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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 362)

Annual Report 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' Dr. 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.
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:
31 December 2008

Stock Code: 00362

Chairman's Statement

On behalf of China Zenith Chemical Group Limited (the "Company"), I am pleased to report to all of our shareholders the business performance of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2008.

Business Review

The Group had achieved remarkable results for the year under review. Both turnover and profit attributable to shareholders reached their historical highs with turnover attaining approximately HK$1,666,103,000, an increase of 82.8% over last year, and profit attributable to shareholders totaling approximately HK$265,394,000, an increase of 313.0% over last year. Excluding the loss from discontinued petroleum refined products business recorded in last year, the adjusted percentage growth of profit attributable to shareholders was at 47.4%.

Such fast and sustainable growth was achieved by the vision of the Group: to develop a coal related chemical manufacturing production platform and catch the opportunities and privilege policy offered in relation to the reform and restructure of the existing state-owned industry in the northeastern region of the People's Republic of China ("PRC"). The Group had focused on the development of coal related chemical products since early 2004. This sound decision is proven from the outstanding results 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 continued to give all-heart devotion to the coal related chemical sector. The price of crude oil continued to stay at a high level, 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 52.9% of the consolidated turnover of the continuing operations of the Group (after elimination of intra-group sales of approximately HK$1.1 million). Upgrade and streamline of the existing production facilities had been completed in 2007. The PVC production facility had been fully-utilised throughout the year. In addition, the newly built emulsion PVC production facility was completed in August 2007. The emulsion PVC materials produced had started to contribute fruitful return to the Group. The profit margin of emulsion PVC is greater than that of the suspension PVC. As a consequence, the PVC business has contributed considerable profits to the Group during the year.

Vinyl acetate

During the financial year under review, excellent results from the operation of vinyl acetate business were recorded. The expansion of production capacities project of vinyl acetate was completed in July 2007. The upgraded vinyl acetate production facilities with designed production capacities of 40,000 tonnes per annum have been operating smoothly since August 2007.

The turnover of the vinyl acetate business represents 26.9% of the consolidated turnover of the Group (after elimination of intra-group sales of approximately HK$2.5 million). The vinyl acetate business was the second major operating activities of the Group.

Our 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%) so far. Our vinyl acetate plant has cost advantage over those plants which adopt the production technique of ethylene methodology (乙烯法化工工藝方法) at high crude oil price level.

Bio-chemical products division

During the year, the Group has successfully further acquired the remaining 40% equity interest in Mudanjiang Gaoke Bio-Chem Co., Ltd. ("Mudanjiang Gaoke"). On 27 May 2008, Mudanjiang Gaoke become a wholly-owned subsidiary of the Group. The purpose of the acquisition is to lower the overall cost of production of vinyl acetate. This is accomplished by using the existing production facilities of Mudanjiang Gaoke to produce acetic acid internally. In addition, the Board also considers that the acquisition of Mudandjiang Gaoke is in line with the Group's business objectives in diversifying its product mix and fostering the Group to develop and produce high value-added bio-chemical products, such as xanthan gum, sodium gluconate and Vitamin C which are products generated from glucose.

Business Review (continued)

Bio-chemical products division (continued)

During the year under review, the operating environment for glucose and starch continued to be difficult. The price of its major raw material, corn kernel, has been on the rise during the year. However, the Group has made modifications to streamline the production process pursuing to operate the glucose and starch production facilities at normal design capacities. The turnover of the glucose and starch business represents 16.5% of the consolidated turnover of the Group. Nevertheless, glucose and starch had been manufactured and sold for over 20 months, the result was not satisfactory. The profit margin of production and sale of starch and glucose was further squeezed during the financial year under review. The starch and glucose business was not as profitable compared to coal related chemical products. After careful consideration, the production of glucose and starch was temporarily suspended in May 2008. Feasibility studies have started focusing on the scale of production of glucose and starch and the possibilities of manufacturing other downstream products, such as vitamin C. The results of the feasibility studies will be thoroughly analysed and the final decision will be made by the end of 2008.

Prospect

PVC

In developed countries, such as the United States and European countries, the demand for PVC materials is high. Since the PRC is evolving towards a developed country, the expected demand for PVC materials in the PRC is substantial. Moreover, over the past decade, the PRC became a global factory and at the same time she is becoming a "world size" market for domestic demand expansion. For these reasons, the Group will continue to have unlimited opportunities for long term growth and development.

In view of this, 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 professionals of the chemical industry design house had completed 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 both vinyl acetate and PVC consumes large amount of calcium carbide as major raw material. The Group has started to construct its own calcium carbide production facilities for internal consumption.

It is planned that the first phase of construction will be finished by the end of 2008. This will secure the key raw material and lower the cost of production for the coal related chemical products division. Moreover, the cost of producing calcium carbide internally is anticipated to be lower than sourcing calcium carbide outside.

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.

Prospect (continued)

Heat and power (continued)

The Group is now constructing the first set of coal powered generation facilities as the first phase expansion. In addition, 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. The Board is confident that the approval will be obtained in the coming year when the first phase expansion is completed.

After the expansion of our coal powered generation facilities to cover the demand of electricity consumed by the new calcium carbide production facilities, the overall cost of producing calcium carbide internally will be further lower than purchasing from the calcium carbide producers.

At the date of this report, the progress of the above two expansion project is encouraging. After the completion of the calcium carbide and heat and power expansion, the Board believes that such move will enhance the profit contribution to the Group and benefit the shareholders as a whole.

Bio-chemical products

The Group will employ highly experienced management expertise in the production of vitamin C to resume the production of vitamin C. The plant and machinery originally designed to produce vitamin C remains intact and will then be re-utilised.

The Board has formed a committee to handle the application to the State Food and Drug Administration, PRC for resumption of the GMP license to produce vitamin C.

Such resumption work will require modification and refurbishment of the existing vitamin C production facilities. It is more convenient to have the modification and refurbishment done when the production of starch and glucose is suspended. In addition, the capital outlay for the refurbishment could be satisfied by the release of working capital from the suspended starch and glucose production.

Vitamin C produced by our Group will have competitive advantage over our rivals since we can enjoy a relatively lower cost of electricity charge with permission from Electric Power Corporation. After the resumption of the vitamin C production, it is expected that the valuation of bio-chemical product plant will be much enhanced.

