# 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)

# Interim Report 2007/2008

# Contents

# Corporate Information

## Board of Directors

*Executive Directors*
Mr. Chan Yuen Tung
(appointed on 29 October 2007)
Ms. Chan Yuk Foebe
Mr. Peng Zhanrong
Mr. Chiau Che Kong
Mr. Wu Jianwei
(appointed on 15 October 2007)

*Independent Non-executive Directors*
Mr. Ma Wing Yun Bryan
Mr. Yau Chung Hong
Mr. Tam Ching Ho
Dato' Wong Sin Just
(appointed on 27 December 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*
29/F., Caroline Centre
Lee Gardens Two
28 Yun Ping 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.
2nd Floor, 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

## Stock Code: 00362

# Financial Highlights

| | Six months ended 31 December | | |
|---|---|---|---|
| | **2007** | (Restated) 2006 | Change |
| | ***HK$'000*** | *HK$'000* | |
| TURNOVER | | | |
| From continuing operations | **851,252** | 404,976 | 110.2% |
| From discontinued operations | **–** | 100,775 | (100.0%) |
| | **851,252** | 505,751 | 68.3% |
| PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | **156,784** | 2,006 | 7,715.8% |
| LOSS FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | **–** | (89,444) | (100.0%) |
| BASIC EARNINGS PER SHARE | | | |
| – From continuing and discontinued operations | **HK$4.4 cents** | HK$0.1 cent | 4,300.0% |
| – From continuing operations | **HK$4.4 cents** | HK$4.4 cents | – |
| INTERIM DIVIDEND PER SHARE | **–** | – | – |

The Board of Directors ("Board" or "Directors") of China Zenith Chemical Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements ("Interim Financial Statements") of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 December 2007 ("Period"). The results had been reviewed by the Company's audit committee ("Audit Committee").

The results of the Group for the six months ended 31 December 2006 have been restated as a result of the classification of the lubricants, anti-corrosive coatings and additives businesses to discontinued operations in 2007.

# Condensed Consolidated Income Statement

| | | Unaudited six months ended 31 December | |
|---|---|---|---|
| Continuing operations | *Note* | **2007** **HK$'000** | 2006 *HK$'000* (Restated) |
| TURNOVER | 3 | **851,252** | 404,976 |
| Cost of sales | | **(598,864)** | (274,415) |
| Gross profit | | **252,388** | 130,561 |
| Other income | | **15,076** | 4,464 |
| Selling and distribution costs | | **(18,116)** | (6,924) |
| Administrative expenses | | **(76,534)** | (18,927) |
| Other operating expenses | | **(3,651)** | (899) |
| PROFIT FROM OPERATIONS | | **169,163** | 108,275 |
| Finance costs | | **(497)** | (852) |
| PROFIT BEFORE TAX | | **168,666** | 107,423 |
| Income tax credit | 5 | **22,408** | – |
| PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS | | **191,074** | 107,423 |
| DISCONTINUED OPERATIONS | | | |
| Loss for the period from discontinued operations | | **–** | (99,578) |
| PROFIT FOR THE PERIOD | 6 | **191,074** | 7,845 |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the Company | | **156,784** | 2,006 |
| Minority interests | | **34,290** | 5,839 |
| | | **191,074** | 7,845 |
| EARNINGS PER SHARE | 7 | | |
| From continuing and discontinued operations | | | |
| – Basic | | **HK4.4 cents** | HK0.1 cent |
| – Diluted | | **HK4.3 cents** | HK0.1 cent |
| From continuing operations | | | |
| – Basic | | **HK4.4 cents** | HK4.4 cents |
| – Diluted | | **HK4.3 cents** | HK4.4 cents |

# Condensed Consolidated Balance Sheet

| | Note | Unaudited 31 December 2007 HK$'000 | Audited 30 June 2007 HK$'000 (Restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | **1,112,448** | 1,065,800 |
| Land use rights | | **291,350** | 150,807 |
| Goodwill | *10* | **100,662** | 74,612 |
| Other intangible assets | | **115,198** | 112,840 |
| Deposit paid for the acquisition of subsidiaries | | **–** | 50,000 |
| Deferred tax assets | | **3,108** | 2,994 |
| | | **1,622,766** | 1,457,053 |
| **Current assets** | | | |
| Inventories | | **123,437** | 106,080 |
| Trade receivables | *11* | **218,263** | 142,851 |
| Prepayments, deposits and other receivables | | **273,622** | 263,915 |
| Financial assets at fair value through profit and loss | | **33,660** | – |
| Bank and cash balances | | **221,933** | 170,047 |
| | | **870,915** | 682,893 |
| **TOTAL ASSETS** | | **2,493,681** | 2,139,946 |
| **EQUITY** | | | |
| Capital and reserves | | | |
| Issued capital | *12* | **36,351** | 33,778 |
| Retained profits | | **693,580** | 536,796 |
| Other reserves | | **1,105,868** | 932,828 |
| **Equity attributable to equity holders of the Company** | | **1,835,799** | 1,503,402 |
| **Minority interests** | | **281,446** | 240,777 |
| **Total equity** | | **2,117,245** | 1,744,179 |

