

Notes to the Financial Statements

For the year ended 30 June 2005

1. GENERAL 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 withdrew the listing of its shares on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (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.

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 (the "PRC").

2. PRINCIPAL ACCOUNTING POLICIES

(a) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards (the "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these New HKFRSs in the financial statements for the year ended 30 June 2005. The Group has already commenced an assessment of the impact of these New HKFRSs but is not yet in a position to state whether these New HKFRSs would have a significant impact on its results of operations and financial position.

(b) Basis of preparation

The financial statements on pages 19 to 53 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards (which include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by the revaluation of short term investments.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The financial statements also include the Group's share of post-acquisition results and reserves of its jointly controlled entity.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Notes to the Financial Statements

For the year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

(e) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Company's interests in jointly controlled entities are stated at cost less any impairment losses. Results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

The Group's interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

(f) Fixed assets

(i) Depreciation

Depreciation is provided to write off the cost of each asset over its estimated useful life, using the straight-line method. 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

(ii) Measurement bases

Fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to fixed assets is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

Notes to the Financial Statements

For the year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Fixed assets (continued)

(ii) Measurement bases (continued)

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises direct cost of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

(g) Trade receivables

Trade receivables, 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.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(i) Short term investments

Short term investments are investments in equity securities held for trading purpose 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 income statement in the period in which they arise.

Gain or loss on disposal of short term investments are accounted for in the income statement as they arise.

(j) Patents and technical know-how

Patents represent the initial cost of registration in respect of the Group's patent rights. The cost of acquiring the rights to technical know-how for the manufacture of new products is recognised as intangible assets. Capitalised patents and technical know-how are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line basis over the estimated useful lives of not exceeding ten years, commencing from the date when the new products are put into commercial production or use.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Costs incurred on development projects whereby research findings or other knowledge are applied to a plan or design for the production of new or substantially improved products and processes, are recognised as intangible assets if the products or processes are technically or commercially feasible and the Group has sufficient resources to complete the development. The development costs capitalised include the cost of materials, direct labour and an appropriate proportion of overheads. Other development costs are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line basis over a period of not exceeding five years, commencing from the date when the products are put into commercial production or use.

(l) Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any banks or other financial institutions. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(n) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Employee benefits

(i) Retirement benefits 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. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement 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, subsidiaries of the Group operating in the PRC are 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 income statement as they become payable.

(ii) Equity compensation benefits

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 income statement 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.

(p) Revenue recognition

Revenue from the sale of goods is recognised 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 is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the Group's right as a shareholder to receive payment is established.

Notes to the Financial Statements

For the year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) 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.

(r) Operating leases

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

(s) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the income statements are translated at an average rate for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(t) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits or other distributable reserves, where appropriate, 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.

3. 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. For the year ended 30 June 2005, the Group has grouped the healthy sleeping system segment and the other BIOenergy® products segment into one segment named "BIOenergy® products" and the comparative figures have been reclassified to conform with the current year presentation accordingly.

Notes to the Financial Statements

For the year ended 30 June 2005

3. SEGMENT INFORMATION (continued)

Summary details of the business segments are as follows:

- the BIOenergy® products segment consists of the manufacturing and trading of bedding products, underclothing and body protection accessories containing the BIOenergy® compound;
- the healthcare food products segment consists of the trading of healthcare food products, including polypeptide products;
- the multi-functional water generators segment consists of the manufacturing and trading of multi-functional water generators (formerly named as anion water producer); and
- the “others” segment consists of the trading of other healthcare products.

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.

