market in the PRC while some of our competitors have reduced their operations during the period. Coping with this opportunity, we increased our marketing efforts, which resulted in an increase in marketing expenses that was not in our original budget. Such strategy was not just a remedial action during the SARS period but also enhances the Group's marketing position in the long run. However, due to the uncertainty of overall situation, the Board has decided to postpone certain new developments which had been stated in the prospectus until the coming financial year.

After a series of remedial actions have been taken and with the joint effort of our staff, we managed to maintain and also recorded a turnover of approximately HK\$103.5 million for the financial year ended 30 June 2003, representing a marginal increase of approximately 7.8% from approximately HK\$96.0 million in the corresponding period last year. This increase was mainly contributed by our new product, namely Ionised Water Apparatus, which has been well received by the market and posted a turnover of approximately HK\$29.1 million in this financial year. It has compensated for the decline in the turnover by almost 27.7% of our major product, Healthy Sleeping System, during the financial year due to the impact of the SARS in some of our major markets, for examples, in Beijing, Shanghai and Guangzhou.

CHAIRMAN'S STATEMENT

As mentioned above, the SARS incident has adversely affected the profit of our Company during the second half of the financial year ended 30 June 2003. Net profit from ordinary activities attributable to shareholders for this financial year was approximately HK\$5.6 million which represents a decrease of approximately 79.5% as compared to approximately HK\$27.5 million recorded in last year. Other than the increase in the marketing expenses incurred to maintain our market position in an effort to counteract the impact from the SARS, the following reasons also explain the decrease in the profit:

- (1) Approximately HK\$4.1 million of listing expenses incurred for the introduction of the Company's shares on the Main Board of the Stock Exchange; and
- (2) Approximately HK\$0.5 million of income tax have been accrued during the financial year as the two years' tax exemption period of our Zhuhai operations was ended on 31 December 2002 and is now subject to the tax rate of 7.5%.

After the adjustments of the above factors, our profit should be approximately HK\$10.2 million which represents only a decrease of approximately 62.9% as compared with the previous financial year.

Despite our Company having suffered a serious impact from the SARS, which has dragged down our profit in the second half of this financial year, we believe that our strategy adopted during the SARS period should bear fruit in the coming period and the Board is highly confident that our performance should return to the level before the SARS period in the year ahead.

During the SARS crisis, the executive Directors have reduced their remuneration by approximately 9.1% for five months to express their commitment to the staff to make a joint effort to overcome this crisis situation. Although the net profit has decreased significantly for which our management could anticipate under the crisis situation, the Board is delighted to recommend to declare a final dividend of HK0.72 cent per share for the year ended 30 June 2003 to shareholders as our appreciation for their continuous support to our Company during the most difficult period we have ever been faced.

CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation to our shareholders, customers, suppliers and business partners for their continuous support to our Company and to all management and staff for their contributions, commitment and dedicated efforts during the year under review.

Hung Kai So

Chairman

Hong Kong, 24 October 2003

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year, the operations of the Group has been adversely affected by the SARS. Nevertheless, after a series of remedial actions, the Group maintained a marginal increase in the turnover to approximately HK\$103.5 million as compared to approximately HK\$96.0 million recorded in last year. Net profit from ordinary activities attributable to shareholders for the year is approximately HK\$5.6 million (2002: HK\$27.5 million).

Textile products containing the BIOenergy® compound

Textile products containing the BIOenergy® compound remain the core product line of the Group and recorded a turnover of approximately HK\$69.0 million (2002: HK\$87.1 million). The sales of the Group's major product, Healthy Sleeping System, accounted for approximately 84.6% of total turnover of this product category. During the year, the sales of this product category was adversely affected by the outbreak of the SARS in the major cities of the PRC, especially in Beijing, Shanghai and Guangzhou. In order to minimize the adverse impact of the SARS to the sales, the management has decided to provide more support to the franchisees. The Group's staff were sent to help the major franchisees to provide more customized services to customers, including on-site products demonstration and delivery. Moreover, the Group also sponsored the franchisees the additional printing matters for illustrating the Group's health philosophy: "Drink, Eat and Sleep", as an alternative to arrange exhibitions during the SARS period. After a series of such remedial actions, the decrease in the sales of this product category was narrowed to approximately 20.7% as compared with the previous financial year. Moreover, sales rebates have also been offered to the franchisees.

Currently, the SARS was over. Together with a series of media promotion activities, the management believes that the sales of this product category will be back to the right track.

Ionised Water Apparatus

After one year of marketing promotion, the newly introduced Ionised Water Apparatus becomes another major source of income of the Group. The sales of the product achieved approximately HK\$29.1 million, accounting for approximately 28.1% of total turnover of the Group. Currently, the bottled water is popular in the PRC. However, the bottled water comprises problems including secondary pollution — water polluted during the bottling process. As a substitute to the bottled water, the demand for the domestic purified tap water is on the increasing ride. The Group's Ionised Water Apparatus has the functions of filtering and ionising tap water which can increase the effectiveness of water to human body than normal tap water. After the SARS, people generally become more conscious on health which will accelerate the degree of acceptance for the product by the market.

MANAGEMENT DISCUSSION AND ANALYSIS

In some developed countries, including Japan, similar products have been popular for many years. The concept of domestic ionised water consumption is still in the infant period in the PRC. The management sees great market potential for the product and believes that the sales of the Ionised Water Apparatus might be higher if without the SARS impact.

Polypeptide products

On 5 May 2003, China Healthcare Science and Technology Association arranged experts of the healthcare industry to recommend ten products for increasing immunity to the front line professionals during the anti-SARS period. The Group's albumin polypeptide capsule is one of the recommended items which evidenced the public recognition to the product in the industry. The management believes that the outbreak of the SARS has generally aroused people's concern on bacteria immunity of human body which will increase the market demand for such kind of product in the coming period.

Sales and marketing

Keeping pace with the economic development in the PRC, the Group has continued to expand its franchise distribution network. Up to 30 June 2003, the Group has appointed 222 franchisees (2002: 179) operating 387 stores (2002: 340) in 240 cities (2002: 179) throughout the PRC.