# Condensed Consolidated Balance Sheet (continued)

| | Note | Unaudited 31 December 2007 *HK$'000* | Audited 30 June 2007 *HK$'000* (Restated) |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **151,968** | 157,263 |
| **Current liabilities** | | | |
| Trade payables | *14* | **45,642** | 66,827 |
| Other payables and accruals | | **146,934** | 141,098 |
| Due to a minority shareholder of a subsidiary | | **–** | 4,108 |
| Bank loan | *13* | **26,652** | 25,675 |
| Current tax liabilities | | **5,240** | 796 |
| | | **224,468** | 238,504 |
| **Total liabilities** | | **376,436** | 395,767 |
| **Total equity and liabilities** | | **2,493,681** | 2,139,946 |
| **Net current assets** | | **646,447** | 444,389 |
| **Total assets less current liabilities** | | **2,269,213** | 1,901,442 |

# Condensed Consolidated Statement of Changes in Equity

**For the six months ended 31 December 2007 – Unaudited**

| | 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 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 1 July 2007** | **33,778** | **887,480** | **11,929** | **-** | **33,419** | **536,796** | **1,503,402** | **240,777** | **1,744,179** |
| **Profit for the period** | **-** | **-** | **-** | **-** | **-** | **156,784** | **156,784** | **34,290** | **191,074** |
| **Share option benefits** | | | | | | | | | |
| **- Grant of share options** | **-** | **-** | **-** | **26,934** | **-** | **-** | **26,934** | **-** | **26,934** |
| **- Exercise of share options** | **824** | **47,133** | **-** | **-** | **-** | **-** | **47,957** | **-** | **47,957** |
| **- Transfer to share premium** | **-** | **7,680** | **-** | **(7,680)** | **-** | **-** | **-** | **-** | **-** |
| **Issue of shares** | **1,749** | **73,436** | **-** | **-** | **-** | **-** | **75,185** | **-** | **75,185** |
| **Translation difference** | **-** | **-** | **-** | **-** | **25,537** | **-** | **25,537** | **6,379** | **31,916** |
| **At 31 December 2007** | **36,351** | **1,015,729** | **11,929** | **19,254** | **58,956** | **693,580** | **1,835,799** | **281,446** | **2,117,245** |

For the six months ended 31 December 2006 – Unaudited

| | 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 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 July 2006 | 21,015 | 486,998 | 4,436 | 5,345 | 24,346 | 472,200 | 1,014,340 | 113,673 | 1,128,013 |
| Profit for the period | – | – | – | – | – | 2,006 | 2,006 | 5,839 | 7,845 |
| Translation difference | – | – | – | – | 13,988 | – | 13,988 | 3,966 | 17,954 |
| Capital injected by minority interests | – | – | – | – | – | – | – | 38,835 | 38,835 |
| Business combination | – | – | – | – | – | – | – | 98,544 | 98,544 |
| At 31 December 2006 | 21,015 | 486,998 | 4,436 | 5,345 | 38,334 | 474,206 | 1,030,334 | 260,857 | 1,291,191 |

# Condensed Consolidated Cash Flow Statement

| | Unaudited six months ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES | **94,056** | (36,553) |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | **(167,260)** | (241,570) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | **123,142** | 25,000 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | **49,938** | (253,123) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **1,948** | 4,292 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD | **170,047** | 501,666 |
| CASH AND CASH EQUIVALENTS AT THE END OF PERIOD | **221,933** | 252,835 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank and cash balances | **221,933** | 252,835 |

# Notes to Condensed Consolidated Financial Statements

## 1. Basis of Preparation and Accounting Policies

This Interim Financial Statements was prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" which is one of the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction in with the 2007 annual financial statements of the Group.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the 2007 annual financial statements of the Group.

## 2. Changes in Accounting Policies

In the Period, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. 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 periods.

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. 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 Period.

## 4. Segment Information

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they 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.

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

### *(i) Business segments*

| | Continuing operations | | | | | | Discontinued operations | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Polyvinyl-chloride | Vinyl acetate | Heat and power | Glucose and starch | Elimin-ations | Sub-total | Lubricants | Anti-corrosive coatings | Additives | Sub-total | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Six months 31 December 2007 | | | | | | | | | | | |
| Segment revenue | 445,498 | 223,509 | 50,703 | 151,219 | (19,677) | 851,252 | – | – | – | – | 851,252 |
| Segment results | 130,435 | 71,139 | 4,953 | 1,795 | (773) | 207,549 | – | – | – | – | 207,549 |
| Other income | | | | | | 8,741 | | | | – | 8,741 |
| Unallocated expenses | | | | | | (47,127) | | | | – | (47,127) |
| Consolidated profit from operations | | | | | | 169,163 | | | | – | 169,163 |
| Finance costs | | | | | | (497) | | | | – | (497) |
| Consolidated profit before tax | | | | | | 168,666 | | | | – | 168,666 |
| Income tax credit | | | | | | 22,408 | | | | – | 22,408 |
| Consolidated profit for the period | | | | | | 191,074 | | | | – | 191,074 |

