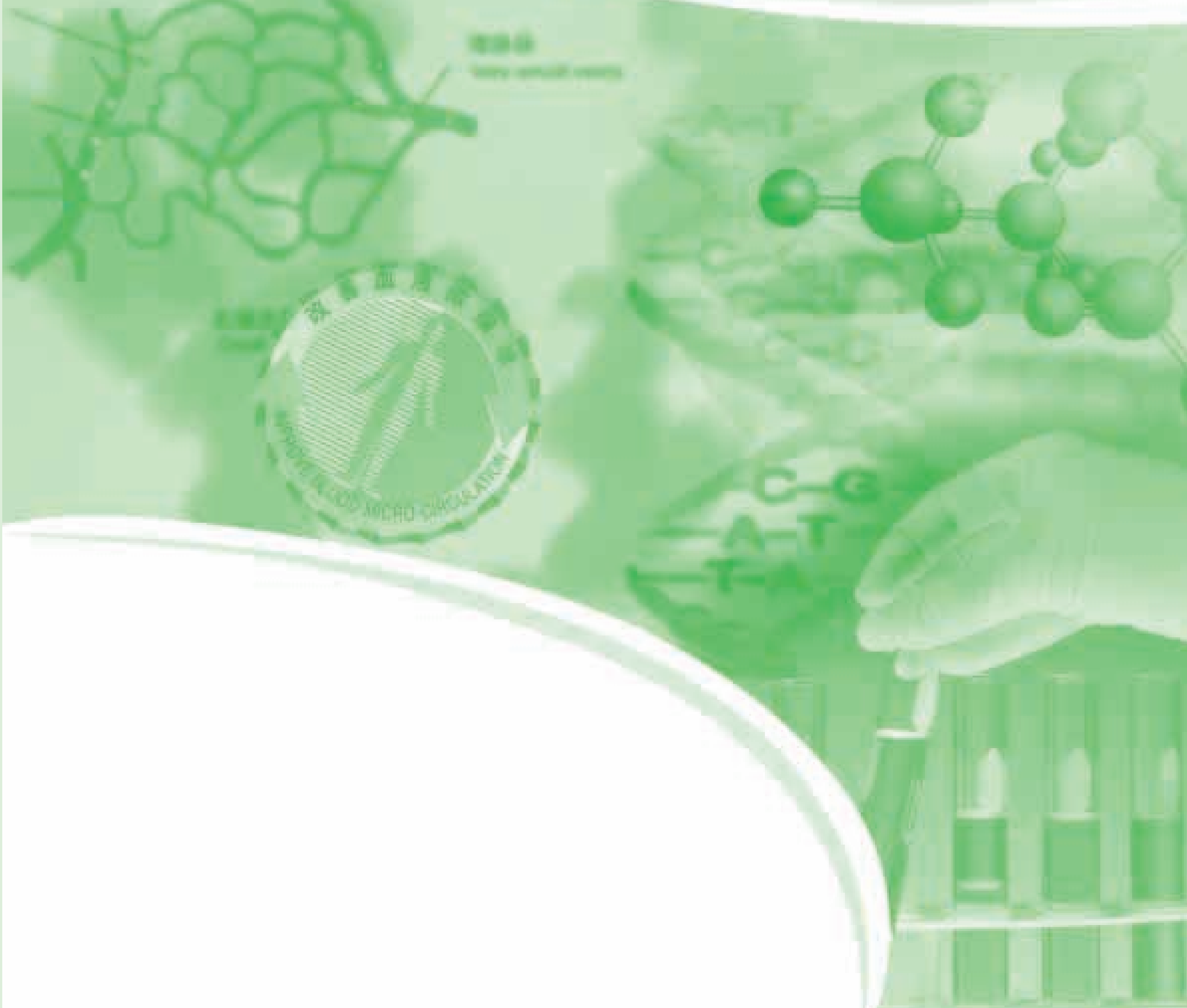
vitop

VITOP BIOENERGY HOLDINGS LIMITED

天年生物控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2002



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

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

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

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

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

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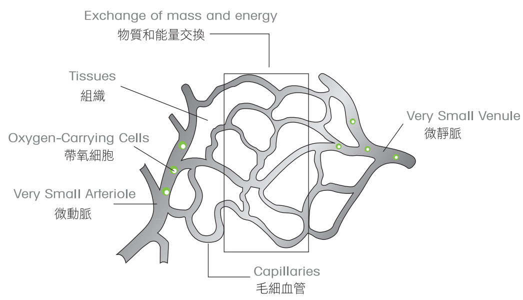
CORPORATE PROFILE



微循環程式圖 Diagram of microcirculation

Vitop Bioenergy Holdings Limited (the "Company") and its subsidiaries (the "Group") is one of the leading developers and distributors of healthcare products in the PRC. All the products distributed by the Group are channelled through its own franchise distribution network under its own brand name, "Vitop®".

Our Group's products are primarily textile products made of Microelement Bioactivity Fibre ("MBF®") containing the BIOenergy® compound. The BIOenergy® compound and MBF® are products patented by the Group and have been proven by various universities and research institutes as being able to enhance blood microcirculation, and have won a number of awards.

After years of development, the Group has been continuously expanding its distribution network which now comprises 174 franchisees operating 345 franchise stores covering most part of the PRC.

On 1 February 2002, the Company was successfully listed on the GEM of the Stock Exchange and its ordinary shares are traded under the stock code 8199. To further increase the public profile and recognition of the Company, the Company has decided to submit on 18 September 2002 an advance booking of an application for the proposed listing of its shares on the Main Board of the Stock Exchange and will inform the Stock Exchange of its intention to voluntarily withdraw the listing of its shares on the GEM of the Stock Exchange[(note)].

OBJECTIVES

The Group's objectives are to increase its market share in the healthcare products market in the PRC by utilizing its franchise distribution network to increase the market penetration of its existing products, as well as to enhance its existing products and develop new products through its own research and development team or jointly with other research institutions.

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Hung Kai So *(Chairman)*
Kam Ioi *(Managing Director)*
Ma Yufeng
Sae-lao Rakchanok
Liu Jun

Independent Non-executive Directors
Yuan Tsu I
Huang Ming Da

COMPANY SECRETARY
Lau Hin Hung, *ACCA, AHKSA*

QUALIFIED ACCOUNTANT
Lau Hin Hung, *ACCA, AHKSA*

COMPLIANCE OFFICER
Sae-lao Rakchanok

AUTHORISED REPRESENTATIVES
Sae-lao Rakchanok
Lau Hin Hung

AUDIT COMMITTEE
Yuan Tsu I
Huang Ming Da

LEGAL ADVISER TO THE COMPANY
Morrison & Foerster

SPONSOR
UOB Asia (Hong Kong) Limited

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
Gangchang Road
Gongbei
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
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

GEM STOCK CODE
8199

WEBSITE ADDRESS
http://www.vitop.com.cn

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the first annual report of the Company and its subsidiaries (the "Group") since the listing of our shares on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 February 2002.

With the successful listing of the shares of the Company on the GEM of the Stock Exchange on 1 February 2002, this year is a milestone year in the development of the Group. The results of the share placing for our listing were encouraging, which was approximately 3.4 times over-subscription, indicating investors' confidence in the Group and strengthening the confidence of the management of the Group to continue to pursue our business objective to be the market leader in healthcare products in the PRC. We believe that our successful listing not only helps to increase our public profile but also serves to enhance the brand awareness of Vitop® and our franchise distribution network.

To further increase the public profile and recognition of the Company, we have decided to submit an advance booking of an application for the proposed listing of our shares on the Main Board of the Stock Exchange on 18 September 2002 and will inform the Stock Exchange of our intention to voluntarily withdraw the listing of our shares on the GEM of the Stock Exchange.

The Board believes that this year has been an important year of development for the Group achieving significant progress which will contribute to the continued success of the Group in the future. During the year, we have successfully achieved the following accomplishments:

1) applied our proprietary technology, namely BIOenergy® compound, in the ionised water apparatus which is distributed as an electrical home appliance in the PRC under the name Vitop®, in addition to the existing line of textile products of the Group;

2) formed a strategic alliance with The Polypeptide Laboratory of Shanghai Biochemistry and Cell Research Institute under The China Academy of Science (中國科學院上海生物化學與細胞生物學研究所多肽研究室) (the "Polypeptide Laboratory"), which is the most renowned state-level research institute in studying peptide in the PRC, to assist us in studying the effects of our Lingzhi/Cordyceps Sinensis compounding peptide in reducing blood lipid and cholesterol level in the human body; and

3) established a long-term relationship with 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) (the "Sport Science Research Institute") in studying the effects of our BIOenergy® compound products in facilitating fatigue recovery from sports for possible use by and application to athletes participating in the 2008 Olympics held in Beijing.