Research and development

During the year, The Sport Science Research Institute of The State General Administration of Sports of the PRC (國家體育總局體育科學研究所) has issued testing reports for the effects of the products containing the BIOenergy® compound in facilitating the recovery of sportsmen after sporting events. The reports show positive results for which the Group's textile products containing the BIOenergy® compound comprise the functions of increasing the efficiency of sportsmen during the sporting events and the quality of sleeping. The management is considering to take a further step towards the possible application of the Group's textile products containing the BIOenergy® compound in the sportswear products to cope with the 2008 Olympics Games to be held in Beijing.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Total turnover of the Group for the year was approximately HK\$103.5 million as compared to approximately HK\$96.0 million, representing an increase of approximately 7.8%. The increase in turnover was mainly due to the outstanding performance of the Ionised Water Apparatus which accounted for approximately 28.1% of the Group's turnover. The Group's traditional product, Healthy Sleeping System, was still the major product contributing to approximately 56.5% of total turnover. The sales of other BIOenergy® products accounted for approximately 10.2% of total turnover and the polypeptide products approximately 5.2%.

Gross profit

For the year, the overall gross profit margin reported approximately 60.5% as compared to approximately 68.0% recorded in last year. The decrease in gross profit margin was mainly due to the new product mix in which the gross margin of the Ionised Water Apparatus was lower than the traditional product, Healthy Sleeping System.

In terms of individual product line, the Healthy Sleeping System recorded a gross margin of approximately 70.0% as compared to approximately 72.0% recorded in last year. The decrease in gross margin was due to the offer of sales rebates to those franchisees whose sales had met pre-determined level. The gross margin of the Ionised Water Apparatus was approximately 47.9%, slightly decreased from approximately 48.5% last year. Other BIOenergy® products achieved approximately 45.9%, higher than approximately 37.1% recorded in last year. The gross margin of the polypeptide products was approximately 54.6% as compared to approximately 57.6% recorded in last year.

Net profit

For the year, net profit from ordinary activities attributable to shareholders amounted to approximately HK\$5.6 million as compared to approximately HK\$27.5 million recorded in last year. The decrease in net profit from ordinary activities attributable to shareholders was mainly due to the employment of additional resources to maintain the normal sales and market share of the Group during the anti-SARS period.

MANAGEMENT DISCUSSION AND ANALYSIS

Moreover, as part of the Group's pre-determined development plan, additional resources were also devoted for the enhancement of the Group's existing franchise distribution network in training the staff and franchisees and the establishment of Vitop Health Technology Halls in Shanghai, Chengdu, Suzhou, Beijing and Hangzhou. Expenses incurred for these activities are for future growth of the Group but have been reflected as expenses in the current year. As a result, the selling expenses for the year increased to approximately HK\$33.2 million from approximately HK\$20.8 million recorded in last year.

In addition, net profit from ordinary activities attributable to shareholders was arrived after the deduction of approximately HK\$4.1 million of professional expenses incurred for the introduction of the Company's shares on the Main Board of the Stock Exchange.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group had a current ratio of approximately 4.2 as compared to that of 4.0 as at 30 June 2002.

As at 30 June 2003, the Group had no banking facilities and bank loan, and the shareholders' fund amounted to approximately HK\$76.9 million. The gearing ratio of the Group was 0% (2002: 2%).

As most of the Group's monetary assets are denominated in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is considered insignificant.

As at 30 June 2003, the Group did not have any charges on its assets.

As at 30 June 2003, the Group had no contingent liabilities.

The Group has recently entered into an arrangement to acquire a land in Nanxiang area of Shanghai to develop our sales activities in the major cities of the PRC. The acquisition will be funded from the Group's internal resources.

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

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year under review, there was no material acquisition or disposal of subsidiaries and associated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2003, the Group employed a total of 390 employees, of which 385 are based in the PRC and 5 are based in Hong Kong. The total salaries and other remuneration (excluding directors' emoluments) of approximately HK\$14.3 million were incurred for the year. Remuneration packages comprised salary, mandatory provident fund, bonus, medical coverage and share options.

OUTLOOK AND FUTURE PROSPECTS

Statistics show that, in 2002, the national spending on healthcare products in the PRC amounted to US\$2.4 billion while the global spending on healthcare products was US\$200 billion. This proportion was far behind the proportion of the GDP figures.

The demography statistics also show that the proportion of aged people in the PRC is increasing. The aged group people will be more conscious on their health conditions. Moreover, many Chinese are accustomed to have medical supplements. With the development of advance technology, many people will consume the medical supplements shifting from a traditional way (for example making herbal tea at home) to a scientific way (for example consuming capsules).

Facilitated with these favorable conditions, the management will continue to devote resources to consolidate the existing franchise distribution network, to build up a sophisticated management system and to keep close strategic relationships with the well-known scientific and academic institutions and renowned scientists for developing new proprietary technology. In order to keep the Group in a key position in the PRC healthcare products industry, we will adopt the following strategies:

MANAGEMENT DISCUSSION AND ANALYSIS

Enhancement of franchise distribution network

The management will continue to appoint new franchisees to capture the market share in some unexplored cities of the PRC. Moreover, based on the analysis from our customer database, we will provide more professional advice to help the franchisees to operate their business more effectively.

Further exploration of the market potential of Ionised Water Apparatus

With the initial success of distributing the Ionised Water Apparatus, the management realises that there exists great market potential for this kind of product. Currently, the product is designed for domestic use. The management decides to set aside resources to study the application of the product for medical and catering purposes. With many competitive advantages the Group has, the management believes that the Ionised Water Apparatus will form another main stream of products for the Group.

Expertise in the Healthy Sleeping System

After years of promotion, the Group's major product, Healthy Sleeping System, was well accepted by the market based on which the Group is recognised as one of the leading enterprises in the industry in the PRC. In order to keep the current status, the management will distribute the products more professionally and aims for different classes of customers, for example the executive group.