## 4. Segment Information (Cont'd)

### *(i) Business segments* (Cont'd)

| | Continuing operations | | | | | | Discontinued operations | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Polyvinyl-chloride | Vinyl acetate | Heat and power | Glucose and starch | Elimin-ations | Sub-total | Lubricants | Anti-corrosive coatings | Additives | Sub-total | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Six months 31 December 2006 | | | | | | | | | | | |
| Segment revenue | 245,190 | 141,231 | – | 18,555 | – | 404,976 | 60,944 | 39,831 | – | 100,775 | 505,751 |
| Segment results | 66,989 | 46,418 | – | (2,753) | – | 110,654 | (62,296) | (40,715) | – | (103,011) | 7,643 |
| Other income | | | | | | 4,464 | | | | 3,633 | 8,097 |
| Unallocated expenses | | | | | | (6,843) | | | | (200) | (7,043) |
| Consolidated profit/(loss) from operations | | | | | | 108,275 | | | | (99,578) | 8,697 |
| Finance costs | | | | | | (852) | | | | – | (852) |
| Consolidated profit/(loss) before tax | | | | | | 107,423 | | | | (99,578) | 7,845 |
| Income tax expense | | | | | | – | | | | – | – |
| Consolidated profit/(loss) for the period | | | | | | 107,423 | | | | (99,578) | 7,845 |

Unallocated expenses represent corporate expenses.

### *(ii) 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" or "China") and accordingly, no further analysis of the Group's geographical segments is disclosed.

## 5. Income tax credit

| | Six months ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Current Period provision: | | |
| Elsewhere in the PRC | **7,014** | – |
| Deferred tax | **(29,422)** | – |
| | **(22,408)** | – |

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 Period (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.

## 6. Profit for the Period

The Group's profit for the Period is stated at after charging/(crediting):

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | Six months ended 31 December | | | | | |
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Depreciation | **14,020** | 2,554 | **-** | 2,580 | **14,020** | 5,134 |
| Amortisation of other intangible assets | **2,775** | 600 | **-** | – | **2,775** | 600 |
| Interest income | **(2,801)** | (2,006) | **-** | (1,299) | **(2,801)** | (3,305) |
| Allowance for receivables | **10,000** | – | **-** | 18,978 | **10,000** | 18,978 |
| Allowance for inventories | **-** | – | **-** | 2,481 | **-** | 2,481 |
| Write-off of fixed assets | **2,873** | – | **-** | 47,624 | **2,873** | 47,624 |
| Write-off of land use rights | **-** | – | **-** | 13,420 | **-** | 13,420 |
| Employee share option benefits | **26,934** | – | **-** | – | **26,934** | – |
| Gain on disposal of financial assets at fair value through profit and loss | **(5,927)** | – | **-** | – | **(5,927)** | – |
| Fair value loss on financial assets at fair value through profit and loss | **9,939** | – | **-** | – | **9,939** | – |

## 7. 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 Period attributable to equity holders of the Company of approximately HK$156,784,000 (2006: HK$2,006,000) and the weighted average number of ordinary shares of 3,561,337,375 (2006: 2,101,540,000) in issue during the Period.

Because there is no discontinued operation during the Period, the basic and diluted earnings per share from continuing and discontinued operations are the same as that from continuing operations.

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 Period attributable to equity holders of the Company of approximately HK$156,784,000 (2006: HK$2,006,000) and the weighted average number of ordinary shares of 3,561,337,375 (2006: 2,101,540,000) in issue during the Period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 65,419,010 (2006: 1,231,766) assumed to have been issued at no consideration on the deemed exercise of the share options and warrants (2006: share options) outstanding at the balance sheet date.

(b) *Earnings per share from continuing operations*

The calculation of basic and diluted earnings per share from continuing operations for the six months ended 31 December 2006 attributable to equity holders of the Company is based on the profit for the six months ended 31 December 2006 from continuing operations attributable to equity holders of the Company of approximately HK$91,450,000 (restated) and the denominator used is the same as that detailed above for basic and diluted earnings per share from continuing and discontinued operations respectively.

## 7. Earnings Per Share (Cont'd)

*(c) Loss per share from discontinued operations*

Basic loss per share from the discontinued operations for the six months ended 31 December 2006 is approximately HK4.3 cents, and diluted loss per share from the discontinued operations is approximately HK4.3 cents, based on the loss for the six months ended 31 December 2006 from discontinued operations attributable to the equity holders of the Company of approximately HK$89,444,000 (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.

## 8. Capital Expenditure

During the Period, the additions to fixed assets including both the prepayment for construction in progress and the construction in progress in the PRC were approximately HK$136.2 million (2006: HK$147.2 million).

## 9. Business Combination

On 17 August 2007, the Group completed the acquisition of the entired issued share capital of Daytech Group Limited ("Daytech Group"), an investment holding company incorporated in the British Virgin Islands. 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.

## 9. Business Combination (Cont'd)

The identifiable assets and liabilities of Daytech Group acquired as at the date of acquisition are set out as follows:

| | Fair value<br>*HK$'000* | Daytech Group's carrying amount<br>*HK$'000* |
|---|---|---|
| Fixed assets | 848 | 848 |
| Land use rights | 141,221 | 39,168 |
| Bank and cash balances | 10,438 | 10,438 |
| Deferred tax liabilities | (25,513) | – |
| Other payables | (44) | (44) |
| | 126,950 | 50,410 |
| Goodwill | 26,050 | |
| 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.