We believe that the above achievements can further enhance our existing business in the future should the results of the studies conducted by the Polypeptide Laboratory and the Sport Science Research Institute on our Lingzhi/Cordyceps Sinensis compounding peptide and BIOenergy® compound products be positive, of which we are confident. The application of our BIOenergy® compound in the ionised water apparatus represents a technological breakthrough which could be applied in diversifying our product lines.

DIVIDENDS

In consideration of establishing the Group's long-term policy of paying dividends and showing our appreciation for the continuing support of our shareholders, the Board recommends a final dividend of HK1 cent per share for the year ended 30 June 2002. The proposed dividend payment is subject to shareholders' approval at the annual general meeting of the Company to be held on 25 October 2002. The dividend will be payable on or around 31 October 2002 to shareholders whose names appear on the register of members of the Company at 4 p.m. on 24 October 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

Products containing the BIOenergy® compound

In May 2002, the Group launched a new product, the ionised water apparatus, by applying the BIOenergy® compound in the ionised water apparatus of Hefei Meiling Electron Environment Protection Co., Ltd. (合肥美菱環保電子有限責任公司), an electrical appliance manufacturer in the PRC. This new product is distributed through the Group's franchise distribution network under the Vitop® brand name. Taking into account the contribution to turnover by this new product, the Group recorded a total turnover of approximately HK$91.1 million in the current financial year for the BIOenergy® compound products, representing an increase of approximately

23.2% as compared to the turnover of approximately HK$74.0 million recorded in the corresponding period last year. As the new ionised water apparatus was only launched in May 2002, the Healthy Sleeping System remained the major product contributing to the Group's turnover and achieved a turnover of HK$80.8 million, representing approximately 84.1% of the Group's total turnover. However, the increase in turnover of the Healthy Sleeping System was partly offset by the decrease in turnover of the Group's other products containing BIOenergy® compound, excluding ionised water apparatus, as the Group continued to focus its effort in promoting products with higher profit margin.

Polypeptide products

For the financial year ended 30 June 2002, the Group recorded a turnover of approximately HK$5.0 million for the polypeptide product, namely albumin polypeptide, representing a decline of approximately 66.4% as compared to HK$14.8 million recorded in the corresponding period last year. The decline in turnover during the year is attributable to the prudent marketing approach adopted by the Group for this product before completion of the acquisition of the technology in manufacturing albumin polypeptide. The acquisition was completed in July 2002 and the overall marketing activities for this product have since then been switched to a more aggressive direction.

Despite the adoption of a prudent marketing approach, development of new polypeptide products has been on-going. In March 2002, the Group submitted an application to The Ministry of Health (the "MOH") for approval to launch its newly developed product, namely Lingzhi/Cordyceps Sinensis compounding peptide (靈芝／冬蟲草複合肽), both ingredients are traditional Chinese medicine widely accepted for their ability to improve human health. In preparation for the full launch of this product upon receipt of the approval from the MOH, the Group has decided to change its marketing strategy and distribute the albumin polypeptide capsule with the Cordyceps Sinensis capsule in a two-in-one package, the latter of which is sourced by the Group from an independent third party, to replace the original nucleic acid tablet which was initially launched with albumin polypeptide capsule in a two-in-one package.

Research and development

The Directors believe that strong research and development capabilities play an important role in the Group's success. During the year, the Group has continued to look for opportunities to form strategic alliances or build long-term relationships with renowned scientific and academic institutions so as to enhance the Group's research and development capabilities.

In January 2002, the Group formed a strategic alliance with the Polypeptide Laboratory to study the effects of Lingzhi/Cordyceps Sinensis compounding peptide, which was developed by the

Group, in reducing blood lipid and cholesterol level in the human body. In anticipation of the hosting of the 2008 Olympics in Beijing, the Group entered into a long-term relationship agreement with the Sport Science Research Institute in May 2002 to study together the effects of products containing the BIOenergy® compound in facilitating the recovery of sportsmen to reduce lactic acid in blood after sporting events.

Sales and Marketing

The Group distributes its products through its franchise distribution network under the Vitop® brand name. As at 30 June 2002, the Group has appointed a total of 179 franchisees operating 340 franchise stores in 179 cities throughout the PRC, as compared to 152 franchisees and 312 franchise stores as at 30 June 2001.

Financial review

Net profit from ordinary activities attributable to shareholders of the Group for the year ended 30 June 2002 amounted to approximately HK$27.5 million, representing an increase of approximately 11.0% as compared to the pro forma combined net profit in last year. Since the listing of the shares of the Company on the GEM of the Stock Exchange on 1 February 2002, the Group had applied approximately HK$7.3 million of the listing proceeds for the development of new projects as stated in the prospectus of the Company dated 25 January 2002 (the "Prospectus"), of which HK$5.5 million was booked as expenses and has not yet contributed to the Group.

Overall gross profit margin has increased slightly by approximately 0.1% to 68.0% as compared with 67.9% recorded in the corresponding period last year. The increase was mainly due to the increase in the gross margin of the Group's main product line, Healthy Sleeping System, to 72.0% from 71.3% in last year. Overall gross profit margin for the other products containing BIOenergy® compound, including the newly launched ionised water apparatus, was approximately 41.5% as compared to approximately 52.2% achieved in the last financial year. The gross profit margin for the polypeptide products had also declined by approximately 15.0% from 67.7% in the corresponding period last year to 57.6% in this financial year.

Total turnover of the Group for the financial year ended 30 June 2002 amounted to approximately HK$96.0 million as compared to approximately HK$88.7 million recorded in the last financial year. The continuing increase in turnover was mainly attributable to the continuous growth in demand for our Healthy Sleeping System.

The above comparison is based on the pro forma combined profit and loss account of the Group for the year ended 30 June 2001 as set out in note 3 to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2002, the Group had a current ratio of approximately 4.0 as compared to that of 2.0 as at 30 June 2001.

As at 30 June 2002, the Group had no banking facilities other than the unsecured interest-bearing bank loan of approximately RMB1.8 million (approximately HK$1.7 million). The bank loan bears interest at rates ranging from 7.6% to 12.0% per annum and is repayable within one year. In July 2002, the Group has repaid this bank loan in full and did not have any outstanding borrowings.

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

The Group did not have any charges on its assets during the period reported. The gearing ratio of the Group, based on total bank loans to shareholders' equity, was approximately 2% as at 30 June 2002 (2001: 16%).

As at 30 June 2002, the Group had no contingent liabilities.

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

SIGNIFICANT INVESTMENT

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

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Other than transactions effected pursuant to the group reorganisation in preparation for the listing of the Company's shares on the GEM of the Stock Exchange on 1 February 2002, there were no material acquisitions or disposals of subsidiaries and affiliated companies during the year under review.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30 June 2002, the Group employed a total of 267 employees. Employees' cost (excluding directors' emoluments) amounted to approximately HK$9.9 million for the year. On 18 January 2002, the Company has conditionally adopted a share option scheme whereby eligible participants, including employees of the Group, may be granted share options to subscribe for shares in the Company for the purposes of recognizing their contribution to the Group and other entities in which the Group has interest in ("Invested Entity") and retaining them and attracting human resources that are valuable to the Group and the Invested Entity. No share option was granted or exercised during the year under review.

OUTLOOK AND FUTURE PROSPECTS

With the rapid economic growth in the PRC in the early 1990s, the growth of the healthcare products industry has accelerated. Based on the research report issued in April 2002 by the China Healthcare Science and Technology Association (中國保健科學技術學會), which is under the control of the MOH, the total production value of the healthcare products market is estimated to have increased from approximately RMB15 billion in 1996 to approximately RMB30 billion in 2000, representing an average annual compound growth rate of approximately 14.9%. The report anticipates that the total sales of the healthcare products market in the PRC will increase to RMB80 billion in the year 2005 and will reach RMB100 billion by the year 2010. Compared to the total global spending on healthcare products of about RMB3,147 billion in the year 2000, the Directors believe that the market for healthcare products in the PRC, with about 22% of the global population, has great potential for growth.

Taking into account the overall potential growth of the healthcare products market in the PRC, the Group's well-established brand name and its franchise distribution network, the Directors believe that the Group should continue its efforts in expanding its existing distribution network to capture the potential growth with a view to become a leading developer and distributor in the healthcare products industry in the PRC.

To achieve the above objective, the Group has adopted the following strategies for its business operations:

- **Enhancing existing products**

  The Group has continuously placed great emphasis on improving the quality and effectiveness of its existing products. The Directors believe that it is of utmost importance for the Group to continue to expand its market share.

