

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 15 February 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 February 2002. During the year, the Company withdrew the listing of its shares on the GEM of the Stock Exchange on 10 February 2003, and on the same date, by way of introduction, listed its entire issued share capital on the Main Board of the Stock Exchange.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of presentation and consolidation

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

NOTES TO THE FINANCIAL STATEMENTS

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

Basis of presentation and consolidation *(Continued)*

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

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

Revenue recognition

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

- sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- rental income, on a time proportion basis over the lease term; and
- dividend income, when the shareholders' right to receive payment has been established.

NOTES TO THE FINANCIAL STATEMENTS

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

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives of the fixed assets are as follows:

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

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

Patents and technical know-how

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Research and development costs

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

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

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

Impairment of assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Subsidiaries

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

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

Accounts receivable

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

Inventories

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

Short term investments

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

Operating leases

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

NOTES TO THE FINANCIAL STATEMENTS

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

Dividends

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

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

Pension schemes

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Share option scheme

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

Deferred tax

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

Foreign currencies

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Foreign currencies *(Continued)*

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

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

Related parties

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

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4. SEGMENT INFORMATION

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (Continued)

(a) Business segments

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

Group

	Healthy sleeping system		Other BIOenergy® products		Polypeptide products		Ionised water apparatus		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	58,440	80,784	10,577	6,273	5,410	4,963	29,082	4,011	103,509	96,031
Segment results	21,074	38,188	1,166	1,655	735	1,570	4,608	1,457	27,583	42,870
Unallocated other revenue									1,539	1,943
Unallocated expenses									(18,908)	(17,056)
Profit from operating activities									10,214	27,757
Finance costs									—	(274)
Listing expenses									(4,068)	—
Profit before tax									6,146	27,483
Tax									(512)	—
Net profit from ordinary activities attributable to shareholders									5,634	27,483

NOTES TO THE FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

5. TURNOVER

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

An analysis of turnover and other revenue is as follows:

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

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6. PROFIT FROM OPERATING ACTIVITIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

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7. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

8. FINANCE COSTS

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

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9. TAX

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

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the year.

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

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

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

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

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11. DIVIDENDS

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

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

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

12. EARNINGS PER SHARE

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

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

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13. FIXED ASSETS

Group

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

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14. INTANGIBLE ASSETS

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

15. INTERESTS IN SUBSIDIARIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

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15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

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16. ACCOUNTS RECEIVABLE

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

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

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

17. INVENTORIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

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18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

At the balance sheet date, the balances of the Group's deposits, prepayments and other receivables included a refundable security deposit of approximately HK\$7,477,000 paid to 法制日報社 ("Legaldaily"), an independent third party, as a refundable security deposit for the Group's advertising campaign. Subsequent to the balance sheet date, the Group entered into a renewal advertisement agreement with Legaldaily, pursuant to which the refundable security deposit was revised to approximately HK\$5,608,000 (the "Revised Deposit") and the advertising period was extended to 31 January 2004. Accordingly, the excess amount of approximately HK\$1,869,000 of the original deposit over the Revised Deposit was refunded to the Group.

19. SHORT TERM INVESTMENTS

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

20. CASH AND CASH EQUIVALENTS

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

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$34,408,000 (2002: approximately HK\$20,088,000). The RMB is not freely convertible into other currencies. However, under PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

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21. ACCOUNTS PAYABLE

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

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

22. INTEREST-BEARING BANK LOAN, UNSECURED

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

23. SHARE CAPITAL

Company

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

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

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

The above shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve (*note 25*).

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

23. SHARE CAPITAL (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

24. SHARE OPTION SCHEMES

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

24. SHARE OPTION SCHEMES *(Continued)*

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

The total number of shares of the Company in respect of which options may be granted under the New Scheme must not exceed 66,517,000 shares, being 10% of the total number of shares of the Company in issue as at the date of adoption of the New Scheme, unless shareholders' approval of the Company has been obtained.

The total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the total number of shares of the Company in issue as at the date of grant (the "Individual Limit"). Any further grant of options in excess of the Individual Limit must be subject to shareholders' approval in general meeting with such participant and his or her associates abstaining from voting.

An option may be exercised at any time during a period as the board of directors of the Company (the "Board") may determine which shall not be more than 10 years from the date of grant of the option.

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

24. SHARE OPTION SCHEMES *(Continued)*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

24. SHARE OPTION SCHEMES (Continued)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

25. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 25 of the financial statements.

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

Company

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Arising on acquisition of Vitop Bioenergy	26,152	—	—	26,152
Issue of shares	32,575	—	—	32,575
Share issue expenses	(8,464)	—	—	(8,464)
Net profit for the year	—	—	6,771	6,771
Proposed final 2002 dividend	—	—	(6,663)	(6,663)
At 30 June 2002 and 1 July 2002	50,263	—	108	50,371
Share Repurchase	(265)	—	—	(265)
Transfer upon Share Repurchase	—	29	(29)	—
Net profit for the year	—	—	5,780	5,780
Proposed final 2003 dividend	—	—	(4,789)	(4,789)
At 30 June 2003	49,998	29	1,070	51,097

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

25. RESERVES (Continued)

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

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

26. OPERATING LEASE ARRANGEMENTS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2003

27. COMMITMENTS

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

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

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

28. RELATED PARTY TRANSACTIONS

On 26 October 2000, a tenancy agreement (the "Tenancy Agreement") was entered into between the Group and a company in which a relative of Mr. Ma Yufeng, a director of the Company, has a minority interest (the "Related Company") in respect of the leasing of leasehold land and buildings owned by the Related Company to the Group for a period of five years from 1 January 2001 to 31 December 2005 at a monthly rental of RMB200,000 determined by reference to comparable market rentals. On 27 June 2003, a supplementary agreement was entered into between the Group and the Related Company under which both contracted parties agreed to terminate the Tenancy Agreement on 31 October 2003 with neither party incurring any compensation for such early termination of the lease.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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29. POST BALANCE SHEET EVENT

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

30. APPROVAL OF THE FINANCIAL STATEMENTS

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