The Group will inevitably grow by developing and production of both vitamin C and calcium carbide. They will be the new milestones in the development of the Group. The Board is confident that both businesses will contribute brilliant future and success to the Group and will benefit the shareholders as a whole.

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 both in-house research and development and cooperation with a famous university in Heilongjiang.

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 by expansion through vertical integration to acquire or merge with other coal related chemical businesses in the northeastern region of the PRC.

Gratitude

On behalf of the Company, I would like to take this opportunities to express my sincere gratitude to our members of the Board for their diligent guidance and leadership, 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 Yuen Tung
Chairman

Hong Kong, 23 September 2008

Management Discussion and Analysis

Business Environment

With crude oil prices continuing to stay at historical heights, our coal related production chemical raw materials had maintained its competitive cost advantage over petrochemical based chemical raw materials produced by our rivals during the financial year under review.

Such competitive cost advantage is the results of the Group's efforts over the years in enhancing the quality of the coal related chemical businesses and raising the overall competitiveness through streamlining the production methods.

The high price of commodities and crude oil has caused inflation pressure and pressure on Renminbi ("RMB") to appreciate, the PRC government has tightened the monetary policies which resulted in rising borrowing cost.

The high price of coal and industrial salt or direct materials of the Group had increased the production cost of the Group. This, in turn, caused the rise in price of calcium carbide, which is a kind of raw material consume high level of electricity in its production process. These sellers' market situations had weakened our bargaining power in negotiating credit terms with our suppliers.

In addition, our downstream industrial customers are also facing the fierce competitions, the Group had unwillingly extended our credit terms given to them. This had tightened our liquid working capital.

Facing such challenge, the Group had carried out a series of cost and expenditure review procedures to cope with the tightened cash position. Also, the management is cautious in collection of debts from our customers with extended credit terms. Moreover, the Group had focused on the core business and made necessary adjustments to react to the volatile business environment. The enhancement of quality and service standard of vinyl acetate business enabled the Group to maintain the relationship with the loyal customers. In respect of PVC business, the Group had expanded the production capacities and pursuing higher value-added products to maintain our overall competitiveness.

Our dedication and effort was to enhance the Group's competitiveness, attain the suitable economy of scale of production and aim at producing high value-added products. All of these had proven the abilities of the management to achieve excellent financial results.

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 method other than using the petroleum related production method during high crude oil price period, the expansion of production capacity, the revision of product mix, the effective cost control over material consumption in production cycles and the appealing cutback in bulk purchase of main raw materials.

PVC

During the financial year, the PVC segment recorded a turnover of approximately HK$882,761,000 representing a significant increase of 73.9% over approximately HK$507,647,000 in last year. Operating profit of approximately HK$257,041,000 represented a significant increase of 74.9% over approximately HK$146,993,000 in last year. The growth in turnover was mainly due to the increase in production quantities after the upgrade and streamline of the existing production facilities. The increase in operating profit was mainly due to both revised product mix, after the Group has started to manufacture emulsion PVC in September 2007 and suitable economy of scale after the production line was streamlined.

Business Review (continued)

Vinyl acetate

During the financial year, turnover was approximately HK$450,787,000, representing a significant increase of 52.3% over approximately HK$296,073,000 in last year. Operating profit was approximately HK$125,366,000, representing a significant increase of 31.2% over approximately HK$95,524,000 in last 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.

Bio-chemical products division

The Group originally held 60% equity interest in the Mudanjiang Gaoke Bio-Chem Co., Ltd. ("Mudanjiang Gaoke"). Upon the completion of acquisition of the Better Lion Holdings Limited on 27 May 2008, the holder of 40% equity interest in the Mudanjiang Gaoke, Mudanjiang Gaoke became a wholly-owned subsidiary of the Group.

During the year under review, the glucose and starch segment recorded a turnover of approximately HK$274,656,000 representing a significant increase of 186.3% (based on monthly proportional adjustment: ten months in last year and twelve months in this year) over the corresponding period of previous year. Operating profit of approximately HK$2,561,000 was attained during the year under review while there was an operating loss of approximately HK$31,122,000 in last year.

The Bio-chemical products division could only make a slight profit during this financial year. Being responsible executives acting in the best interest of the shareholders, the board had decided to temporarily suspend the production of glucose and starch to find a possible way to improve the financial performance of the Bio-chemical products division.

Heat and power division

The Group had successfully secured a steady supply of steam, the key input to the production process of the Group through the acquisition of Mudanjiang Better Day Power Ltd. Furthermore, this enabled the Group to lower its cost of production and in turn maintain its competitive advantage in the region.

During the year under review, the heat and power segment recorded a turnover of approximately HK$61,496,000 (after elimination of intra-group sales of approximately HK$43,776,000, representing an increase of 7.5% (based on monthly proportional adjustment: six months in last year and twelve months in this year) over the corresponding period of the previous year. Operating loss of approximately HK$4,517,000 was recorded during the year under review while there was an operating profit of approximately HK$3,674,000 in last year.

The operating loss was mainly the result of the increase in purchase price of coal. Mudanjiang Better Day Power Ltd. had made application for the increase in tariff of both steam and electricity being generated to cover the increased production cost.

Prospects

PVC

Increase in cost of calcium carbide and electricity

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

Prospects (continued)

PVC (continued)

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. At the date of this report, 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, it is expected that the Group will spend more and put more effort in further improvement of the production facilities.

Vertical integration to the production of calcium carbide

The production of both vinyl acetate and PVC consumes large amount of calcium carbide as major raw materials. Faced with continuing 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 first phase of construction of our own calcium carbide production facilities for internal consumption has been started in November 2007. For the first phase, the designed annual production capacities of calcium carbide is expected to be 100,000 tonnes. After completion of the whole project, the calcium carbide will be internally produced and will further lower the cost for the coal related chemical products division. It is expected that construction of the first phase factory buildings will be completed in late 2008.

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 increase in coal price will adversely affect the cost of production of heat and power division. To cope with the problem, the Board has started to build the first new set of coal powered generation facilities in October 2007.

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 and also 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 first new set of production facilities is scheduled to be completed by the mid of 2009.