(a) Business segments

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

	BIOenergy® products		Healthcare food products		Multi-functional water generators		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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	44,624	65,321	7,763	5,788	90,870	68,873	2,294	–	145,551	139,982
Segment results	15,122	25,918	2,106	1,574	16,994	19,547	369	–	34,591	47,039
Unallocated other revenue and gains									2,954	2,925
Unallocated expenses									(33,755)	(26,833)
Profit from operating activities									3,790	23,131
Share of result of a jointly controlled entity									(758)	–
Profit before taxation									3,032	23,131
Taxation									(766)	(2,281)
Profit before minority interests									2,266	20,850
Minority interests									(995)	(664)
Profit attributable to shareholders									1,271	20,186

Notes to the Financial Statements

For the year ended 30 June 2005

3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	BIOenergy® products		Healthcare food products		Multi-functional water generators		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	13,280	15,947	5,665	2,334	7,789	8,693	1,103	-	27,837	26,974
Interests in a jointly controlled entity	-	-	-	-	570	640	-	-	570	640
Unallocated assets									100,397	102,868
Total assets									128,804	130,482
Unallocated liabilities									35,420	33,071
Total liabilities									35,420	33,071
Other segment information :										
Depreciation of fixed assets	-	-	-	-	87	18	5	-	92	18
Unallocated amount of depreciation									4,584	3,964
									4,676	3,982
Amortisation of intangible assets	1,305	104	598	621	-	-	-	-	1,903	725
Capital expenditure	314	3,234	-	-	101	519	52	-	467	3,753
Unallocated amounts of capital expenditure									6,619	13,754
									7,086	17,507
Provision for obsolete and slow-moving inventories	(20)	(536)	103	(232)	492	10	-	-	575	(758)
Unallocated provision for doubtful debts and bad debts expenses									3,571	102

(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.

Notes to the Financial Statements

For the year ended 30 June 2005

4. 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.

5. OTHER REVENUE AND GAINS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest income	605	1,019
Dividend income	26	121
Gain on disposal of short term investments	793	984
Others	1,530	801
	2,954	2,925

6. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting):

	Group	
	2005	2004
	HK\$'000	HK\$'000
Auditors' remuneration	438	480
Cost of inventories sold	74,740	63,024
Staff costs (excluding directors' remuneration (<i>note 11(a)</i>))		
Wages and salaries	15,994	11,735
Pension scheme contributions	981	489
	16,975	12,224
Depreciation of fixed assets	4,676	3,982
Amortisation of intangible assets	1,903	725
Exchange gain, net	(77)	(76)
Operating lease charges in respect of land and buildings	3,652	3,655
Provision for doubtful debts and bad debts expenses	3,571	102
Provision for obsolete and slow-moving inventories	575	(758)
Loss on disposal of fixed assets	16	754
Unrealised loss on revaluation of short term investments	221	326

Notes to the Financial Statements

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7. TAXATION

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2004: 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.

	Group	
	2005	2004
	HK\$'000	HK\$'000
Group:		
Current – PRC		
Charge for the year	1,138	2,281
Overprovision in prior years	(372)	–
Current – Hong Kong	–	–
	766	2,281

The income tax expenses for the year can be reconciled to the profit before taxation per the income statement as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Profit before taxation	3,032	23,131
Tax at the applicable tax rate (<i>note a</i>)	623	3,623
Tax effect of non-deductible expenses	1,461	981
Tax effect of non-taxable revenue	(23)	(97)
Tax effect of tax losses not recognised	1,692	951
Tax benefit from tax holiday (<i>note b</i>)	(2,549)	(3,177)
Tax effect of overprovision in prior years	(372)	–
Others	(66)	–
Actual tax expense	766	2,281

Notes:

- a. The applicable rate is the weighted average of rates prevailing in the jurisdictions in which the Company and its subsidiaries operate.
- b. In accordance with the applicable corporate income tax law of the PRC, the Company's subsidiaries established in the PRC are entitled to an exemption for PRC corporate income tax for the first two profitable calendar years of its operation and a 50% relief on corporate income tax for the following three years.

Notes to the Financial Statements

For the year ended 30 June 2005

7. TAXATION (continued)

The Group has tax losses arising in Hong Kong of approximately HK\$29,773,000 (2004: HK\$16,966,000) that are available indefinitely for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profits will be available against which these unused tax losses can be utilised.