The acquired business did not contribute revenues and contributed loss before allocation of approximately HK$1,707,000 for the period between date of acquisition and the balance sheet date. If the acquisition had occurred on 1 July 2007, the Group's revenue would have been approximately HK$851,252,000 and profit before allocations would have been HK$189,948,000.

## 10. Goodwill

During the year ended 30 June 2007, the Group acquired certain subsidiaries of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the Period, the Group made certain fair value adjustments to the carrying amounts of the identifiable assets and liabilities of the subsidiaries acquired as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been incorporated from acquisition date.

# Notes to Condensed Consolidated Financial Statements (continued)

## 11. 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:

| | **31 December 2007** | 30 June 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **148,014** | 59,066 |
| 31 to 60 days | **25,293** | 48,259 |
| 61 to 90 days | **13,945** | 19,602 |
| 91 to 120 days | **29,555** | 5,576 |
| 121 to 365 days | **1,456** | 10,348 |
| | **218,263** | 142,851 |

## 12. Share Capital

Shares

| | **31 December 2007** | 30 June 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 10,000,000,000 (30 June 2007: 10,000,000,000) ordinary shares of HK$0.01 each | **100,000** | 100,000 |
| Issued and fully paid: | | |
| 3,635,077,324 (30 June 2007: 3,377,829,074) ordinary shares of HK$0.01 each | **36,351** | 33,778 |

## 12. Share Capital (Cont'd)

| | Number of ordinary shares issued<br>*'000* | Par value<br>*HK$'000* |
|---|---|---|
| At 1 July 2007 | 3,377,829 | 33,778 |
| Exercise of share options *(note (a))* | 82,400 | 824 |
| Exercise of warrants *(note (b))* | 174,848 | 1,749 |
| **At 31 December 2007** | **3,635,077** | **36,351** |

*Notes:*

(a) During the Period, the subscription rights attaching to 82,400,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$0.582 per share, resulting in the issue of 82,400,000 shares of HK$0.01 each for a total cash consideration of approximately HK$47,957,000.

(b) During the Period, the subscription rights attaching to 174,848,250 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 174,848,250 shares of HK$0.01 each for a total cash consideration of approximately HK$75,185,000.

*Listed 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. 302,684,676 warrants were outstanding at 31 December 2007.

# Notes to Condensed Consolidated Financial Statements (continued)

## 13. Short Term Bank Loan

Bank loan is interest bearing at 7.524% (30 June 2007: 6.435%) per annum and repayable on 12 August 2008. Bank loan is secured by charges over the Group's certain fixed assets and land use rights.

## 14. 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:

| | **31 December 2007** | 30 June 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **19,844** | 34,649 |
| 31 to 60 days | **12,634** | 11,266 |
| 61 to 90 days | **229** | 5,438 |
| 91 to 120 days | **1,531** | 509 |
| 121 to 365 days | **4,884** | 10,535 |
| Over 1 year | **6,520** | 4,430 |
| | **45,642** | 66,827 |

# Notes to Condensed Consolidated Financial Statements (continued)

## 15. 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. 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 following share options were outstanding under the Scheme during the Period:

| Grantee | Number of share options | | | | Date of grant of share options *(note (a))* | Exercise period of share options | Exercise price of share options *(note (b))* | Price of Company's shares | |
|---|---|---|---|---|---|---|---|---|---|
| | At 1 July 2007 | Granted during the Period | Exercised during the Period | At 31 December 2007 | | | | At grant date of shares options *(note (c))* | At exercise date of shares options |
| | | | | | | | *HK$* | *HK$* | *HK$* |
| **Other employees** | | | | | | | | | |
| In aggregate | – | 168,500,000 | 82,400,000 | 86,100,000 | 20 July 2007 | 24 July 2007 to 23 July 2010 | 0.582 | 0.582 | 0.475 |
| | – | 168,500,000 | – | 168,500,000 | 22 August 2007 | 24 August 2007 to 23 August 2010 | 0.420 | 0.420 | N/A |
| | – | 337,000,000 | 82,400,000 | 254,600,000 | | | | | |

*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 a 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 higher of the average Stock Exchange closing price on the five business days immediately preceding the date of the grant of the share options or the Stock Exchange closing price on the date of grant of share option.

# Notes to Condensed Consolidated Financial Statements (continued)

## 16. Related Party Transactions

There is no significant related party transaction during the Period (2006: Nil).

## 17. Contingent Liabilities

The Group did not have any significant contingent liabilities as at the balance sheet date (30 June 2007: Nil).

## 18. Lease Commitments

At 31 December 2007 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **31 December 2007** ***HK$'000*** | 30 June 2007 *HK$'000* |
|---|---|---|
| Within one year | **1,859** | 2,796 |
| In the second to fifth years inclusive | **2,197** | 3,380 |
| After five years | **–** | – |
| | **4,056** | 6,176 |

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.

