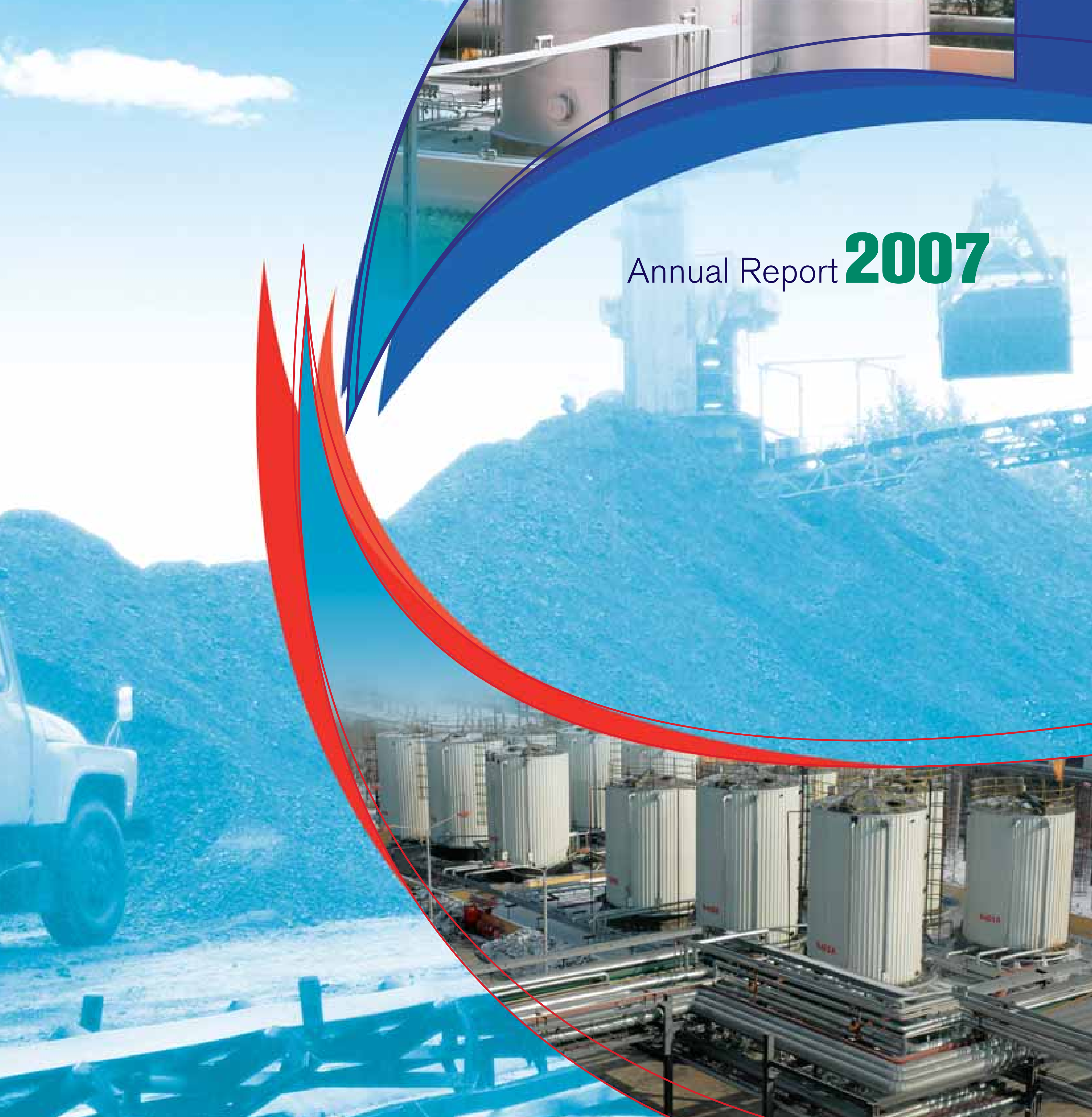
中國天
China Zenith

China Zenith Chemical Group Limited
中國天化工集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Formerly known as Daqing Petroleum and Chemical Group Limited)
(Stock Code: 362)

Annual Report 2007



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Chan Yuk Foebe
Mr. Peng Zhanrong
Mr. Chiau Che Kong

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan
Mr. Yau Chung Hong
Mr. Tam Ching Ho *(appointed on 30 June 2007)*
Mr. Meng Fanxi *(resigned on 30 March 2007)*

COMPANY SECRETARY

Mr. Tsang Chiu Hung

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1101-12
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Ms. Chan Yuk Foebe
Mr. Chiau Che Kong

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Hong Kong

LEGAL ADVISERS TO THE COMPANY

Huen Wong & Co. in association with
Fried, Frank, Harris, Shriver & Jacobson LLP
9/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
83 Des Voeux Road Central
Central
Hong Kong

Standard Chartered Bank
Shop A25–A27, Ground Floor
Kwai Chung Plaza
Hong Kong

Industrial And Commercial Bank of China
No. 155 Xisan Tiao Road
Mudanjiang City
Heilongjiang Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

KEY DATES

Annual General Meeting:
6 December 2007

Stock Code: 00362

Chairman's Statement

On behalf of China Zenith Chemical Group Limited (formerly known as Daqing Petroleum and Chemical Group Limited) (the "Company"), I am pleased to announce the results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2007.

BUSINESS REVIEW

To achieve the goal of fast development and sustainable growth, the Group has migrated from manufacturing of petroleum refined chemical products to manufacturing of coal related chemical products. The strategic movement was decided in early year 2004. This sound decision is proven from the remarkable performance of the coal related chemical products division recorded in this financial year under review.

Coal related chemical products division

During the year under review, the Group has devoted more resources and efforts in the development of coal related chemical sector. Owing to the continuous high price of crude oils, coal related chemical products manufactured from our production lines are able to maintain its cost competitiveness over our competitors which adopt production method using petroleum related chemical raw materials.

Polyvinyl – chloride ("PVC")

During the year under review, the turnover of the PVC business represents 55.6% of the consolidated turnover of the continuing operations of the Group, after elimination of intragroup sales of HK$0.7 million. The PVC business becomes the major operating activities of the Group. The Group has successfully upgraded the existing production facility to raise its production level by 50%. In addition, the production facility has been fully-utilized throughout the year. Furthermore, minimum stock level is being kept as there is an excess demand for the PVC and PVC's by-products manufactured by the Group.

Vinyl acetate

During the financial year under review, the brilliant record high results from the operation of vinyl acetate business were recorded since the establishment of vinyl acetate production facilities in 2004.

The turnover of the vinyl acetate business represents 32.5% of the consolidated turnover of the continuing operations of the Group. The vinyl acetate business becomes the second major operating activities of the Group. During the year under review, the production facility has been operated at full capacities throughout the year.

Our Mudanjiang vinyl acetate plant is the first and only PRC plant using the production technique of calcium carbide methodology (電石法化工工藝方法) to produce vinyl acetate with superior quality (concentration greater than 99.98%). Our vinyl acetate plant is operated at a more cost-efficient manner than those plants which adopt the production technique of ethylene methodology (乙烯法化工工藝方法) during high crude oil price period.

Petroleum refined products division (discontinued operations)

During the financial year under review, the turnover of the discontinued operations represents only 10.0% of the consolidated turnover of the Group.

The crude oil prices attained at successive record highs, this in turn caused the rise in prices of most petrochemical downstream materials. Some of these materials even encountered occasional supply shortage. The Group's petroleum refined products business can only pass a small portion of the cost increment to its customers and thus adversely affects the profit margin of the Group. Moreover, the nation-wide decrease in production level of base oil, one of the major raw materials for lubricant, causes shortage in its supply. The board of directors of the Company (the "Board") believes this situation will not change in the foreseeable future. Considering the future prospect of petroleum refined products, the Board considers that there is high level of uncertainty factors, such as adverse market condition and threat from market leader. Thus, the Board has proposed to dispose of the petroleum refined products business to provide additional resources to other businesses including coal related chemical products and bio-chemical products, which the Board believes to have a higher growth potential.

Petroleum refined products division (discontinued operations) (continued)

The disposal of the petroleum refined products division of the Group was properly approved by shareholders at the extraordinary general meeting held on 27 February 2007. The loss contributing petroleum refined product division was finally disposed off through the completion of the disposal of Earlsmead Enterprises Limited ("Earlsmead"), a subsidiary of the Company on 4 April 2007.

PROSPECT

PVC

The demand for PVC materials is high in developed countries, such as the United States and European countries. Since the PRC is evolving from a developing country towards a developed country, the expected demand for PVC materials in the PRC is substantial. In addition, more manufacturing activities will be relocated from the southern region of the PRC to the northern region of the PRC. Bohai River Delta will become more and more imperative because more business opportunities will be created as liberal preferential measures will be given under the PRC government's policy in relation to the reform and restructuring of the existing state-owned industry in the northeastern region in the PRC. For these reasons, the Group will continue to have unlimited opportunities for long-term growth and development. In view of this, the Group has constructed a new PVC production facility aiming at producing emulsion PVC raw materials. The construction was completed in August 2007. The newly built emulsion PVC production facility is now running efficiently. The profit margin of emulsion PVC is greater than that of the existing suspension PVC. As a consequence of the revised product mix (starting to manufacture emulsion PVC raw materials which entail high profit margin), the PVC business is expected to yield considerable profits for the Group in the coming year.

Vinyl acetate

Because of the fruitful contribution from vinyl acetate business in the past financial year, the Group started vinyl acetate production capacities expansion in September 2006. The second phase expansion in production capacities project was completed in July 2007. The upgraded vinyl acetate production facilities with designed production capacity of 40,000 tons have been operating smoothly since August 2007.

Bio-chemical products (glucose and starch)

The Group has made plan to make modifications to streamline the production process pursuing to operate the glucose and starch production facilities at normal design capacities. To create the product synergy effect, the Board has also considered processing glucose into acetic acid (acetic acid is one of the major raw materials for production of vinyl acetate) and other chemical products. To pursue continuous growth, the Group will make every effort to diversify its product mix, as well as enhance its capability in developing high value-added products and new applications through in-house research and development.

Looking forward, the Group will make its best endeavors to capture market opportunities and the Group's growth potential through suitable economy scale of production, vertical integration to acquire or merge with other coal related chemical businesses in the northeastern region of the PRC, and employment of highly experienced management expertise.

Gratitude

On behalf of the Company, I would like to express my sincere gratitude to our employees for their hard work and contribution to the success of the Group and also to our friends and business associates from all sectors for their continuing trust and support.

By order of the Board

Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong, 5 October 2007

Management Discussion and Analysis

BUSINESS ENVIRONMENT

The growth of profit from operating activities of the Group was mainly attributed to an increase in the sales volume and the reduced average cost of production of coal related chemical products including both PVC raw materials and vinyl acetate. During the year, as the macro-economic environment was healthy and the GDP of people in the PRC increased, the demand in PVC consumption also increased which enabled the Group to achieve satisfactory financial results. Moreover, the enhancement of quality and service standard of vinyl acetate business enables the Group to maintain the relationship with the loyal customers and attain optimisation of production facilities to lower the cost of production aiming at increasing its competitiveness.

For the year ended 30 June 2007, the Group recorded net profit attributable to shareholders of HK$64.3 million. Excluding the loss contributed from the discontinued petroleum refined products business attributable to shareholders of HK$89.4 million and the loss on the disposal of such business of HK$48.4 million (before release of exchange reserve of HK$22.0 million), the adjusted net profit attributable to shareholders amounted to HK$180.1 million.

During the year under review, excluding the loss contributed from the discontinued petroleum refined products business, the Group attained a significant growth of net profit attributable to shareholders of 162% over the corresponding period of the previous year. The net profit attributable to shareholders, excluding the profit contributed from the discontinued petroleum refined products business, for last year was HK$68.8 million.

BUSINESS REVIEW

Coal related chemical products division

The high contribution to the growth of profit of the Group of both PVC and vinyl acetate were mainly the result of the competitive advantage of using coal related production methodology other than using the petroleum related production methodology during high crude oil price period, the effective cost control over material consumption in production cycles and the appealing cutback in bulk purchase of main raw materials.

PVC

Since September 2005, the Group has been operating the PVC production. During the year under review, the PVC segment recorded a turnover of approximately HK$507,647,000 representing a significant increase of 56.6% (based on monthly proportional adjustment: nine months in last year and twelve months in this year) over the corresponding period of the previous year. Operating profit of approximately HK$146,993,000 represented a significant increase of 185.8% (based on monthly proportional adjustment: nine months in last year and twelve months in this year) over the corresponding period of the previous year. The increase in turnover is mainly due to the increase in production quantities by 50% through proper stock management, striking the balance between bulk purchase of raw materials for better price and keeping minimum safety stock for production. The growth in operating profit is owing to both of the better economy of scale and efficient stock management.

Vinyl acetate

The Group commenced the development of coal related chemical sector since 2004, with vinyl acetate being its first coal related chemical project. During the financial year, turnover was approximately HK$296,073,000, representing a significant increase of 30.5% over approximately HK$226,900,000 in last year. Operating profit was approximately HK$95,524,000, representing a significant increase of 33.1% over approximately HK$71,779,000 in last year. The increase in turnover and operating profit was the result of the fact that the production facility was running at full capacities to fulfill sales orders received from institutional manufacturers.

BUSINESS REVIEW (continued)

Bio-chemical products division

The Group successfully acquired Better Day Bio-Chem Technology Ltd., which is the owner of 60% of the equity interest in the Mudanjiang Gaoke Bio-Chem Co., Ltd. ("Mudanjiang Gaoke") by entering into a share purchase agreement on 18 May 2006. The business scope of Mudanjiang Gaoke is the production and sale of glucose and starch. On 16 August 2006, the Group formally took over the assets and related operations of Mudanjiang Gaoke. The refurbishment of glucose and starch production lines was successfully completed in August 2006 and November 2006, respectively. The production of glucose and starch is at trial-run stage. During the year under review, the glucose and starch segment recorded a turnover of approximately HK$79,941,000 and an operating loss of approximately HK$31,122,000, respectively. The Group has planned to operate the existing plants at design capacities by the end of year 2007 and the division will start to generate profits to the Group.