As at 30 June 2005, the Group and the Company did not have any significant unprovided deferred tax liabilities (2004: Nil).

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated profit attributable to shareholders of approximately HK\$1,271,000 (2004: HK\$20,186,000), a loss of approximately HK\$5,819,000 (2004: a profit of HK\$6,944,000) has been dealt with in the financial statements of the Company.

9. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Proposed final dividend of HK0.72 cent (2004 : HK1.00 cent) per ordinary share	4,910	6,782

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

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to shareholders for the year ended 30 June 2005 of approximately HK\$1,271,000 (2004: HK\$20,186,000) and the weighted average of 680,897,278 (2004: 666,412,169) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to shareholders for the year ended 30 June 2005 of approximately HK\$1,271,000 (2004: HK\$ 20,186,000) and the weighted average of 683,412,782 (2004: 678,799,730) ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 680,897,278 (2004: 666,412,169) ordinary shares in issue during the year plus the weighted average of 2,515,504 (2004: 12,387,561) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

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For the year ended 30 June 2005

11. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

(a) Directors' emoluments

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Fees	352	168
Other emoluments :		
Salaries, allowances and benefits in kind	4,046	5,060
Discretionary bonus	-	1,960
Lump sum ex-gratia payment	960	-
Pension scheme contributions	38	35
	5,044	7,055

The emoluments of each director, on a named basis, for the year ended 30 June 2005 are set out below:

	2005					2004	
	Director fees	Salaries, allowances and benefits in kind	Discretionary bonus	Lump sum ex-gratia payment	Pension scheme contributions	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hung Kai So	-	143	-	-	-	143	443
Kam loi	-	1,097	-	-	4	1,101	1,593
Ma Yufeng	-	648	-	-	12	660	949
Sae-lao Rakchanok (Note 1)	-	345	-	960	4	1,309	1,463
Liu Jun	-	596	-	-	12	608	983
Lee Kwok Ming (Note 2)	-	1,217	-	-	6	1,223	1,292
Yuan Tsu I	96	-	-	-	-	96	96
Yick Wing Fat, Simon (Note 3)	184	-	-	-	-	184	-
Li Li Te (Note 4)	51	-	-	-	-	51	-
Huang Ming Da (Note 5)	21	-	-	-	-	21	72
Lau Hin Hung (Note 6)	-	-	-	-	-	-	332
Total 2005	352	4,046	-	960	38	5,396	7,223
Total 2004	168	5,060	1,960	-	35	7,223	

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11. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (continued)

(a) Directors' emoluments (continued)

Notes:

1. Retired on 18 October 2004.
2. Re-designated from executive director to non-executive director on 5 January 2005.
3. Appointed on 1 August 2004.
4. Appointed on 18 October 2004.
5. Retired on 18 October 2004.
6. Resigned on 5 January 2004.

Fees include HK\$352,000 (2004: HK\$168,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

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

	Number of directors	
	2005	2004
HK\$Nil – HK\$1,000,000	7	6
HK\$1,000,001 – HK\$1,500,000	3	2
HK\$1,500,001 – HK\$2,000,000	-	1
	<u>10</u>	<u>9</u>

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

During the year, no share options (2004: 38,258,500) were granted to the directors in respect of their services to the Group and further details of which were set out in note 24 to the financial statements.

(b) Five highest paid individuals

The five highest paid individuals during the year included five (2004: five) directors, details of whose remuneration have been disclosed above.

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.