- **Develop new BIOenergy® products**

  The Directors intend to leverage on the success of its existing products with BIOenergy® compound by launching new BIOenergy® products to the market upon completion of clinical tests. The Group has scheduled to launch two new lines of products which target for the ladies' market and the medical institutional market.

- **Widening the application of its BIOenergy® compound**

  The Directors believe that the Group's proprietary technology in the manufacture of BIOenergy® compound can have wide commercial applications and the Group will continue to devote its resources in exploring new commercial applications of the BIOenergy® compound. This is evidenced by the application of the BIOenergy® compound in its newly launched ionized water apparatus and the appointment of the Sports Science Research Institute to study the effects of products containing the BIOenergy® compound in facilitating recovery from fatigue after sporting events.

- **Continue to develop new polypeptide products**

  Following the acquisition of the technology in manufacturing albumin polypeptide, the Directors intend to expand the current product range of polypeptide utilising such technology. Moreover, the Directors also plan to expand and form strategic relationships with renowned academic and research institutions to jointly develop new polypeptide products. On 28 January 2002, the Group entered into a strategic alliance with the Polypeptide Laboratory to study the effects of Cordyceps Sinensis polypeptide.

- **Enhance the Group's distribution channels**

  The Directors intend to encourage the existing franchisees to increase their sales by opening additional franchise stores within their respective geographic regions. To achieve this objective, the Directors believe that the Group's relationships with its franchisees should be enhanced and the Group will continue to give product and staff training support to the franchisees. In addition, as part of the Group's product development plan, the Directors intend to enhance the Group's brand name, Vitop®, in the healthcare products industry through a series of promotional campaigns.

- **Enhance the Group's research and development capability**

  The Directors intend to enter into partnerships and other strategic relationships with scientific and academic institutions and renowned scientists and entrepreneurs in the PRC for developing new proprietary technology and enhancing its existing technology. Any such partnership, enterprise or strategic relationship will be undertaken in accordance with the Group's strategic and development needs. The Directors also intend to purchase proprietary rights of unique and innovative technologies from its strategic partners where it is in the interest of the Group to do so instead of developing its own technologies.

APPRECIATION

I would like to take this opportunity to express my gratitude to our management and staff for their dedication and contribution to the Group, and to thank our fellow business partners and shareholders for their continuing support. We will endeavour to explore every potential opportunity for business growth, creating a promising future and better results in the years ahead.

Hung Kai So
Chairman

Hong Kong, 17 September 2002

Review of Business Objectives

		Business objectives up to 30 June 2002 as stated in the Prospectus	Actual business progress up to 30 June 2002
1.	**Enhance existing products and develop new products**		
i.	*Enhance existing products*		
	• Nano metre technology	Trial production on applying the nano metre technology on its existing products	Trial production on applying the nano metre technology on the Group's existing products was completed and such products will be launched to the market in the second half of this year
	• Application of the BIOenergy® compound onto natural fibre	Testing on the effectiveness of natural fibre blended with the BIOenergy® compound	Further testing on the effectiveness of natural fibre blended with the BIOenergy® compound still in progress
ii.	*Develop new products*		
	• Woman's brassiere series	Soft launching for the first target market of middle-aged woman	Further product modification
	• Medical dressing	Soft launching of the products in selected medical institutions	Further product development in progress
	• Lingzhi/Cordyceps Sinensis compounding peptide	Improvement of products after clinical test	Application was submitted to the MOH for approval to launch the products
	• Lingzhi sleeping peptide	Commence the preparation in conducting research and development	Product development

	Business objectives up to 30 June 2002 as stated in the Prospectus	Actual business progress up to 30 June 2002
2. Enhance the Group's distribution channels		
• Enhance the franchise distribution network within the PRC	Establish regional sales and training centre in Nanjing and Chengdu	The first Vitop Health Technology Hall was opened in Chengdu and regional sales and training centres have been set up in Chengdu, Nanjing, Beijing and Guangzhou
• Customer relationship management ("CRM")/ franchisee relationship management ("FRM") system	Installation and implementation of the CRM/FRM system	Full launch of the CRM system and the installation of the FRM system are in progress
3. Enhance the Group's research and development capabilities		
• Strategic alliance	Conduct study on the products currently developed by potential strategic alliance	Formation of strategic alliance and long-term relationships with the Polypeptide Laboratory and the Sport Science Research Institute

Review of Business Objectives

USE OF NET PROCEEDS FROM THE PLACING

	Planned use of proceeds (up to 30 June 2002) as disclosed in the Prospectus *HK$'000*	Actual use of proceeds up to 30 June 2002 *HK$'000*
1. Enhance existing products and develop new products		
i. Enhance existing products		
• Nano metre grade BIOenergy® compound and natural fibre research	504.7	279.6
ii. Develop new products		
• Woman's brassiere series	1,009.3	22.3
• Medical dressing	1,056.1	–
• Lingzhi/Cordyceps Sinensis compounding peptide	2,046.7	1,062.6
• Lingzhi sleeping peptide	112.1	–
2. Enhance the Group's distribution channels		
• Enhance the franchise distribution network within the PRC	4,299.1	4,562.3
• CRM/FRM system	1,186.9	687.7
3. Enhance the Group's research and development capabilities		
• Strategic alliance	972.0	643.7
TOTAL	11,186.9	7,258.2

EXECUTIVE DIRECTORS

Mr. Hung Kai So (洪繼蘇), aged 59, 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 35 years of experience in the textile industry. Mr. Hung joined the Group as a director in February 1999.

Mr. Kam Ioi (金鋭), aged 46, 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 (淮陰師範專科學校) (presently known as Huaiyin Teachers College (淮陰師範學院)) and has over 25 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 36, 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 10 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-Iao Rakchanok (葉鈴), aged 34, is an executive director and compliance officer of the Company. Ms. Sae-Iao 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 44, is an executive director of the Company and the 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yuan Tsu I (袁祖怡), aged 54, 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 20 years of experience in the raw cotton product trading industry.

Mr. Huang Ming Da (**黃明達**), aged 38, 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).

SENIOR MANAGEMENT

Ms. Zheng Feng Hua (**鄭鳳華**), age 42, is an assistant general manager of Zhuhai Bioenergy. Ms. Zheng is mainly responsible for the sales and marketing coordination of the bioactivities of the Group. She graduated from East China Institute of Textile Science and Technology (華東紡織工學院) in 1982 after completing a four-year course in Textile Dyeing. Prior to joining the Group in April 1996, she had over 19 years of experience in the textile and dyeing industry.

Mr. Li Feng (**李峰**), aged 39, is an assistant general manager, sales and marketing controller and customer relationship management controller of Zhuhai Bioenergy. Mr. Li is responsible for the sales and marketing coordination of the Group. He graduated from the School of Clinical Medical Treatment of Jiangxi Medical College (江西醫學院) in 1986 and the School of Business Management of Universite de Poitiers (法國普瓦提埃大學) with a Master degree in Business Administration in 2001. Prior to joining the Group in May 2002, he had over 16 years of experience in sales management.

Mr. Wei Qing Wen (**魏清文**), aged 33, is an assistant general manager and the head of information management of Zhuhai Bioenergy. Mr. Wei is responsible for the information release and act as the feedback communication channel of the Group. He is also responsible for the information technology support, service management and business information of the Group. He graduated from The Fourth Military Medical University (第四軍醫大學) in 1990. Prior to joining the Group in August 2001, he had over 11 years of experience in medical health and information.

Mr. Lau Hin Hung (劉顯鴻), aged 36, is the financial controller and company secretary of the Group and is responsible for the financial planning and control of the Group. Mr. Lau graduated from Lingnan University (previously named as Lingnan College) in Hong Kong with a Honor Diploma in Accountancy. He has over 15 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 an associate member of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants.

Mr. Huang Kai Ming (黃開明), aged 36, is an assistant general manager and the financial controller of Zhuhai Bioenergy. Mr. Huang is responsible for the overall financial management of Zhuhai Bioenergy. He graduated from the School of Accounting of Zhongnan University of Economics and Finance (中南財經大學) (presently known as Zhongnan University of Economics and Law (中南財經政法大學)) in 1993 major in accounting. Prior to joining the Group in March 2002, he had over 9 years of experience in financial management and worked as a director and deputy financial controller in The Guangdong Regency Hotel, Zhuhai (珠海粵海酒店) where he was responsible for the overall financial management of the hotel.

Mr. Tang Kun Lun (唐昆侖), aged 37, is a business assistant general manager and the 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 China Textile University (中國紡織大學) (presently known as Dong Hua University (東華大學)) 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.

Mr. Zhao Jin Long (趙金龍), aged 38, is an assistant general manager and the human resources controller of Zhuhai Bioenergy. Mr. Zhao is responsible for the management of the development of human resources and the administration of the Group. He graduated from the School of Resources and Environmental Science of East China Normal University (華東師範大學) in 1987 with a Bachelor degree major in geology. Prior to joining the Group in March 2002, he had over 4 years of experience in administration and human resources management.