## 19. Capital Commitments

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

| | **31 December 2007** *HK$'000* | 30 June 2007 *HK$'000* |
|---|---|---|
| Contracted, but not provided for: | | |
| Buildings, land use rights and construction in progress* | **347,372** | 30,623 |
| Acquisition of subsidiaries | **–** | 103,000 |
| | **347,372** | 133,623 |

* Such commitments will be funded by both capital contribution to the PRC subsidiaries of approximately HK$221,953,000 (2006: HK$nil) and internal resources of the PRC subsidiaries.

## 20. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation of HKFRS 3 and HKFRS 5.

# Management Discussion and Analysis

## INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2006: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Environment

During the Period, the Group faced a favorable operating environment. With crude oil prices continuing to stay at historical peak level, our coal related production chemical raw materials have competitive cost advantage over petrochemical based chemical raw materials.

During the Period, the turnover of the Group reached record level of approximately HK$851.3 million, representing a significant increase of 110.2% over the corresponding period of the previous year.

During the Period, the Group recorded net profit attributable to shareholders of approximately HK$156.8 million. For the period ended 31 December 2006, excluding the loss contributed from the discontinued petroleum refined products business attributable to shareholders of approximately HK$89.4 million, the adjusted net profit attributable to shareholders amounted to approximately HK$91.4 million.

During the Period, excluding the loss contributed from the discontinued petroleum refined products business, the Group attained a significant growth of net profit attributable to shareholders of 71.6% over the corresponding period of the previous year.

Disregarding the effect of the share option benefit expenses of approximately HK$26.9 million, and fair value loss on financial assets at fair value through profit and loss of approximately HK$9.9 million, the Group's administrative expenses for the period under review increased by approximately HK$20.8 million and was in line with the increase in turnover. This can be shown by the ratio of administrative expenses to turnover remains at 4.7% for both accounting period under review.

### Business Review

*Coal related chemical products division*

The growth of profit of the Group was mainly the result of the competitive advantage of using coal related production methodology other than those using the petroleum related production methodology during high crude oil price period. Moreover, the Company has made further efforts in cost saving and consumption reduction by adopting various measures, including strengthening energy saving management and reduction in emission of unreacted gas. Various production processes have been altered and streamlined. As a result, the consumption rate of raw materials for production such as industrial salt, acetic acid and calcium carbide are reduced.

**Business Review (Cont'd)**

*Polyvinyl – chloride ("PVC")*

During the Period, the PVC segment recorded a turnover of approximately HK$445.5 million representing a significant increase of 81.7% over the corresponding period of the previous year. Operating profit of approximately HK$130.4 million represented a significant increase of 94.7% over the corresponding period of the previous year. The growth in turnover is mainly due to the increase in production quantities through proper stock management, striking balance between bulk purchase of raw materials for better price and keeping minimum safety stock for production. The increase in operating profit is mainly due to the both revised product mix, after the Group starting to manufacture emulsion PVC ("EPVC") in September 2007 and suitable economy of scale after the production line was streamlined.

*Vinyl acetate*

During the Period, turnover was approximately HK$223.5 million, representing a significant increase of 58.3% over the corresponding period of the previous year. Operating profit was approximately HK$71.1 million, representing a significant increase of 53.3% over the corresponding period of the previous year. The increase in turnover and operating profit was mainly the result of the increase in sales volume and the reduced average cost of production after the completion of the second phase expansion in production capacities in July 2007.

On 17 August 2007, the Group completed the acquisition of Daytech Group Limited. For details, please refer to note 9 of the Notes to Condensed Consolidated Financial Statements.

*Bio-chemical products division*

During the Period, the glucose and starch segment recorded a turnover of approximately HK$151.2 million, representing a significant increase of 443.3% (based on monthly proportional adjustments: 4 months in last year and six months in this year) over the corresponding period of the previous year. An operating profit of approximately HK$1.8 million was attained during the Period while there was an operating loss of approximately HK$2.8 million in the corresponding period of the previous year. The increase in turnover was mainly the result of the increase in sales volume as the bio-chemical manufacturing arm was being operated throughout the accounting period under review.

*Heat and Power division*

During the Period, the heat and power segment recorded a turnover of approximately HK$50.7 million and an operating profit of approximately HK$5.0 million (nil in the corresponding period of the pervious year since the acquisition of power and steam business was completed on 8 January 2007). The power and steam business enables the Group to secure a supply of the key utility or steam to the production processes. Therefore, the manufacturing processes for the chemical products of the Group were running smoothly and not affected by shortage of steam supply. Thus, the Group had lower its cost of production and hence maintained its competitive advantage in the region.

# Management Discussion and Analysis (continued)

## Capital structure, liquidity and financial resources

*Capital structure*

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

*Equity funding*

During the Period, the Company raised funds from 82,400,000 new shares through the exercise of share options by option holders; and 174,848,250 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, the whole amount had been utilised by the Group. Among which, approximately HK$200 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.

During the year ended 30 June 2007, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$35 million. For the Period, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$48 million. As at the date of this report, approximately HK$51 million was utilised as working capital of the Group. At the date of this report, approximately HK$32 million for working capital was not utilised by the Group.