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12. FIXED ASSETS

Group

	Construction in progress <i>HK\$'000</i>	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 1 July 2004	7,206	7,931	3,071	12,308	3,491	34,007
Additions	919	3,106	58	2,689	–	6,772
Disposals	–	–	–	(163)	–	(163)
At 30 June 2005	8,125	11,037	3,129	14,834	3,491	40,616
Accumulated depreciation						
At 1 July 2004	–	2,103	2,052	6,122	1,755	12,032
Depreciation for the year	–	2,058	258	1,925	435	4,676
Disposals	–	–	–	(124)	–	(124)
At 30 June 2005	–	4,161	2,310	7,923	2,190	16,584
Net book value						
At 30 June 2005	8,125	6,876	819	6,911	1,301	24,032
At 30 June 2004	7,206	5,828	1,019	6,186	1,736	21,975

As at 30 June 2005, construction in progress represented the payment for the land use right in respect of a piece of land situated in Shanghai, the PRC and the construction and direct costs of building the staff and franchisees training centre, distribution centre and office on the land. Pursuant to the terms and conditions set out in the land grant contract, the Group is required to complete the construction of the properties on or before 12 March 2006. As advised by the Group's legal adviser, the Group is entitled to apply for further extension subject to the approval by the Building and Land Administration Bureau of Jiading District of Shanghai City (上海市嘉定區房屋土地管理局).

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13. INTANGIBLE ASSETS

Group

	Patents and technical know-how <i>HK\$'000</i>	Deferred development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 July 2004	1,359	6,317	7,676
Additions	314	–	314
At 30 June 2005	1,673	6,317	7,990
Aggregate amortisation			
At 1 July 2004	917	1,556	2,473
Amortisation for the year	153	1,750	1,903
At 30 June 2005	1,070	3,306	4,376
Net book value			
At 30 June 2005	603	3,011	3,614
At 30 June 2004	442	4,761	5,203

14. INTERESTS IN SUBSIDIARIES

	Company 2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted investments, at cost	39,952	39,952
Amounts due from subsidiaries	24,350	28,771
Amounts due to subsidiaries	(3,181)	(3,156)
	61,121	65,567

The amounts due are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors of the Company, the Company will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

Notes to the Financial Statements

For the year ended 30 June 2005

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 30 June 2005 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			Direct	Indirect	
Vitop Bioenergy Limited	British Virgin Islands ("BVI")	US\$1	100%	–	Investment holding
Vitop Bioenergy (China) Ltd ("Vitop China") *	PRC	HK\$50,000,000	–	100%	Manufacturing and trading of BIOenergy® products, and trading of multi-functional water generators, healthcare food products and other healthcare products
Vitop Healthcare Product Limited	Hong Kong	HK\$2	–	100%	Trading of BIOenergy® products
Star Ocean Limited	BVI	US\$1	–	100%	Investment holding
合肥天年美菱環保科技 有限責任公司 **	PRC	RMB5,840,000	–	80%	Manufacturing and trading of multi-functional water generators
上海亘輝生物制品 有限公司 ("Shanghai Heng Fai")*	PRC	US\$435,000	–	100%	Property investment

* Registered as wholly-foreign owned enterprise ("WFOE") under the PRC law.

** Registered as Sino-foreign joint venture under the PRC law.

The above table lists the subsidiaries of the Company which have, in the opinion of the Company's directors, principally affected the results of the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Company's directors, result in particulars of excessive length.

Notes to the Financial Statements

For the year ended 30 June 2005

15. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group	2004
	2005	2004
	HK\$'000	HK\$'000
Share of net assets	570	640

	Company	2004
	2005	2004
	HK\$'000	HK\$'000
Unlisted investments, at cost	1,328	640

Particulars of the jointly controlled entity as at 30 June 2005 are as follows:

Name	Principal business structure	Place of establishment and operation	Nature of business	ownership interest	Percentage of voting power	profit sharing
Vitop OSG Environmental Technology (Suzhou) Co., Ltd ("Vitop OSG")*	Corporate	PRC	Manufacturing and trading of multi-functional water generators	40%	40%	40%

* Registered as WOFE under the PRC law.