"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 directly purchased from the Electric Power Corporation even though the Electric Power Corporation charged a fee on the use of electricity grid.

Prospects (continued)

"Self-generated electricity allocated for self-consumption" Policy (continued)

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.

Looking forward, the business environment will certainly be full of challenges. The management will face the challenge with courage and continue to dedicate to enhancing and leveraging on the competitive advantages of the Group.

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

During this financial year, the Company raised funds by issuing 188,100,000 new shares through the exercise of share options by option holders. The net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$89 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$38 million working capital was not yet utilised by the Group.

In the last financial year, the net proceeds raised from the exercise of share options granted to the senior management of the Group was approximately HK$35 million. As 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 by issuing 174,958,750 new shares through the exercise of bonus warrants. Details relating to the issue of bonus warrants were announced dated 22 March 2007 ("Bonus Warrants"). The net proceeds raised from the exercise of Bonus Warrants was approximately HK$75 million. As at the date of this report, the whole amount of the proceeds was utilised by the Group as working capital.

In the last financial year, the net proceeds raised from the exercise of Bonus Warrants was approximately HK$66 million. As at the date of this report, the whole amount was utilised by the Group as working capital.

The net proceeds raised from the open offer by issuing 1,050,770,000 offer shares announced on 23 November 2006 were approximately HK$307 million. As 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 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.

Liquidity and Financial Ratios

As at 30 June 2008, the Group had total assets of approximately HK$2,643.7 million (2007 (restated): HK$2,140.0 million) which were financed by current liabilities of approximately HK$217.0 million (2007: HK$238.5 million), non-current liabilities of approximately HK$188.7 million (2007 (restated): HK$157.3 million), minority interests of approximately HK$164.1 million (2007: HK$240.8 million) and shareholders' equity of approximately HK$2,073.9 million (2007: HK$1,503.4 million).

Capital Structure, Liquidity and Financial Resources (continued)

Liquidity and Financial Ratios (continued)

As at 30 June 2008, the current assets of the Group amounted to approximately HK$887.1 million (2007: HK$682.9 million) comprising inventories of approximately HK$103.9 million (2007: HK$106.1 million), trade receivables of approximately HK$401.8 million (2007: HK$142.9 million), prepayments, deposits and other receivables of approximately HK$303.9 million (2007: HK$263.9 million), financial assets at fair value through profit or loss of approximately HK$21.3 million (2007: HK$Nil), cash and cash equivalents of approximately HK$56.2 million (2007: HK$170.0 million).

As at 30 June 2008, 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 4.1 (2007: 2.9), 3.6 (2007: 2.4), 15.3% (2007 (restated): 18.5%) and 19.6% (2007 (restated): 26.3%), respectively.

The financial health of the Group has been remained strong throughout the year as indicated by the above figures.

Significant investment held by the Company

As at 30 June 2008, the Company did not have any significant investments except the financial assets at fair value through profit or loss of approximately HK$21.3 million, the Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$16.6 million for the Period.

Charges on the Group's assets

As at 30 June 2008, bank loans of approximately HK$78.0 million are secured by charges over the Group's certain fixed assets and prepaid land lease payments.

Contingent liabilities

As at 30 June 2008, the Group did not have any significant contingent liabilities.

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 2008.

Number and Remuneration of Employees

As at 30 June 2008, the Group had 2,120 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.

During this financial year, there were 409.0 million share options granted to senior management of the PRC subsidiaries of the Company, out of which 82.4 million and 105.7 million share options were exercised in August 2007 and June 2008. As a result, 188.1 million ordinary shares of the Company were issued and additional working capital of approximately HK$89.1 million was received. As at the date of this report, 220.9 million share options were 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 134.8 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 2008, 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 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.

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 2008, the Board comprises nine members including Mr. Chan Yuen Tung as the Chairman, Ms. Chan Yuk Foebe as the Chief Executive Officer, Mr. Peng Zhanrong, Mr. Chiau Che Kong, Mr. Wu Jianwei as executive directors and Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho and Dato' Dr. Wong Sin Just 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 interests 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, Mr. Tam Ching Ho and Dato' Dr. Wong Sin Just have the appropriate professional qualifications and accounting and related financial management expertise required under Rules 3.10(2).

The Board of Directors (continued)

The Board Meeting – Full Directors Board meeting

During the year ended 30 June 2008, 11 Board meetings (including physical meetings and obtaining board consents through the circulation of written resolutions) were held for discussion of the Company's matters (other than those 29 Board meetings listed in the next sections). The attendance of each director, on a named basis and by category, at Board meetings during the year is set out below:

Directors	Number of meetings attended/Number of Board meetings held
Executive directors	
Mr. Chan Yuen Tung *(Chairman)* (appointed on 29 October 2007)*	5/5
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	10/11
Mr. Peng Zhanrong	9/11
Mr. Chiau Che Kong	11/11
Mr. Wu Jianwei (appointed on 15 October 2007)#	6/7
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	11/11
Mr. Yau Chung Hong	11/11
Mr. Tam Ching Ho	10/11
Dato' Dr. Wong Sin Just (appointed on 27 December 2007)◆	3/3

The Board Meeting – Executive Directors Board Meeting

In addition, during the year ended 30 June 2008, 21 executive directors Board meetings were held for dealing with the compliance of legal and administrative procedures, including:

– Issue of shares in respect of exercise of share options and bonus warrants which had been previously approved by remuneration committee and the Board respectively.

– Investor relation matters.

– Completion of disclosable transaction which had been already approved by the Board.

– Administrative matters related to banking services.

– Internal corporate re-structuring and company secretarial matters.

To handle the above-mentioned matters, at least 2 executive directors of the Company and no independent non-executive directors are required to form a quorum.