During the year ended 30 June 2007, the net proceeds raised from the exercise of bonus warrants announced on 22 March 2007 was approximately HK$66 million. For the Period, the net proceeds raised from the exercise of bonus warrants announced on 22 March 2007 was approximately HK$75 million. As at the date of this report, the whole amount of approximately HK$141 million for working capital was not yet utilised by the Group.

# Management Discussion and Analysis (continued)

**Capital structure, liquidity and financial resources (Cont'd)**

*Liquidity and Financial Ratios*

As at 31 December 2007, the Group had total assets of approximately HK$2,493.7 million (30 June 2007: HK$2,140.0 million (restated)) which were financed by current liabilities of approximately HK$224.5 million (30 June 2007: HK$238.5 million), non-current liabilities of approximately HK$152.0 million (30 June 2007: HK$157.3 million (restated)), minority interests of approximately HK$281.4 million (30 June 2007: HK$240.8 million) and shareholders' equity of approximately HK$1,835.8 million (30 June 2007: HK$1,503.4 million).

As at 31 December 2007, the current assets of the Group amounted to approximately HK$870.9 million (30 June 2007: HK$682.9 million) comprising inventories of approximately HK$123.4 million (30 June 2007: HK$106.1 million), trade receivables of approximately HK$218.3 million (30 June 2007: HK$142.9 million), prepayments, deposits and other receivables of approximately HK$273.6 million (30 June 2007: HK$263.9 million), financial assets at fair value through profit and loss of approximately HK$33.7 million (30 June 2007: Nil), cash and cash equivalents of approximately HK$221.9 million (30 June 2007: HK$170.0 million).

As at 31 December 2007, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets – inventories)/(current liabilities)), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/shareholders' equity) of the Group were approximately 3.9 (30 June 2007: 2.9), 3.3 (30 June 2007: 2.4), 15.1% (30 June 2007: 18.5% (restated)) and 20.5% (30 June 2007: 26.3% (restated)), respectively.

The financial health of the Group attains at good level throughout the Period as indicated by the above figures.

*Significant investment held by the Company*

As at 31 December 2007, the Company did not have any significant investments except the financial assets at fair value through profit and loss of approximately HK$33.7 million, the Company had recorded a fair value loss on financial assets at fair value through profit and loss of approximately HK$9.9 million for the Period.

*Charges on the Group's assets*

As at 31 December 2007, bank loan of approximately HK$26.7 million is secured by charges over the Group's certain fixed assets and land use rights.

*Contingent liabilities*

As at 31 December 2007, the Group did not have any significant contingent liabilities.

# Management Discussion and Analysis (continued)

## Foreign Exchange Exposure

Although most of the operations of the Company 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 the 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 Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2007.

## Number and remuneration of Employees

As at 31 December 2007, the Group had 2,160 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.

For the Period, there were 337.0 million share options granted to senior management of the PRC subsidiaries of the Company, 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 approximately HK$48.0 million was received. As 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.

Subsequent to the balance sheet date, there were 72.0 million share options granted to senior management of the PRC subsidiaries of the Company. These share options has exercisable period up to 21 February 2011 at exercise price of HK$0.375 per share. As at the date of this report, no share options are exercised.

## Prospects

*Coal related products division*

With crude oil prices continuing to stay at historical heights, our coal related production chemical raw materials will maintain its competitive cost advantage over petrochemical based chemical raw materials produced by our rivals.

The PRC economy will inevitably have a vibrant growth in year 2008 and in turn strong growth of domestic demand in construction materials and industrial chemical materials or the downstream products of our customers.

In addition, the Group's efforts over the years in enhancing the quality of the coal related chemical businesses and raising the overall competitiveness, should lay the foundation for our sustained and healthy growth.

Nevertheless, the Group anticipates that the operating environment will be more challenging in the second half of the financial year. The market purchase price of coal is expected to rise. The cost of production of our coal related chemical products will increase inevitably.

## PVC

*Increase in cost of calcium carbide and electricity*

The Group foresees that the outsourced price of calcium carbide and electricity is expected to rise in line with the increase in coal price. The cost of production of our PVC products will grow unavoidably.

*Potential abolishment of preferential electricity tariff*

Moreover, according to the circular, NDRC Price [2007] No. 2655, issued by the National Development and Reform Commission in 2007, the PRC government will abolish all preferential electricity tariff given to high energy consumption manufacturing enterprises, which are classified as restricted and eliminated category. The Group is now enjoying a preferential tariff on electricity consumed during the electrolysis process in the manufacturing of PVC. The Group has not yet received any notice in respect of change or abolishment of preferential tariff. If such change occurs, the cost of production of PVC may also increase.

*Stringent control over pollution by government*

In addition, the PRC government has implemented more stringent control to prevent further pollution. Over past years, the Group has suitably invested on environmental protection aspect. To comply with the tightened statutory environmental protection standard, the Group expects to spend more and put more effort in further improvement of the production facilities.

### Prospects (Cont'd)

### PVC (Cont'd)

*Vertical Integration to the production of calcium carbide*

Faced with continued challenges and in view of the underlying strength of the Group's coal related chemical businesses, the Group is confident that the vertical integration to the production of calcium carbide will be the best solution for the challenges.