16. INVENTORIES

	Group	2004
	2005	2004
	HK\$'000	HK\$'000
Raw materials	6,622	8,268
Work in progress	2,846	2,973
Finished goods	15,446	10,706
	24,914	21,947
Less: Provision for obsolete and slow-moving inventories	(1,253)	(678)
	23,661	21,269

As at 30 June 2005, no inventories were stated at net realisable value (2004: Nil).

Notes to the Financial Statements

For the year ended 30 June 2005

17. TRADE RECEIVABLES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 30 days	3,462	5,144
Between 31 to 60 days	230	1,151
Between 61 to 180 days	712	2,103
Over 180 days	5,218	2,782
	9,622	11,180
Less: Provision for doubtful debts	(3,793)	(222)
	5,829	10,958

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

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

As at the balance sheet date, the balance of the Group's deposits, prepayments and other receivables included a refundable security deposit of approximately HK\$5,692,000 (2004: HK\$5,608,000) paid to 法制日報社, an independent third party, as a refundable security deposit for the Group's advertising campaign. The advertising period is renewed for one year commencing from 17 June 2005. The deposit is unsecured and bears interest at approximately HK\$224,000 in total for the advertising period.

19. SHORT TERM INVESTMENTS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at market value	1,495	2,424	1,048	–

Notes to the Financial Statements

For the year ended 30 June 2005

20. CASH AT BANKS AND IN HAND

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash at banks and in hand	<u>42,280</u>	<u>48,771</u>	<u>53</u>	<u>1,624</u>

As at the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$41,872,000 (2004: HK\$38,959,000). The RMB is not freely convertible into other currencies. However, under the 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.

21. TRADE PAYABLES

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Outstanding balances with ages:		
Within 30 days	9,563	10,029
Between 31 to 60 days	3,231	953
Between 61 to 180 days	3,045	4,929
Over 180 days	791	30
	<u>16,630</u>	<u>15,941</u>

22. INTEREST-BEARING BANK LOAN

	Group	
	2005 HK\$'000	2004 HK\$'000
Secured bank loan repayable within one year	<u>500</u>	<u>—</u>

The Group's bank loan facility amounting to HK\$5,000,000 (2004: Nil), of which HK\$500,000 (2004: Nil) has been utilised as at the balance sheet date, is secured by a pledge of a deposit of the Group at the bank amounting to HK\$2,500,000 (2004: Nil) and supported by a corporate guarantee executed by the Company (note 27).

Notes to the Financial Statements

For the year ended 30 June 2005

23. SHARE CAPITAL

	2005 HK\$'000	2004 HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.025 each	500,000	500,000
Issued and fully paid:		
681,923,748 (2004 : 678,198,400) ordinary shares of HK\$0.025 each	17,048	16,955

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 2003	20,000,000,000	665,170,000	16,629
Share options exercised (<i>note a</i>)	—	13,028,400	326
At 30 June 2004 and 1 July 2004	20,000,000,000	678,198,400	16,955
Share options exercised (<i>note a</i>)	—	60,000	2
New shares issued (<i>note b</i>)	—	3,665,348	91
At 30 June 2005	20,000,000,000	681,923,748	17,048

Notes:

- (a) During the year, the subscription rights attaching to 60,000 (2004: 5,695,000 and 7,333,400, respectively) share options were exercised at the subscription price of HK\$0.30 per share (2004: HK\$0.25 and HK\$0.30 per share, respectively), resulting in the issue of 60,000 (2004: 13,028,400) ordinary shares of HK\$0.025 each in the capital of the Company for a total cash consideration, before expenses, of approximately HK\$18,000 (2004: HK\$3,624,000).
- (b) During the year, a director of the Company subscribed for 3,665,348 ordinary shares of the Company of HK\$0.025 each at HK\$0.31 per share for a total cash consideration, before expenses, of approximately HK\$1,136,000. Details of which are set out in note 30(iii).

24. SHARE OPTION SCHEME

In connection with the listing of the Company's shares on the Main Board of the Stock Exchange, the Company conditionally adopted a share option scheme (the "Scheme") pursuant to an ordinary resolution passed by the shareholders of the Company on 23 January 2003. The 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 Scheme remains in force for ten years from that date.