The attendance of each director, on a named basis and by category, at such the Executive Directors Board meetings during the year is set out below:

Directors	Number of meetings attended/Number of Board meetings held
Executive directors	
Mr. Chan Yuen Tung *(Chairman)* (appointed on 29 October 2007)*	1/8
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	20/21
Mr. Peng Zhanrong	2/21
Mr. Chiau Che Kong	20/21
Mr. Wu Jianwei (appointed on 15 October 2007)#	0/8
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	n/a
Mr. Yau Chung Hong	n/a
Mr. Tam Ching Ho	n/a
Dato' Dr. Wong Sin Just (appointed on 27 December 2007)◆	n/a

The Board of Directors (continued)

The Board Meeting – Committee Meeting

During the year ended 30 June 2008, 8 Board committee meetings were held. The attendance of each director, on a named basis and by category, at Board committee meetings during the year is set out below:

	Number of meetings attended/ Number of meetings held			
Directors	Remuneration Committee	Audit Committee	Nomination Committee	Independent Board Committee
Executive directors				
Mr. Chan Yuen Tung *(Chairman)* (appointed on 29 October 2007)*	–	–	1/1	–
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	3/4	–	–	–
Mr. Peng Zhanrong	–	–	–	–
Mr. Chiau Che Kong	–	–	1/1	–
Mr. Wu Jianwei (appointed on 15 October 2007)#	–	–	–	–
Independent non-executive directors				
Mr. Ma Wing Yun Bryan	4/4	2/2	1/1	1/1
Mr. Yau Chung Hong	4/4	1/2	1/1	1/1
Mr. Tam Ching Ho	2/4	2/2	0/1	1/1
Dato' Dr. Wong Sin Just (appointed on 27 December 2007)◆	–	–	–	1/1

* *indicates the number of Board/Committee meetings held after the appointment of Mr. Chan Yuen Tung.*

\# *indicates the number of Board/Committee meetings held after the appointment of Mr. Wu Jianwei.*

◆ *indicates the number of Board/Committee meetings held after the appointment of Dato' Dr. Wong Sin Just.*

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 appraised 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 be open for inspection by directors. 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 unless clear declaration of interest is made by the relevant directors. 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 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.

The Board of Directors (continued)

Appointment and Re-election of Directors (continued)

All 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 two years with effect from 7 December 2007. The term of office for Dato' Dr. Wong Sin Just is effective from 27 December 2007 until the next annual general meeting.

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.

The Board as a whole, with the nomination committee, 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

In the opinion of the Directors, the Company has during the financial year complied with the CG Code, except for the period from 1 July 2007 up to 28 October 2007, during 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.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 2008.

Board Committees

The Board has established three Board committees, namely the remuneration committee ("Remuneration Committee"), the audit committee ("Audit Committee") and the nomination committee ("Nomination 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 expense 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 realisation 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 2008 and the unaudited financial statements of the Company for the six months ended 31 December 2007.

During the year, the Audit Committee has met two times together with the chief financial officer 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 Meeting – Committee Meeting" 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.

Remuneration Committee

The Remuneration Committee was established on 1 July 2005 with specific written terms of reference in compliance of the code provisions in 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. During the year, the Remuneration Committee has met four times. The attendance of each member of the Remuneration Committee, on a named basis and by category, at committee meeting during the year is set out in the section "The Board Meeting – Committee Meeting" of this report above.

Nomination Committee

The Nomination Committee was established on 2 November 2007 with specific written terms of reference in compliance with the CG Code. The Nomination Committee, currently comprises 2 executive directors, namely Mr. Chan Yuen Tung (Chairman of the Committee) and Mr. Chiau Che Kong, and three independent non-executive directors, namely Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho.

Board Committees (continued)

Nomination Committee (continued)

The nomination committee is responsible for the following:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(c) to assess the independence of independent non-executive directors;

(d) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive officer;

(e) to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board;

(f) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or applicable laws; and

(g) to ensure the chairman of the Committee, or in the absence of the chairman, another member of the Committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting of the Company.

During the year, the Nomination Committee has met once. Please refer to the table set out in the section "The Board Meeting – Committee Meeting" of this report for the attendance record of individual Nomination Committee members.

Directors' 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 page 29 of this annual report.

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 2008.

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.

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.

Accountability and Auditor's Remuneration

(continued)

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**
	HK$'000
Audit services:	
Audit of annual financial statements	930
Non-audit services:	
Review of disclosure requirement for interim financial statements	50
Attending stock-take	55
	105

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 unauthorised 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.

In September 2008, there are some amendments to the Listing Rules. Such rule amendments include shortening the reporting deadlines for the release of half-year results announcements (from three months to two months) by Main Board issuers, and shortening the reporting deadlines for the release of annual results announcements (from four months to three months) by Main Board issuers. The amendments will apply to half-year accounting period ending on or after 30 June 2010 and annual accounting periods ending on or after 31 December 2010. The Company will try our best to adopt this practice.

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

Mr. Chan Yuen Tung (陳遠東), aged 40, graduated with a bachelor degree in Computer Engineering from The University of Hong Kong in 1992. Mr. Chan has enormous experience in manufacturing industries in the mainland China, properties development and investment in both property and stock market in Hong Kong. From October 1995 to February 1999, Mr. Chan was appointed as an executive director of DC Finance (Holdings) Limited (now known as "SMI Corporation Limited") (Stock Code: 198). Since 2000, Mr. Chan participated in the investment in the manufacturing industries in the People's Republic of China. He was appointed as a member of Mudanjiang Committee of Chinese People's Political Consultative Conference in 2005 and became a member of standing committee of Mudanjiang Committee of the Chinese People's Political Consultative Conference in 2006. Save as disclosed herein, Mr. Chan did not hold any other directorships in any listed public company in the last three years. Mr. Chan was appointed as the chairman of the Board and an executive director of the Company with effect from 29 October 2007.

Ms. Chan Yuk Foebe (陳昱), aged 39, is the 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 38, 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 40, is an executive director of the Company. Mr. Chiau is specialised 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. Mr. Chiau is also an executive director of Heng Tai.

Mr. Wu Jianwei (武建偉), aged 54, is an executive director and 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 Party secretary general manager of Mudanjiang Association of Petrochemical Industry (formerly known as Mudanjiang Petrochemical Industry Group Company) before serving the Group. He graduated from Mudanjiang Education College, majoring in economic management. Mr. Wu is a qualified senior economist in the PRC. Save as disclosed herein, he did not hold any other directorships in listed public companies in the last three years. Mr. Wu is appointed as an executive director of the Company with effect from 15 October 2007.