The production of both vinyl acetate and PVC consumes large amount of calcium carbide as major raw material. The Group has captured the market opportunity to purchase approximately 400,000 square metres industrial land and started constructing its own calcium carbide production facilities for internal consumption. It is planned that the first phase of construction will be finished in late 2008. This will secure the key raw material and lower the cost of production for the coal related chemical products division.

*Diversification of product mix to improve profit margin*

The Group has also planned to undertake in-house research and development to develop different types of EPVC. This will further diversify the Group's product mix and enhance the profit margin of the Group.

In conclusion, the PVC products manufactured from the new production lines will be more cost competitive after the aforesaid adjustments are made.

### Heat and Power division

The increase in coal price will adversely affect the cost of production of Heat and Power division. To cope with the problem, the Board has formulated plans to build two new sets of coal powered generation facilities in early 2007.

*Synergy from expansion of the production scale and streamline of production facilities*

The synergy from expansion of the scale production of steam of the Heat and Power business for the Group's internal consumption will further lower the cost of production. The Group has started to construct the first new set of coal powered generation facilities to house the increased demand of steam required for the expanded scale of production of vinyl acetate and PVC. The newly designed coal powered generation facilities will be more efficient in ignition of coal. Less coal will be consumed to generate same level of energy output. Less effluent substance will be emitted to air and statutory environmental protection standard will be complied. The construction of the facilities is scheduled to be completed by the end of year 2008.

### Prospects (Cont'd)

### Heat and Power division (Cont'd)

*"Self-generated electricity allocated for self-consumption" Policy*

The electricity generated by our coal powered generation facilities is connected to the state electricity grid and then supplied to the Electric Power Corporation. The self-generated electricity cannot be directly consumed by our production plants. The cost of self-generated electricity is much cheaper than that of the electricity direct purchased from the Electric Power Corporation even though the Electric Power Corporation charged a fee on the use of electricity grid.

The bio-chemical products business has obtained permission from the Electric Power Corporation that the electricity charge is calculated as the sum of the cost of self-generated electricity plus fee on the use of electricity grid. The Group has made application to extend such permission or policy to cover our new calcium carbide expansion project and planned new PVC expansion project. The goal of the Group is that all self-generated electricity will be allocated for self-consumption. The Group and the local government have reached common view on fighting for and putting into effect the aforesaid electricity pricing policy.

*Increase in tariff on steam*

Furthermore, the Group has already applied for the increase in tariff on steam generated and supplied to customers. This will lower the effect of the increase in purchase price of coal on cost of production.

Once the expansion projects are completed, better economy scales of production will be attended and more self-consumed electricity will be available. This will further lower the overall cost of production of the Group.

### Financing for new calcium carbide expansion, new coal powered generation facilities and planned new PVC expansion

Even though the Group has a healthy cash position currently, the construction of calcium carbide production facilities and expansion of the Heat and Power business demands much capital expenditure. Due to the worldwide impact of the crisis of sub prime mortgage lending in the U.S.A., the PRC government lately imposed contractionary fiscal policy in order to stabilize the economy. Following the policy, the banks in the PRC tighten the credit policy for capital expenditure projects in recent times. In view of this, the Group may consider other means of financing to meet the expected capital expenditure.

**Prospects (Cont'd)**

**Bio-chemical products division**

The Board is optimistic on the development of bio-chemical products division (or our corn-based manufacturing arm currently producing starch and glucose) since the PRC government will not approve any new corn-based manufacturing project at the moment to avoid over-manufacturing of corn into chemicals raw materials for industrial use. In addition, during the Seventeenth National Congress of the Communist Party of China, Mr. Hu Jin Tao, the president of the PRC has announced that new policy advantage over the primary industry will be made in due course.

*Improved relationship with suppliers and better market price expectation for finished goods*

Moreover, the Group has developed strong relationship with corn suppliers, such as farmers and agricultural products co-operative societies, to ensure the stable supply of raw materials and maintain a lower average cost of corn purchased. In addition, the Board is optimistic about the market prices for the Group's glucose, starch and their downstream bio-chemical products.

*Full utilization of the idle production facilities*

In view of this, the Board considers to fully utilize the production facilities and take full advantage of the production capacities purchased during acquisition of Better Day Bio-Chem Technology Limited. The Group has planned to further process the glucose into sorbitol and Vitamin C. Application for renewal of production license of medicines has been furnished. Through suitable economy of scales of production and proper controls over the cost of production, the profit margin will grow reasonably in the near future.

*Revision of the product mix*

Furthermore, the Group is also contemplating to further diversify its product mix. Feasibility studies on the production of acetic acid, xanthan gum and sodium gluconate have been conducted. Developing and producing the high value-added bio-chemical products is the right direction of the Group, the Board believes that our bio-chemical products division will have a prosperity future.