Notes to the Financial Statements

For the year ended 30 June 2005

24. SHARE OPTION SCHEME (continued)

The purpose of the 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 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.

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 twelve-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 Scheme must not exceed 68,013,640 shares, being 10% of the total number of shares of the Company in issue on the date when the 10% Scheme limit has been refreshed. The 10% Scheme limit was refreshed at the last annual general meeting of the Company held on 18 October 2004. The total number of shares in respect of which options are issuable under the Scheme was 92,701,464, representing approximately 13.59% of the issued share capital of the Company as at the date of this annual report.

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 twelve-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 ten 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

For the year ended 30 June 2005

24. SHARE OPTION SCHEME (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 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 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.

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

Name or category of participant	At 1 July 2004	Number of share options			At 30 June 2005	Date of grant*	Exercise Period	Exercise price**
		Granted during the year	Reclassification	Lapsed during the year				
Directors:								
Hung Kai So	1,600,000	-	-	-	1,600,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
Kam loi	1,600,000	-	-	-	1,600,000	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
	4,151,700	-	-	-	4,151,700	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Sae-lao Rakchanok	2,500,000	-	(2,500,000)	-	-	30 April 2003	30 April 2003 to 30 April 2006	0.25
(retired as a director of the Company on 18 Oct. 2004)	4,151,700	-	(4,151,700)	-	-	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Liu Jun	2,500,000	-	-	-	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	4,151,700	-	-	-	4,151,700	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Lee Kwok Ming ("Mr. Lee")	20,000,000	-	-	-	20,000,000	5 Jan. 2004	5 Jan. 2004 to 4 Jan. 2009	0.495
	<u>43,155,100</u>	<u>-</u>	<u>(6,651,700)</u>	<u>-</u>	<u>36,503,400</u>			

Notes to the Financial Statements

For the year ended 30 June 2005

24. SHARE OPTION SCHEME (continued)

Name or category of participant	At 1 July 2004	Number of share options			At 30 June 2005	Date of grant*	Exercise Period	Exercise price**	
		Granted during the year	Reclassification	Lapsed during the year					Exercised during the year
Other employees:									
In aggregate	750,000	-	2,500,000	-	-	3,250,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
In aggregate	4,370,000	-	4,151,700	(670,000)	(60,000)	7,791,700	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
In aggregate	5,700,000	-	-	(3,000,000)	-	2,700,000	1 June 2004	1 June 2004 to 31 May 2007	0.425
In aggregate	-	26,902,728	(100,000)	(7,801,364)	-	19,001,364	14 Oct. 2004	14 Oct. 2004 to 13 Oct. 2007	0.371
	<u>10,820,000</u>	<u>26,902,728</u>	<u>6,551,700</u>	<u>(11,471,364)</u>	<u>(60,000)</u>	<u>32,743,064</u>			
Suppliers:									
In aggregate	1,500,000	-	-	-	-	1,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
In aggregate	-	9,000,000	-	-	-	9,000,000	14 Oct. 2004	14 Oct. 2004 to 13 Oct. 2007	0.371
In aggregate	-	6,000,000	-	-	-	6,000,000	28 Oct. 2004	28 Oct. 2004 to 27 Oct. 2009	0.355
	<u>1,500,000</u>	<u>15,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,500,000</u>			
Customers:									
In aggregate	2,805,000	-	-	-	-	2,805,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
In aggregate	-	4,050,000	100,000	-	-	4,150,000	14 Oct. 2004	14 Oct. 2004 to 13 Oct. 2007	0.371
	<u>2,805,000</u>	<u>4,050,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>6,955,000</u>			
	<u>58,280,100</u>	<u>45,952,728</u>	<u>-</u>	<u>(11,471,364)</u>	<u>(60,000)</u>	<u>92,701,464</u>			

* 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 share options granted on 30 April 2003 shall be exercisable up to 30%, 60% and 100% on or before 30 April 2004, 2005 and 2006, respectively, for all grantees under the Scheme.