Heat and Power division

The Group has completed the acquisition of Mudanjiang Better Day Power Ltd. ("Mudanjiang BD Power") on 8 January 2007. Mudanjiang BD Power is engaged in the generation and supply of power and steam in Mudanjiang, Heilongjiang Province, the PRC. During the year under review, the heat and power segment recorded a turnover of approximately HK$48,711,000 and an operating profit of approximately HK$3,674,000. The objective of the acquisition of Mudanjiang BD Power is to secure a supply of the key input to the production process of the Group. Furthermore, this also enables the Group to lower its cost of production and in turn maintains its competitive advantage in the region.

Petroleum refined products division (discontinued operations)

During the year under review, lubricants and anti-corrosive coating segments achieved turnover of a total of approximately HK$100,775,000 representing a decrease of 65.5% over approximately HK$292,163,000 in last year. Operating loss for the aforesaid segments was approximately HK$103,011,000 during the year under review, while there was a profit of approximately HK$31,353,000 in last year. The financial results were incorporated in the consolidated income statement up to the date of disposal.

PROSPECTS

PVC

The Group has formulated plans to dynamically expand capacity of production of PVC raw materials to pursue a better economy scale of production. The whole expansion project has been approved by the relevant provincial government in respect of production safety and environmental protection. The Group has employed chemical industry design house's expert to work on the detailed design of the aforesaid expansion. The Group has acquired a single piece of industrial land with a site area of approximately 400,000 square metres through the completion of acquisition of Daytech Group Limited on 17 August 2007. The acquired piece of land is planned to house the new production facilities for emulsified PVC, suspension PVC and calcium carbide.

Calcium carbide

The production of vinyl acetate and PVC consumes large amount of calcium carbide as major raw material. The Group has planned to build its own calcium carbide production facilities for internal consumption. It is the target of the Group that approximately 90% of calcium carbide consumption for the production of vinyl acetate and PVC (after expansion) will be fulfilled. This will secure the key raw material and lower the cost for the coal related chemical products division.

Heat and Power

The increase in production capacities of vinyl acetate, PVC, and calcium carbide will in turn provide an opportunity for the heat and power division to expand. Plans have been formulated to build another two new sets of coal powered generation facilities to house the increased aforesaid demand. Provincial government approval has been obtained for such expansion plan. The Group is now working on the detailed design of such expansion. Moreover, application on the preferential tariff on electricity generated and supplied for new PVC and calcium carbide expansion project of the Group have been filed and common view has been reached.

After the completion of the PVC, calcium carbide and heat and power expansion, the Board believes that such move will certainly enhance the profit contribution to the Group and benefit the shareholders as a whole.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Capital structure

The Group maintained a strong financial position throughout the year under review. The Group financed its operations and business development with internally generated resources and equity funding.

Equity funding

The net proceeds raised by the placement of existing shares and subscription of new shares of the Company by a substantial shareholder announced on 6 April 2006 was approximately HK$118 million. At the date of this report, the whole amount was utilised by the Group. At the date of this report, approximately HK$72 million was utilised to acquire the glucose and starch business, approximately HK$20 million was utilised to acquire the heat and power business, approximately HK$18 million was utilised as working capital of the Group and approximately HK$8 million was utilised for the acquisition to expand the coal related chemical sector in August 2007.

The net proceeds raised by the placement of existing shares and subscription of new shares of the Company by a substantial shareholder announced on 3 May 2006 was about HK$43 million. At the date of this report, the whole amount was utilised by the Group as working capital.

During this financial year, the Company raised funds from the issuance of a total of 1,276,289,000 new shares of which 1,050,770,000 new shares through an open offer of share on the basis of one offer share for every two existing shares; 72,590,000 new shares through the exercise of share options by option holders; and approximately 152,929,000 new shares through the exercise of bonus warrants.

The net proceeds raised by the open offer by issuing 1,050,770,000 offer shares announced on 23 November 2006 was approximately HK$307 million. At the date of this report, approximately HK$252 million was utilised by the Group. Among which, approximately HK$145 million was utilised for the establishment of a calcium carbide production facilities, approximately HK$50 million was injected into Mudanjiang Dongbei Gaoxin Chemical Company Limited for the expansion of the production facilities of the PVC business and approximately HK$57 million was utilised as working capital of the Group. At the date of this report, approximately HK$55 million for the intended establishment of a calcium carbide production facilities was not yet utilised by the Group.

During this year under review, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$35 million. Subsequent to the year end and before the date of this report, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$48 million. At the date of this report, the whole amount of approximately HK$83 million for working capital was not yet utilised by the Group.

During this year under review, the net proceeds raised from the exercise of bonus warrants announced on 22 March 2007 was approximately HK$66 million. Subsequent to the year end and before the date of this report, the net proceeds raised from the exercise of bonus warrants announced on 22 March 2007 was approximately HK$75 million. At the date of this report, the whole amount of HK$141 million for working capital was not yet utilised by the Group.

Internally generated resources

The disposal of Earlsmead Enterprises Limited ("Earlsmead"), a wholly-owned subsidiary of the Company, was announced by the Company on 17 January 2007 and properly approved by its extraordinary general meeting held on 27 February 2007. The estimated net proceeds from the disposal was approximately HK$350 million. At the date of this report, approximately HK$347 million was utilised by the Group. Among which, approximately HK$180 million was utilised to acquire the heat and power business and approximately HK$167 million was utilised as working capital of the Group. At the date of this report, approximately HK$3 million was not yet utilised by the Group.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES (continued)

Liquidity and Financial Ratios

At 30 June 2007, the Group had total assets of approximately HK$2,148.6 million (30 June 2006: HK$1,200.6 million) which were financed by current liabilities of approximately HK$238.5 million (30 June 2006: HK$70.9 million), non-current liabilities of approximately HK$165.9 million (30 June 2006: HK$1.6 million), minority interests of approximately HK$240.8 million (30 June 2006: HK$113.7 million) and shareholders' equity of approximately HK$1,503.4 million (30 June 2006: HK$1,014.3 million).

At 30 June 2007, the current assets of the Group amounted to approximately HK$682.9 million (30 June 2006: HK$790.4 million) comprising inventories of approximately HK$106.1 million (30 June 2006: HK$85.2 million), trade receivables of approximately HK$142.9 million (30 June 2006: HK$124.7 million), prepayments, deposits and other receivables of approximately HK$263.9 million (30 June 2006: HK$78.8 million), cash and cash equivalents of approximately HK$170.0 million (30 June 2006: HK$501.7 million).

At 30 June 2007, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets - inventory)/current liabilities)), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/shareholders' equity) of the Group were approximately 2.9 (30 June 2006: 11.1), 2.4 (30 June 2006: 9.9), 18.8% (30 June 2006: 6.0%) and 26.9% (30 June 2006: 7.2%), respectively.

The financial health of the Group has been maintained at a satisfactory status throughout the year as indicated by the above figures.

Foreign exchange exposure

Although most of the operations were carried out in the PRC in which transactions were denominated in RMB, the directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of RMB in recent years. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2007.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2007, the Group had 2,110 full time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance related commissions.

At 30 June 2007, no share options were outstanding. All the share options granted before year end were either exercised or cancelled during the year.

Subsequent to the balance sheet date, there were 337.0 million share options granted to senior management of the PRC subsidiaries of the Group, out of which 82.4 million share options were exercised in August 2007. As a result, 82.4 million additional ordinary shares of the Company were issued and additional working capital of HK$48.0 million was received.

At the date of this report, 254.6 million share options are outstanding. This comprises 86.1 million share options with exercisable period up to 23 July 2010 at the exercise price of HK$0.582 per share and 168.5 million share options with exercisable period up to 23 August 2010 at the exercise price of HK$0.42 per share.

Corporate Governance Report

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

For the year ended 30 June 2007, the Group has applied the principles of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and complied with the code provisions of the CG Code, except for the following aspect:

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, both roles are performed by Ms. Chan Yuk Foebe, the Chairman. In the opinion of directors, given the scale of operation and the size of the Group, the present arrangement is beneficial to the Company and the shareholders as a whole.

This report describes the Group's corporate governance practices applied throughout the year.

THE BOARD OF DIRECTORS

Composition and Practices

The Board is responsible for overseeing the Group's strategic planning and development, and for determining the objectives, strategic and policies of the Group while delegating day-to-day operations of the Group to management. Besides, each member of the Board is expected to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

As at 30 June 2007, the Board comprises six members including Ms. Chan Yuk Foebe as the Chairman and Chief Executive Officer, Mr. Peng Zhanrong and Mr. Chiau Che Kong as executive directors and Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho as independent non-executive directors. Details of their respective experience and qualification are included in the "Biographical Details of Directors and Senior Management" section of this annual report.

The Board has maintained a balance of skills and experience appropriate for the requirements of the businesses of the Group. Its composition represents a mixture of management, accounting and finance, marketing, manufacturing and procurement with comprehensive experience in and exposure to diversified businesses. It is the opinion of the directors that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interest of the Company.

Besides, to the best knowledge of the Company, there is no material relationship, whether financial, operational, family, etc, among members of the Board.

All independent non-executive directors comply with the guidelines on independence set out under Rule 3.13 of the Listing Rules and have not violated any provision thereunder throughout the year. Amongst them, Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho have the appropriate professional qualifications and accounting and related financial management expertise required under Rules 3.10(2).

THE BOARD OF DIRECTORS (THE "BOARD") (continued)

The Board Meeting

During the year ended 30 June 2007, 41 Board meetings were held. The attendance of each director, on name basis and by category, at Board meetings and Board committee meetings during the year is set out below:

	Number of meeting attended/ Number of meeting held		
Directors	Board	Remuneration Committee	Audit Committee
Executives directors			
Ms. Chan Yuk Foebe *(Chairman and Chief Executive Officer)*	36/39	–	–
Mr. Peng Zhanrong	13/39	–	–
Mr. Chiau Che Kong	39/39	–	–
Independent non-executive directors			
Mr. Ma Wing Yun Byran	8/39	–	2/2
Mr. Yau Chung Hong	10/39	–	2/2
Mr. Meng Fanxi (resigned on 30 March 2007)*	4/14	–	1/2
Mr. Tam Ching Ho (appointed on 30 June 2007)#	–	–	–

* indicates the number of Board meetings held before the resignation of Mr. Meng Fanxi

\# indicates the number of Board meetings held after the appointment of Mr. Tam Ching Ho

Pursuant to the Articles, meetings or extraordinary meetings of the Board may be convened by means of telephone or similar telecommunication facilities. Regular meetings of the Board were held during the year. Extra meetings were also held to cater for important matters arising from time to time. Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least three days before each meeting to keep the directors apprised of the latest developments and financial position of the Company to enable them to make informed decisions.

Minutes of Board/committee meetings would be kept by the company secretary of the Company and shall open for inspection by director. Where directors have a material or conflict of interests in any transaction discussed in the Board/committee meetings will not be dealt with by way of written resolutions. The directors concerned could express views but would not be counted as part of the quorum and shall abstain from voting on the relevant resolutions.

In addition, to facilitate the decision-making process, the directors are free to have access to the management for enquiries and to obtain further information, when required. The directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All directors have unrestricted access to the company secretary who is responsible for ensuring that the Board/committee procedures are complied with and for advising the Board/committee on compliance matters.

Appointment and Re-election of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession plan of directors.

All of the independent non-executive directors of the Company are appointed for a specific term. The term of office for Mr. Ma Wing Yun Bryan and Mr. Yau Chung Hong is three years with effect from 1 April 2006. The term of office for Mr. Tam Ching Ho is effective from 30 June 2007 until the next annual general meeting.

THE BOARD OF DIRECTORS (continued)

Appointment and Re-election of Directors (continued)

In accordance with the Articles, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession plan of directors and assessing the independence of independent non-executive directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same person. Ms. Chan Yuk Foebe currently holds both positions. In the opinion of directors, given the scale of operation and the size of the Group, the present arrangement is beneficial to the Company and the shareholders as a whole. The Board also believes that vesting the roles of both Chairman and Chief Executive Officer on the same person provides the Group with strong and consistent leadership; allows for more effective planning and execution of long-term business strategies; and enhances the efficiency of decision making process in response to the changing environment.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors (the "Model Code"). Having made specific enquiry with all directors, the Company confirmed that all the directors have compiled with the code provisions set out in the Model Code throughout the year ended 30 June 2007.

BOARD COMMITTEES

The Board has established two Board committees, namely the remuneration committee ("Remuneration Committee") and the audit committee ("Audit Committee") for overseeing particular aspects of affairs of the Company. These committees have been established with defined written terms of reference, as approved by the Board, which set out the committee's major duties.

The Board committees are provided with sufficient resources to discharge their duties and upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the expenses of the Company.

Audit Committee

The Company set up the Audit Committee on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control systems. In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised on 21 October 2006 in terms substantially the same as the provisions set out in the CG Code.

The Audit Committee currently comprises three independent non-executive directors of the Company, namely, Mr. Ma Wing Yun Bryan (Chairman of the Committee), Mr. Tam Ching Ho and Mr. Yau Chung Hong, all of whom are not involved in the day-to-day management of the Company.

BOARD COMMITTEES (continued)

Audit Committee (continued)

The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process. The Audit Committee is also responsible for reviewing the auditor's appointment, the auditor's remuneration and any matters relating to the termination of, the appointment of and the resignation of the auditor. In addition, the Audit Committee also examines the effectiveness of the Company's internal controls, which involve regular reviews of the internal controls of various corporate structure and business processes on a continuous basis, and take into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies. The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditor and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, the Audit Committee has reviewed the audited financial statements of the Company for the year ended 30 June 2007.

