

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Vitop Bioenergy Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 30 June 2003.

PRINCIPAL ACTIVITIES

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

LISTING STATUS

On 10 February 2003, the Company withdrew the listing of its shares on The Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and on the same date, the Company’s shares were listed on the Main Board of the Stock Exchange by way of introduction (the “Listing Date”).

RESULTS AND DIVIDENDS

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

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

SUMMARY FINANCIAL INFORMATION

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

FIXED ASSETS

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

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INTANGIBLE ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 23 and 24 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

DISTRIBUTABLE RESERVES

As at 30 June 2003, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$55,857,000. This includes the Company's share premium account, in the capital amount of approximately HK\$49,998,000 at 30 June 2003, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

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MAJOR CUSTOMERS AND SUPPLIERS

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

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

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors

Mr. Hung Kai So (*Chairman*)

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

Mr. Ma Yufeng

Ms. Sae-lao Rakchanok

Mr. Liu Jun (appointed on 25 July 2002)

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

Independent non-executive directors

Mr. Yuan Tsu I

Mr. Huang Ming Da

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

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS

As at 30 June 2003, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which

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they are taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in the shares and underlying shares of the Company

Name of director	Type of interest	Capacity	Number of shares held	Number of underlying shares held pursuant to share options	Aggregate interest	Approximate percentage of interest
Hung Kai So	Personal	Beneficial owner	131,759,529	4,000,000	135,759,529	20.41%
Kam loi	Personal	Beneficial owner	108,231,043	4,000,000	112,231,043	16.87%
Ma Yufeng	Personal	Beneficial owner	88,467,115	2,500,000	90,967,115	13.68%
Sae-lao Rakchanok	Personal	Beneficial owner	47,056,975	2,500,000	49,556,975	7.45%
Liu Jun	Personal	Beneficial owner	26,181,819	2,500,000	28,681,819	4.31%
Lau Hin Hung	Personal	Beneficial owner	—	500,000	500,000	0.08%

Save as disclosed above, as at 30 June 2003, none of the directors or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 24 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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SHARE OPTION SCHEMES

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

Concerning the share options granted during the year to the directors, employees, suppliers and others as detailed in note 24 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the options based on various speculative assumptions might not be meaningful, and could be misleading to the shareholders of the Company.

SUBSTANTIAL SHAREHOLDERS

Save for the directors’ interests in the shares and underlying shares of the Company as disclosed above and so far as the directors of the Company are aware, as at 30 June 2003, no other person had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

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

POST BALANCE SHEET EVENT

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

CORPORATE GOVERNANCE

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

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AUDITORS

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

ON BEHALF OF THE BOARD

Kam Ioi
Managing Director

Hong Kong, 24 October 2003