Further study of albumin polypeptide

During the anti-SARS period, experts have announced on the media that the polypeptide can strengthen the human immunity system. This can let the customers have more knowledge about the function of these kinds of product. The management believes that it has positive impact on promoting the Group's polypeptide products. With the ownership of the technology of manufacturing albumin polypeptide, the Group has more aggressive marketing plans for the product in the coming period.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Hung Kai So (洪繼蘇), aged 60, is the chairman of the Company. Mr. Hung 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 36 years of experience in the textile industry. Mr. Hung joined the Group as a director in February 1999.

Mr. Kam Ioi (金銳), aged 47, is the managing director and general manager of the Company. Mr. Kam is one of the Group's founders and an inventor of the BIOenergy® compound. Like Mr. Hung, Mr. Kam 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) (formerly known as Huaiyin Teachers College (淮陰師範專科學校)) and has over 26 years of experience in the textile industry. He is also the vice chairman of the China Health Care Association on Aging (中國老年保健協會). Mr. Kam joined the Group in October 1992.

Mr. Ma Yufeng (馬余鋒), aged 37, is an executive director and deputy general manager of the Company. Mr. Ma is primarily responsible for the general management, corporate finance and administration of the Group. He completed a course in business management in the PRC in 1990 and has over 11 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). Mr. Ma joined the Group in June 1998.

Ms. Sae-lao Rakchanok (葉鈴), aged 35, is an executive director of the Company. Ms. Sae-lao 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 in February 1999, she had 5 years of experience in managing a foam product plant.

Mr. Liu Jun (劉俊), aged 45, is an executive director of the Company and deputy general manager of Vitop Bioenergy Science and Technology Co., Ltd. ("Zhuhai Bioenergy"), a subsidiary of the Company. Mr. Liu is in charge of the market development and sales management of the Group. 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 in October 1992, he had worked in the textile industry for many years. He is also a co-inventor of the BIOenergy® compound.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lau Hin Hung (劉顯鴻), aged 37, is an executive director and financial controller of the Company. Mr. Lau is responsible for the financial planning and control of the Group. He graduated from Lingnan University in Hong Kong with a Honor Diploma in Accountancy and Edith Cowan University in Australia with a Master degree in E-Business. He has over 16 years of experience in accounting and corporate finance. Prior to joining the Group in April 2002, Mr. Lau worked as the deputy financial controller in Magician Industries (Holdings) Limited. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yuan Tsu I (袁祖怡), aged 55, 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 21 years of experience in the raw cotton product trading industry.

Mr. Huang Ming Da (黃明達), aged 39, 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 currently the vice chairman of the National Health Promotion Committee of the China Healthcare Science and Technology Association (中國保健科技學會全民健康促進會副會長), the deputy secretary of the Professional Committee of the China Healthcare Science and Technology Association (中國保健科技學會專家委員會副秘書長), 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).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Ma Shu Yuan (馬淑媛), aged 31, is an assistant general manager of Zhuhai Bioenergy and director of the institute of sales and marketing. Ms. Ma is responsible for the sales and marketing training of the Group. Prior to joining the Group in July 2003, she had 7 years of experience in sales and marketing and business training.

Mr. Ye Jun Pei (葉均培), aged 32, is an assistant general manager and sales and marketing controller of Zhuhai Bioenergy. Mr. Ye is responsible for the sales and marketing coordination 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 in June 2003, he had over 10 years of experience in sales management.

Mr. Sun Xiao Hu (孫曉虎), aged 39, is an assistant general manager of Zhuhai Bioenergy and general manager of its Shanghai office. Mr. Sun is responsible for the operations and management of the Shanghai office of the Group. He graduated from Shanghai Second Medical University (上海第二醫科大學) in 1997 with a Doctor degree in Medicine. Prior to joining the Group in June 2003, he had over 6 years of experience in medical health and sales management.

Mr. Tang Kun Lun (唐昆倫), aged 38, is a business assistant general manager and director of the research and development department of Zhuhai Bioenergy. Mr. Tang is responsible for the production processing of raw materials and the development of new products and market conditions of the Group. He graduated from the School of Chemical Fibre of Donghua University (東華大學) (formerly known as China Textile University (中國紡織大學)) in 1988 major in chemical fibre. Prior to joining the Group in March 1994, he had over 6 years of experience in the textile industry.

REPORT OF THE DIRECTORS

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 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no changes in the nature of the Group’s principal activities during the year.

LISTING STATUS

On 10 February 2003, 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”) and on the same date, the Company’s shares were listed on the Main Board of the Stock Exchange by way of introduction (the “Listing Date”).

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 30 June 2003 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 23 to 62.

The directors recommend the payment of a final dividend of HK0.72 cent per ordinary share in respect of the year ended 30 June 2003. Subject to shareholders’ approval at the forthcoming annual general meeting of the Company, the final dividend will be paid in cash on or about 28 November 2003 to the shareholders whose names appear on the registers of members of the Company on 26 November 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published consolidated results and assets and liabilities of the Group for the last three financial years is set out on page 63. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

REPORT OF THE DIRECTORS

INTANGIBLE ASSETS

Details of the movements in the intangible assets of the Group during the year are set out in note 14 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 23 and 24 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased certain of its shares on the Stock Exchange for the purpose of enhancing the net asset value and earnings per share of the Company and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 23 to the financial statements. Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 30 June 2003, 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\$55,857,000. This includes the Company's share premium account, in the capital amount of approximately HK\$49,998,000 at 30 June 2003, 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.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 31.2% of the total sales for the year and sales to the largest customer included therein amounted to 8.8%. Purchases from the Group's five largest suppliers accounted for 80.2% of the total purchases for the year and purchases from the largest supplier included therein amounted to 37.0%.