# Disclosure of Additional Information

## DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests of the Directors and chief executive of the Company in the shares (the "Shares") of the Company, 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 in the Listing Rules were as follows:

### Interests in the Shares and underlying Shares

| Name of director | Name of company | Type of interest | Number of ordinary Shares held (long position) (% of issued share capital of the Company) | | Share options held |
|---|---|---|---|---|---|
| Mr. Chan Yuen Tung | The Company | Beneficial Interest | 1,065,172,287 | 29.30% | Nil |
| Ms. Chan Yuk Foebe | The Company | Beneficial Interest | 14,750,000 | 0.41% | Nil |
| Mr. Chiau Che Kong | The Company | Beneficial Interest | 44,690,000 | 1.23% | Nil |
| Mr. Tam Ching Ho | The Company | Beneficial Interest | 1,920,000 | 0.05% | Nil |

## DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Cont'd)

### Interests in the Shares and underlying Shares (Cont'd)

Save as disclosed above, as at 31 December 2007, none of the Directors and chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as the directors of the Company are aware, as at 31 December 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 | Capacity | Approximate percentage of interest |
|---|---|---|---|
| Mr. Chan Yuen Tung | Long position 1,065,172,287 | Beneficial owner | 29.30% |
| Metage Capital Limited | Long position 431,370,000 *(note 1)* | Investment manager | 11.87% |
| Mr. Webb Richard Ian | Long position 431,370,000 *(note 1)* | Interest of corporation controlled | 11.87% |
| Pope Asset Management, LLC | Long position 318,662,500 *(note 2)* | Investment manager | 8.77% |
| Mr. Wells William P. | Long position 318,662,500 *(note 2)* | Interest of corporation controlled | 8.77% |

## INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (Cont'd)

| Name of shareholder | Number of ordinary shares | Capacity | Approximate percentage of interest |
|---|---|---|---|
| UBS AG | Long position | | 10.46% |
| | 14,799,000 | Beneficial interest | |
| | 365,361,000 | Having a security interest in shares | |
| | 380,160,000 | | |
| | Short position | | 0.41% |
| | 14,799,000 | Beneficial interest | |
| Deutsche Bank Aktiengesellschaft | Long position | | 10.83% |
| | 52,317,021 | Beneficial interest | |
| | 341,258,979 | Having a security interest in shares | |
| | 393,576,000 | | |
| | Short position | | 0.52% |
| | 10,680,000 | Beneficial interest | |
| | 8,100,000 | Having a security interest in shares | |
| | 18,780,000 | | |
| QVT Financial GP LLC | Long position 334,746,000 *(note 3)* | Interest of corporation controlled | 9.21% |
| QVT Financial LP | Long position 334,746,000 *(note 3)* | Investment manager | 9.21% |
| QVT Associates GP LLC | Long position 328,199,371 *(note 4)* | Interest of corporation controlled | 9.03% |
| QVT Fund LP | Long position 290,835,313 *(note 4)* | Beneficial owner | 8.00% |
| Polygon Global Opportunities Master Fund | Long position 372,600,000 *(note 5)* | Beneficial owner | 10.25% |
| Polygon Investment Partners LLP | Long position 372,600,000 *(note 5)* | Investment manager | 10.25% |
| Polygon Investment Partners LP | Long position 372,600,000 *(note 5)* | Investment manager | 10.25% |
| Polygon Investment Partners HK Limited | Long position 372,600,000 *(note 5)* | Investment manager | 10.25% |

*Notes:*

1. 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.

# Disclosure of Additional Information (continued)

## INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (Cont'd)

2. 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.

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 and Polygon Investment Partners LP.

Save as disclosed above, as at 31 December 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.

## 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 Period.

## PRE-EMPTIVE RIGHTS

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

# Disclosure of Additional Information (continued)

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") as its own code of conduct regarding Directors' securities trading. Having made specific enquiry of all Directors of the Company, all of them confirmed that they have complied with the required standard of dealings as set out in the Model Code during the Period.

## CORPORATE GOVERNANCE

### Code on Corporate Governance Practices

In the opinion of the Directors, the Company has during the Period complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), except for the period from 1 July 2007 up to 28 October 2007, of which Ms. Chan Yuk Foebe performed both roles of chairman and chief executive officer. Thereafter Mr. Chan Yuen Tung has been appointed as the chairman of the Board.

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. Until 28 October 2007, both roles were performed by Ms. Chan Yuk Foebe, the chief executive officer 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 on the Group's financial reporting process and internal control systems. The Audit Committee comprises the three independent non-executive Directors of the Company, namely, Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal control and financial reporting aspects of the Company including the review of the unaudited interim results of the Company for the Period and there was no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

# Disclosure of Additional Information (continued)

## REMUNERATION COMMITTEE

A remuneration committee (the “Remuneration Committee”) was established by the Company on 1 July 2005 with specific written terms of reference which set out clearly its authority and duties. The Remuneration Committee, currently comprises Ms. Chan Yuk Foebe (executive director), Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho (both are independent non-executive Directors), is responsible for advising the Board on the remuneration policy and framework for all remuneration of the Directors and senior management of the Company, as well as reviewing and determining the remuneration packages of Directors and senior management with reference to the Company’s objectives from time to time.

By order of the Board
**Chan Yuk Foebe**
*Chief Executive Officer*

Hong Kong, 18 March 2008