Directors (continued)

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan (馬榮欣), aged 42, is an independent non-executive director and is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Ma is the finance director of Union Sun International Group Limited, a non-listed company with affiliates dealing in property development and the building and operation of hydro-electric plants in the PRC. He is currently an independent director of Celestial Nutrifoods Limited and China Oilfield Technology Services Group Limited (both are listed on SGX-ST). He has approximately 20 years of experience in the areas of audit, 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 38, is an independent non-executive director. He joined the Group in March 2005 and is also a member of the Audit Committee, the Remuneration Committee and the Nomination 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 Sino Katalytics Investment Corporation and an independent non-executive director of Royale Furniture Holdings Limited (formerly known as Chitaly Holdings Limited).

Mr. Tam Ching Ho (譚政豪), aged 37, is an independent non-executive director and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Tam 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 15 years of experience in areas of corporate finance, listing compliance, accounting and auditing. Mr. Tam is the Group Financial Controller of Celestial NutriFoods Limited, a company whose shares are listed on the main board of the Singapore Exchange Securities Trading 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. Tam was appointed as an independent non-executive director on 30 June 2007.

Dato' Dr. Wong Sin Just (黃森捷), aged 42, is an independent non-executive director. He is non-executive directors of Suncorp Technologies Limited; China Renji Medical Group Limited (formerly known as Softbank Investment International (Strategic) Limited), and an independent non-executive director of Capital Strategic Investment Limited and China.com Inc. Dato' Dr. Wong was also an executive director of E2-Capital (Holdings) Limited until his resignation with effect from 31 May 2008. All of the aforementioned companies are listed on The Stock Exchange of Hong Kong Limited. He is a non-executive director of Intelligent Edge Technologies Berhad, the shares of which are listed on the Malaysia MESDAQ. Dato' Dr. Wong possesses over 19 years of accounting, venture capital, fund management and investment banking experience and he held senior positions in investment banks and asset management companies. Dato' Dr. Wong holds a honorary doctorate from York University, Alabama, United States and a degree of Bachelor of Engineering (First Class Honours) from the Imperial College of Science, Technology and Medicine in London and was qualified as an associate of the Institute of Chartered Accountants, England and Wales.

In addition, Dato' Dr. Wong is actively involved in various charitable and social organisations. This includes his role as a member of the Campaign Committee, Chairman of General Donations and Special Events Organising Committee of the Community Chest of Hong Kong which is a fund dedicated to the underprivileged in Hong Kong. Dato' Dr. Wong was appointed as an independent non-executive director on 27 December 2007.

Senior Management

Mr. Shen Fengqi (沈鳳岐), aged 65, 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 52, is the assistant to general manager of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group, mainly responsible for production, operation and environmental issues. 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. Tsang Chiu Hung Victor (曾超鴻), aged 37, is the company secretary and the chief financial officer 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. Liu Hongwei (劉宏為), aged 55, is the Vice General Manager of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. mainly responsible for daily management of PVC division. Mr. Liu have over 30 years' experience in accounting and management of the large industrial enterprises. He joined the Group on 2007. He studied in China Television University (中國電視大學) for industrial accounting during 1983–1986.

Mr. Sun Jianfei (孫劍飛), aged 36, is the Chemical Engineer of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. mainly responsible for daily production of PVC division. Mr. Sun have over 10 years' experience in production management of enterprises which manufacture PVC. He joined the Group in September 2005. He studied in Mudanjiang Labour University (牡丹江職工大學) for chemical technics during 1992–1995.

Mr. Wang Manqing (王滿慶), aged 43, is the Vice General Manager of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. mainly responsible for daily production of PVC division. Mr. Wang have over 15 years' experience in management of enterprises which manufacture PVC. He joined the Group in September 2005. He holds a master degree in business administration from City University of the United States of America (美國城市大學).

Mr. Sun Wei (孫偉), aged 52, is the Vice General Manager of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. mainly responsible for daily management of PVC division. Mr. Liu have over 20 years' experience in accounting and management of the large industrial enterprises. He joined the Group on October 2005. He graduated from the Heilongjiang Provincial Committee Party School of The Communist Party of China (中共黑龍江省委黨校), majoring in economic management.

Mr. Zhang Jing (張靜), aged 47, is the Vice Engineering Controller of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. mainly responsible for its production equipment and project construction. Mr. Liu have over 20 years' experience in management and project construction aspects of the large chemical enterprises. He joined the Group in 2004. He graduated from the Heilongjiang University (黑龍江大學) in 1986, majoring in physical chemistry.

Senior Management (continued)

Mr. Lei Dewen (雷德文), aged 52, is the Vice Engineering Controller of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. mainly responsible for its production equipment and project construction. Mr. Liu have over 20 years' experience in management and project construction aspects of the large chemical enterprises. He join the Group on August 2005. He graduated from the Mudanjiang Labour University (牡丹江職工大學) in 1979, majoring in mechanical development.

Mr. Bai Yuwen (白玉文), aged 45, is the Vice General Manager of the Mudanjiang Better Day Power Limited of the Group, mainly responsible for the production and operation of power and steam. He joined the Group in Dec 2006. Mr. Bai has over 20 years' extensive experience in the production and operation management of enterprises which generate and supply of power and steam. He graduated from Heilongjiang Province Public Transport Management Cadre Institute (黑龍江省公交管理幹部學院) in 1984, majoring in corporate management.

Mr. Tian Yu (田雨), aged 51, is the Engineering Controller of the Mudanjiang Better Day Power Limited of the Group, mainly responsible for production technology of power and steam. He joined the Group in Dec 2006. Mr. Tian has over 20 years' extensive experience in the production, management and project construction aspects of enterprises which generate and supply of power and steam. He graduated from Heilongjiang Province Economic Cadre Institute (黑龍江省經濟幹部學院) in 2000, majoring in economic management.

Mr. Gu Bailin (顧柏林), aged 41, is the Vice Engineering Controller of the Mudanjiang Better Day Power Limited of the Group, mainly responsible for production technology of power and steam. He joined the Group in Dec 2006. Mr. Tian has over 20 years' extensive experience in the production and management aspects of enterprise which generate and supply of power and steam. He graduated from Harbin University of Science and Technology (哈爾濱理工大學) in 2008, majoring in heat and power engineering.

