

# 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 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing and trading of BIOenergy® products, healthcare food products, multi-functional water generators and other healthcare products in the People’s Republic of China, excluding Hong Kong.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2005 and the state of affairs of the Group and the Company as at that date are set out in the financial statements on pages 19 to 53.

The directors recommend the payment of a final dividend of HK0.72 cent per share for the year ended 30 June 2005 (2004: HK1.00 cent per share). Subject to shareholders’ approval at the forthcoming annual general meeting of the Company, the final dividend will be paid out from the share premium account of the Company in scrip form with a cash option to shareholders whose names appear on the register of members of the Company on 25 November 2005, amounting to approximately HK\$4,910,000.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group for the last five financial years is set out on page 54. 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 12 to the financial statements.

## INTANGIBLE ASSETS

Details of the movements in the Group’s intangible assets during the year are set out in note 13 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.

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## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

## **RESERVES**

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

## **DISTRIBUTABLE RESERVES**

As at 30 June 2005, 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\$49,751,000. This includes the Company's share premium account, in the capital amount of approximately HK\$54,357,000 as at 30 June 2005, 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, the percentage of sales to the Group's five largest customers is less than 30% of the Group's total sales for the year. Purchases from the Group's five largest suppliers accounted for 48.7% of the total purchases for the year and purchases from the largest supplier included therein amounted to 17.7%.

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.

# Report of the Directors

## DIRECTORS

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

### Executive directors

Mr. Hung Kai So (*Chairman*)  
Mr. Kam loi (*Managing director*)  
Mr. Chan Yuk Tong (appointed on 30 September 2005)  
Mr. Ma Yufeng  
Mr. Liu Jun  
Ms. Sae-lao Rakchanok (retired on 18 October 2004)

### Non-executive director

Mr. Lee Kwok Ming (re-designated from executive director to non-executive director on 5 January 2005)

### Independent non-executive directors

Mr. Yuan Tsu I  
Mr. Yick Wing Fat, Simon (appointed on 1 August 2004)  
Professor Li Li Te (appointed on 18 October 2004)  
Mr. Huang Ming Da (retired on 18 October 2004)

In accordance with article 86(3) of the articles of association of the Company, Mr. Chan Yuk Tong shall hold office only until the forthcoming annual general meeting of the Company and shall be eligible for re-election. Mr. Chan, being eligible, will offer himself for re-election at the meeting.

In accordance with article 87(1) of the articles of association of the Company, Mr. Liu Jun and Mr. Yuan Tsu I will retire by rotation at the forthcoming annual general meeting of the Company. These retiring directors, being eligible, will offer themselves for re-election at the meeting.

## 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 8 to 9 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Hung Kai So, Kam loi, Ma Yufeng and Liu Jun, the executive directors, has entered into a director's service agreement with the Company for an initial term of two years commencing on 10 February 2003. The agreement will thereafter be automatically renewed for successive terms of one year each, unless otherwise terminated in accordance with the terms of the relevant service agreement, or by either party to the service agreement giving to the other not less than six months' written notice expiring no earlier than the end of the initial term, or not less than three months' written notice during any renewed term. Such service agreement had not been renewed upon expiration of the initial term of service and a new service agreement was entered into by each of Messrs. Hung Kai So, Kam loi, Ma Yufeng and Liu Jun, the executive directors, with the Company for a term of three years commencing on 10 February 2005, unless and until terminated in accordance with the terms of the relevant service agreement, or by either party to the service agreement giving to the other not less than six months' prior notice in writing at any time during the term.

Mr. Chan Yuk Tong, the executive director, has entered into a director's service agreement with the Company for a term of three years commencing on 30 September 2005, unless and until terminated in accordance with the terms of the service agreement, or by either party to the service agreement giving to the other not less than six months' prior notice in writing at any time during the term.

Mr. Lee Kwok Ming, formerly the executive director, has entered into a director's service agreement with the Company for an initial term of two years commencing on 5 January 2004. The agreement will thereafter be automatically renewed for successive terms of one year each, unless otherwise terminated in accordance with the terms of the service agreement, or by either party to the service agreement giving to the other not less than six months' prior notice in writing at any time either during the initial term or anytime thereafter. Such service agreement had been terminated on 5 January 2005 upon his re-designation as the non-executive director. He has not entered into non-executive director's contract with the Company. He is not appointed for a specific term but is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company. Either the Company or he may terminate the appointment by giving at least one month's notice in writing.

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

Each of Mr. Yick Wing Fat, Simon and Professor Li Li Te, the independent non-executive directors, has not entered into non-executive director's contract with the Company. They are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company. Either the Company or they may terminate the appointment by giving at least one month's notice in writing.