The share options granted on 4 November 2003 shall be exercisable up to 30%, 60% and 100% on or before 4 November 2004, 2005 and 2006, respectively, for grantees other than the directors of the Company.

The share options for subscribing for 20,000,000 shares granted to Mr. Lee on 5 January 2004 shall be exercisable for not more than 5,000,000 shares upon the occurrence of each of the four events as set out in the circular to shareholders of the Company dated 21 January 2004.

The share options granted on 1 June 2004 shall be exercisable up to 30%, 60% and 100% on or before 31 May 2005, 2006 and 2007, respectively, by the grantees.

Notes to the Financial Statements

For the year ended 30 June 2005

24. SHARE OPTION SCHEME (continued)

The share options granted on 14 October 2004 shall be exercisable up to 30%, 60% and 100% on or before 13 October 2005, 2006 and 2007, respectively, by the grantees.

The share options granted on 28 October 2004 shall be exercisable as to 2,000,000 share options on execution of the marketing service agreement dated 28 October 2004 and entered into between the Company and the grantee, and as to 4,000,000 share options on completion of the marketing services to be provided by the grantee.

The consideration for the grant of share options is HK\$1.00. The closing prices of the Company's shares traded on the Stock Exchange immediately before the dates of grant of share options on 14 October 2004 and 28 October 2004 are HK\$0.37 and HK\$0.345, respectively. The weighted average closing prices of the Company's shares traded on the Stock Exchange immediately before the date of exercise of 60,000 share options at the exercise price of HK\$0.30 per share is HK\$0.312.

No share options under the Scheme were cancelled during the year.

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 24 of the financial statements.

The Group's capital reserve represented the amount of retained earnings of Vitop China applied for the increase in its registered and paid-up capital.

In accordance with the relevant PRC regulations applicable to WOFEs, Vitop China and Shanghai Heng Fai, being the wholly-owned subsidiaries of the Company, are required to transfer 10% of their profit after tax, if any, to the statutory reserve until the balance of the fund reach 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against their respective accumulated losses.

Notes to the Financial Statements

For the year ended 30 June 2005

25. RESERVES (continued)

Company

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits/ (Accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2003	49,998	29	1,070	51,097
Share options exercised	3,298	–	–	3,298
Net profit for the year	–	–	6,944	6,944
Proposed final 2004 dividend	–	–	(6,782)	(6,782)
At 30 June 2004 and at 1 July 2004	53,296	29	1,232	54,557
Issue of new shares	1,045	–	–	1,045
Share options exercised	16	–	–	16
2004 final dividend for new shares subscribed	–	–	(19)	(19)
Net loss for the year	–	–	(5,819)	(5,819)
Proposed final 2005 dividend	(4,910)	–	–	(4,910)
At 30 June 2005	49,447	29	(4,606)	44,870

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

Notes to the Financial Statements

For the year ended 30 June 2005

26. OPERATING LEASE COMMITMENTS

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

As at 30 June 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	3,430	3,060
In the second to fifth years	5,525	6,900
	8,955	9,960

The Company did not have any significant operating lease arrangements as at the balance sheet date (2004: Nil).

27. CONTINGENT LIABILITIES

The Group's bank loan facility amounting to HK\$5,000,000 (2004: Nil) is supported by a corporate guarantee executed by the Company (2004: Nil).

Save as disclosed above, neither the Group nor the Company had significant contingent liabilities as at the balance sheet date.

28. CAPITAL COMMITMENTS

As at 30 June 2005, the Group and the Company had outstanding capital commitments in respect of the capital injection to Vitop OSG, a jointly controlled entity of the Group, of approximately HK\$2,943,000 (2004: HK\$3,675,000) which have been contracted but not provided for in the financial statements.