During the year, the Audit Committee has met two times together with the financial controller of the Company. Moreover, the Audit Committee also met one time with the external auditor. Please refer to the table set out in the section "The Board Meetings" of this report for the attendance record of individual Audit Committee members.

The Audit Committee has recommended to the Board that RSM Nelson Wheeler, be nominated for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

DIRECTOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for (i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements are in accordance with statutory requirements and applicable accounting standards and (ii) selecting suitable accounting policies and applying them consistently with the support of reasonable and prudent judgments and estimates.

The independent auditor's report of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out on pages 26 and 27 of this annual report.

Remuneration Committee

The Remuneration Committee was established on 1 July 2005 with specific written terms of reference in compliance of the code provision in B.1 of the CG Code. The Remuneration Committee, currently comprises three independent non-executive directors, namely Mr. Ma Wing Yun Bryan (Chairman of the Committee), Mr. Yau Chung Hong and Mr. Tam Ching Ho and one executive director, Ms. Chan Yuk Foebe.

The Remuneration Committee is responsible for advising the Board on the remuneration policy and framework for all remuneration of the Company's directors and senior management, as well as reviewing and determining the remuneration packages of directors and senior management, and approving the compensation to directors and senior management on termination or dismissal. No director was involved in deciding his/her own remuneration.

The Remuneration Committee meets at least once a year. The Remuneration Committee's meeting was held on 19 July 2007. The attendance of each member of the Remuneration Committee, on named basis and by category, at committee meeting during the year is set out in the section "The Board Meetings" of this report above.

ACCOUNTABILITY AND AUDITOR'S REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 30 June 2007.

The statement of the external auditor of the Company about their responsibilities on the financial statements is set out in the "Independent Auditor's Report" section of this annual report.

ACCOUNTABILITY AND AUDITOR'S REMUNERATION (continued)

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee in respect of the selection, appointment, resignation or dismissal of external auditor.

The remuneration paid to RSM Nelson Wheeler, the external auditor of the Company, and the nature of services are set out as follows:

Type of services provided by the external auditor Fee paid/payable	**Fee paid/ payable** HK$'000
Audit services:	
Audit of annual financial statements	930
Non-audit services:	
Review of disclosure requirement for interim financial statements	50
Major transaction for disposal of Earlsmead	250
	300

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The internal audit department was set up on 15 May 2006, under the supervision of the Board. During the year, the Board reviewed the effectiveness of the internal control systems of the Group and had an independent evaluation to report on the adequacy and effectiveness of the Company's controls, information system and operations. The review covers aspects relating to financial, operational and compliance and risk management control functions of the Company.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company encourages two-way communications with both institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to shareholders of the Company.

Designated executive directors and senior management maintain regular dialogue with institutional investors and analysis to keep them abreast of the Company's developments. Enquires from investors are dealt with in an informative and timely manner. Investor may write directly to the Company at its principal place of businesses in Hong Kong for any inquiries.

At general meetings, the Chairman of the meetings raises separate resolutions for each effectively independent matter. The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board and the chairman of the Board committees, or in their absence, other members of the respective committees, are normally available to answer questions at the shareholders' meetings.

The detailed procedures for poll and for demanding a poll are set out in the circulars to shareholders.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Ms. Chan Yuk Foebe (陳昱), aged 38, is the Chairman and chief executive officer of the Group and joined the Group in January 2004. Ms. Chan is responsible for overall management and business development of the Group. Ms. Chan holds a Bachelor Degree in Accountancy from the Queensland University of Technology in Australia. Ms. Chan has over 10 years' experience in areas of corporate finance and management. Ms. Chan is a non-executive director of Heng Tai Consumables Group Limited ("Heng Tai"), a listed company on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. Peng Zhanrong (彭展榮), aged 37, is an executive director of the Company and joined the Group in February 2004. Mr. Peng is responsible for overseeing the operation of the Group's investment in Mudanjiang, Heilongjiang Province, the PRC. Mr. Peng graduated from the South China University of Technology majoring in chemical engineering in the PRC. Mr. Peng has over 10 years' experience in the auto and petroleum industries in the PRC prior to joining the Group in February 2004. Mr. Peng is also an executive director of Heng Tai.

Mr. Chiau Che Kong (周志剛), aged 39, is an executive director of the Company. Mr. Chiau is specialized and has over 10 years' experience in the trading industry of consumer products in Hong Kong and the PRC prior to joining the Group in February 2004 as marketing manager. Mr. Chiau was appointed as executive director on 14 December 2005 and is responsible for the Group's administration and business development.

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan (馬榮欣), aged 41, is an independent non-executive director and is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Ma is the director of Sichuan Unionsun Electric Power Limited, a non-listed company, and has more than 12 years of experience in financial management and operational management. Mr. Ma is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Ma was appointed as an independent non-executive director in February 2001.

Mr. Yau Chung Hong (丘忠航), aged 37, is an independent non-executive director. He joined the Group in March 2005 and is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Yau is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He is currently an executive director of China Northern Enterprises Investment Fund Ltd. and an independent non-executive director of Chitaly Holdings Limited. He is also a financial advisor to Shenyang City SME Bureau of the PRC on overseas listing and financial matters for Shenyang enterprises in the PRC.

Mr. Tam Ching Ho (譚政豪), aged 36, is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a certified public accountant in Hong Kong. Mr. Tam has about 14 years of experience in areas of corporate finance, listing compliance, accounting and auditing. Mr. Tam is currently the Group Financial Controller of Celestial NutriFoods Limited, a company whose shares are listed on the main board of the Singapore Exchange Limited. He is also an independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited, a company whose shares are listed on the main board of the Stock Exchange.

Mr. Meng Fanxi (孟凡璽), aged 68, was an independent non-executive director and was also a member of the Audit Committee of the Company. Mr. Meng is currently engaged in the consultancy business of corporate management. Mr. Meng was a director and the deputy general manager of China International Trust Investment Corporation from 1990 to 2000 and he was responsible for the corporate planning and import and export business. Before joining China International Trust Investment Corporation in 1985, he was the chief of 中國物資部油品局 (Oil Product Bureau of Ministry of Material Supply of the PRC) and was responsible for sales activities of oil products. Mr. Meng graduated from ShanDong Province Metallurgy Institute in metallurgy. Mr. Meng was appointed as Independent Non-executive Director in February 2001. Mr. Meng resigned on 30 March 2007.

Biographical Details of Directors and Senior Management (continued)

SENIOR MANAGEMENT

Mr. Shen Fengqi (沈鳳岐), aged 64, is the chief engineer of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group, mainly responsible for production technology. He joined the Group in July 2004. Mr. Shen has over 30 years' extensive experience in production, management and scientific research aspects of large petrochemical enterprises. He graduated from Petrochemical Profession of 東北石油學院 (Dongbei Petroleum Institution) in Daqing, Heilongjiang (institution of national level) in 1968.

Mr. Zhang Zhimin (張志敏), aged 51, is the assistant to general manager of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group, mainly responsible for production and operation. He joined the Group in July 2004. Mr. Zhang has over 20 years' extensive experience in production, management, scientific research and project construction aspects of petrochemical enterprises. He graduated from Organic Chemistry Profession of Chemistry Faculty of Heilongjiang University in Harbin, Heilongjiang in 1982.

Mr. Wu Jianwei (武建偉), aged 53, is the chief operation officer of the Company, mainly responsible for overseeing the sale, marketing, administration and production of vinyl acetate, polyvinyl-chloride, glucose and starch, heat and power. He joined the Company in September 2004. Mr. Wu has over 30 years' extensive experience in the operation and production management of coal related petrochemical enterprises. He was the Chairman and 黨委書記總經理 (Party secretary general manager) of 牡丹江石油化學工業協會 (Mudanjiang Association of Petrochemical Industry) (formerly known as 牡丹江石油化學工業集團公司 (Mudanjiang Petrochemical Industry Group Company)) before serving the Group. He graduated from 牡丹江師範學院 (Mudanjiang Education College), majoring in economic management. Mr. Wu is a qualified senior economist in the PRC.

Mr. Tsang Chiu Hung Victor (曾超鴻), aged 36, is the company secretary and the financial controller of the Group. Mr. Tsang is responsible for company secretarial functions and financial reporting of the Group. Mr. Tsang holds a bachelor degree in accountancy from the Hong Kong Polytechnic. Prior to joining the Group in May 2004, Mr. Tsang had over 10 years of experience in auditing and accounting. Mr. Tsang is a qualified accountant appointed under rule 3.24 of the Listing Rules and is an associate member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.

Mr. Liang Zonghan (梁宗漢), aged 62, was the deputy general manager of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group. Mr. Liang was mainly responsible for its production equipment and project construction. He joined the Group in July 2004, and was also the deputy chief commander of the project commanding department for Mudanjiang vinyl acetate upgrade project of the Group. Mr. Liang has over 30 year's extensive experience in production, management and project construction aspects of large petrochemical enterprise. He graduated from Oil Refinery Profession of 東北石油學院 (Dongbei Petroleum Institution) in Daqing, Heilongjiang (institution of national level) in 1970. Mr. Liang resigned on December 2006.

Mr. Fu Chunli (付春禮), aged 62, was the deputy chief engineer of the Group's Mudanjiang, Dongbei Chemical Engineering Company Limited, mainly responsible for the reconstruction project of vinyl acetate plant and production facilities. He joined the Group in July 2004. Mr. Fu has over 30 years' extensive experience in project management, cost engineering and project supervision. He graduated from 黑龍江建築工程學校. Mr. Fu is a registered construction project supervisor and a qualified cost engineer in the PRC. Mr. Fu resigned on August 2006.

Mr. Fei Xingguo (費興國), aged 53, was a general manager of the Group responsible for all logistic support including procurement of raw materials and management of the production of anti-corrosive coating division. Mr. Fei graduated from 黑龍江省委黨校大專 (Heilongjiang Province Government Institute) in economic management and has more than 10 years experience in various petroleum refinery related companies in the PRC. Mr. Fei joined the Group in December 1992. Mr. Fei left the Group after the completion of the disposal of anti-corrosive coating division on 4 April 2007.

SENIOR MANAGEMENT (continued)

Mr. Zhang Deyu (張德有), aged 62, was the head of lubricants division and the chief senior engineer of the Group. Mr. Zhang is a senior engineer who graduated from the department of chemical engineering of 大慶石油學院 (Daqing Petroleum Institute) with a diploma in petroleum refinery. Mr. Zhang has attained the award of 國家科技成果完成者 (Technology Achievement Award) for 中華人民共和國國家科技術委員會 (Science and Technology Committee of the PRC). Mr. Zhang has over 30 years experience in the manufacturing of lubricatinggrease and joined the Group in December 1997. Mr. Zhang left the Group after the completion of the disposal of lubricants division on 4 April 2007.

Mr. Sun Yong (孫勇), aged 43, was a deputy general manager of the Group responsible for marketing system development and management of the lubricant production division. Mr. Sun obtained a bachelor degree in transportation from 吉林工業大學 (Jilin Industrial University) in the PRC and joined the Group in July 1998. Mr. Sun left the Group after the completion of the disposal of lubricants division on 4 April 2007.

SENIOR MANAGEMENT REMUNERATION SYSTEM

The remuneration system of the senior management of the Group is a combination of the economic benefit of the senior management (including executive directors) and the operation result and share performance of the Group. Most of the members of the senior management have signed result examination contract with the Company. In this system, the remuneration of the senior management comprises three parts, including basic salary, bonus and share options. The floating remuneration of the senior management represents approximately 70% to 75% of their total potential remuneration, which includes result bonus and share options representing approximately 15% to 25% and 50% to 60% respectively of the total potential remuneration. Floating remuneration is linked with the specific business performance indicators, for example, the net profit, capital return and cost reduction indicator.

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 30 June 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 22 to the financial statements. The Group commenced the manufacture and sale of glucose and starch and generation and supply of heat and power during the year.

An analysis of the Group's performance for the year by business segments is set out in note 7 to the financial statements.

CHANGE OF NAME

At an extraordinary general meeting of the Company held on 28 June 2007, a special resolution was passed to approve the change of name of the Company from Daqing Petroleum and Chemical Group Limited to China Zenith Chemical Group Limited.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 June 2007 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 28 to 82.

The directors do not recommend the payment of dividend for the year ended 30 June 2007.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$400,000.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate:

RESULTS

	Year ended 30 June				
		(Restated)	(Restated)	(Restated)	(Restated)
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER					
From continuing operations	**911,507**	469,921	83,944	–	–
From discontinued operations	**100,775**	297,304	610,147	408,882	366,876
	1,012,282	767,225	694,091	408,882	366,876
PROFIT/(LOSS) FROM OPERATIONS	**207,938**	98,447	4,976	(3,084)	(1,799)
Finance costs	**(4,507)**	–	(336)	(50)	–
PROFIT/(LOSS) BEFORE TAX	**203,431**	98,447	4,640	(3,134)	(1,799)
Income tax (expense)/credit	**(2,443)**	(2,967)	2,309	–	–
Profit/(loss) for the year from continuing operations	**200,988**	95,480	6,949	(3,134)	(1,799)
(Loss)/profit for the year from discontinued operations	**(125,962)**	17,814	92,839	77,537	99,522
PROFIT FOR THE YEAR	**75,026**	113,294	99,788	74,403	97,723
Attributable to:					
Equity holders of the Company	**64,256**	84,529	83,921	66,518	87,551
Minority interests	**10,770**	28,765	15,867	7,885	10,172
	75,026	113,294	99,788	74,403	97,723

SUMMARY FINANCIAL INFORMATION (continued)

ASSETS, LIABILITIES AND EQUITY

	At 30 June				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,465,733**	410,196	281,960	154,376	123,150
Current assets	**682,893**	790,378	470,244	303,091	235,914
TOTAL ASSETS	**2,148,626**	1,200,574	752,204	457,467	359,064
Non-current liabilities	**165,943**	1,643	–	3,956	4,363
Current liabilities	**238,504**	70,918	84,641	65,305	53,036
TOTAL LIABILITIES	**404,447**	72,561	84,641	69,261	57,399
TOTAL EQUITY	**1,744,179**	1,128,013	667,563	388,206	301,665
Attributable to:					
Equity holders of the Company	**1,503,402**	1,014,340	586,010	360,753	282,099
Minority interests	**240,777**	113,673	81,553	27,453	19,566
	1,744,179	1,128,013	667,563	388,206	301,665

Note: The results of the Group for the years ended 30 June 2003, 2004, 2005 and 2006 and of the assets, liabilities and equity of the Group as at these dates have been extracted from the audited financial statements of the Company for the respective years and restated as appropriate.