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 2008.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 21 to the financial statements.

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

Results and Dividends

The Group's profit for the year ended 30 June 2008 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 30 to 86.

The directors do not recommend the payment of dividend for the year ended 30 June 2008.

Donations

The Group did not make any charitable and other donations during the year.

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				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER					
From continuing operations	**1,666,103**	911,507	469,921	83,944	–
From discontinued operations	**–**	100,775	297,304	610,147	408,882
	1,666,103	1,012,282	767,225	694,091	408,882
PROFIT/(LOSS) FROM OPERATIONS	**317,245**	207,938	98,447	4,976	(3,084)
Finance costs	**(4,888)**	(4,507)	–	(336)	(50)
PROFIT/(LOSS) BEFORE TAX	**312,357**	203,431	98,447	4,640	(3,134)
Income tax credit/(expense)	**1,764**	(2,443)	(2,967)	2,309	–
Profit/(loss) for the year from continuing operations	**314,121**	200,988	95,480	6,949	(3,134)
(Loss)/profit for the year from discontinued operations	**–**	(125,962)	17,814	92,839	77,537
PROFIT FOR THE YEAR	**314,121**	75,026	113,294	99,788	74,403
Attributable to:					
Equity holders of the Company	**265,394**	64,256	84,529	83,921	66,518
Minority interests	**48,727**	10,770	28,765	15,867	7,885
	314,121	75,026	113,294	99,788	74,403

Summary Financial Information (continued)

ASSETS, LIABILITIES AND EQUITY

	At 30 June				
		(Restated)			
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,756,599**	1,457,053	410,196	281,960	154,376
Current assets	**887,147**	682,893	790,378	470,244	303,091
TOTAL ASSETS	**2,643,746**	2,139,946	1,200,574	752,204	457,467
Non-current liabilities	**188,712**	157,263	1,643	–	3,956
Current liabilities	**217,019**	238,504	70,918	84,641	65,305
TOTAL LIABILITIES	**405,731**	395,767	72,561	84,641	69,261
TOTAL EQUITY	**2,238,015**	1,744,179	1,128,013	667,563	388,206
Attributable to:					
Equity holders of the Company	**2,073,859**	1,503,402	1,014,340	586,010	360,753
Minority interests	**164,156**	240,777	113,673	81,553	27,453
	2,238,015	1,744,179	1,128,013	667,563	388,206

Note: The results of the Group for the year ended 30 June 2008 and of the assets, liabilities and equity of the Group as at 30 June 2008 are those set out on page 30 and pages 31 to 32 of the financial statements, respectively.

The results of the Group for the years ended 30 June 2004, 2005, 2006 and 2007 have been extracted from the audited financial statements of the Company for the respective years.

The assets, liabilities and equity of the Group as at 30 June 2004, 2005 and 2006 have been extracted from the audited financial statements of the Company for the respective years.

The assets, liabilities and equity of the Group as at 30 June 2007 have been restated as appropriate.

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, Mr. Tam Ching Ho and Dato' Dr. Wong Sin Just 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 33 and 34 and note 29(b) to the financial statements, respectively.

Distributable Reserves

At 30 June 2008, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK$162,561,000. In addition, the share premium account of the Company of approximately HK$1,142,886,000 as at 30 June 2008 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 20.3% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 5.0%.

Purchases from the Group's five largest suppliers accounted for approximately 47.5% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 12.1%.

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:

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' Dr. Wong Sin Just (appointed on 27 December 2007)

In accordance with articles 108 and 112 of the Articles, Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Dato' Dr. Wong Sin Just will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Ma Wing Yun Bryan was appointed for a term of two years as independent non-executive director of the Company commencing from 28 February 2001. The terms of his appointment was renewed for a further two years commencing from 28 February 2003. Upon the expiry of his appointment on 27 February 2005, the Company did not renew the service contract with Mr. Ma Wing Yun Bryan until 24 March 2006. The Company renewed service contract with Mr. Ma Wing Yun, Bryan for a further term of three years, commencing from 1 April 2006. On 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 (i.e. 6 December 2007) of the Company. On 7 December 2007, the Company renewed the service contract with Mr. Tam Ching Ho for a term of two years as an independent non-executive director of the Company commencing from 7 December 2007. Furthermore, the Company entered into a service contract with Dato' Dr. Wong Sin Just with a term commencing from 27 December 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 18 to 21 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. Moreover, Mr. Chan Yuen Tung and Mr. Wu Jianwei have entered into a service contract with the Company commencing from 29 October 2007 and 15 October 2007 respectively and, 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, and will be automatically terminated after 3 years from the commencing date.

Directors' Service Contracts (continued)

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 2008, 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, 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 of Hong Kong Limited (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

Name of director	Name of company	Type of interest	Number of shares held	% of issued share capital of the Company*	Share options held
Mr. Chan Yuen Tung	The Company	Beneficial Interest	1,048,830,287(L)	28.04%	Nil
Ms. Chan Yuk Foebe	The Company	Beneficial Interest	14,750,000(L)	0.39%	Nil
Mr. Chiau Che Kong	The Company	Beneficial Interest	67,710,000(L)	1.81%	Nil
Mr. Tam Ching Ho	The Company	Beneficial Interest	1,920,000(L)	0.05%	Nil

(L) = Long Positions

* As at 30 June 2008, the number of issued shares of the Company was 3,740,887,824 shares.

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 2008, 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 interests in the issued share capital of the Company***
Metage Capital Limited	Long position 431,370,000 (note 1)	Investment manager	11.53%
Mr. Webb Richard Ian	Long position 431,370,000 (note 1)	Interest of controlled corporation	11.53%
Pope Asset Management, LLC	Long position 410,200,000	Investment manager	10.97%
UBS AG	Long position 310,500,000	Having a security interest in shares	8.30%
Deutsche Bank Aktiengesellschaft	Long position		
	42,584,969	Beneficial owner	1.14%
	331,860,031	Having a security interest in shares	8.87%
	374,445,000		10.01%
QVT Financial GP LLC	Long position 334,746,000 (note 2)	Interest of controlled corporation	8.95%
QVT Financial LP	Long position 334,746,000 (note 2)	Investment manager	8.95%
QVT Associates GP LLC	Long position 328,199,371 (note 3)	Interest of controlled corporation	8.77%
QVT Fund LP	Long position 290,835,313 (note 3)	Beneficial owner	7.77%
Polygon Global Opportunities Master Fund	Long position 310,500,000 (note 4)	Beneficial owner	8.30%
Polygon Investment Partners LLP	Long position 310,500,000 (note 4)	Investment manager	8.30%
Polygon Investment Partners LP	Long position 310,500,000 (note 4)	Investment manager	8.30%
Polygon Investment Partners HK Limited	Long position 310,500,000 (note 4)	Investment manager	8.30%

* As at 30 June 2008, the number of issued shares of the Company was 3,740,887,824 shares.