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 were as follows:

Executive directors

Mr. Hung Kai So (*Chairman*)

Mr. Kam loi (*Managing Director*) (designated on 17 September 2002)

Mr. Ma Yufeng

Ms. Sae-lao Rakchanok

Mr. Liu Jun (appointed on 25 July 2002)

Mr. Lau Hin Hung (appointed on 5 December 2002)

Independent non-executive directors

Mr. Yuan Tsu I

Mr. Huang Ming Da

In accordance with article 87(1) of the Company's articles of association, Mr. Ma Yufeng and Ms. Sae-lao Rakchanok will retire by rotation at the forthcoming annual general meeting. In addition, in accordance with article 86(3) of the Company's articles of association, Mr. Lau Hin Hung will retire at the forthcoming annual general meeting. All retiring directors, being eligible, will offer themselves for re-election at the meeting.

REPORT OF THE DIRECTORS

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 12 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a director's service agreement with the Company for an initial term of two years commencing from 10 February 2003, the Listing Date. 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, 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.

Each of the independent non-executive directors has entered into a non-executive director's contract with the Company for an initial fixed period of one year commencing from 10 February 2003, the Listing Date. 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.

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

As at 30 June 2003, 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which

REPORT OF THE DIRECTORS

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	131,759,529	4,000,000	135,759,529	20.41%
Kam loi	Personal	Beneficial owner	108,231,043	4,000,000	112,231,043	16.87%
Ma Yufeng	Personal	Beneficial owner	88,467,115	2,500,000	90,967,115	13.68%
Sae-lao Rakchanok	Personal	Beneficial owner	47,056,975	2,500,000	49,556,975	7.45%
Liu Jun	Personal	Beneficial owner	26,181,819	2,500,000	28,681,819	4.31%
Lau Hin Hung	Personal	Beneficial owner	—	500,000	500,000	0.08%

Save as disclosed above, as at 30 June 2003, none of the directors or their associates 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 24 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 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES

Due to the adoption of the Hong Kong Statement of Standard Accounting Practice No. 34 “Employee benefits” issued by the Hong Kong Society of Accountants during the year, the detailed disclosures relating to the Company’s share option schemes have been moved to note 24 to the financial statements.

Concerning the share options granted during the year to the directors, employees, suppliers and others as detailed in note 24 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

Save for the directors’ interests in the shares and underlying shares of the Company as disclosed above and so far as the directors of the Company are aware, as at 30 June 2003, no other person 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 under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 29 to the financial statements.

CORPORATE GOVERNANCE

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

REPORT OF THE DIRECTORS

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Kam Ioi
Managing Director

Hong Kong, 24 October 2003

REPORT OF THE AUDITORS

 **ERNST & YOUNG**

安永會計師事務所

To the members

Vitop Bioenergy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 62 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 Company and of the Group as at 30 June 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

24 October 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	5	103,509	96,031
Cost of sales		(40,846)	(30,701)
Gross profit		62,663	65,330
Other revenue	5	1,539	1,943
Selling and distribution costs		(33,187)	(20,779)
Administrative expenses		(18,589)	(16,672)
Other operating expenses		(2,212)	(2,065)
PROFIT FROM OPERATING ACTIVITIES	6	10,214	27,757
Finance costs	8	—	(274)
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 TAX		6,146	27,483
Tax	9	(512)	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	5,634	27,483
DIVIDENDS	11	4,789	11,663
EARNINGS PER SHARE	12		
— Basic		HK0.85 cent	HK4.59 cents
— Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	14,509	11,852
Intangible assets	14	2,694	2,621
		17,203	14,473
CURRENT ASSETS			
Accounts receivable	16	8,804	12,706
Inventories	17	12,043	17,632
Deposits, prepayments and other receivables	18	11,128	5,041
Short term investments	19	4,238	—
Cash and bank balances	20	42,144	49,968
		78,357	85,347
CURRENT LIABILITIES			
Accounts payable	21	2,171	4,360
Accrued liabilities and other payables		8,008	7,616
Deposits received		8,075	7,943
Tax payable		401	—
Interest-bearing bank loan, unsecured	22	—	1,673
		18,655	21,592
NET CURRENT ASSETS		59,702	63,755
		76,905	78,228
CAPITAL AND RESERVES			
Issued capital	23	16,629	16,658
Reserves	25	55,487	54,907
Proposed final dividend	11	4,789	6,663
		76,905	78,228

Kam loi
Director

Sae-lao Rakchanok
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year ended 30 June 2003

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Statutory reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 July 2001		—	7,201	1,447	—	6,328	—	14,976
Shares issued as consideration for the acquisition of the entire issued share capital of Vitop Bioenergy Limited	23	13,800	—	—	—	—	—	13,800
Issue of shares on public listing	23	2,858	32,575	—	—	—	—	35,433
Share issue expenses	25	—	(8,464)	—	—	—	—	(8,464)
Net profit for the year		—	—	—	—	27,483	—	27,483
Interim dividend	11	—	—	—	—	(5,000)	—	(5,000)
Transfer to statutory reserve		—	—	3,311	—	(3,311)	—	—
Proposed final 2002 dividend	11	—	—	—	—	(6,663)	6,663	—
At 30 June 2002 and 1 July 2002		16,658	31,312	4,758	—	18,837	6,663	78,228
Share Repurchase	23	(29)	(265)	—	—	—	—	(294)
Final 2002 dividend paid	11	—	—	—	—	—	(6,663)	(6,663)
Transfer upon Share Repurchase		—	—	—	29	(29)	—	—
Net profit for the year		—	—	—	—	5,634	—	5,634
Transfer to statutory reserve		—	—	1,713	—	(1,713)	—	—
Proposed final 2003 dividend	11	—	—	—	—	(4,789)	4,789	—
At 30 June 2003		16,629	31,047	6,471	29	17,940	4,789	76,905