The results of the Group for the years ended 30 June 2003 to 2006 have been restated as a result of the classification of the lubricants, anti-corrosive coatings and additives businesses to discontinued operations in 2007.

The results of the Group for the year ended 30 June 2007 and of the assets, liabilities and equity of the Group as at 30 June 2007 are those set out on page 28 and pages 29 and 30 of the financial statements, respectively.

FIXED ASSETS

Details of movements in the Group's fixed assets are set out in note 17 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Islands Companies Law"), being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho an annual confirmation of their independence pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considers the independent non-executive directors are independent.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 31 and 32 and note 29(b) to the financial statements, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2007, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK$181,427,000. In addition, the share premium account of the Company of approximately HK$965,514,000 as at 30 June 2007 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. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the sales to the Group's five largest customers accounted for approximately 29% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 9%.

Purchases from the Group's five largest suppliers accounted for approximately 39% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 23%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

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

Executive Directors:

Ms. Chan Yuk Foebe
Mr. Peng Zhanrong
Mr. Chiau Che Kong

Independent Non-executive Directors:

Mr. Ma Wing Yun Bryan
Mr. Yau Chung Hong
Mr. Tam Ching Ho (appointed on 30 June 2007)
Mr. Meng Fanxi (resigned on 30 March 2007)

In accordance with articles 108 and 112 of the Articles, Ms. Chan Yuk Foebe and Mr. Tam Ching Ho will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi were appointed for a term of two years as independent non-executive directors of the Company commencing from 28 February 2001. The terms of their appointment were renewed for a further two years commencing from 28 February 2003. Upon the expiry of their appointment on 27 February 2005, the Company did not renew the service contracts with Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi until 24 March 2006. The Company renewed service contracts with Mr. Ma Wing Yun, Bryan and Mr. Meng Fanxi for a further term of three years and one year, respectively, commencing from 1 April 2006. Mr. Meng Fanxi resigned on 30 March 2007. At the same date, the Company entered into a service contract with Mr. Yau Chung Hong for a term of three years as an independent non-executive director of the Company commencing from 1 April 2006. Besides, the Company entered into a service contract with Mr. Tam Ching Ho commencing from 30 June 2007 to the next annual general meeting of the Company.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and senior management of the Group are set out on pages 14 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Chan Yuk Foebe and Mr. Peng Zhanrong has entered into a service contract with the Company commencing from 22 November 2004, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other. Mr. Chiau Che Kong has entered into a service contract with the Company commencing from 14 December 2005, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other.

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 material interest 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the 30 June 2007, the interests of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

Interests in the Shares and Underlying Shares

(1) Shares

Name of director	Name of company	Type of interest	Number of shares held	% of issued share capital of the Company	Share options held
Ms. Chan Yuk Foebe	The Company	Beneficial Interest	14,750,000(L)	0.44%	Nil
Mr. Chiau Che Kong	The Company	Beneficial Interest	10,800,000(L)	0.32%	Nil
Mr. Tam Ching Ho	The Company	Beneficial Interest	1,500,000(L)	0.04%	Nil

(L) = Long Positions

(2) Share options

	Number of share options									Price of Company's shares	
Grantee	At 1 July 2006	Adjusted upon completion of open offer	Cancelled during the year	Exercised during the year	At 30 June 2007	Date of grant of share options	Exercise period of share options	Exercise price of share options prior to the open offer	Exercise price of share options after open offer	At grant date of options *(note a)*	At exercise date of options
								HK$	HK$	HK$	HK$
Ms. Chan Yuk Foebe	13,770,000	983,571	(3,571)	(14,750,000)	–	3 January 2006	10 January 2006 to 9 January 2009	0.363	0.339	0.38	0.61

Note:

(a) The price of the Company's shares disclosed as at the date of the grant of the share options is the average Stock Exchange closing price for the five business days immediately preceding the date of the grant of the share options.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

As far as the directors of the Company are aware, as at 30 June 2007, the following persons, other than a director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares	Nature of interests	Approximate percentage of interests
Master Oriental Limited ("Master Oriental")	Long position 529,272,000 *(note 1)*	Corporate interests	15.67%
Heng Tai Consumables Group Limited ("Heng Tai")	Long position 529,272,000 *(note 1)*	Corporate interests	15.67%
Metage Capital Limited	Long position 431,370,000 *(note 2)*	Corporate interests	12.77%
Mr. Webb Richard Ian	Long position 431,370,000 *(note 2)*	Beneficial owner	12.77%
Pope Asset Management, LLC	Long position 318,662,500 *(note 6)*	Corporate interests	9.43%
Mr. Wells William P.	Long position 318,662,500 *(note 6)*	Beneficial owner	9.43%
Mr. Chan Yuen Tung	Long position 574,210,287	Beneficial owner	17.00%
UBS AG	Long position 380,160,000	Corporate interests	11.25%
	Short position 88,794,000		2.63%
Deutsche Bank Aktiengesellschaft	Long position 310,955,000	Corporate interests	9.21%
QVT Financial GP LLC	Long position 334,746,000 *(note 3)*	Corporate interests	9.91%
QVT Financial LP	Long position 334,746,000 *(note 3)*	Corporate interests	9.91%
QVT Associates GP LLC	Long position 294,878,887 *(note 4)*	Corporate interests	8.73%
QVT Fund LP	Long position 294,878,887 *(note 4)*	Corporate interests	8.73%

INTERESTS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO (continued)

Name of shareholder	Number of ordinary shares	Nature of interests	Approximate percentage of interests
Polygon Global Opportunities Master Fund	Long position 372,600,000 *(note 5)*	Corporate interests	11.03%
Polygon Investment Partners LLP	Long position 372,600,000 *(note 5)*	Corporate interests	11.03%
Polygon Investment Partners LP	Long position 372,600,000 *(note 5)*	Corporate interests	11.03%
Polygon Investment Partners HK Limited	Long position 372,600,000 *(note 5)*	Corporate interests	11.03%

Notes:

1. Master Oriental, a company incorporated in Hong Kong with limited liability, is a wholly owned subsidiary of Heng Tai, a company incorporated in the Cayman Islands with limited liabilities whose shares are listed on the Stock Exchange. In accordance with the SFO, the interests of Master Oriental are deemed to be, and have therefore been included in the interests of Heng Tai.

2. Mr. Webb Richard Ian is a controlling shareholder of Metage Capital Limited. In accordance with the SFO, the interests of Metage Capital Limited are deemed to be, and have therefore been included in the interests of Mr. Webb Richard Ian.

3. QVT Financial GP LLC is deemed to be interested in the shares of the Company through its controlled corporation, QVT Financial LP. In accordance with the SFO, the interests of QVT Financial LP are deemed to be, and have therefore been included in the interests of QVT Financial GP LLC.

4. QVT Associates GP LLC is deemed to be interested in the shares of the Company through its controlled corporation, QVT Fund LP. In accordance with the SFO, the interests of QVT Fund LP are deemed to be, and have therefore been included in the interests of QVT Associates GP LLC.

5. Each of Polygon Investment Partners LLP, Polygon Investment Partners LP and Polygon Investment Partners HK Limited acts as an investment manager of Polygon Global Opportunities Master Fund. In accordance with the SFO, the interests of Polygon Global Opportunities Master Fund are deemed to be, and have therefore been included in each of the interests of Polygon Investment Partners LLP, Polygon Investment Partners LP and Polygon Investment Partners HK Limited.

6. Mr. Wells William P. is a controlling shareholder of Pope Asset Management, LLC. In accordance with the SFO, the interests of Pope Asset Management, LLC are deemed to be, and have therefore been included in the interests of Mr. Wells William P.

Save as disclosed above, as far as the directors of the Company are aware, as at 30 June 2007, no other person had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, there is sufficient public float of more than 25% of the Company's shares in the market as required under the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to date of this report, no director of the Company is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements and results of the Group for the year ended 30 June 2007 and is of the view such financial statements are in compliance with applicable accounting standards and requirements.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries to all the directors, all the directors confirmed that they have complied with the code provisions in the Model Code.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the significant events after the balance sheet date of the Group are set out in note 37 to the financial statements.

AUDITOR

A resolution to re-appoint the retiring auditor, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong
5 October 2007

Independent Auditor's Report

RSM Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

TO THE SHAREHOLDERS OF
CHINA ZENITH CHEMICAL GROUP LIMITED
(FORMERLY KNOWN AS DAQING PETROLEUM AND CHEMICAL GROUP LIMITED)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Zenith Chemical Group Limited (the "Company") set out on pages 28 to 82, which comprise the consolidated and Company balance sheets as at 30 June 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

5 October 2007

Consolidated Income Statement

(for the year ended 30 June 2007)

	Note	2007 HK$'000	(Restated) 2006 HK$'000
Continuing operations			
Turnover	*6*	**911,507**	469,921
Cost of sales		**(635,377)**	(336,613)
Gross profit		**276,130**	133,308
Other income	*8*	**10,588**	6,910
Selling and distribution costs		**(19,987)**	(8,557)
Administrative expenses		**(56,963)**	(31,892)
Other operating expenses		**(1,830)**	(1,322)
Profit from operations		**207,938**	98,447
Finance costs	*9*	**(4,507)**	–
Profit before tax		**203,431**	98,447
Income tax expense	*10*	**(2,443)**	(2,967)
Profit for the year from continuing operations		**200,988**	95,480
Discontinued operations			
(Loss)/profit for the year from discontinued operations	*11*	**(125,962)**	17,814
Profit for the year	*12*	**75,026**	113,294
Attributable to:			
Equity holders of the Company	*14*	**64,256**	84,529
Minority interests		**10,770**	28,765
		75,026	113,294
Earnings per share			
From continuing and discontinued operations			
– Basic	*16(a)*	**HK2.4 cents**	HK4.6 cents
– Diluted	*16(a)*	**HK2.4 cents**	HK4.6 cents
From continuing operations			
– Basic	*16(b)*	**HK6.8 cents**	HK3.7 cents
– Diluted	*16(b)*	**HK6.8 cents**	HK3.7 cents

Consolidated Balance Sheet

(at 30 June 2007)

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Fixed assets	*17*	**1,065,800**	313,787
Land use rights	*18*	**150,807**	78,673
Goodwill	*19*	**83,292**	–
Other intangible assets	*20*	**112,840**	9,699
Deposit paid for the acquisition of subsidiaries	*21*	**50,000**	–
Deposit paid for the establishment of a proposed joint venture		**–**	5,206
Deferred tax assets	*30*	**2,994**	2,831
		1,465,733	410,196
Current assets			
Inventories	*24*	**106,080**	85,161
Trade receivables	*25*	**142,851**	124,736
Prepayments, deposits and other receivables		**263,915**	78,815
Bank and cash balances	*26*	**170,047**	501,666
		682,893	790,378
TOTAL ASSETS		**2,148,626**	1,200,574

Consolidated Balance Sheet (continued)

(at 30 June 2007)

	Note	2007 HK$'000	2006 HK$'000
Capital and reserves			
Issued share capital	*27*	**33,778**	21,015
Retained profits		**536,796**	472,200
Other reserves		**932,828**	521,125
Equity attributable to equity holders of the Company		**1,503,402**	1,014,340
Minority interests		**240,777**	113,673
Total equity		**1,744,179**	1,128,013
Non-current liabilities			
Deferred tax liabilities	*30*	**165,943**	1,643
Current liabilities			
Trade payables	*31*	**66,827**	17,831
Other payables and accruals		**141,098**	20,612
Due to a minority shareholder of a subsidiary	*32*	**4,108**	–
Bank loan	*33*	**25,675**	–
Current tax liabilities		**796**	32,475
		238,504	70,918
Total liabilities		**404,447**	72,561
TOTAL EQUITY AND LIABILITIES		**2,148,626**	1,200,574
Net current assets		**444,389**	719,460
Total assets less current liabilities		**1,910,122**	1,129,656

Chan Yuk Foebe
Executive Director

Chiau Che Kong
Executive Director

Consolidated Statement of Changes in Equity

(for the year ended 30 June 2007)

		Attributable to equity holders of the Company								
		Issued share capital	Share premium account	Fixed asset revaluation reserve	Share option reserve	Exchange reserve	Retained profits	Sub-total	Minority interests	Total
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2005		14,496	183,407	–	–	436	387,671	586,010	81,553	667,563
Revaluation surplus on buildings	*17*	–	–	6,620	–	–	–	6,620	–	6,620
Deferred tax liabilities	*30*	–	–	(2,184)	–	–	–	(2,184)	–	(2,184)
Share issue expenses		–	(3,341)	–	–	–	–	(3,341)	–	(3,341)
Translation difference		–	–	–	–	23,910	–	23,910	3,355	27,265
Net income recognised directly in equity		–	(3,341)	4,436	–	23,910	–	25,005	3,355	28,360
Profit for the year		–	–	–	–	–	84,529	84,529	28,765	113,294
Total recognised income and expense for the year		–	(3,341)	4,436	–	23,910	84,529	109,534	32,120	141,654
Issue of shares		5,476	255,348	–	–	–	–	260,824	–	260,824
Share option benefits										
– Grant of share options		–	–	–	11,463	–	–	11,463	–	11,463
– Exercise of share options		1,043	45,466	–	–	–	–	46,509	–	46,509
– Transfer to share premium		–	6,118	–	(6,118)	–	–	–	–	–
At 30 June 2006		21,015	486,998	4,436	5,345	24,346	472,200	1,014,340	113,673	1,128,013