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

## DIRECTORS' INTERESTS IN CONTRACTS

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

# Report of the Directors

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2005, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (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	133,471,229	1,600,000	135,071,229	19.81%
Kam Ioi	Personal	Beneficial owner	115,282,743	1,600,000	116,882,743	17.14%
Ma Yufeng	Corporate (Note 1)	Beneficial owner	44,467,115	–	51,118,815	7.50%
	Personal	Beneficial owner	–	6,651,700		
Sae-lao Rakchanok (retired as director of the Company on 18 October 2004)	Personal	Beneficial owner	47,056,975	6,651,700	53,708,675	7.88%
Liu Jun	Personal	Beneficial owner	16,181,819	6,651,700	22,833,519	3.35%
Lee Kwok Ming	Joint (Note 2)	Beneficial owner	7,005,348	–	27,005,348	3.96%
	Personal	Beneficial owner	–	20,000,000		

Notes:

- (1) By virtue of the SFO, Mr. Ma Yufeng is deemed to be interested in the 44,467,115 shares of the Company held by Longway Group Ltd., a company incorporated in the British Virgin Islands and wholly owned by him.
- (2) Mr. Lee Kwok Ming and his spouse jointly and beneficially held 7,005,348 shares in the Company.

Save as disclosed above, as at 30 June 2005, none of the directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO, or otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

# Report of the Directors

## DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors or its remuneration committee with reference to directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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 the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the year.

## SHARE OPTION SCHEME

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

### Long positions in the shares and underlying shares of the Company

According to the records entered into the register required to be kept by the Company under section 336 of the SFO, so far as the directors of the Company are aware of and having made due enquiries, as at 30 June 2005, the interests and short positions of the persons (other than the directors of the Company) in the shares and underlying shares of the Company were as follows:

Name	Capacity	Number of shares held	Percentage of the Company's issued share capital
Sae-lao Rakchanok	Beneficial owner	47,056,975 shares and 6,651,700 underlying shares held pursuant to share options	7.88%
Martin Currie China Hedge Fund Limited	Beneficial owner	44,830,000 (Note)	6.57%
Martin Currie Investment Management Limited	Investment adviser	44,830,000 (Note)	6.57%
UBS AG	Security interest	44,830,000	6.57%

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

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## **SUBSTANTIAL SHAREHOLDERS** (continued)

Save as disclosed above, as at 30 June 2005, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in securities" above, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## **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.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (which was in force prior to 1 January 2005 and remains applicable for the accounting periods commencing before 1 January 2005) throughout the year, except that the non-executive director and the independent non-executive directors (other than Mr. Yuan Tsu I) are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company.

The Code was replaced by the Code on Corporate Governance Practices (the "CGP Code") which has become effective for accounting periods commencing on or after 1 January 2005 (the internal control section would become effective from 1 July 2005). Appropriate actions are being taken by the Company for complying with the CGP Code.

On 21 March 2005, the board of directors of the Company adopted the CGP Code based on the principles set out in Appendix 14 to the Listing Rules which came into force on 1 January 2005. The board of directors of the Company also established a remuneration committee, comprising Mr. Yuan Tsu I as chairman and independent non-executive directors of the Company, Mr. Yick Wing Fat, Simon and Professor Li Li Te, with written terms of reference, effective for accounting periods commencing on or after 1 January 2005. The terms of reference of the audit committee of the Company were revised to align with the provisions of the CGP Code and would become effective for accounting periods commencing on or after 1 January 2005.

## **MODEL CODE**

During the year, the Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of all directors, the Company has obtained their confirmations on the compliance with the Model Code.

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## AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code. The audit committee now comprises Mr. Yick Wing Fat, Simon (chairman of the audit committee), Mr. Yuan Tsu I and Professor Li Li Te, all of whom are independent non-executive directors of the Company. The principal duties of the audit committee of the Company include the review of the completeness, accuracy and fairness of the Company's financial statements and the effectiveness of the Company's internal control system. During the year, two regular meetings of the audit committee have been held. The audited financial statements of the Company for the year ended 30 June 2005 have been reviewed by the audit committee.

## PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at 27 October 2005 (being the latest practicable date prior to the issue of this annual report for the purpose of ascertaining the relevant information contained).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors the annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers Mr. Yuan Tsu I, Mr. Yick Wing Fat, Simon and Professor Li Li Te to be independent as at the date of this annual report.

## AUDITORS

The financial statements of the Company for the years ended 30 June 2004 and 2005 were audited by Messrs. Grant Thornton. A resolution to re-appoint the retiring auditors, Messrs. Grant Thornton, will be put at the forthcoming annual general meeting of the Company.

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

On behalf of the Board

**Kam Ioi**

*Managing Director*

Hong Kong, 21 October 2005