Directors' Report

The directors present their first annual 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 2002.

GROUP REORGANISATION, SUBSIDIARIES AND BASIS OF PRESENTATION

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. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group on 18 January 2002, including Vitop Bioenergy Limited ("Vitop Bioenergy") and Vitop Bioenergy Science and Technology Co., Ltd. ("Zhuhai Bioenergy"). This was accomplished by the Company acquiring the entire issued share capital of Vitop Bioenergy, the then holding company of Zhuhai Bioenergy, in consideration of and in exchange for the Company's allotted and issued share capital. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto as well as the basis of presentation of the financial statements are set out in notes 1, 3, 15 and 20 to the financial statements and are set out in the prospectus of the Company dated 25 January 2002 issued in respect of the listing of the Company's shares on the GEM of the Stock Exchange.

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.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and by geographical area of operations for the year ended 30 June 2002 is set out in note 4 to the financial statements.

LISTING

On 1 February 2002, the shares of the Company was successfully listed on the GEM of the Stock Exchange by way of placing of 98,000,000 new shares and 65,000,000 sale shares at an issue price of HK$0.31 per share to professional and institutional investors. Due to the encouraging response to the offer, UOB Asia (Hong Kong) Limited ("UOB Asia"), the sponsor to the Company, exercised the over-allotment option by allotting an additional 16,300,000 shares of the Company at HK$0.31 per share. The Group raised a total of approximately HK$27 million, net of related expenses, through the placing.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 June 2002 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 30 to 67.

During the year, an interim dividend of HK$5,000,000 was paid by a wholly-owned subsidiary of the Company to its then shareholders prior to the completion of the Group Reorganisation as further explained in note 1 to the financial statements.

The directors of the Company recommend the payment of a final dividend of HK$0.01 per ordinary share in respect of the year, to the shareholders of the Company on the register of members on 24 October 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 11 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results for the last two financial years and of the assets and liabilities of the Group at end of the last two financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 68 of the annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

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

INTANGIBLE ASSETS

Details of the movements in the Group's intangible assets during the year are set out in note 14 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 15 to the financial statements.

BANK LOAN

Details of the Group's bank loan are set out in note 19 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital since its incorporation on 15 February 2001 and up to the balance sheet date, together with the reasons therefor, and details of the Company's share option scheme are set out in note 20 to the financial statements.

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 period from 1 February 2002 (being the date of listing of the Company's shares on the GEM of the Stock Exchange) to 30 June 2002, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's listed securities.

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 21 to the financial statements.

DISTRIBUTABLE RESERVES

At as 30 June 2002, 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$57,034,000. This includes the Company's share premium account, in the amount of approximately HK$50,263,000 at 30 June 2002, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 34.8% of the total sales for the year and sales to the largest customer included therein amounted to 14.1%. Purchases from the Group's five largest suppliers accounted for 66.8% of the total purchases for the year and purchases from the largest supplier included therein amounted to 32.7%.

To the best knowledge of the directors, neither the directors, their respective associates, nor any shareholders who owned more than 5% 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 for the year were as follows:

Executive directors

Mr. Hung Kai So	(appointed on 23 February 2001)
Mr. Kam Ioi	(appointed on 23 February 2001)
Mr. Ma Yufeng	(appointed on 23 February 2001)
Ms. Sae-lao Rakchanok	(appointed on 23 February 2001)
Mr. Ko Chung Ting, Peter	(appointed on 23 February 2001 and resigned on 28 September 2001)

Independent non-executive directors

Mr. Yuan Tsu I	(appointed on 31 May 2001)
Mr. Huang Ming Da	(appointed on 30 June 2001)

In accordance with article 86(3) of the Company's articles of association, the directors of the Company, including the independent non-executive directors, will hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election at the meeting.

DIRECTORS *(continued)*

Subsequent to the balance sheet date, Mr. Liu Jun was appointed as an executive director of the Company on 25 July 2002. In accordance with article 86(3) of the Company's articles of association, Mr. Liu Jun will hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election at the meeting.

Each of the independent non-executive directors has been appointed for a term of one year expiring on 17 January 2003.

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 page 15 to 17 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Hung Kai So, Mr. Kam Ioi, Mr. Ma Yufeng and Ms. Sae-lao Rakchanok, all of whom are executive directors, has entered into a director's service agreement with the Company for an initial term of three years commencing from 18 January 2002, which thereafter will continue for a period of one year unless otherwise terminated by either party to the service contract by serving to the other not less than six months' written notice or by making payment in lieu of such notice. The earliest possible time for sending a six months' written notice to terminate such appointment by either party to the other is no earlier than the first anniversary date of the listing of the Company's shares on the GEM of the Stock Exchange.

No director's service agreement was entered into with Mr. Liu Jun, who was appointed as an executive director of the Company on 25 July 2002.

Save as disclosed above, no other 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

Other than in connection with the Group Reorganisation and the listing of the Company's shares on the GEM of the Stock Exchange by way of placing, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2002, the interests of the directors and their respective associates in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Name of director	Type of interest	Number of ordinary shares of the Company held
Mr. Hung Kai So	Personal	131,759,529
Mr. Kam Ioi	Personal	108,231,043
Mr. Ma Yufeng	Personal	88,467,115
Ms. Sae-lao Rakchanok	Personal	47,056,975

Save as disclosed above, none of the directors or their respective associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the share option scheme (the "Option Scheme") adopted by the Company on 18 January 2002, conditional upon the listing of the Company's shares on the GEM of the Stock Exchange, the board of directors of the Company is authorised at its absolute discretion to grant options to eligible participants to subscribe for the shares in the Company. Further details of the Option Scheme are set out in the section "Share option scheme" below and note 20 to the financial statements. The Option Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 1 February 2002. As at the date of this report, no options have been granted to any eligible participants under the Option Scheme.

Apart from the transactions related to the Group Reorganisation, as disclosed above, and the transactions disclosed under the section "Share option scheme" below, at no time since the Company's incorporation were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates the Option Scheme for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. Eligible participants of the Option Scheme include the Company's directors, including non-executive directors, any employees or proposed employees (whether full time or part time) of the Group or any entity in which the Group holds any equity interest ("Invested Entity"), any supplier of the Group or any Invested Entity, any customer of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity, or any shareholder of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity. The Option Scheme became effective on 1 February 2002 (the date of commencement of the trading in the Company's shares on the GEM of the Stock Exchange) and, unless otherwise cancelled or amended, remains in force for 10 years from 18 January 2002.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date of the listing of the Company's shares on the GEM of the Stock Exchange taking into account any shares allotted and issued pursuant to the over-allotment option. The maximum number of shares issuable under the share options to each eligible participant in the Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue as at the date the offer of grant of option was made to the eligible participants. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the 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 to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the official closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised in accordance with the terms of the Option Scheme at any time during the period commencing from the date on which the option is deemed to be granted and accepted, and expiring on a date to be determined by the directors, which shall not be more than 10 years from the date on which the option is deemed to be granted and accepted. There is no minimum holding period before an option may be exercised.

SHARE OPTION SCHEME *(continued)*

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

No options have been granted by the Company since the date of approval of the Option Scheme on 18 January 2002.

SUBSTANTIAL SHAREHOLDERS

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

Name	Number of ordinary shares held	Percentage of issued share capital
Mr. Hung Kai So	131,759,529	19.8%
Mr. Kam Ioi	108,231,043	16.2%
Mr. Ma Yufeng	88,467,115	13.3%

These shareholdings are also disclosed in the "Directors' interests in share capital" section above.

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

RELATED PARTY AND CONNECTED TRANSACTIONS

Details of the significant related party and connected transactions of the Group are set out in note 25 to the financial statements.

Pursuant to an agreement dated 26 October 2000 between Zhuhai Bioenergy, a subsidiary of the Company, and Zhuhai Vitop Hi-Tech International Industrial Co., Ltd. ("Zhuhai Vitop"), a former subsidiary of the Company which was disposed of by the Group on 30 June 2001, Zhuhai Vitop granted to Zhuhai Bioenergy a lease over an area of approximately 15,057.07 square metres, which comprised of industrial premises at No. 240, 244 and 246 Gangchang Road, Gongbei and 39 residential units located at Fei Cui Shan Zhuang, Nan Ping, Zhuhai SEZ, Guangdong Province, the People's Republic of China (the "Properties") from 1 January 2001 to 31 December 2005.

A rental of RMB200,000 per month (inclusive of all taxes and fees (including land use fees) payable to the relevant government authorities but exclusive of water charges, electricity charges and telecommunication charges) is payable by Zhuhai Bioenergy.