Consolidated Statement of Changes in Equity (continued)

(for the year ended 30 June 2007)

	Note	Issued share capital HK$'000	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
		Attributable to equity holders of the Company								
At 1 July 2006		21,015	486,998	4,436	5,345	24,346	472,200	1,014,340	113,673	1,128,013
Revaluation surplus on buildings	*17*	–	–	11,691	–	–	–	11,691	2,861	14,552
Deferred tax liabilities	*30*	–	–	(3,858)	–	–	–	(3,858)	–	(3,858)
Open offer expenses		–	(7,878)	–	–	–	–	(7,878)	–	(7,878)
Translation difference		–	–	–	–	31,048	–	31,048	8,541	39,589
Net income recognised directly in equity		–	(7,878)	7,833	–	31,048	–	31,003	11,402	42,405
Profit for the year		–	–	–	–	–	64,256	64,256	10,770	75,026
Total recognised income and expense for the year		–	(7,878)	7,833	–	31,048	64,256	95,259	22,172	117,431
Open offer		10,508	304,723	–	–	–	–	315,231	–	315,231
Share option benefits										
– Exercise of share options		726	34,062	–	–	–	–	34,788	–	34,788
– Transfer to share premium		–	5,345	–	(5,345)	–	–	–	–	–
Disposal of subsidiaries		–	–	–	–	(21,975)	–	(21,975)	(31,990)	(53,965)
Disposal of buildings		–	–	(340)	–	–	340	–	–	–
Business combination		–	–	–	–	–	–	–	136,922	136,922
Exercise of warrants		1,529	64,230	–	–	–	–	65,759	–	65,759
At 30 June 2007		**33,778**	**887,480**	**11,929**	**-**	**33,419**	**536,796**	**1,503,402**	**240,777**	**1,744,179**

Consolidated Cash Flow Statement

(for the year ended 30 June 2007)

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax (excluding loss on disposal of discontinued operations)		**103,853**	120,602
Adjustments for:			
Finance costs		**4,507**	–
Interest income		**(5,136)**	(2,707)
Depreciation		**27,363**	11,668
Amortisation of land use rights		**2,485**	1,703
Amortisation of other intangible assets		**3,196**	786
Allowance for receivables		**19,786**	–
Write off of fixed assets		**48,822**	–
Write off of land use rights		**13,420**	–
Write off of other intangible assets		**–**	5,146
Write back of other payables		**(2,334)**	–
(Gain)/loss on disposal of fixed assets		**(262)**	30
Gain on disposal of financial assets at fair value through profit and loss		**(1,470)**	(957)
Reversal of revaluation deficit on buildings		**(1,973)**	(1,317)
Share option benefits		**–**	11,463
Operating profit before working capital changes		**212,257**	146,417
(Increase)/decrease in inventories		**(103,653)**	40,740
(Increase)/decrease in trade receivables		**(57,888)**	52,100
Increase in prepayments, deposits and other receivables		**(3,854)**	(54,365)
(Decrease)/increase in trade payables		**(4,300)**	9,633
Increase in other payables and accruals		**25,992**	10,416
Cash generated from operations		**68,554**	204,941
Interest received		**5,136**	2,707
Interest paid		**(4,507)**	–
Income taxes paid		**(17,551)**	(16,054)
Net cash generated from operating activities		**51,632**	191,594

Consolidated Cash Flow Statement (continued)

(for the year ended 30 June 2007)

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	*34(a)*	**(436,956)**	–
Deposit paid for the acquisition of subsidiaries		**(50,000)**	–
Disposal of subsidiaries	*34(b)*	**(48,466)**	–
Purchases of fixed assets		**(298,278)**	(130,036)
Purchases of land use rights		**(318)**	(1,213)
Proceeds from disposal of fixed assets		**922**	4
Acquisition of financial assets at fair value through profit and loss		**(31,762)**	(5,432)
Proceeds from disposal of financial assets at fair value through profit and loss		**33,232**	6,389
Net cash used in investing activities		**(831,626)**	(130,288)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of warrants		**65,759**	–
Exercise of share options		**34,788**	46,509
Open offer, net of expenses		**307,353**	–
Issue of shares, net of expenses		**–**	257,483
Advance from a minority shareholder of a subsidiary		**4,108**	–
Bank loan raised		**25,675**	–
Repayment of other loan		**–**	(26,000)
Net cash generated from financing activities		**437,683**	277,992
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(342,311)**	339,298
Effect of foreign exchange rate changes		**10,692**	19,311
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**501,666**	143,057
CASH AND CASH EQUIVALENTS AT END OF YEAR		**170,047**	501,666
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**170,047**	501,666

Balance Sheet

(at 30 June 2007)

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Investments in subsidiaries	*22*	**8,244**	86,478
Current assets			
Due from subsidiaries	*23*	**975,411**	542,039
Other receivables		**194,541**	200
Bank and cash balances		**5,596**	451
		1,175,548	542,690
TOTAL ASSETS		**1,183,792**	629,168
Capital and reserves			
Issued share capital	*27*	**33,778**	21,015
Retained profits	*29(b)*	**181,427**	37,743
Other reserves	*29(b)*	**965,514**	570,377
Total equity		**1,180,719**	629,135
Current liabilities			
Other payables and accruals		**3,073**	33
TOTAL EQUITY AND LIABILITIES		**1,183,792**	629,168
Net current assets		**1,172,475**	542,657
Total assets less current liabilities		**1,180,719**	629,135

Chan Yuk Foebe
Executive Director

Chiau Che Kong
Executive Director

Notes to the Financial Statements

(for the year ended 30 June 2007)

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1–1111, Cayman Islands. The address of its principal place of business is Units 1101 – 1112, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 22 to the financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006 and 1 May 2006. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. 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 material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated exchange reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

(iii) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Fixed assets

Buildings comprise mainly factories and offices. Buildings are carried at fair values, based on periodic valuations by external independent valuers or directors, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other fixed assets are stated at cost less accumulated depreciation and impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Fixed assets (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Revaluation increases of buildings are recognised in the income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the fixed asset revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against fixed asset revaluation reserve directly in equity. All other decreases are recognised in the income statement. On the subsequent sale or retirement of a revalued building, the attributable revaluation surplus remaining in the fixed asset revaluation reserve is transferred directly to retained profits.

Depreciation of fixed assets is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	The shorter of the lease terms and 30 to 50 years
Furniture, office equipment and motor vehicles	5 years
Leasehold improvements	The shorter of the lease terms and 10 years
Pipelines and trench	30 years
Plant and machinery	10 to 30 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(e) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are capitalised only if all of the following conditions are met:

- An asset is created that can be identified (such as new products);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Deferred development costs are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives of 5 years.

(g) Other intangible assets

(i) Technical know-how

Technical know-how is measured initially at purchase cost and is amortised on a straight-line basis over its estimated useful life of 10 years.

(ii) Trade name and exclusive right

Trade name and exclusive right are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful life of 25 years.

(h) Discontinued operations

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- The post-tax profit or loss of the discontinued operation; and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which 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.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(ii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time-proportion basis using the effective interest method.

Proceeds from disposal of listed investments are recognised on the trade date when a sale and purchase contract is entered into.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits schemes

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of HK$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Share-based payments

The Group issues equity-settled share-based payments to certain employees and business associates. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(q) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(r) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised 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 profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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, and interests in joint ventures, 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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(t) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Related parties (continued)

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of fixed assets, goodwill, other intangible assets, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(v) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and other intangible assets except goodwill, deferred tax assets, inventories and receivables, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Impairment of assets (continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(x) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Fixed assets and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (continued)

(b) Impairment test of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was approximately HK$83,292,000. Details of the impairment test are provided in note 19 to financial statements.

(c) Useful lives of other intangible assets

The Group determines the estimated useful lives and related amortisation charges for the Group's other intangible assets. This estimate is based on the expected pattern of consumption of the future economic benefits embodied in the asset or, where appropriate, the contractual or other legal rights associated with the assets. The Group will revise the amortisation period and the amortisation method for an intangible asset where the useful life is different to that previously estimated.

(d) Share-based payment expenses

The fair value of the share options granted determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In assessing the fair value of the share options, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Black-Scholes Model requires the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

5. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 30 June 2007 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits. These deposits bear interests at variable rates varied with the prevailing market condition.

The Group's bank borrowing bears interest at fixed interest rate and therefore is subject to fair value interest rate risk.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after eliminations of all significant intra-group transactions during the year.

	Group	
	2007	2006
	HK$'000	HK$'000
Continuing operations	**911,507**	469,921
Discontinued operations *(note 11)*	**100,775**	297,304
	1,012,282	767,225

7. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. 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. The Group's business segments are as follows:

(a) manufacture and sale of polyvinyl-chloride ("Polyvinyl-chloride");

(b) manufacture and sale of vinyl acetate ("Vinyl acetate");

(c) generation and supply of heat and power ("Heat and power");

(d) manufacture and sale of glucose and starch ("Glucose and starch");

(e) manufacture and sale of lubricants ("Lubricants");

(f) manufacture and sale of anti-corrosive coatings ("Anti-corrosive coatings") and

(g) manufacture and sale of additives ("Additives").

(a) Business segments

	Continuing operations						Discontinued operations				
	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Glucose and starch HK$'000	Elimin-ations HK$'000	Sub-total HK$'000	Lubricants HK$'000	Anti-corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Total HK$'000
Year ended 30 June 2007											
Segment revenue	507,647	296,073	48,711	79,941	(20,865)	911,507	60,944	39,831	-	100,775	1,012,282
Segment results	146,993	95,524	3,674	(31,122)	-	215,069	(62,296)	(40,715)	-	(103,011)	112,058
Other income						10,588				3,633	14,221
Unallocated expenses						(17,719)				(26,584)	(44,303)
Consolidated profit/(loss) from operations						207,938				(125,962)	81,976
Finance costs						(4,507)				-	(4,507)
Consolidated profit/(loss) before tax						203,431				(125,962)	77,469
Income tax expense						(2,443)				-	(2,443)
Consolidated profit/(loss) for the year						200,988				(125,962)	75,026

(for the year ended 30 June 2007)

7. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Continuing operations					Discontinued operations				
	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Glucose and starch HK$'000	Sub-total HK$'000	Lubricants HK$'000	Anti-corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Total HK$'000
As at 30 June 2007										
Segment assets	516,000	289,016	330,961	644,363	1,780,340	-	-	-	-	1,780,340
Unallocated assets					368,286					368,286
Total assets					2,148,626					2,148,626
Segment liabilities	21,554	40,332	91,679	66,494	220,059	-	-	-	-	220,059
Unallocated liabilities					184,388					184,388
Total liabilities					404,447					404,447
Year ended 30 June 2007										
Other segment information:										
Depreciation	4,100	5,100	2,938	12,371	24,509	1,560	1,020	-	2,580	27,089
Unallocated depreciation					274					274
					24,783					27,363
Amortisation of intangible assets	-	1,080	2,116	-	3,196	-	-	-	-	3,196
Amortisation of land use rights	603	516	182	729	2,030	275	180	-	455	2,485
Capital expenditure	141,496	97,985	5,999	52,025	297,505	-	-	-	-	297,505
Unallocated capital expenditure					773					773
					298,278					298,278

7. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Continuing operations						Discontinued operations				
	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Glucose and starch HK$'000	Eliminations HK$'000	Sub-total HK$'000	Lubricants HK$'000	Anti-corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Total HK$'000
Year ended 30 June 2006											
Segment revenue	243,189	226,900	–	–	(168)	469,921	179,014	113,149	5,141	297,304	767,225
Segment results	38,571	71,779	–	–	–	110,350	18,451	12,902	531	31,884	142,234
Other income						6,910				70	6,980
Unallocated expenses						(18,813)				(9,799)	(28,612)
Consolidated profit before tax						98,447				22,155	120,602
Income tax expense						(2,967)				(4,341)	(7,308)
Consolidated profit for the year						95,480				17,814	113,294

7. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Continuing operations					Discontinued operations				
	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Glucose and starch HK$'000	Sub-total HK$'000	Lubricants HK$'000	Anti-corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Total HK$'000
As at 30 June 2006										
Segment assets	200,719	220,460	–	–	421,179	332,574	210,208	9,551	552,333	973,512
Unallocated assets					25,990				201,072	227,062
Total assets					447,169				753,405	1,200,574
Segment liabilities	20,929	11,571	–	–	32,500	3,351	2,118	96	5,565	38,065
Unallocated liabilities					3,348				31,148	34,496
Total liabilities					35,848				36,713	72,561
Year ended 30 June 2006										
Other segment information:										
Depreciation	2,423	4,407	–	–	6,830	2,757	1,743	79	4,579	11,409
Unallocated depreciation					–				259	259
					6,830				4,838	11,668
Amortisation of intangible assets	–	786	–	–	786	–	–	–	–	786
Amortisation of land use rights	439	497	–	–	936	462	292	13	767	1,703
Capital expenditure	91,445	78,947	–	–	170,392	2,338	1,478	67	3,883	174,275
Unallocated capital expenditure					–				1,143	1,143
					170,392				5,026	175,418

7. SEGMENT INFORMATION (continued)

(b) Geographical segments

All of the Group's revenue and assets are derived from customers and operations based in the People's Republic of China (the "PRC") and accordingly, no further analysis of the Group's geographical segments is disclosed.