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		6,146	27,483
Adjustments for:			
Finance costs	8	—	274
Interest income	5	(426)	(245)
Dividend income from listed investments	5	(25)	—
Depreciation of fixed assets	6	3,275	2,024
Amortisation of intangible assets	6	911	404
Loss on disposal of fixed assets	6	91	80
Operating profit before working capital changes		9,972	30,020
(Increase)/decrease in accounts receivable		3,902	(1,553)
(Increase)/decrease in inventories		5,589	(6,602)
(Increase)/decrease in deposits, prepayments and other receivables		(6,087)	3,068
Increase in short term investments		(4,238)	—
Decrease in accounts payable		(2,189)	(275)
Increase/(decrease) in accrued liabilities and other payables		392	(224)
Increase/(decrease) in deposits received		132	(164)
Decrease in amounts due to related parties		—	(363)
Cash generated from operations		7,473	23,907
PRC corporate income taxes paid		(111)	—
Net cash inflow from operating activities		7,362	23,907
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		426	245
Dividends received from listed investments		25	—
Purchases of fixed assets	13	(6,379)	(4,548)
Proceeds from disposal of fixed assets		356	161
Additions to intangible assets	14	(984)	(374)
Net cash outflow from investing activities		(6,556)	(4,516)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for repurchase of shares	23	(294)	—
Repayment of bank loans		(1,673)	(2,813)
Dividends paid		(6,663)	(5,000)
Proceeds from issue of share capital		—	35,433
Share issue expenses		—	(8,464)
Interest paid		—	(274)
Net cash inflow/(outflow) from financing activities		(8,630)	18,882
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(7,824)	38,273
Cash and cash equivalents at beginning of year		49,968	11,695
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		42,144	49,968
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		42,144	49,968

BALANCE SHEET

30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	59,870	66,353
CURRENT ASSETS			
Deposits, prepayments and other receivables		164	115
Dividends receivable		13,000	8,000
Cash and bank balances	20	4	29
		13,168	8,144
CURRENT LIABILITIES			
Accrued liabilities and other payables		523	805
NET CURRENT ASSETS			
		12,645	7,339
		72,515	73,692
CAPITAL AND RESERVES			
Issued capital	23	16,629	16,658
Reserves	25	51,097	50,371
Proposed final dividend	11	4,789	6,663
		72,515	73,692

Kam loi
Director

Sae-lao Rakchanok
Director

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

1. CORPORATE 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's shares were listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 February 2002. During the year, the Company withdrew the listing of its shares on the GEM of 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.

During the year, the Group was principally engaged in the manufacturing and trading of healthcare bedding, underclothing and other health products in the People's Republic of China, excluding Hong Kong (the "PRC").

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs applicable to the Group are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 25 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(Continued)*

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing, and financing activities, rather than the five headings previously required. The format of the consolidated cash flow statement set out on pages 26 and 27 of the financial statements has been revised in accordance with the new requirements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company’s share option schemes, as detailed in note 24 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of equity investments as further explained below.

Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of presentation and consolidation *(Continued)*

The consolidated financial statements for the year ended 30 June 2002 have been prepared using the merger basis of accounting in accordance with SSAP 27 "Accounting for group reconstructions". Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of their acquisition. Accordingly, the results and cash flows of the Group for the year ended 30 June 2002 include the results and cash flows of the Company and its subsidiaries with effect from 1 July 2001 or since their respective dates of incorporation/establishment by the Group, where this is a shorter period.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- sale of goods, 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, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- rental income, on a time proportion basis over the lease term; and
- dividend income, when the shareholders' right to receive payment has been established.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. 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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Patents and technical know-how

Patents represent the initial cost of registration in respect of the Group's patent rights and are amortised using the straight-line basis over 10 years or over the periods up to the date of the subsequent renewal, whichever is shorter.

The cost of acquiring the rights to technical know-how for the manufacture of new products is amortised using the straight-line basis over the estimated useful lives of the know-how of not exceeding 10 years, commencing from the date when the new products are put into commercial production or use.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production or use.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Accounts receivable

Accounts receivable, 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Short term investments

Short term investments are investments in equity securities held for trading purposes 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 profit and loss account in the period in which they arise.

Operating leases

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Pension schemes

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 profit and loss account 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, a subsidiary of the Group operating in the PRC is 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 profit and loss account as they become payable.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share option scheme

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 profit and loss account 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.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously reported cash flows of the prior year.

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. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

4. 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 manufacturing and trading of polypeptide products; and
- the ionised water apparatus segment consists of the trading of 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

30 June 2003

4. 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:

Group

	Healthy sleeping system		Other BIOenergy® products		Polypeptide products		Ionised water apparatus		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	58,440	80,784	10,577	6,273	5,410	4,963	29,082	4,011	103,509	96,031
Segment results	21,074	38,188	1,166	1,655	735	1,570	4,608	1,457	27,583	42,870
Unallocated other revenue									1,539	1,943
Unallocated expenses									(18,908)	(17,056)
Profit from operating activities									10,214	27,757
Finance costs									—	(274)
Listing expenses									(4,068)	—
Profit before tax									6,146	27,483
Tax									(512)	—
Net profit from ordinary activities attributable to shareholders									5,634	27,483

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Healthy sleeping system		Other BIOenergy® products		Polypeptide products		Ionised water apparatus		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	8,597	12,569	2,676	4,285	2,982	3,182	482	388	14,737	20,424
Unallocated assets									80,823	79,396
Total assets									95,560	99,820
Unallocated liabilities									18,655	21,592
Total liabilities									18,655	21,592
Other segment information:										
Unallocated depreciation of fixed assets									3,275	2,024
Amortisation of intangible assets	107	106	84	84	720	214	—	—	911	404
Capital expenditure	3	—	—	—	981	374	—	—	984	374
Unallocated amounts									6,379	4,548
									7,363	4,922
Provision for obsolete and slow-moving inventories and inventories written off	997	839	221	348	249	14	8	—	1,475	1,201
Unallocated provision for doubtful debts and bad debt expenses									169	380

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

4. SEGMENT INFORMATION (Continued)

(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.

5. 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.