The aggregate rental paid by the Group for the Properties for the year ended 30 June 2002 amounted to RMB2,400,000 (approximately HK$2,243,000).

The above transaction entered into by the Group constitutes a continuing connected transaction under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). The Stock Exchange, on application by the Company, has granted to the Company a waiver from strict compliance with the connected transaction requirements as set out in the GEM Listing Rules.

The independent non-executive directors of the Company have reviewed and confirmed that the non-exempted continuing connected transaction has been entered into:

(a) in the ordinary and usual course of business of the relevant members of the Group;

(b) either on normal commercial terms or if there are not sufficient comparable transactions to judge whether it is on normal commercial terms or terms no less favourable than terms available to or from independent third parties; and

RELATED PARTY AND CONNECTED TRANSACTIONS *(continued)*

(c) in accordance with the terms of the agreement governing such transaction and on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, has reviewed the terms of the above lease agreement and has confirmed to the directors that the fair market rental value of the Properties is in the region of RMB200,000 per month exclusive of management fee and other utility charges.

In the opinion of the independent non-executive directors of the Company, the rental payable by the Group was determined by reference to comparable market rental and is fair and reasonable and the terms of this lease is at arm's length and on normal commercial terms.

COMPETITION AND CONFLICT OF INTERESTS

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

SPONSORS' INTERESTS

Pursuant to the agreement dated 24 January 2002 entered into between the Company and UOB Asia, UOB Asia will act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period commencing from 1 February 2002 to 30 June 2004.

UOB Asia nor its directors, employees or associates had any interests in any class of securities of the Company or any other company in the Group (including options or right to subscribe for such securities) as of the date of this report.

AUDIT COMMITTEE

An audit committee was established on 18 January 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee has two members, namely Mr. Yuan Tsu I and Mr. Huang Ming Da, both of whom are independent non-executive directors of the Company, and Mr. Yuan Tsu I is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's annual reports and accounts, and half yearly and quarterly reports. The audit committee has met three times since its establishment.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM of the Stock Exchange on 1 February 2002.

AUDITORS

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

ON BEHALF OF THE BOARD

Hung Kai So
Chairman

Hong Kong
17 September 2002

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 30 to 67 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 statements and to report our opinion to you.

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 2002 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
17 September 2002

Consolidated Profit and Loss Account

Year ended 30 June 2002

	Notes	2002 HK$'000	2001 HK$'000
TURNOVER	5	**96,031**	88,660
Cost of sales		**(30,701)**	(28,497)
Gross profit		**65,330**	60,163
Other revenue		**1,943**	1,079
Distribution costs		**(20,779)**	(17,877)
Administrative expenses		**(16,672)**	(13,242)
Other operating expenses		**(2,065)**	(2,630)
Loss on disposal of subsidiaries arising from the Group Reorganisation	3	**–**	(10,206)
PROFIT FROM OPERATING ACTIVITIES	6	**27,757**	17,287
Finance costs	8	**(274)**	(3,529)
PROFIT BEFORE TAX		**27,483**	13,758
Tax	9	**–**	(2,359)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	**27,483**	11,399
DIVIDENDS	11	**11,663**	–
EARNINGS PER SHARE – Basic	12	**HK4.59 cents**	HK2.07 cents

Other than the net profit from ordinary activities attributable to shareholders, the Group had no recognised gains or losses. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.

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Consolidated Balance Sheet

30 June 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**11,852**	9,569
Intangible assets	14	**2,621**	2,651
		14,473	12,220
CURRENT ASSETS			
Accounts receivable	16	**12,706**	11,153
Inventories	17	**17,632**	11,030
Deposits, prepayments and other receivables		**5,041**	8,109
Cash and bank balances		**49,968**	11,695
		85,347	41,987
CURRENT LIABILITIES			
Accounts payable	18	**4,360**	4,635
Accrued liabilities and other payables		**7,616**	7,840
Trade deposits received		**7,943**	8,107
Due to related parties	25	**–**	363
Interest-bearing bank loan, unsecured	19	**1,673**	–
		21,592	20,945
NET CURRENT ASSETS		**63,755**	21,042
TOTAL ASSETS LESS CURRENT LIABILITIES		**78,228**	33,262
NON-CURRENT LIABILITY			
Interest-bearing bank loan, unsecured	19	**–**	4,486
		78,228	28,776
CAPITAL AND RESERVES			
Issued capital	20	**16,658**	13,800
Reserves	21	**54,907**	14,976
Proposed final dividend	11	**6,663**	–
		78,228	28,776

Kam Ioi
Director

Sae-Iao Rakchanok
Director

Consolidated Cash Flow Statement

Year ended 30 June 2002

	Notes	2002 HK$'000	2001 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	22(a)	**23,907**	20,747
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**245**	63
Interest paid		**(274)**	(3,529)
Dividends paid		**(5,000)**	–
Net cash outflow from returns on investments and servicing of finance		**(5,029)**	(3,466)
TAX			
Taxes paid		**–**	(2,639)
INVESTING ACTIVITIES			
Purchases of fixed assets		**(4,548)**	(4,693)
Proceeds from disposal of subsidiaries	22(b)	**–**	(551)
Proceeds from disposal of fixed assets		**161**	728
Additions of intangible assets		**(374)**	(327)
Net cash outflow from investing activities		**(4,761)**	(4,843)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		**14,117**	9,799
FINANCING ACTIVITIES	22(d)		
Proceeds from issue of share capital		**35,433**	–
Share issue expenses		**(8,464)**	–
Drawdown of other loans		**–**	792
Drawdown of bank loans		**–**	2,430
Repayment of other loans		**–**	(3,224)
Repayment of bank loans		**(2,813)**	(5,365)
Net cash inflow/(outflow) from financing activities		**24,156**	(5,367)
INCREASE IN CASH AND CASH EQUIVALENTS		**38,273**	4,432
Cash and cash equivalents at beginning of year		**11,695**	7,263
CASH AND CASH EQUIVALENTS AT END OF YEAR		**49,968**	11,695
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**49,968**	11,695

Balance Sheet

30 June 2002

	Notes	2002 HK$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	15	66,353
CURRENT ASSETS		
Deposits, prepayments and other receivables		115
Dividend receivable		8,000
Cash and bank balances		29
		8,144
CURRENT LIABILITIES		
Accrued liabilities and other payables		805
NET CURRENT ASSETS		7,339
		73,692
CAPITAL AND RESERVES		
Issued capital	20	16,658
Reserves	21	50,371
Proposed final dividend	11	6,663
		73,692

Kam Ioi
Director

Sae-Iao Rakchanok
Director

1. GROUP REORGANISATION AND 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. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group on 18 January 2002, including Vitop Bioenergy Limited ("Vitop Bioenergy") and Vitop Bioenergy Science and Technology Co., Ltd. ("Zhuhai Bioenergy"). This was accomplished by the Company acquiring the entire issued share capital of Vitop Bioenergy, the then holding company of Zhuhai Bioenergy, in consideration of and in exchange for the Company's allotted and issued share capital.

Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 3, 15 and 20 to the financial statements and in the Company's prospectus dated 25 January 2002 (the "Prospectus") issued in respect of the listing of the Company's shares on the GEM of the Stock Exchange. The shares of the Company were listed on the GEM of the Stock Exchange on 1 February 2002.

During the year, the Group was principally engaged in 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 recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

• SSAP 9 (Revised):	"Events after the balance sheet date"
• SSAP 14 (Revised):	"Leases"
• SSAP 18 (Revised):	"Revenue"
• SSAP 26:	"Segment reporting"
• SSAP 28:	"Provisions, contingent liabilities and contingent assets"
• SSAP 29:	"Intangible assets"
• SSAP 30:	"Business combinations"
• SSAP 31:	"Impairment of assets"
• SSAP 32:	"Consolidated financial statements and accounting for investments in subsidiaries"
• Interpretation 12:	"Business combinations – subsequent adjustment of fair values and goodwill initially reported"
• Interpretation 13:	"Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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 those SSAPs and Interpretations which have had a significant effect on the financial statements are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a current liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 23 to the financial statements.

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

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This SSAP requires the provisions to be discounted to their present value at the balance sheet date, where the effect of discounting is material. This SSAP has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This SSAP has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

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.

Basis of presentation and consolidation

The Group's financial statements are presented using the following bases:

i. The Group Reorganisation involved companies under common control. The consolidated financial statements 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 years ended 30 June 2001 and 2002 include the results and cash flows of the Company and its subsidiaries with effect from 1 July 2000 or since their respective dates of incorporation/establishment by the Group, where this is a shorter period. The comparative balance sheet of the Group as at 30 June 2001 has been prepared on the basis that the Group had been in existence at that date.