8. OTHER INCOME

	Group	
	2007	2006
	HK$'000	HK$'000
Gain on disposal of financial assets at fair value through profit and loss	**1,470**	957
Gain on disposal of fixed assets	**262**	–
Government grants *(note)*	**1,564**	458
Interest income	**5,136**	2,707
Rental income	**300**	845
Reversal of revaluation deficit on buildings	**1,973**	1,317
Sundry income	**1,182**	696
Write back of other payables	**2,334**	–
	14,221	6,980
Representing:		
Continuing operations	**10,588**	6,910
Discontinued operations *(note 11)*	**3,633**	70
	14,221	6,980

Note: Government grants for the year ended 30 June 2007 were received for refund of value-added tax and government charges. Government grants for the year ended 30 June 2006 were received for refund of value-added tax. There are no unfulfilled conditions or contingencies attached to the grants.

9. FINANCE COSTS

	Group 2007 HK$'000	2006 HK$'000
Continuing operations:		
Interest on bank loan	**1,408**	–
Interest on other loans wholly repayable within five years	**1,939**	–
Interest on discounted bills	**1,160**	–
	4,507	–

10. INCOME TAX EXPENSE

	Group 2007 HK$'000	2006 HK$'000
Current tax – Overseas		
Provision for the year	**2,443**	6,955
Underprovision in prior years	**–**	1,327
	2,443	8,282
Deferred tax *(note 30)*	**–**	(974)
	2,443	7,308
Representing:		
Continuing operations	**2,443**	2,967
Discontinued operations *(note 11)*	**–**	4,341
	2,443	7,308

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2006: Nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

10. INCOME TAX EXPENSE (continued)

Pursuant to relevant laws and regulations in the PRC, Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Dongbei Chemical"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year, i.e., from 1 January 2005 to 31 December 2006, and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years, i.e., from 1 January 2007 to 31 December 2009.

Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. ("Mudanjiang Dongbei Gaoxin"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year, i.e., from 1 January 2006 to 31 December 2007, and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years, i.e., from 1 January 2008 to 31 December 2010.

Mudanjiang Better Day Power Ltd. ("Mudanjiang BD Power"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. Tax exemption period has not yet commenced as Mudanjiang BD Power has tax losses brought forward to set off against current year's assessable profit.

Mudanjiang Gaoke Bio-Chem Co., Ltd. ("Mudanjiang Gaoke"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. Tax exemption period has not yet commenced as Mudanjiang Gaoke has no assessable profit since its date of registration.

The provision for income tax of other subsidiaries operating in the PRC have been calculated at the rate of 33%, based on existing legislation, interpretation and practices in respect thereof.

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law will be effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements will depend on the detailed implementation rules and regulations that have not been issued as of the date of the approval of these consolidated financial statements. Therefore, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

10. INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

Group

	Hong Kong		The PRC		Total	
	2007 HK$'000	**2007 %**	**2007 HK$'000**	**2007 %**	**2007 HK$'000**	**2007 %**
Profit/(loss) before tax						
Continuing operations	**(10,493)**		**213,924**		**203,431**	
Discontinued operations	**–**		**(99,578)**		**(99,578)**	
	(10,493)		**114,346**		**103,853**	
Tax at the statutory tax rate	**(1,836)**	**(17.5)**	**37,734**	**33.0**	**35,898**	**34.6**
Preferential statutory tax rate offered	**–**	**–**	**(2,443)**	**(2.1)**	**(2,443)**	**(2.4)**
Income tax exempted	**–**	**–**	**(75,042)**	**(65.6)**	**(75,042)**	**(72.3)**
Expenses not deductible for tax	**1,836**	**17.5**	**–**	**–**	**1,836**	**1.8**
Unrecognised temporary differences	**–**	**–**	**(587)**	**(0.5)**	**(587)**	**(0.5)**
Tax losses not recognised	**–**	**–**	**42,781**	**37.3**	**42,781**	**41.2**
Tax charge at the Group's effective tax rate	**–**	**–**	**2,443**	**2.1**	**2,443**	**2.4**

	Hong Kong		The PRC		Total	
	2006 HK$'000	2006 %	2006 HK$'000	2006 %	2006 HK$'000	2006 %
Profit/(loss) before tax						
Continuing operations	(14,907)		113,354		98,447	
Discontinued operations	(3,379)		25,534		22,155	
	(18,286)		138,888		120,602	
Tax at the statutory tax rate	(3,200)	(17.5)	45,833	33.0	42,633	35.3
Preferential statutory tax rate offered	–	–	(4,610)	(3.3)	(4,610)	(3.8)
Income tax exempted	–	–	(35,744)	(25.7)	(35,744)	(29.6)
Expenses not deductible for tax	3,200	17.5	–	–	3,200	2.7
Unrecognised temporary differences	–	–	502	0.4	502	0.4
Underprovision in prior years	–	–	1,327	0.9	1,327	1.1
Tax charge at the Group's effective tax rate	–	–	7,308	5.3	7,308	6.1

11. DISCONTINUED OPERATIONS

Pursuant to an agreement dated 11 January 2007 entered into between the Company and an independent third party, the Company disposed of the entire issued capital of Earlsmead Enterprise Limited ("Earlsmead").

Earlsmead holds 90% interest in a Sino-foreign equity joint venture, Daqing Black Bird Chemical Co., Ltd. ("Daqing Black Bird"), established in the PRC. Daqing Black Bird was engaged in the manufacture and sale of lubricants, anti-corrosive coatings and additives (collectively, "Petroleum Refined Products Businesses") during the year. The disposal was completed on 4 April 2007 and the Group discontinued its Petroleum Refined Products Businesses.

The (loss)/profit for the year from the discontinued operations is analysed as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
(Loss)/profit of discontinued operations	**(99,578)**	17,814
Loss on disposal of discontinued operations before release of exchange reserve *(note 34(b))*	**(48,359)**	–
Release of exchange reserve *(note 34(b))*	**21,975**	–
	(125,962)	17,814

The results of the discontinued operations for the period from 1 July 2006 to 4 April 2007, which have been included in the consolidated income statement, are as follows:

	Period from 1 July 2006 to 4 April 2007 **HK$'000**	Year ended 30 June 2006 HK$'000
Turnover	**100,775**	297,304
Cost of sales	**(114,701)**	(250,571)
Gross (loss)/profit	**(13,926)**	46,733
Other income	**3,633**	70
Selling and distribution costs	**(2,379)**	(5,265)
Administrative expenses	**(4,403)**	(13,448)
Other operating expenses	**(82,503)**	(5,935)
(Loss)/profit from operations	**(99,578)**	22,155
Income tax expense	**–**	(4,341)
(Loss)/profit for the period/year	**(99,578)**	17,814

11. DISCONTINUED OPERATIONS (continued)

During the year, the disposed subsidiaries paid approximately HK$86,200,000 (2006: received HK$151,429,000) in respect of operating activities, paid approximately HK$Nil (2006: HK$200,145,000) in respect of investing activities and received approximately HK$200,000 (2006: HK$197,289,000) in respect of financing activities.

No tax charge or credit arose on loss on disposal of the discontinued operations.

12. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging the following:

	Continuing operations		**Discontinued operations**		**Total**	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Auditor's remuneration	**980**	365	**-**	485	**980**	850
Allowance for receivables	**808**	–	**18,978**	–	**19,786**	–
Allowance for inventories (included in cost of inventories sold)	**80**	–	**2,481**	12,465	**2,561**	12,465
Write off of fixed assets	**1,198**	–	**47,624**	–	**48,822**	–
Write off of land use rights	**-**	–	**13,420**	–	**13,420**	–
Write off of other intangible assets	**-**	–	**-**	5,146	**-**	5,146
Loss on disposal of fixed assets	**-**	30	**-**	–	**-**	30
Amortisation of other intangible assets (included in administrative expenses)	**3,196**	786	**-**	–	**3,196**	786
Cost of inventories sold	**519,365**	269,190	**112,009**	245,869	**631,374**	515,059
Depreciation	**24,783**	6,830	**2,580**	4,838	**27,363**	11,668
Minimum lease payments under operating leases for land and buildings	**4,073**	936	**1,055**	2,385	**5,128**	3,321
Research and development costs expensed for the year	**-**	971	**55**	789	**55**	1,760
Staff costs (excluding directors' remuneration – *note 13*):						
Wages, salaries and benefits in kind	**21,209**	8,066	**633**	3,161	**21,842**	11,227
Employee share option benefits	**-**	9,261	**-**	–	**-**	9,261
Retirement benefits scheme contributions	**48**	–	**-**	33	**48**	33

Cost of inventories sold includes staff costs and depreciation of approximately HK$12,647,000 (2006: HK$4,616,000) and HK$13,300,000 (2006: HK$5,986,000), respectively, which are included in the amounts disclosed separately in the continuing operations.

Cost of inventories sold includes staff costs and depreciation of approximately HK$332,000 (2006: HK$710,000) and HK$1,003,000 (2006: HK$1,568,000), respectively, which are included in the amounts disclosed separately in the discontinued operations.

13. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments of each director were as follows:

	Basic salaries, housing benefits, other allowances and benefits in kind		Employee share option benefits		Retirement benefits scheme contributions		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Ms. Chan Yuk Foebe	**2,096**	1,200	**-**	686	**-**	–	**2,096**	1,886
Mr. Chiau Che Kong	**249**	108	**-**	–	**11**	5	**260**	113
Mr. Peng Zhanrong	**345**	195	**-**	686	**-**	–	**345**	881
Mr. Wang Hailou *(note (a))*	**-**	169	**-**	–	**-**	–	**-**	169
Mr. Ma Wing Yun Bryan #	**120**	25	**-**	–	**-**	–	**120**	25
Mr. Meng Fanxi *(note (b))* #	**13**	13	**-**	–	**-**	–	**13**	13
Mr. Yau Chung Hong #	**120**	120	**-**	–	**-**	–	**120**	120
Mr. Tam Ching Ho *(note (c))* #	**-**	–	**-**	–	**-**	–	**-**	–
	2,943	1,830	**-**	1,372	**11**	5	**2,954**	3,207

Independent non-executive directors

Notes:

(a) Resigned on 12 January 2006

(b) Resigned on 30 March 2007

(c) Appointed on 30 June 2007

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2006: Nil).

The five highest paid individuals in the Group during the year included two directors (2006: one director) whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2006: four) individuals are set out below:

	Group	
	2007	2006
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**871**	64
Employee share option benefits	**–**	6,211
Retirement benefits scheme contributions	**30**	–
	901	6,275

13. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Nil to HK$1,000,000	**3**	–
HK$1,500,001 to HK$2,000,000	**–**	4
	3	4

14. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit for the year attributable to equity holders of the Company for the year ended 30 June 2007 has been dealt with in the financial statements of the Company to the extent of approximately HK$143,684,000 (2006: HK$1,730,000).

15. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2007 (2006: Nil).

16. EARNINGS PER SHARE

(a) From continuing and discontinued operations

Basic earnings per share

The calculation of basic earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$64,256,000 (2006: HK$84,529,000) and the weighted average number of ordinary shares of 2,663,794,684 (2006: 1,839,310,720, as adjusted to reflect the open offer on 9 January 2007) in issue during the year.

Diluted earnings per share

The calculation of diluted earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$64,256,000 (2006: HK$84,529,000) and the weighted average number of ordinary shares of 2,666,152,668 (2006: 1,840,937,892, as adjusted to reflect the open offer on 9 January 2007), being the weighted average number of ordinary shares of 2,663,794,684 (2006: 1,839,310,720, as adjusted to reflect the open offer on 9 January 2007) in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 2,357,984 (2006: 1,627,172, as adjusted to reflect the open offer on 9 January 2007) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

(b) From continuing operations

Basic earnings per share

The calculation of basic earnings per share from continuing operations attributable to equity holders of the Company is based on the profit for the year from continuing operations attributable to equity holders of the Company of approximately HK$180,084,000 (2006 (restated): HK$68,834,000) and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

16. EARNINGS PER SHARE (continued)

(b) From continuing operations (continued)

Diluted earnings per share

The calculation of diluted earnings per share from continuing operations attributable to equity holders of the Company is based on the profit for the year from continuing operations attributable to equity holders of the Company of approximately HK$180,084,000 (2006 (restated): HK$68,834,000) and the denominator used is the same as that detailed above for diluted earnings per share from continuing and discontinued operations.

(c) Earnings/(loss) per share from discontinued operations

Basic loss per share from the discontinued operations for the year ended 30 June 2007 is HK4.4 cents, based on the loss for the year from discontinued operations attributable to the equity holders of the Company of approximately HK$115,828,000 and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

The effects of all potential ordinary shares are anti-dilutive for the year ended 30 June 2007.