An analysis of turnover and other revenue is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sale of goods	103,509	96,031
Other revenue		
Interest income	426	245
Dividend income	25	—
Others	1,088	1,698
	1,539	1,943

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

6. PROFIT FROM OPERATING ACTIVITIES

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Auditors' remuneration	480	400
Cost of inventories sold	40,846	30,701
Staff costs (excluding directors' remuneration (<i>note 7</i>))		
Wages and salaries	13,748	9,708
Pension scheme contributions	515	245
	<hr/> 14,263	<hr/> 9,953
Depreciation of fixed assets (<i>note 13</i>)	3,275	2,024
Amortisation of intangible assets (<i>note 14</i>)	911	404
Minimum lease payments under operating leases on land and buildings	3,618	2,737
Provision for doubtful debts and bad debt expenses	169	380
Provision for obsolete and slow-moving inventories and inventories written off	1,475	1,201
Loss on disposal of fixed assets	91	80
Unrealised loss on revaluation of short term listed investments	52	—

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

7. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Fees	228	100
Other emoluments		
Salaries, allowances and benefits in kind	3,695	1,730
Discretionary bonuses	—	1,060
Pension scheme contributions	33	27
	3,728	2,817

Fees include HK\$228,000 (2002: HK\$100,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

	2003 Number of directors	2002 Number of directors
Nil — HK\$1,000,000	6	6
HK\$1,000,001 — HK\$1,500,000	2	1
	8	7

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

During the year, 16,000,000 share options were granted to the directors in respect of their services to the Group, further details of which were set out in note 24 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

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

The five highest paid individuals during the year included five (2002: three) directors, details of whose remuneration have been disclosed above. Details of the remuneration of the remaining two non-director, highest paid employees for the year ended 30 June 2002 are as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	—	784
Pension scheme contributions	—	14
	—	798

The remuneration of each of these two non-director, highest paid employees for the year ended 30 June 2002 fell within the nil to HK\$1,000,000 band.

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.

8. FINANCE COSTS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loan wholly repayable within five years	—	274

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

9. TAX

	Group	
	2003	2002
	HK\$'000	HK\$'000
PRC	512	—
Hong Kong	—	—
Tax charge for the year	512	—

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2002: 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.

In accordance with the applicable corporate income tax law of the PRC, Vitop Bioenergy Science and Technology Co., Ltd. (“Zhuhai Bioenergy”), the Company’s wholly-owned subsidiary established as a wholly foreign-owned enterprise (“WFOE”) in the PRC, is exempted from corporate income tax for its first two profitable calendar years of operations and is entitled to a 50% relief on corporate income tax for the following three years. The two years’ tax exemption period for Zhuhai Bioenergy commenced in the tax year ended 31 December 2001 and expired as at 31 December 2002 under the local jurisdiction. With effect from 1 January 2003, Zhuhai Bioenergy is subject to a 50% relief on the corporate income tax rate of 15% on its assessable profit for each of the years ending 31 December 2003, 2004 and 2005.

As at 30 June 2003, the Group and the Company did not have any significant unprovided deferred tax liabilities (2002: Nil).

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 30 June 2003 amounted to approximately HK\$5,780,000 (2002: HK\$6,771,000).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

11. DIVIDENDS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interim:		
Vitop Bioenergy Limited ("Vitop Bioenergy") (Note)	—	5,000
Proposed final:		
The Company — HK0.72 cent (2002: HK1 cent) per ordinary share	4,789	6,663
	<hr/> 4,789	<hr/> 11,663

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

Note: The interim dividend for the year ended 30 June 2002 was paid by Vitop Bioenergy to its then shareholders prior to the listing of the Company's shares on the GEM of the Stock Exchange.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended 30 June 2003 of HK\$5,634,000 (2002: HK\$27,483,000) and the weighted average of 665,247,397 (2002: 599,062,466) shares in issue during the year.

A diluted earnings per share amount for the year ended 30 June 2003 has not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basic earnings per share for the year. No diluted earnings per share for the year ended 30 June 2002 has been calculated as no diluting events existed for that year.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

13. FIXED ASSETS

Group

	Leasehold improvements <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At beginning of year	3,260	2,996	10,023	2,345	18,624
Additions	3,405	30	2,359	585	6,379
Disposals	—	(26)	(572)	—	(598)
At 30 June 2003	6,665	3,000	11,810	2,930	24,405
Accumulated depreciation:					
At beginning of year	836	1,565	3,217	1,154	6,772
Provided during the year	1,032	249	1,663	331	3,275
Written back on disposals	—	(15)	(136)	—	(151)
At 30 June 2003	1,868	1,799	4,744	1,485	9,896
Net book value:					
At 30 June 2003	4,797	1,201	7,066	1,445	14,509
At 30 June 2002	2,424	1,431	6,806	1,191	11,852

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

14. INTANGIBLE ASSETS

Group	Patents and technical know-how <i>HK\$'000</i>	Deferred development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
Costs:			
At beginning of year	1,309	2,149	3,458
Additions	2	982	984
At 30 June 2003	1,311	3,131	4,442
Accumulated amortisation:			
At beginning of year	576	261	837
Provided during the year	214	697	911
At 30 June 2003	790	958	1,748
Net book value:			
At 30 June 2003	521	2,173	2,694
At 30 June 2002	733	1,888	2,621

15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	39,952	39,952
Due from subsidiaries	22,754	28,080
Due to subsidiaries	(2,836)	(1,679)
	59,870	66,353

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ establishment and operations	Nominal value of paid-up capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			Direct	Indirect	
Vitop Bioenergy	British Virgin Islands ("BVI")	US\$1	100%	—	Investment holding
Zhuhai Bioenergy	PRC	HK\$21,000,000	—	100%	Manufacturing and trading of healthcare bedding, underclothing and other health products
Vitop Franchise Distribution Network Limited	BVI	US\$1	100%	—	Yet to commence business
Vitop Healthcare Product Limited	Hong Kong	HK\$2	—	100%	Trading of healthcare bedding, underclothing and other health products

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

16. ACCOUNTS RECEIVABLE

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Outstanding balances with ages:		
Within 30 days	2,526	5,901
Between 31 to 60 days	984	3,373
Between 61 to 180 days	3,685	3,398
Over 180 days	1,778	34
	8,973	12,706
Less: Provision for doubtful debts	(169)	—
	8,804	12,706

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

17. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	5,536	6,779
Work in progress	2,978	4,713
Finished goods	4,965	6,994
	13,479	18,486
Less: Provision for obsolete and slow-moving inventories	(1,436)	(854)
	12,043	17,632

As at 30 June 2003, no inventories were stated at net realisable value (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

At the balance sheet date, the balances of the Group's deposits, prepayments and other receivables included a refundable security deposit of approximately 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. Subsequent to the balance sheet date, the Group entered into a renewal advertisement agreement with Legaldaily, pursuant to which the refundable security deposit was revised to approximately HK\$5,608,000 (the "Revised Deposit") and the advertising period was extended to 31 January 2004. Accordingly, the excess amount of approximately HK\$1,869,000 of the original deposit over the Revised Deposit was refunded to the Group.