Notes:

1. Metage Capital Limited is a controlled corporation of Mr. Webb Richard Ian. 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.

2. 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.

3. 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.

4. 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.

Interests of Shareholders Disclosable under the SFO (continued)

Save as disclosed above, as far as the directors of the Company are aware, as at 30 June 2008, 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 2008 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 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.

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 Yuen Tung
Chairman

Hong Kong
23 September 2008

Independent Auditor's Report

RSM Nelson Wheeler
中瑞岳華（香港）會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
CHINA ZENITH 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 30 to 86, which comprise the consolidated and Company balance sheets as at 30 June 2008, 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.

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 2008 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.

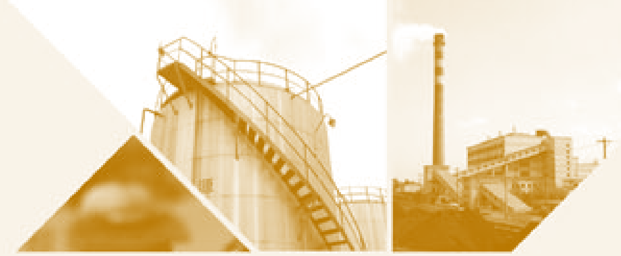
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

23 September 2008

Consolidated Income Statement

for the year ended 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Continuing operations			
Turnover	6	**1,666,103**	911,507
Cost of sales		**(1,180,137)**	(635,377)
Gross profit		**485,966**	276,130
Other income	8	**17,247**	10,588
Selling and distribution costs		**(38,579)**	(19,987)
Administrative expenses		**(121,634)**	(56,963)
Other operating expenses		**(25,755)**	(1,830)
Profit from operations		**317,245**	207,938
Finance costs	9	**(4,888)**	(4,507)
Profit before tax		**312,357**	203,431
Income tax credit/(expense)	10	**1,764**	(2,443)
Profit for the year from continuing operations		**314,121**	200,988
Discontinued operations			
Loss for the year from discontinued operations	11	**–**	(125,962)
Profit for the year	12	**314,121**	75,026
Attributable to:			
Equity holders of the Company	14	**265,394**	64,256
Minority interests		**48,727**	10,770
		314,121	75,026
Earnings per share			
From continuing and discontinued operations			
– Basic	16(a)	**HK7.36 cents**	HK2.41 cents
– Diluted	16(a)	**HK7.31 cents**	HK2.41 cents
From continuing operations			
– Basic	16(b)	**HK7.36 cents**	HK6.76 cents
– Diluted	16(b)	**HK7.31 cents**	HK6.75 cents



Consolidated Balance Sheet

at 30 June 2008

	Note	2008 HK$'000	2007 HK$'000 (Restated)
Non-current assets			
Fixed assets	17	**1,165,441**	1,065,800
Prepaid land lease payments	18	**363,087**	150,807
Goodwill	19	**111,735**	74,612
Other intangible assets	20	**113,027**	112,840
Deposit paid for the acquisition of subsidiaries		**–**	50,000
Deferred tax assets	30	**3,309**	2,994
		1,756,599	1,457,053
Current assets			
Inventories	23	**103,874**	106,080
Trade receivables	24	**401,819**	142,851
Prepayments, deposits and other receivables		**303,913**	263,915
Financial assets at fair value through profit or loss	25	**21,324**	–
Bank and cash balances	26	**56,217**	170,047
		887,147	682,893
TOTAL ASSETS		**2,643,746**	2,139,946

Consolidated Balance Sheet

at 30 June 2008

	Note	2008 HK$'000	2007 HK$'000 (Restated)
Capital and reserves			
Issued share capital	27	**37,409**	33,778
Retained profits		**803,905**	536,796
Other reserves		**1,232,545**	932,828
Equity attributable to equity holders of the Company		**2,073,859**	1,503,402
Minority interests		**164,156**	240,777
Total equity		**2,238,015**	1,744,179
Non-current liabilities			
Bank loans	33	**47,558**	–
Deferred tax liabilities	30	**141,154**	157,263
		188,712	157,263
Current liabilities			
Trade payables	31	**29,386**	66,827
Other payables and accruals		**146,515**	141,098
Due to a minority shareholder of a subsidiary	32	**–**	4,108
Bank loans	33	**30,398**	25,675
Current tax liabilities		**10,720**	796
		217,019	238,504
Total liabilities		**405,731**	395,767
TOTAL EQUITY AND LIABILITIES		**2,643,746**	2,139,946
Net current assets		**670,128**	444,389
Total assets less current liabilities		**2,426,727**	1,901,442

Chan Yuk Foebe
Director

Chan Yuen Tung
Chairman

Consolidated Statement of Changes in Equity

for the year ended 30 June 2008

		Attributable to equity holders of the Company								
	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
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 Statement of Changes in Equity

for the year ended 30 June 2008

		Attributable to equity holders of the Company								
	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
At 1 July 2007		33,778	887,480	11,929	–	33,419	536,796	1,503,402	240,777	1,744,179
Revaluation surplus on buildings	17	–	–	21,424	–	–	–	21,424	–	21,424
Deferred tax liabilities	30	–	–	(4,093)	–	–	–	(4,093)	–	(4,093)
Translation difference		–	–	–	–	89,721	–	89,721	18,582	108,303
Net income recognised directly in equity		–	–	17,331	–	89,721	–	107,052	18,582	125,634
Profit for the year		–	–	–	–	–	265,394	265,394	48,727	314,121
Total recognised income and expense for the year		–	–	17,331	–	89,721	265,394	372,446	67,309	439,755
Share option benefits										
– Grant of share options		–	–	–	33,668	–	–	33,668	–	33,668
– Exercise of share options		1,881	87,230	–	–	–	–	89,111	–	89,111
– Transfer to share premium		–	16,660	–	(16,660)	–	–	–	–	–
Business combination (note 34(a)(ii))		–	–	–	–	–	–	–	(143,930)	(143,930)
Disposal of buildings		–	–	(1,715)	–	–	1,715	–	–	–
Exercise of warrants		1,750	73,482	–	–	–	–	75,232	–	75,232
At 30 June 2008		**37,409**	**1,064,852**	**27,545**	**17,008**	**123,140**	**803,905**	**2,073,859**	**164,156**	**2,238,015**