Basic earnings per share from the discontinued operations for the year ended 30 June 2006 is HK0.9 cent, and diluted earnings per share from the discontinued operations is HK0.9 cent, based on the profit for the year from discontinued operations attributable to the equity holders of the Company of approximately HK$15,695,000 (restated) and the denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

17. FIXED ASSETS

Group

	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improve-ments HK$'000	Furniture, office equipment and motor vehicles HK$'000	Pipelines and trench HK$'000	Total HK$'000
Cost or valuation:							
At 1 July 2005	37,124	50,777	52,859	3,218	5,156	–	149,134
Additions	33,383	46,525	91,646	–	3,864	–	175,418
Disposal/write off	–	–	(2,273)	(76)	(1,730)	–	(4,079)
Transfer	47,020	(56,632)	9,612	–	–	–	–
Revaluation	4,483	–	–	–	–	–	4,483
Exchange differences	1,443	1,971	2,053	118	205	–	5,790
At 30 June 2006 and 1 July 2006	123,453	42,641	153,897	3,260	7,495	–	330,746
Additions	2,400	280,973	10,384	657	3,864	–	298,278
Acquisition of subsidiaries	111,761	18,552	374,614	–	2,848	25,419	533,194
Disposal/write off	(49,339)	–	(914)	(186)	–	(56)	(50,495)
Disposal of subsidiaries	(22,079)	–	(26,799)	(3,166)	(2,180)	–	(54,224)
Transfer	8,973	(53,258)	44,285	–	–	–	–
Revaluation	13,150	–	–	–	–	–	13,150
Exchange differences	5,620	8,061	9,629	92	643	(2)	24,043
At 30 June 2007	**193,939**	**296,969**	**565,096**	**657**	**12,670**	**25,361**	**1,094,692**

17. FIXED ASSETS (continued)

Group (continued)

	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improve-ments HK$'000	Furniture, office equipment and motor vehicles HK$'000	Pipelines and trench HK$'000	Total HK$'000
Accumulated depreciation:							
At 1 July 2005	–	–	8,602	1,131	2,576	–	12,309
Charge for the year	3,454	–	6,594	326	1,294	–	11,668
Disposal/write off	–	–	(2,274)	(76)	(1,695)	–	(4,045)
Write back on revaluation	(3,454)	–	–	–	–	–	(3,454)
Exchange differences	–	–	334	42	105	–	481
At 30 June 2006 and 1 July 2006	–	–	13,256	1,423	2,280	–	16,959
Charge for the year	4,763	–	19,819	189	1,875	717	27,363
Disposal/write off	(813)	–	(129)	(71)	–	–	(1,013)
Disposal of subsidiaries	(590)	–	(8,307)	(1,567)	(1,745)	–	(12,209)
Write back on revaluation	(3,375)	–	–	–	–	–	(3,375)
Exchange differences	15	–	773	41	317	21	1,167
At 30 June 2007	**-**	**-**	**25,412**	**15**	**2,727**	**738**	**28,892**
Carrying amount:							
At 30 June 2007	**193,939**	**296,969**	**539,684**	**642**	**9,943**	**24,623**	**1,065,800**
At 30 June 2006	123,453	42,641	140,641	1,837	5,215	–	313,787
Analysis of cost or valuation at 30 June 2007:							
At cost	**-**	**296,969**	**565,096**	**657**	**12,670**	**25,361**	**900,753**
At valuation 2007	**193,939**	**-**	**-**	**-**	**-**	**-**	**193,939**
	193,939	**296,969**	**565,096**	**657**	**12,670**	**25,361**	**1,094,692**
Analysis of cost or valuation at 30 June 2006:							
At cost	–	42,641	153,897	3,260	7,495	–	207,293
At valuation 2006	123,453	–	–	–	–	–	123,453
	123,453	42,641	153,897	3,260	7,495	–	330,746

17. FIXED ASSETS (continued)

Group (continued)

At 30 June 2007 the carrying amount of property, plant and equipment pledged as security for the Group's bank loan amounted to approximately HK$68,102,000 (2006: HK$Nil).

At 30 June 2007, the Group's buildings in the PRC were revalued on an open market, depreciated replacement cost basis by Castores Magi Surveyors Limited ("Castores Magi"), independent professionally qualified valuers, at approximately HK$193,939,000. The resulting revaluation surplus and reversal of revaluation deficit of approximately HK$14,552,000 and HK$1,973,000 has been credited to the fixed asset revaluation reserve as set out in the consolidated statement of changes in equity and consolidated income statement respectively.

At 30 June 2006, the Group's buildings in the PRC were revalued on an open market, depreciated replacement cost basis by Castores Magi and directors at HK$78,000,000 and HK$45,453,000 respectively. The resulting revaluation surplus and reversal of revaluation deficit of approximately HK$6,620,000 and HK$1,317,000 has been credited to the fixed asset revaluation reserve as set out in the consolidated statement of changes in equity and consolidated income statement respectively.

The carrying amount of the Group's buildings would have been approximately HK$176,844,000 (2006: HK$122,081,000) had they been stated at cost less accumulated depreciation and impairment losses.

18. LAND USE RIGHTS

The Group's land use rights represent prepaid land lease payments located in the PRC which are held under medium term leases.

As 30 June 2007 the carrying amount of land use rights pledged as security for the Group's bank loan amounted to approximately HK$23,239,536 (2006: HK$Nil).

19. GOODWILL

Goodwill acquired in business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Glucose and starch		
Mudanjiang Gaoke *(note 34(a)(i))*	**74,612**	–
Heat and power		
Mudanjiang BD Power *(note 34(a)(ii))*	**8,680**	–
	83,292	–

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margins and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margins and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next four years with the residual period using the growth rate of 2%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's manufacture and sale of glucose and starch activities is 8.15%.

20. OTHER INTANGIBLE ASSETS

	Exclusive right HK$'000	Trade name HK$'000	Technical know-how HK$'000	Deferred development costs HK$'000	Total HK$'000
Cost:					
At 1 July 2005	–	–	10,094	4,953	15,047
Write off	–	–	–	(5,146)	(5,146)
Exchange differences	–	–	391	193	584
At 30 June 2006 and 1 July 2006	–	–	10,485	–	10,485
Acquisition of subsidiaries	72,347	33,459	–	–	105,806
Exchange differences	–	–	606	–	606
At 30 June 2007	**72,347**	**33,459**	**11,091**	**-**	**116,897**
Accumulated amortisation:					
At 1 July 2005	–	–	–	–	–
Amortisation for the year	–	–	786	–	786
At 30 June 2006 and 1 July 2006	–	–	786	–	786
Amortisation for the year	1,447	669	1,080	–	3,196
Exchange differences	–	–	75	–	75
At 30 June 2007	**1,447**	**669**	**1,941**	**-**	**4,057**
Carrying amount:					
At 30 June 2007	**70,900**	**32,790**	**9,150**	**-**	**112,840**
At 30 June 2006	–	–	9,699	–	9,699
Estimated remaining amortisation period:	24.5 years	24.5 years	8.25 years	N/A	

21. DEPOSIT PAID FOR THE ACQUISITION OF SUBSIDIARIES

On 26 June 2007, Ever Concept Investments Limited ("Ever Concept"), a wholly owned subsidiary of the Company, entered into a share purchase agreement with an independent third party in relation to the acquisition of the entire issued share capital of Daytech Group Limited ("Daytech Group"), an investment holding company incorporated in the British Virgin Islands (the "BVI"), at a consideration of HK$153,000,000. Daytech Group is the legal and beneficial owner of the entire equity interest in Mudanjiang Daytech Chemical Ltd. ("Mudanjiang Daytech"), a wholly foreign-owned enterprise established by Daytech Group in the PRC. Mudanjiang Daytech is not currently engaged in any business activities or operations. It is holding a single piece of industrial land with a site area of approximately 400,000 square metres which located at Mudanjiang, Heilongjiang Province, the PRC. As at 30 June 2007, the Group had paid a deposit of HK$50,000,000.

22. INVESTMENTS IN SUBSIDIARIES

	Company 2007 HK$'000	2006 HK$'000
Unlisted investments, at cost	**8,244**	86,478

Particulars of the subsidiaries as at 30 June 2007 are as follows:

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Cozy Worldwide Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Ever Concept	BVI	Ordinary US$1	100%	–	Investment holding
Gold Capture Investments Inc.	BVI	Ordinary US$1	100%	–	Investment holding
Perfect Prosper Investments Limited	BVI	Ordinary US$1	100%	–	Investment holding
Powerful Rise Group Limited	BVI/PRC	Ordinary US$1	100%	–	Provision of engineering services
Quality Gain Investments Limited	BVI	Ordinary US$1	100%	–	Investment holding
Better Day Bio-Chem Technology Ltd. ("Better Day Bio-Chem")	BVI	Ordinary US$2	–	100%	Investment holding
Better Day Power Ltd. ("Better Day Power")	BVI	Ordinary US$2	–	100%	Investment holding
Mudanjiang BD Power	PRC *(note (a))*	RMB50,000,000	–	100%	Generation and supply of heat and power

22. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mudanjiang Dongbei Chemical	PRC *(note (b))*	RMB110,910,000	–	63.11%	Manufacture and sale of vinyl acetate
Mudanjiang Dongbei Gaoxin	PRC *(note (c))*	HK$230,000,000	–	100%	Manufacture and sale of polyvinyl-chloride
Mudanjiang Gaoke	PRC *(note (d))*	RMB60,000,000	–	60%	Manufacture and sale of glucose and starch
Perfect Quality Investments Limited	BVI	Ordinary US$1	–	100%	Inactive
STB Company Limited	Hong Kong	Ordinary HK$2	–	100%	Inactive
Success Eagle Investment Limited	Hong Kong	Ordinary HK$1	–	100%	Provision of administrative services
大慶高新區東北化工銷售有限公司	PRC *(note (e))*	RMB500,000	–	63.11%	Sale of vinyl acetate

* Where different

Notes:

(a) Mudanjiang BD Power is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from 9 June 2006.

(b) Mudanjiang Dongbei Chemical is a Sino-foreign equity joint venture established in the PRC for an operating period of 50 years commencing from 27 May 2004.

(c) Mudanjiang Dongbei Gaoxin is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from 26 April 2005.

(d) Mudanjiang Gaoke is a Sino-foreign equity joint venture established in the PRC for an operating period of 50 years commencing from 1 March 2006.

(e) 大慶高新區東北化工銷售有限公司 is a limited liability company established in the PRC with indefinite operating period.

23. DUE FROM SUBSIDIARIES – COMPANY

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

24. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**47,793**	58,588
Work in progress	**13,373**	5,648
Finished goods	**44,914**	20,925
	106,080	85,161

25. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 150 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 30 days	**59,066**	51,527
31 to 60 days	**48,259**	37,201
61 to 90 days	**19,602**	19,369
91 to 120 days	**5,576**	11,030
121 to 365 days	**10,348**	5,609
	142,851	124,736

26. BANK AND CASH BALANCES

As at 30 June 2007, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$45,307,000 (2006: HK$304,859,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27. SHARE CAPITAL

Shares

	2007 HK$'000	2006 HK$'000
Authorised:		
10,000,000,000 (2006: 10,000,000,000) ordinary shares of HK$0.01 each *(note (a))*	**100,000**	100,000
Issued and fully paid:		
3,377,829,074 (2006: 2,101,540,000) ordinary shares of HK$0.01 each	**33,778**	21,015

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2006 and 2007 is as follows:

	Number of ordinary shares issued '000	**Par value** HK$'000
At 1 July 2005	1,449,600	14,496
Issue of new shares to a substantial shareholder on 4 July 2005 *(note (b))*	214,810	2,148
Issue of new shares to a substantial shareholder on 27 April 2006 *(note (c))*	249,260	2,493
Issue of new shares to a substantial shareholder on 16 May 2006 *(note (d))*	83,540	835
Exercise of share options *(note (e))*	104,330	1,043
At 30 June 2006 and 1 July 2006	2,101,540	21,015
Issue of shares on open offer *(note (f))*	1,050,770	10,508
Exercise of share options *(note (g))*	72,590	726
Exercise of warrants *(note (h))*	152,929	1,529
At 30 June 2007	**3,377,829**	**33,778**

27. SHARE CAPITAL (continued)

Shares (continued)

Notes:

(a) On 28 April 2006, the authorised share capital of the Company was increased from HK$20,000,000 to HK$100,000,000 by the creation of 8,000,000,000 shares of HK$0.01 each and that such new shares, upon issue, shall rank pari passu in all respects with the existing shares of the Company.

(b) On 22 June 2005, Master Oriental Limited, a substantial shareholder of the Company, placed 214,810,000 ordinary shares of HK$0.01 each in the Company to independent third parties at a price of HK$0.455 each. Master Oriental Limited then subscribed for a total of 214,810,000 new shares of HK$0.01 each in the Company at HK$0.455 per share. The subscription was completed on 4 July 2005. The net proceed of approximately HK$95,988,000 was used to finance potential acquisitions and as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(c) On 5 April 2006, Master Oriental Limited placed 249,260,000 ordinary shares of HK$0.01 each in the Company to independent third parties at a price of HK$0.48 each. Master Oriental Limited then subscribed for a total of 249,260,000 new shares of HK$0.01 each in the Company at HK$0.48 per share. The subscription was completed on 27 April 2006. The net proceed of approximately HK$118,456,000 was used to finance potential acquisitions and as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(d) On 3 May 2006, Master Oriental Limited placed 83,540,000 ordinary shares of HK$0.01 each in the Company to independent third parties at a price of HK$0.52 each. Master Oriental Limited then subscribed for a total of 83,540,000 new shares of HK$0.01 each in the Company at HK$0.52 per share. The subscription was completed on 16 May 2006. The net proceed of approximately HK$43,039,000 was used as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(e) During the year ended 30 June 2006, the subscription rights attaching to 104,330,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$0.363 – HK$0.552 per share, resulting in the issue of 104,330,000 shares of HK$0.01 each for a total cash consideration of approximately HK$46,509,000.

(f) On 9 January 2007, 1,050,770,000 new shares of HK$0.01 each were issued at HK$0.3 per share by way of an open offer on the basis of one offer share for every two shares held. The net proceed of approximately HK$307,353,000 was used to finance the acquisitions of fixed assets and as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on that date.

(g) During the year ended 30 June 2007, the subscription rights attaching to 72,590,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$0.339 – HK$0.515 per share, resulting in the issue of 72,590,000 shares of HK$0.01 each for a total cash consideration of approximately HK$34,788,000.

(h) During the year ended 30 June 2007, the subscription rights attaching to 152,929,074 warrants issued pursuant to the bonus issue of warrants of the Company were exercised at the subscription price of HK$0.43 per share, resulting in the issue of 152,929,074 shares of HK$0.01 each for a total cash consideration of approximately HK$65,759,000.

Warrants

On 22 March 2007, the Company announced a bonus issue of warrants to subscribe for a maximum of 630,462,000 shares of the Company on the basis of one warrant for every five shares of the Company held. The warrants are exercisable from 16 April 2007 to 15 April 2008 at an exercise price of HK$0.43 per share. 477,532,926 warrants were outstanding at 30 June 2007.

28. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 18 November 2002 for a period of 10 years. Under the Scheme, the directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of the offer of grant, which must be a business day; and (iii) the nominal value of the shares. The offer for a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and in any event not later than 10 years from the date of grant of share options, subject to the provisions for early termination thereof.