19. SHORT TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Listed equity investments in Hong Kong, at market value	4,238	—

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	11,798	17,759	4	29
Time deposits	30,346	32,209	—	—
Cash and cash equivalents	42,144	49,968	4	29

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$34,408,000 (2002: approximately HK\$20,088,000). The RMB is not freely convertible into other currencies. However, under 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.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

21. ACCOUNTS PAYABLE

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

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:		
Within 30 days	1,325	1,554
Between 31 to 60 days	604	1,521
Between 61 to 180 days	212	1,035
Over 180 days	30	250
	2,171	4,360

22. INTEREST-BEARING BANK LOAN, UNSECURED

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loan, unsecured and repayable within one year	—	1,673

The bank loan was supported by a corporate guarantee executed by 珠海經濟特區珠光公司, bore interest at rates ranging from 7.6% to 12.0% per annum and was repaid in full during the year.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

23. SHARE CAPITAL

Company

	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>		
20,000,000,000 ordinary shares of HK\$0.025 each	500,000	500,000
<i>Issued and fully paid:</i>		
665,170,000 (2002: 666,300,000) ordinary shares of HK\$0.025 each	16,629	16,658

During the year, the Company repurchased on the Stock Exchange a total of 1,130,000 ordinary shares of HK\$0.025 each in the share capital of the Company (the "Share Repurchase") at an aggregate price of approximately HK\$294,000, details of which are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid HK\$'000
		Highest HK\$	Lowest HK\$	
July 2002	1,130,000	0.260	0.255	294

The above shares were cancelled upon repurchase 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 (*note 25*).

Except for the Share Repurchase, there were no changes to the carrying amount or the number of ordinary shares in issue during the year.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

23. SHARE CAPITAL (Continued)

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 2001	1,000,000	1	—
Sub-division of each share into four shares	3,000,000	3	—
Increase in authorised share capital	19,996,000,000	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of Vitop Bioenergy and credited as fully paid at par of the four shares allotted and issued nil paid	—	551,999,996	13,800
New issue on public listing	—	98,000,000	2,450
Exercise of over-allotment option	—	16,300,000	408
At 30 June 2002 and 1 July 2002	20,000,000,000	666,300,000	16,658
Share Repurchase	—	(1,130,000)	(29)
At 30 June 2003	20,000,000,000	665,170,000	16,629

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

24. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as further explained in note 2 and under the heading “Share option scheme” in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company’s share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

On 18 January 2002, the Company conditionally adopted a share option scheme (the “Old Scheme”), which was the first share option scheme of the Company, for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group. The Old Scheme became effective on 1 February 2002 and, unless otherwise cancelled or amended, would remain in force for 10 years from 18 January 2002. No share options have been granted since the adoption of the Old Scheme. In connection with the listing of the Company’s shares on the Main Board of the Stock Exchange, the Company conditionally adopted a new share option scheme (the “New Scheme”) and terminated the Old Scheme pursuant to an ordinary resolution passed by the shareholders of the Company on 23 January 2003. No further options may be offered upon termination of the Old Scheme. The New 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 New Scheme remains in force for 10 years from that date.

The purpose of the New 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.

The participants of the New 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.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

24. SHARE OPTION SCHEMES *(Continued)*

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 12-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 New Scheme must not exceed 66,517,000 shares, being 10% of the total number of shares of the Company in issue as at the date of adoption of the New Scheme, unless shareholders' approval of the Company has been obtained.

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 12-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 10 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.

NOTES TO THE FINANCIAL STATEMENTS

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24. SHARE OPTION SCHEMES *(Continued)*

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 earlier termination of the Company by resolution in general meeting, the New 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 New 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.

During the year, a total of 21,800,000 share options were granted under the New Scheme and the share options shall be exercised up to 30%, 60% and 100% on or before 30 April 2004, 2005 and 2006, respectively. No share options under the New Scheme were exercised, lapsed or cancelled during the year.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

24. SHARE OPTION SCHEMES (Continued)

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

Name or category of participant	Number of share options			Date of grant*	Exercise period	Exercise price** HK\$
	At 1 July 2002	Granted during the year	At 30 June 2003			
Directors:						
Hung Kai So	—	4,000,000	4,000,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
Kam loi	—	4,000,000	4,000,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
Ma Yufeng	—	2,500,000	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
Sae-lao Rakchanok	—	2,500,000	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
Liu Jun	—	2,500,000	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
Lau Hin Hung	—	500,000	500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	—	16,000,000	16,000,000			
Other employees:						
In aggregate	—	2,300,000	2,300,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	—	2,300,000	2,300,000			
Suppliers:						
In aggregate	—	1,500,000	1,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	—	1,500,000	1,500,000			
Customers:						
In aggregate	—	2,000,000	2,000,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	—	2,000,000	2,000,000			
	—	21,800,000	21,800,000			

* 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.

The consideration for the grant of share options is HK\$1.00 and the closing price of the shares traded on the Stock Exchange immediately before the date of grant of share options is HK\$0.25.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

25. 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 25 of the financial statements.

In accordance with the relevant PRC regulations applicable to WOFEs, Zhuhai Bioenergy is required to transfer 10% of its profit after tax, if any, to the statutory reserve until the balance of the fund reach 50% of its registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against any accumulated losses of Zhuhai Bioenergy.