   The Company was incorporated on 15 February 2001 with one subscriber share of HK$0.10 issued nil paid. During the period from 15 February 2001 (date of incorporation) to 30 June 2001, the Company remained dormant, accordingly no comparative amounts are presented in respect of the Company's balance sheet at 30 June 2001.

ii. Pursuant to the Group Reorganisation, certain assets and liabilities, including ongoing business concerns and intellectual property rights, but excluding all real properties and those bank and other loans not related to the ongoing business (the "Business") of Vitop Hi-Tech International Industrial Co., Ltd. ("Zhuhai Vitop"), a former subsidiary of the Group, were transferred to Zhuhai Bioenergy, a subsidiary of the Group, with effect from 31 December 2000 (the "Transfer") for a consideration of approximately RMB22,316,000, which was determined by reference to the net asset position of the Business of Zhuhai Vitop as at 30 November 2000.

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

Basis of presentation and consolidation *(continued)*

ii. Zhuhai Vitop is a company established under the laws of Mainland of the PRC with limited liability, and was principally engaged in the manufacturing and trading of healthcare bedding, underclothing and other health products. Zhuhai Vitop discontinued its activities of the manufacturing and trading of healthcare bedding, underclothing and other health products with effect from the date of the Transfer. Shenzhen Tong Wei Development Co., Ltd. ("Shenzhen Tongwei"), the immediate holding company of Zhuhai Vitop and a former subsidiary of the Group, is a company established in the PRC with limited liability which was principally engaged in investment holding activity.

Pursuant to the Group Reorganisation, Shenzhen Tongwei together with Zhuhai Vitop were disposed of by the Group for a consideration of RMB1, resulting in a loss on disposal of approximately HK$10,206,000, and the disposal was completed on 30 June 2001. Further details of the disposal of Shenzhen Tongwei and Zhuhai Vitop are set out in note 22(b) to the financial statements.

The following pro forma combined profit and loss account for the year ended 30 June 2001 ("Pro Forma Results") includes the results of the Company and its subsidiaries with effect from 1 July 2000 or since their respective dates of incorporation/establishment by the Group, where this is a shorter period, on a combined basis as if the current Group structure had been in existence throughout the year ended 30 June 2001 but after adjustment for the Business of Zhuhai Vitop on a carve out combined basis as if the Business had been transferred to the Group from Zhuhai Vitop with effect from 1 July 2000. Likewise, the results of Shenzhen Tongwei and Zhuhai Vitop other than the Business have been excluded from the Pro Forma Results as if the disposal of these former subsidiaries had been completed with effect from 1 July 2000.

The above pro forma basis of presentation has been adopted for the preparation of the accountants' report included in the Prospectus.

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

Basis of presentation and consolidation *(continued)*

ii. The following is the Pro Forma Results of the Group for the year ended 30 June 2001:

	Note	2001 *HK$'000*
TURNOVER		88,660
Cost of sales		(28,497)
Gross profit		60,163
Other revenue		1,079
Distribution costs		(17,877)
Administrative expenses		(13,152)
Other operating expenses		(2,630)
PROFIT FROM OPERATING ACTIVITIES		27,583
Finance costs		(473)
PROFIT BEFORE TAX		27,110
Tax		(2,359)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		24,751
DIVIDENDS		1,682
EARNINGS PER SHARE – Basic	*12*	HK4.48 cents

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

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

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:

(i) the 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;

(ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(iii) rental income, on a time proportion basis over the lease terms; and

(iv) dividends, when the shareholders' right to receive payment has been established.

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

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

Fixed assets and depreciation *(continued)*

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 the estimated useful lives of the patents of not exceeding ten years or over the periods up to the date of the subsequent renewal of the patent, whichever is shorter.

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

Research and development costs

All research costs are charged to the profit and loss accout 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 commerical production or use.

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

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.

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 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.

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

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.

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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in 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.

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 until its realisation is assured beyond reasonable doubt.

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

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Retirement Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Retirement Scheme. The Retirement Scheme has operated since 1 December 2000. 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 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 the 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.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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.

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

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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 other business segments. Summary details of the business segments are as follows:

(a) the "Healthy sleeping system" segment consists of manufacturing and trading of bedding products containing the BIOenergy® compound;

(b) the "Other BIOenergy® products" segment consists of the manufacturing and trading of underclothing, body protection accessories containing the BIOenergy® compound;

(c) the "Polypeptide products" segment consists of the manufacturing and trading of polypeptide products; and

(d) the "Ionised water apparatus" segment consists of trading of the ionised water apparatus containing the BIOenergy® compound.

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

4. SEGMENT INFORMATION

(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		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***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	80,784	60,814	**6,273**	13,076	**4,963**	14,770	**4,011**	–	**–**	–	**96,031**	88,660
Segment results	**38,188**	30,399	**1,655**	3,828	**1,570**	6,970	**1,457**	–	**–**	–	**42,870**	41,197
Unallocated other revenue											**1,943**	1,079
Unallocated expenses											**(17,056)**	(24,989)
Profit from operating activities											**27,757**	17,287
Finance costs											**(274)**	(3,529)
Profit before tax											**27,483**	13,758
Tax											**–**	(2,359)
Net profit from ordinary activities attributable to shareholders											**27,483**	11,399

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Healthy sleeping system		Other BIOenergy® products		Polypeptide products		Ionised water apparatus		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**12,569**	7,993	**4,285**	2,070	**3,182**	3,618	**388**	–	**–**	–	**20,424**	13,681
Unallocated assets											**79,396**	40,526
Total assets											**99,820**	54,207
Unallocated liabilities											**21,592**	25,431
Total liabilities											**21,592**	25,431
Other segment information:												
Unallocated depreciation of fixed assets											**2,024**	2,619
Amortisation of intangible assets	**106**	109	**84**	56	**214**	46	**–**	–	**–**	–	**404**	211
Capital expenditure	**–**	–	**–**	–	**374**	327	**–**	–	**–**	–	**374**	327
Unallocated amounts											**4,548**	4,693
											4,922	5,020
Provision for obsolete and slow-moving inventories and inventories written-off	**839**	566	**348**	242	**14**	–	**–**	–	**–**	–	**1,201**	808
Unallocated provision for doubtful debts and bad debt expenses											**380**	1,403

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

No further analysis of geographical segment information is presented as the Group's operation and market is located in the PRC.

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.

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2002	2001
	HK$'000	HK$'000
Auditors' remuneration	**400**	158
Cost of inventories sold	**30,701**	28,497
Staff costs (excluding directors' remuneration *(Note 7)*)		
Wages and salaries	**9,708**	5,066
Pension scheme contributions	**245**	124
	9,953	5,190
Depreciation of fixed assets	**2,024**	2,619
Amortisation of intangible assets	**404**	211
Minimum lease payments under operating leases on land and building	**2,737**	92
Provision for doubtful debts and bad debt expenses	**380**	1,403
Provision for obsolete and slow-moving inventories and inventories written off	**1,201**	808
Loss on disposal of fixed assets	**80**	208
Interest income	**(245)**	(63)

7. DIRECTORS'/EMPLOYEES' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Fees	**100**	–
Other emoluments		
Salaries, allowances and benefits in kind	**1,730**	2,281
Discretionary bonuses	**1,060**	–
Pension scheme contributions	**27**	16
	2,817	2,297

There were five executive directors of the Company who received individual emoluments of approximately HK$873,000 (2001: HK$670,000), HK$541,000 (2001: HK$490,000), HK$200,000 (2001: HK$130,000), HK$1,153,000 (HK$762,000) and HK$50,000 (2001: HK$245,000), respectively, for the year ended 30 June 2002. There were two independent non-executive directors of the Company each received fees of approximately HK$50,000 (2001: Nil) and HK$50,000 (2001: Nil), respectively, for the year ended 30 June 2002.

The five highest paid individuals during the year included three (2001: three) directors, details of their remuneration have been disclosed above. Details of the remuneration of the remaining two (2001: two) non-director, highest paid individuals are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**784**	803
Discretionary bonuses	**–**	–
Pension scheme contributions	**14**	10
	798	813

7. DIRECTORS'/EMPLOYEES' REMUNERATION *(continued)*

The remuneration of the two (2001: two) non-director, highest paid individuals fell within the nil to HK$1,000,000 band. These non-director, highest paid individuals during the year received remuneration of HK$460,000 (2001: HK$395,000) and HK$338,000 (2001: HK$418,000).

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. No directors waived any remuneration during the year.

8. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank loan wholly repayable within five years	**274**	3,529

9. TAX

	Group	
	2002	2001
	HK$'000	*HK$'000*
PRC	–	2,359
Hong Kong	–	–
Tax charge for the year	–	2,359

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2001: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the year.