The maximum number of shares to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of shares of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of the extraordinary general meeting held on 18 November 2002.

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

Details of the specific categories of options are as follows:

Grant date	1 April 2004	3 January 2006	3 February 2006	4 May 2006
Vesting period *(note (a))*	1 April 2004 to 6 April 2004	3 January 2006 to 9 January 2006	3 February 2006 to 7 February 2006	N/A
Exercise period	7 April 2004 to 6 April 2007	10 January 2006 to 9 January 2009	8 February 2006 to 7 February 2008	4 May 2006 to 3 May 2009
Exercise price				
– at date of grant *(note (b))*	0.470	0.363	0.455	0.552
– adjusted upon the completion of the open offer	N/A	0.339	N/A	0.515
Price of the Company's shares at the date of grant *(note (c))*	0.475	0.380	0.510	0.580

Notes:

(a) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

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

(c) The price of the Company's shares disclosed as at the date of the grant of the share options is the average Stock Exchange closing price for the five business days immediately preceding the date of the grant of the share options.

28. SHARE OPTION SCHEME (continued)

Details of the grantees are as follows:

	Number of share options							
	Directors	Weighted average exercise price	Employees	Weighted average exercise price	Business associates	Weighted average exercise price	Total	Weighted average exercise price
Outstanding at 1 July 2005	–		13,000,000	0.470	–		13,000,000	0.470
Reclassification	6,000,000	0.470	(6,000,000)	0.470	–		–	
Granted during the year	27,540,000	0.363	121,920,000	0.512	16,640,000	0.363	166,100,000	0.473
Lapsed during the year	–		(7,000,000)	0.470	–		(7,000,000)	0.470
Exercised during the year	(19,770,000)	0.395	(67,920,000)	0.481	(16,640,000)	0.363	(104,330,000)	0.446
Outstanding at 30 June 2006 and 1 July 2006	13,770,000	0.363	54,000,000	0.552	–		67,770,000	0.514
Adjusted upon the completion of the open offer	983,571	0.339	3,857,143	0.515	–		4,840,714	0.479
Cancelled during the year	(3,571)	0.339	(17,143)	0.515	–		(20,714)	0.485
Exercised during the year	(14,750,000)	0.339	(57,840,000)	0.515	–		(72,590,000)	0.479
Outstanding at 30 June 2007	–		–		–		–	
Exercisable at 30 June 2007	–		–		–		–	
Exercisable at 30 June 2006	13,770,000	0.363	54,000,000	0.552	–		67,770,000	0.514

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.610 (2006: HK$0.500). The options outstanding at 30 June 2006 have a weighted average remaining contractual life of 2.8 years and the exercise prices range from HK$0.363 to HK$0.552.

The aggregate estimated fair value of the options granted during the year ended 30 June 2006 calculated using the Black-Scholes Model was approximately HK$11,463,000. The inputs into the model were as follows:

Grant date	3 January 2006	3 February 2006	4 May 2006
Option value	HK$0.050	HK$0.064	HK$0.086
Total fair value	HK$2,202,000	HK$3,050,000	HK$6,211,000
Share price at date of grant	HK$0.38	HK$0.51	HK$0.58
Exercisable price	HK$0.363	HK$0.455	HK$0.552
Expected volatility	38%	35%	39%
Risk-free interest rate	4.06%	3.972%	4.406%
Expected life of options	1.25 years	1.25 years	1.25 years
Dividend yield	6.5%	5.2%	4.25%

The expected volatility was determined by calculating the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2005	261,441	–	36,013	297,454
Issue of shares	255,348	–	–	255,348
Share issue expenses	(3,341)	–	–	(3,341)
Share option benefits				
– Grant of share options	–	11,463	–	11,463
– Exercise of share options	45,466	–	–	45,466
– Transfer to share premium	6,118	(6,118)	–	–
Profit for the year	–	–	1,730	1,730
At 30 June 2006 and 1 July 2006	565,032	5,345	37,743	608,120
Open offer	304,723	–	–	304,723
Open offer expenses	(7,878)	–	–	(7,878)
Share option benefits				
– Exercise of share options	34,062	–	–	34,062
– Transfer to share premium	5,345	(5,345)	–	–
Exercise of warrants	64,230	–	–	64,230
Profit for the year	–	–	143,684	143,684
At 30 June 2007	**965,514**	**–**	**181,427**	**1,146,941**

29. RESERVES (continued)

(c) Nature and purpose of reserves of the Group

(i) Share premium account

The share premium account includes (i) the premium arising from the issue of shares; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation for the purpose of the listing of the Company's shares on the Stock Exchange, over the nominal value of the shares of the Company issued in exchange therefor.

(ii) Share option reserve

Share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees and business associates of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(p) to the financial statements.

(iii) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the financial statements.

(iv) Fixed asset revaluation reserve

Fixed asset revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for buildings in note 3(d) to the financial statements.

30. DEFERRED TAX

The movement of deferred tax assets/(liabilities) account is as follow:

	Group	
	2007	2006
	HK$'000	HK$'000
At beginning of year	**1,188**	2,309
Credit to income statement	**–**	974
Acquisition of subsidiaries	**(161,988)**	–
Charge to equity	**(3,858)**	(2,184)
Exchange differences	**1,709**	89
At end of year	**(162,949)**	1,188

30. DEFERRED TAX (continued)

The following are the major deferred tax assets/(liabilities) recognised by the Group, and the movements thereon, during the current and prior reporting periods.

Deferred tax assets	**Decelerated tax depreciation** HK$'000	**Other temporary difference** HK$'000	**Total** HK$'000
At 1 July 2005	176	2,133	2,309
Credit/(charge) to income statement for the year *(note 12)*	845	(412)	433
Exchange differences	7	82	89
At 30 June 2006 and 1 July 2006	1,028	1,803	2,831
Exchange differences	59	104	163
At 30 June 2007	**1,087**	**1,907**	**2,994**

Deferred tax liabilities	**Accelerated tax depreciation** HK$'000	**Revaluation of buildings** HK$'000	**Total** HK$'000
At 1 July 2005	–	–	–
Charge to equity for the year	–	(2,184)	(2,184)
Credit to income statement for the year *(note 12)*	541	–	541
At 30 June 2006 and 1 July 2006	541	(2,184)	(1,643)
Acquisition of subsidiaries	–	(161,988)	(161,988)
Charge to equity for the year	–	(3,858)	(3,858)
Exchange differences	31	1,515	1,546
At 30 June 2007	**572**	**(166,515)**	**(165,943)**

The deferred tax liabilities in relation to revaluation of buildings have been credited to equity directly.

31. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 30 days	**34,649**	12,771
31 to 60 days	**11,266**	458
61 to 90 days	**5,438**	3,279
91 to 120 days	**509**	1,323
121 to 365 days	**10,535**	–
Over 1 year	**4,430**	–
	66,827	17,831

32. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

33. BANK LOAN

Bank loan is arranged at fixed interest rate of 6.435% p.a. and exposes the Group to fair value interest rate risk. Bank loan is denominated in RMB and repaid on 3 August 2007. Bank loan is secured by a charge over the Group's fixed assets and land use rights.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

(i) Better Day Bio-Chem

On 18 August 2006, the Group acquired 60% of the issued share capital of Better Day Bio-Chem for a cash consideration of HK$280,000,000. Better Day Bio-Chem and its subsidiary are engaged in the manufacture and sale of glucose and starch.

The identifiable assets and liabilities acquired as at the date of acquisition are as follows:

	Fair value HK$'000	**Better Day Bio-Chem's carrying amount** HK$'000
Fixed assets	424,663	58,969
Land use rights	35,027	32,654
Inventories	8,723	8,723
Trade receivables	542	542
Prepayments, deposits and other receivables	25,252	25,252
Bank and cash balances	37,678	37,678
Deferred tax liabilities	(121,462)	–
Trade payables	(5,435)	(5,435)
Other payables and accruals	(62,678)	(62,678)
Minority interests	(136,922)	(38,280)
Net assets acquired	205,388	57,425
Goodwill	74,612	
Satisfied by:		
Cash consideration paid	280,000	
Net cash outflow arising on acquisition:		
Cash consideration paid	280,000	
Cash and cash equivalents acquired	(37,678)	
	242,322	

The goodwill arising on the acquisition of Better Day Bio-Chem is attributable to the existing strong demand in glucose and starch in the north-eastern region of the PRC which is expected to provide a favourable return to the Group.

Better Day Bio-Chem contributed approximately HK$79,941,000 to the Group's turnover and loss of approximately HK$22,686,000 to the Group's profit before tax, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 July 2006, total Group turnover for the year would have been approximately HK$912,024,000, and profit for the year would have been approximately HK$73,516,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2006, nor is intended to be a projection of future results.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(a) Acquisition of subsidiaries (continued)

(ii) Better Day Power

On 8 January 2007, the Group acquired the entire issued share capital of Better Day Power for a cash consideration of HK$200,000,000. Better Day Power and its subsidiary are engaged in the generation and supply of heat and power.

The identifiable assets and liabilities acquired as at the date of acquisition are as follows:

	Fair value HK$'000	**Better Day Power's carrying amount** HK$'000
Fixed assets	108,531	141,682
Land use rights	61,392	17,397
Intangible assets	105,806	–
Inventories	26,961	26,961
Trade receivables	7,299	9,397
Prepayments, deposits and other receivables	2,057	2,057
Bank and cash balances	5,366	5,366
Deferred tax liabilities	(40,526)	–
Trade payables	(49,996)	(49,996)
Other payables and accruals	(35,570)	(43,823)
Net assets acquired	191,320	109,041
Goodwill	8,680	
Satisfied by:		
Cash consideration paid	200,000	
Net cash outflow arising on acquisition:		
Cash consideration paid	200,000	
Cash and cash equivalents acquired	(5,366)	
	194,634	

The directors consider that the acquisition of Better Day Power will achieve the strategic objective of securing a supply of the key input to the production process of the Group, which will enable the Group to lower the cost of production and in turn secure its competitive advantage in the region. The goodwill is attributable to the significant synergies expected to arise after the Group's acquisition of Better Day Power.

Better Day Power contributed approximately HK$28,613,000 to the Group's turnover and loss of approximately HK$21,733,930 to the Group's profit before tax, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 July 2006, total Group turnover for the year would have been approximately HK$941,429,000, and profit for the year would have been approximately HK$76,893,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2006, nor is intended to be a projection of future results.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries

As referred to in note 11 to the financial statements, on 4 April 2007, the Group discontinued its Petroleum Refined Products Businesses at the time of the disposal of Earlsmead.

Net assets at the date of disposal were as follows:

	HK$'000
Fixed assets	42,015
Land use rights	12,488
Deposit paid for the establishment of a proposed joint venture	5,258
Inventories	118,418
Trade receivables	47,614
Prepayments, deposits and other receivables	19,398
Bank and cash balances	198,466
Trade payables	(2,135)
Current tax liabilities	(16,632)
Net assets disposed of	424,890
Minority interests	(31,990)
Total consideration	(344,541)
Loss on disposal of subsidiaries before release of exchange reserve *(note 11)*	48,359
Release of exchange reserve *(note 11)*	(21,975)
Loss on disposal of subsidiaries	26,384

Net cash outflow arising on disposal:

Cash consideration received*	150,000
Cash and cash equivalents disposed of	(198,466)
	(48,466)

* Proceeds from disposal of subsidiaries of approximately HK$194,541,000 (2006: HK$Nil) was outstanding and included in prepayments, deposits and other receivables as at the balance sheet date.

(for the year ended 30 June 2007)

35. CAPITAL COMMITMENTS

The Group's capital commitments at the balance sheet date are as follows:

	2007 **HK$'000**	2006 HK$'000
Contracted, but not provided for:		
Buildings and construction in progress	**30,623**	40,664
Capital contribution to a PRC joint venture	**–**	7,281
Acquisition of subsidiaries	**103,000**	280,000
	133,623	327,945

At 30 June 2007, the Group had a commitment, which was authorised by the directors of the Company but not contracted for, to pay RMB20,000,000, equivalent to approximately HK$20,540,000 (2006: HK$19,417,000) as development funds to an account designated by 牡丹江市經濟委員會 (the "Mudanjiang City Economic Committee") for use in technological improvements and environmental protection in respect of the operation of Mudanjiang Dongbei Gaoxin. Up to the date of this report, the Mudanjiang City Economic Committee has not demanded for such payment.

The Company did not have any capital commitments as at 30 June 2007 (2006: Nil).

36. LEASE COMMITMENTS

At 30 June 2007 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Within one year	**2,796**	1,748
In the second to fifth years inclusive	**3,380**	5,243
After five years	**–**	1,553
	6,176	8,544

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for lease terms ranging from 1 to 10 years and rentals are fixed over the lease terms and do not include contingent rentals.

The Company did not have any operating lease arrangements as at 30 June 2007 (2006: Nil).

37. EVENTS AFTER THE BALANCE SHEET DATE

In addition to those disclosed elsewhere in the financial statements, the Group had the following significant post balance sheet event:

The acquisition of Daytech Group, details of which are set out in note 21 to the financial statements, was completed on 17 August 2007.

The fair value of the identifiable assets and liabilities of Daytech Group acquired as at the date of acquisition is as follows:

	Fair value	**Daytech Group's carrying amount**
	HK$'000	HK$'000
Net assets acquired:		
Fixed assets	848	848
Land use rights	141,221	39,608
Bank and cash balances	10,438	10,438
Deferred tax liabilities	(33,532)	–
Other payables	(44)	(44)
	118,931	50,850
Goodwill	34,069	
Satisfied by:		
Cash	153,000	

The goodwill arising on the acquisition of Daytech Group is attributable to anticipated profitability of the expansion of the Group's existing businesses using the piece of land held by Mudanjiang Daytech.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of HKFRS 5.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 5 October 2007.