Company

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Arising on acquisition of Vitop Bioenergy	26,152	—	—	26,152
Issue of shares	32,575	—	—	32,575
Share issue expenses	(8,464)	—	—	(8,464)
Net profit for the year	—	—	6,771	6,771
Proposed final 2002 dividend	—	—	(6,663)	(6,663)
At 30 June 2002 and 1 July 2002	50,263	—	108	50,371
Share Repurchase	(265)	—	—	(265)
Transfer upon 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	49,998	29	1,070	51,097

NOTES TO THE FINANCIAL STATEMENTS

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25. RESERVES (Continued)

The share premium account of the Group 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 includes: (i) shares issued at a premium; and (ii) the difference between the nominal value of the shares 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 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.

26. OPERATING LEASE ARRANGEMENTS

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

As at the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	3,742	3,100
In the second to fifth years, inclusive	6,495	7,350
	10,237	10,450

The Company did not have any significant operating lease arrangements as at the balance sheet date (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26 to the financial statements above, the Group had the following commitment as at the balance sheet date:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commitments in respect of acquisition of technical know-how contracted, but not provided for	888	2,430

The Company did not have any significant commitments as at the balance sheet date (2002: Nil).

28. RELATED PARTY TRANSACTIONS

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 rentals. 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.

During the year, the aggregate rental incurred by the Group under the Tenancy Agreement amounted to RMB2,400,000 (2002: RMB2,400,000).

The directors of the Company are of the opinion that the above transaction with the Related Company was conducted in the usual course of business.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

29. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 10 October 2003, the Group agreed to acquire interests in a piece of land situated in Shanghai, the PRC (the “Land Acquisition”) from a third party at a total cash consideration of approximately HK\$7.0 million for the establishment of the Group’s staff and franchisees training centre, distribution centre and office in that region. As at the date of these financial statements, the Land Acquisition was not completed and no payment has yet been made by the Group.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 24 October 2003.

SUMMARY FINANCIAL INFORMATION

A summary of the published consolidated results and of the assets and liabilities of the Group prepared on the basis set out in the note below is as follows:

	Year ended 30 June		
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
RESULTS			
Turnover	103,509	96,031	88,660
Profit before tax	6,146	27,483	13,758
Tax	(512)	—	(2,359)
Net profit from ordinary activities attributable to shareholders	5,634	27,483	11,399
		30 June	
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
ASSETS AND LIABILITIES			
Total assets	95,560	99,820	54,207
Total liabilities	(18,655)	(21,592)	(25,431)
	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 and 2002 has been extracted from the Company's published audited financial statements for the year ended 30 June 2002. The results of the Group for the year ended 30 June 2003 and the assets and liabilities as at 30 June 2003 are those set out on pages 23 and 24 of this annual report.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Vitop Bioenergy Holdings Limited (the “Company”) will be held at The Hong Kong Bankers Club, 43rd Floor, Gloucester Tower, The Landmark, Central, Hong Kong on Wednesday, 26 November 2003 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 30 June 2003.
2. To declare the final dividend for the year ended 30 June 2003.
3. To re-elect retiring directors and to authorise the board of directors to fix their remuneration.
4. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass the following resolutions with or without modifications as ordinary resolutions:

(A) “THAT:

- (i) subject to sub-paragraph (iii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares or any convertible securities and to make or grant offers, agreements and options (including warrants, bonds and securities convertible into shares of the Company) which might require the exercise of such powers, subject to and in accordance with all applicable laws and the articles of association of the Company, be and is hereby generally and unconditionally approved;
- (ii) the approval in sub-paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and securities convertible into shares of the Company) which might require the exercise of such powers after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

(iii) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in subparagraph (i) of this resolution, otherwise than pursuant to a Rights Issue (as hereinafter defined) or upon the exercise of rights of subscription or conversion under the outstanding warrants to subscribe for shares of the Company or any securities which are convertible into shares of the Company or the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company from time to time outstanding and the exercise of any option granted under the share option scheme or similar arrangement for the time being adopted by the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or any scrip dividend or similar arrangement providing for the allotment of shares of the Company in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the said approval shall be limited accordingly; and

(iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or

NOTICE OF ANNUAL GENERAL MEETING

expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

(B) “THAT:

- (i) subject to sub-paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase issued shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose (the “Recognised Stock Exchange”), subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other Recognised Stock Exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of the share capital of the Company which the directors of the Company is authorised to repurchase pursuant to the approval in sub-paragraph (i) of this resolution shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the said approval shall be limited accordingly; and
- (iii) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
 - (c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

NOTICE OF ANNUAL GENERAL MEETING

- (C) “**THAT** conditional upon the resolutions numbered 5(A) and 5(B) in the notice convening this meeting being passed, the aggregate nominal amount of the issued shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors of the Company as mentioned in the resolution numbered 5(B) in the notice convening this meeting shall be added to the aggregate nominal amount of the share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to the resolution numbered 5(A) in the notice convening this meeting, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution.”
- (D) “**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of, and permission to deal in, the shares of HK\$0.025 each in the share capital of the Company (representing a maximum of 10 per cent of the shares in issue as at the date of the passing of this resolution) to be issued pursuant to the exercise of options which may be granted under the Company’s share option scheme adopted on 23 January 2003 (the “Scheme”), the refreshment of the scheme limit on grant of options under the Scheme and any other share option schemes of the Company up to 10 per cent of the shares in issue as at the date of the passing of this resolution (the “Refreshed Scheme Mandate Limit”) be and is hereby approved and any director of the Company be and is hereby authorized to do such act and execute such document to effect the Refreshed Scheme Mandate Limit.”

By Order of the Board

Lo Oi Lan
Company Secretary

Hong Kong, 24 October 2003

NOTICE OF ANNUAL GENERAL MEETING

Principal Place of Business in Hong Kong:

Room 702, 7th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

Registered Office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Notes:

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for the meeting is enclosed. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude members from attending and voting at the annual general meeting.
4. The register of members of the Company will be closed for the purposes of determining the entitlements of the members of the Company to attend the Company's annual general meeting and to the proposed final dividend from Monday, 24 November 2003 to Wednesday, 26 November 2003, both dates inclusive, during which period no transfers of shares shall be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by 4:30 p.m. on Friday, 21 November 2003.