9. TAX *(continued)*

In accordance with the applicable corporate income tax law of the PRC, Zhuhai Bioenergy, a subsidiary of the Company operating in the PRC, is exempt from corporate income tax for the first two profitable calendar years of operations and is entitled to a 50% relief on corporate income tax for the following three years. The two years' tax exemption period for Zhuhai Bioenergy commenced in the tax year ended 31 December 2001 under the local jurisdiction.

During the year ended 30 June 2001, Zhuhai Vitop, a former subsidiary of the Group which was established in the special economic zone of Zhuhai in the PRC with limited liability and which was disposed of by the Group during the year ended 30 June 2001, was subject to PRC corporate income tax on its assessable profits at a rate of 15% as approved by the relevant tax authority.

As at 30 June 2002, the Group and the Company did not have any significant unprovided deferred tax liabilities (2001: 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 2002 amounted to approximately HK$6,771,000 (period from 15 February 2001 (date of incorporation) to 30 June 2001: Nil).

11. DIVIDENDS

	2002	2001
	HK$'000	*HK$'000*
Interim:		
Vitop Bioenergy	**5,000**	–
Proposed final:		
The Company – HK1 cent (2001: Nil) per ordinary share	**6,663**	–
	11,663	–

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

11. DIVIDENDS *(continued)*

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date" as detailed in note 2 to the financial statements. The effect of this change in accounting policy as at 30 June 2001, is that the current year's proposed final dividend of HK$6,663,000 has been included in the proposed dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

The interim dividend for the year ended 30 June 2002 was paid by Vitop Bioenergy to its then shareholders prior to the Group Reorganisation as set out in notes 1, 3 and 21 to the financial statements.

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 2002 of approximately HK$27,483,000 (2001: HK$11,399,000) and the weighted average of 599,062,466 (2001: 552,000,000) shares in issue during the year.

For information purpose only, the calculation of pro forma basic earnings per share as set out in note 3 to the financial statements is based on the pro forma net profit from ordinary activities attributable to shareholders for the year ended 30 June 2001 of approximately HK$24,751,000 and the weighted average of 552,000,000 shares in issue during that year.

There were no potential dilutive ordinary shares in existence for the years ended 30 June 2002 and 2001, and accordingly, no diluted earnings per share have been presented.

13. FIXED ASSETS

Group

	Leasehold improvements	Machinery and equipment	Furniture and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At beginning of year	2,318	2,990	7,438	2,063	14,809
Additions	942	6	3,217	383	4,548
Disposals	–	–	(632)	(101)	(733)
At 30 June 2002	3,260	2,996	10,023	2,345	18,624
Accumulated depreciation:					
At beginning of year	330	1,316	2,655	939	5,240
Provided during the year	506	249	1,008	261	2,024
Written back on disposals	–	–	(446)	(46)	(492)
At 30 June 2002	836	1,565	3,217	1,154	6,772
Net book value:					
At 30 June 2002	2,424	1,431	6,806	1,191	11,852
At 30 June 2001	1,988	1,674	4,783	1,124	9,569

14. INTANGIBLE ASSETS

Group

	Patents and technical know-how HK$'000	Deferred development costs HK$'000	Total HK$'000
Costs:			
At beginning of year	1,262	1,822	3,084
Additions	47	327	374
At 30 June 2002	1,309	2,149	3,458
Accumulated amortisaion:			
At beginning of year	387	46	433
Provided during the year	189	215	404
At 30 June 2002	576	261	837
Net book value:			
At 30 June 2002	733	1,888	2,621
At 30 June 2001	875	1,776	2,651

15. INTERESTS IN SUBSIDIARIES

Company

	2002 ***HK$'000***
Unlisted shares, at cost	**39,952**
Due from subsidiaries	**28,080**
Due to subsidiaries	**(1,679)**
	66,353

15. INTERESTS IN SUBSIDIARIES *(continued)*

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

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ establishment and operations	Paid-up capital/ registered capital	Percentage of equity attributable to the Group Direct	Indirect	Principal activities
Vitop Bioenergy	The 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 ("Vitop Franchise") (formerly known as Recycle Ribbon Limited)	BVI	US$1	100%	–	Dormant

During the year, the Company acquired the entire interest in Vitop Franchise at par value from an independent third party for a consideration of US$1 (approximately HK$8). Vitop Franchise has not commenced operations and remained dormant since its incorporation.

16. ACCOUNTS RECEIVABLE

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Outstanding balances aged:		
Within 30 days	**5,901**	7,236
Between 31 to 60 days	**3,373**	1,133
Between 61 to 180 days	**3,398**	2,752
Over 180 days	**34**	259
	12,706	11,380
Less: Provision for doubtful debts	**–**	(227)
	12,706	11,153

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

17. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**6,779**	3,701
Work in progress	**4,713**	3,624
Finished goods	**6,994**	4,699
	18,486	12,024
Less: Provision for obsolete and slow-moving inventories	**(854)**	(994)
	17,632	11,030

As at 30 June 2002, no inventories were stated at net realisable value (2001: Nil).

18. ACCOUNTS PAYABLE

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Outstanding balances aged:		
Within 30 days	**1,554**	2,883
Between 31 to 60 days	**1,521**	555
Between 61 to 180 days	**1,035**	330
Over 180 days	**250**	867
	4,360	4,635

19. INTEREST-BEARING BANK LOAN, UNSECURED

	Group	
	2002	2001
	HK$'000	*HK$'000*
Bank loan, unsecured and repayable:		
Within one year	**1,673**	–
In the second year	**–**	4,486
	1,673	4,486
Portion classified as current liabilities	**(1,673)**	–
Long term portion	**–**	4,486

The bank loan is supported by a corporate guarantee executed by 珠海經濟特區珠光公司, bears interest at rates ranging from 7.6% to 12% per annum and is repayable within one year. Subsequent to the balance sheet date, the bank loan was repaid in full in July 2002.

20. SHARE CAPITAL

Company

	2002
	HK$'000
Authorised:	
20,000,000,000 ordinary shares of HK$0.025 each	500,000
Issued and fully paid:	
666,300,000 ordinary shares of HK$0.025 each	16,658

The following changes in the Company's authorised and issued share capital took place during the period from 15 February 2001 (date of incorporation) to 30 June 2002:

(a) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.10 each. One subscriber share of the Company of HK$0.10 was issued nil paid on 23 February 2001.

(b) On 18 January 2002, each of the issued and unissued shares of HK$0.10 each in the share capital of the Company was sub-divided into four shares of HK$0.025 each.

(c) On 18 January 2002, the authorised share capital of the Company was increased from HK$100,000, divided into 4,000,000 shares of HK$0.025 each, to HK$500,000,000, divided into 20,000,000,000 shares of HK$0.025 each, by the creation of an additional 19,996,000,000 new shares.

(d) On 18 January 2002, the Company acquired the entire issued capital of Vitop Bioenergy in consideration for the issue and allotment of 551,999,996 shares of the Company of HK$0.025 each to the ultimate shareholders of Vitop Bioenergy, and credited as fully paid at par the four shares of the Company allotted and issued nil paid as set out in (a) and (b) above.

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

20. SHARE CAPITAL *(continued)*

(f) Pursuant to the exercise of the over-allotment option granted by the Company to UOB Asia (Hong Kong) Limited on 1 February 2002 in connection with the listing of the Company's shares on the GEM of the Stock Exchange, the Company further issued 16,300,000 shares of the Company of HK$0.025 each at HK$0.31 each, for a total cash consideration of HK$5,053,000 before the related issuing expenses.

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

	Notes	Number of authorised shares	Number of issued shares	Nominal value of issued shares *HK$'000*
On incorporation	*(a)*	1,000,000	1	–
Sub-division of each share into four shares	*(b)*	3,000,000	3	–
Increase in authorised share capital	*(c)*	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 as set out in (a) and (b) above	*(d)*	–	551,999,996	13,800
New issue on public listing	*(e)*	–	98,000,000	2,450
Exercise of over-allotment option	*(f)*	–	16,300,000	408
At 30 June 2002		20,000,000,000	666,300,000	16,658

Share option scheme

The Company operates a share option scheme (the "Option Scheme"), further details of which are set out under the heading "Share option scheme" in the Directors' Report.

No share options have been granted under the Option Scheme since the approval of the Option Scheme by the Company on 18 January 2002.