29. OTHER COMMITMENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Commitments contracted, but not provided for:		
– fixed assets	2,336	2,860
– others	1,300	–
	3,636	2,860

The Company did not have any significant other commitments as at the balance sheet date (2004 : Nil).

Notes to the Financial Statements

For the year ended 30 June 2005

30. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, during the year, the Group had the following material transactions with certain related parties:

	Notes	Group 2005 HK\$'000	2004 HK\$'000
Sales to a minority shareholder of a subsidiary of the Company	(i)	–	919
Rental expenses paid to a minority shareholder of a subsidiary of the Company	(i)	471	118
Purchase of goods from the joint venture partner of the jointly controlled entity of the Group	(i)	17,720	2,560
Purchases from a jointly controlled entity	(i)	5,114	–
Rental expenses paid to a related company	(ii)	–	748

Notes:

- (i) The Group's transactions with a minority shareholder of a subsidiary of the Company, its jointly controlled entity and the joint venture partner of its jointly controlled entity were made in accordance with the agreements entered into between both parties.
- (ii) 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 rental. 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.
- (iii) On 5 January 2004, the Company and Mr. Lee entered into a subscription agreement (the "Subscription Agreement") relating to the subscription of an aggregate of 7,752,000 ordinary shares of HK\$0.025 each in the capital of the Company at HK\$0.31 per share (the "Subscription Price"). The Subscription Price is determined by reference to the average closing price of the Company's shares for the ten trading days on the Stock Exchange immediately preceding the date of the Subscription Agreement. Completion of the subscription would take place in four tranches, as to 1,938,000 subscription shares each on the seventh business days after the expiration of each six-month period, with the first six-month period commencing from 5 January 2004.

The entering into of the Subscription Agreement constituted a connected transaction for the Company under the Listing Rules and was subject to independent shareholders' approval. Further details of the Subscription Agreement are set out in the circular to shareholders of the Company dated 21 January 2004. On 9 February 2004, the independent shareholders' approval was obtained at an extraordinary general meeting of the Company.

On 13 July 2004, the first tranche of 1,938,000 shares was subscribed by Mr. Lee at HK\$0.31 each pursuant to the Subscription Agreement.

Notes to the Financial Statements

For the year ended 30 June 2005

30. RELATED PARTY TRANSACTIONS (continued)

On 5 January 2005, Mr. Lee resigned as an executive director of the Company and remains a non-executive director of the Company. Upon resignation of Mr. Lee as an executive director, a termination agreement (the "Termination Agreement") was entered into between the Company and Mr. Lee terminating the service agreement between the Company and Mr. Lee in relation to his appointment as an executive director of the Company and the Subscription Agreement. Pursuant to the Termination Agreement, Mr. Lee was entitled to subscribe for an additional 1,727,348 new shares under the Subscription Agreement, representing a pro rata portion of the 1,938,000 shares. Save as aforementioned, upon termination of the Subscription Agreement, Mr. Lee is no longer obligated nor eligible to subscribe for the remaining 4,086,652 shares under the Subscription Agreement.

On 13 January 2005, Mr. Lee subscribed for 1,727,348 shares at HK\$0.31 each pursuant to the Termination Agreement.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Purchase of subsidiaries

	2005 HK\$'000	2004 <i>HK\$'000</i>
Net assets acquired		
Fixed assets	-	7,670
Inventories	-	2,827
Trade and other receivables	-	2,046
Cash at banks and in hand	-	4,222
Trade and other payables	-	(9,094)
Minority shareholders' interests	-	(835)
	<u>-</u>	<u>6,836</u>
Satisfied by Cash consideration	<u>-</u>	<u>6,836</u>

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Cash consideration	-	(6,836)
Cash at banks and in hand acquired	-	4,222
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	<u>-</u>	<u>(2,614)</u>

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 19 to 53 were approved and authorised for issue by the Board on 21 October 2005.