21. RESERVES

Group

	Share premium account HK$'000	Goodwill reserve HK$'000	Staff welfare reserve HK$'000	Statutory reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 July 2000	7,201	(25,180)	–	–	(2,926)	(20,905)
Profit for the year	–	–	–	–	11,399	11,399
Transfer to statutory reserve	–	–	–	1,447	(1,447)	-
Transfer to staff welfare reserve	–	–	698	–	(698)	–
Disposal of subsidiaries	–	25,180	(698)	–	–	24,482
At 30 June 2001 and 1 July 2001	7,201	–	–	1,447	6,328	14,976
Issue of shares	32,575	–	–	–	–	32,575
Share issue expenses	(8,464)	–	–	–	–	(8,464)
Net profit for the year	–	–	–	–	27,483	27,483
Interim dividend	–	–	–	–	(5,000)	(5,000)
Proposed final dividend	–	–	–	–	(6,663)	(6,663)
Transfer to statutory reserve	–	–	–	3,311	(3,311)	–
At 30 June 2002	**31,312**	**–**	**–**	**4,758**	**18,837**	**54,907**

21. RESERVES *(continued)*

Company

	Share premium account HK$'000	Retained profit HK$'000	Total HK$'000
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 dividend	–	(6,663)	(6,663)
At 30 June 2002	50,263	108	50,371

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 Group Reorganisation set out in note 1 to the financial statements 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 as set out in note 1 to the financial statements. 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.

In accordance with the relevant PRC regulations applicable to wholly foreign-owned enterprises, Zhuhai Bioenergy is required to transfer 10% of its profit after tax, if any, to the statutory reserve. Subject to certain restrictions as set out in the relevant PRC regulation, the statutory reserve may be used to offset against any accumulated losses of Zhuhai Bioenergy.

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	Group	
	2002	2001
	HK$'000	*HK$'000*
Profit from operating activities	**27,757**	17,287
Interest income	**(245)**	(63)
Depreciation of fixed assets	**2,024**	2,619
Amortisation of intangible assets	**404**	211
Loss on disposal of fixed assets	**80**	208
Loss on disposal of subsidiaries	**–**	10,206
Increase in accounts receivable	**(1,553)**	(4,282)
Decrease/(increase) in inventories	**(6,602)**	536
Decrease/(increase) in deposits, prepayments and other receivables	**3,068**	(1,306)
Decrease in accounts payable	**(275)**	(1,240)
Decrease in accrued liabilities and other payables	**(224)**	(1,955)
Increase/(decrease) in trade deposits received	**(164)**	694
Decrease in amounts due to related parties	**(363)**	(2,168)
Net cash inflow from operating activities	**23,907**	20,747

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of subsidiaries

	2002	2001
	HK$'000	*HK$'000*
Net assets disposed of:		
Fixed assets	–	26,379
Prepayments, deposits and other receivables	–	197
Cash and bank balances	–	552
Accrued liabilities and other payables	–	(3,823)
Due to related parties	–	(9,752)
Interest-bearing bank loans	–	(22,983)
Interest-bearing other loans	–	(4,845)
Total net liabilities disposed of	–	(14,275)
Goodwill released on disposal	–	25,180
Staff welfare reserve released on disposal	–	(698)
Loss on disposal of subsidiaries	–	(10,206)
	–	1
Represented by:		
Cash consideration	–	1

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002	2001
	HK$'000	*HK$'000*
Cash consideration received	–	1
Cash and bank balances disposed of	–	(552)
Net cash outflow in respect of the disposal of subsidiaries	–	(551)

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of subsidiaries *(continued)*

In respect of the cash flows for the year ended 30 June 2001, the subsidiaries disposed of in that year contributed approximately HK$4,593,000 to the Group's net cash inflows from operating activities, approximately HK$1,374,000 to the Group's net cash outflow in respect of net returns on investments and servicing of finance, approximately HK$525,000 to the Group's net cash outflow from investing activities and approximately HK$2,143,000 to the Group's net cash outflow from financing activities.

For the year ended 30 June 2001, the subsidiaries disposed of during that year did not contributed any turnover to the Group but had net loss of approximately HK$3,146,000 from the ordinary activities attributable to shareholders.

(c) Acquisition of a subsidiary

During the year ended 30 June 2002, the Company acquired the entire issued capital of Vitop Franchise, which has remained dormant since its incorporation, at par for a total consideration of US$1 (approximately HK$8). The subsidiary acquired during the year made no contribution to the Group in respect of the cash flows, turnover or contribution to the consolidated net profit from the ordinary activities attributable to the shareholders for the year.

(d) Analysis of changes in financing of the Group during the year

	Issued capital and share premium account HK$'000	Other loans HK$'000	Bank loans HK$'000
Balance as at 1 July 2000	21,001	7,277	30,404
Arising from disposal of subsidiaries	–	(4,845)	(22,983)
Cash outflow from financing, net	–	(2,432)	(2,935)
Balance as at 30 June 2001 and at 1 July 2001	21,001	–	4,486
Cash inflow/(outflow) from financing, net	26,969	–	(2,813)
Balance as at 30 June 2002	47,970	–	1,673

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(e) Major non-cash transactions

The Group Reorganisation involved the acquisition of the entire issued share capital of Vitop Bioenergy by the issue of shares of the Company, further details of which are set out in notes 1 and 20 to the financial statements.

23. 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 1 to 5 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	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**3,100**	2,243
In the second to fifth years, inclusive	**7,350**	7,850
	10,450	10,093

The Company did not have any significant operating lease arrangements at the balance sheet date.

24. COMMITMENTS

In addition to the operating lease commitments detailed in note 23 above, the Group had the following commitments at the balance sheet date:

	2002	2001
	HK$'000	*HK$'000*
Capital commitments in respect of the purchase of computer equipment contracted, but not provided for	**–**	379
Commitments in respect of the acquisition of technical know-how contracted, but not provided for	**2,430**	–

The Company did not have any significant commitments at the balance sheet date.

25. RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions relating to the Group Reorganisation and the transactions disclosed elsewhere in these financial statements, the Group had the following continuing connected transaction as defined under the GEM Listing Rules upon the listing of the Company's shares on the GEM of the Stock Exchange on 1 February 2002.

Pursuant to an agreement dated 26 October 2000 between Zhuhai Bioenergy, a subsidiary of the Company, and Zhuhai Vitop, a former subsidiary of the Company which was disposed of by the Group on 30 June 2001, Zhuhai Vitop granted to Zhuhai Bioenergy a lease over an area of approximately 15,057.07 square metres, which comprised industrial premises at No. 240, 244 and 246 Gangchang Road, Gongbei and 39 residential units located at Fei Cui Shan Zhuang, Nan Ping, Zhuhai SEZ, Guangdong Province, the PRC (the "Properties"), from 1 January 2001 to 31 December 2005. A relative of Mr. Ma Yufeng, a director of the Company, has a minority interest in Zhuhai Vitop.

A rental of RMB200,000 per month (inclusive of all taxes and fees (including land use fees) payable to the relevant government authorities, but exclusive of water charges, electricity charges and telecommunication charges) is payable by Zhuhai Bioenergy to Zhuhai Vitop. The rental payable by the Group was determined by reference to comparable market rentals.

25. RELATED PARTY AND CONNECTED TRANSACTIONS *(continued)*

During the year ended 30 June 2002, the aggregate rental paid by the Group for the Properties amounted to RMB2,400,000 (approximately HK$2,243,000).

The directors of the Company are of the opinion that the above transaction with the related party was conducted in the usual course of business. LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, has reviewed the terms of the above lease agreement and has confirmed that the terms are based on market rentals.

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

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 September 2002.

Summary Financial Information

A summary of the results and of the assets and liabilities of the Group for the years ended 30 June 2001 and 2002, as extracted from the only published audited financial statements for the year ended 30 June 2002, is set out below:

	Year ended 30 June	
	2002	2001
	HK$'000	*HK$'000*
TURNOVER	**96,031**	88,660
PROFIT BEFORE TAX	**27,483**	13,758
Tax	**–**	(2,359)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**27,483**	11,399

	30 June	
	2002	2001
	HK$'000	*HK$'000*
TOTAL ASSETS	**99,820**	54,207
TOTAL LIABILITIES	**(21,592)**	(25,431)
	78,228	28,776

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 Hong Kong Bankers' Club, 43/F, Gloucester Tower, The Landmark, Central, Hong Kong on Friday, 25 October 2002 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 of the Company for the year ended 30 June 2002.

2. To declare the final dividend for the year ended 30 June 2002.

3. To re-elect 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 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;

(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 sub-paragraph (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 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 Growth Enterprise Market of 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 Growth Enterprise Market of 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."

(C) "**THAT** conditional upon the resolutions numbered 4(A) and 4(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 4(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 4(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."

6. To transact any other ordinary business of the Company.

By Order of the Board

Lau Hin Hung
Company Secretary

Hong Kong, 17 September 2002

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 4/F, Hutchison House, 10 Harcourt Road, Central, 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 Tuesday, 22 October 2002 to Thursday, 24 October 2002, 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 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration by 4:00 p.m. on Monday, 21 October 2002.