Consolidated Cash Flow Statement

for the year ended 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax (excluding loss on disposal of discontinued operations)		**312,357**	103,853
Adjustments for:			
Finance costs		**4,888**	4,507
Interest income		**(4,560)**	(5,136)
Dividend income		**(166)**	–
Depreciation		**39,394**	27,363
Amortisation of prepaid land lease payments		**6,047**	2,485
Amortisation of other intangible assets		**5,798**	3,196
Allowance for receivables		**2,397**	19,786
Write off of fixed assets		**8,101**	48,822
Write off of prepaid land lease payments		**–**	13,420
Fair value loss on financial assets at fair value through profit or loss		**16,600**	–
Write back of other payables		**–**	(2,334)
Gain on disposal of fixed assets		**(3)**	(262)
Gain on disposal of financial assets at fair value through profit or loss		**(4,756)**	(1,470)
Reversal of revaluation deficit on buildings		**(327)**	(1,973)
Share option benefits		**33,668**	–
Operating profit before working capital changes		**419,438**	212,257
Decrease/(increase) in inventories		**2,206**	(103,653)
Increase in trade receivables		**(261,365)**	(57,888)
Increase in prepayments, deposits and other receivables		**(38,262)**	(3,854)
Decrease in trade payables		**(37,441)**	(4,300)
Increase in other payables and accruals		**1,262**	25,992
Cash generated from operations		**85,838**	68,554
Interest received		**4,560**	5,136
Dividend received		**166**	–
Interest paid		**(4,888)**	(4,507)
Income taxes paid		**(25,541)**	(17,551)
Net cash generated from operating activities		**60,135**	51,632

Consolidated Cash Flow Statement

for the year ended 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	34(a)	**(247,562)**	(436,956)
Deposit paid for the acquisition of subsidiaries		**–**	(50,000)
Deposit paid for acquisition of prepaid land lease payments		**(1,736)**	–
Disposal of subsidiaries		**–**	(48,466)
Purchases of fixed assets		**(66,726)**	(298,278)
Purchases of prepaid land lease payments		**(23,380)**	(318)
Purchases of other intangible assets		**(4,826)**	–
Proceeds from disposal of fixed assets		**9**	922
Acquisition of financial assets at fair value through profit or loss		**(221,712)**	(31,762)
Proceeds from disposal of financial assets at fair value through profit or loss		**188,544**	33,232
Net cash used in investing activities		**(377,389)**	(831,626)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of warrants		**75,232**	65,759
Exercise of share options		**89,111**	34,788
Open offer, net of expenses		**–**	307,353
Advance from a minority shareholder of a subsidiary		**–**	4,108
Bank loan raised		**–**	25,675
Repayment of bank loan		**(821)**	–
Net cash generated from financing activities		**163,522**	437,683
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(153,732)**	(342,311)
Effect of foreign exchange rate changes		**39,902**	10,692
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**170,047**	501,666
CASH AND CASH EQUIVALENTS AT END OF YEAR		**56,217**	170,047
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**56,217**	170,047

Balance Sheet

at 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Investments in subsidiaries	21	**41,912**	8,244
Current assets			
Due from subsidiaries	22	**1,307,159**	975,411
Other receivables		**–**	194,541
Bank and cash balances		**11,127**	5,596
		1,318,286	1,175,548
TOTAL ASSETS		**1,360,198**	1,183,792
Capital and reserves			
Issued share capital	27	**37,409**	33,778
Retained profits	29(b)	**162,561**	181,427
Other reserves	29(b)	**1,159,894**	965,514
Total equity		**1,359,864**	1,180,719
Current liabilities			
Other payables and accruals		**334**	3,073
TOTAL EQUITY AND LIABILITIES		**1,360,198**	1,183,792
Net current assets		**1,317,952**	1,172,475
Total assets less current liabilities		**1,359,864**	1,180,719

Chan Yuk Foebe
Director

Chan Yuen Tung
Chairman

Notes to the Financial Statements

for the year ended 30 June 2008

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 "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 21 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 its accounting year beginning on 1 July 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 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 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 and investments 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 their 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.

3. Significant Accounting Policies (continued)

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.

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.

3. Significant Accounting Policies (continued)

(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.

(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.

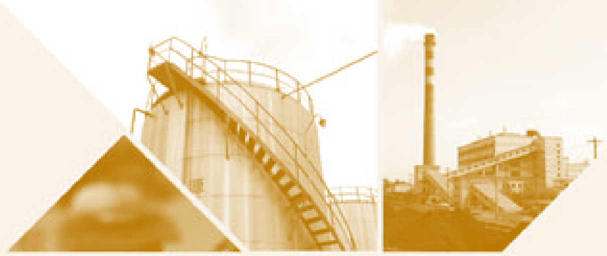
(ii) Transactions and balances in each entity's financial statements

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;



3. Significant Accounting Policies (continued)

(c) Foreign currency translation (continued)

(iii) Translation on consolidation (continued)

– 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, 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.

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.

3. Significant Accounting Policies (continued)

(d) Fixed assets (continued)

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
Leasehold improvements	10 years
Pipelines and trench	30 years
Plant and machinery	10 to 30 years
Furniture, office equipment and motor vehicles	5 to 10 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.

(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.

3. Significant Accounting Policies (continued)

(g) Other intangible assets

(i) Technical know-how

Technical known-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.

(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.

3. Significant Accounting Policies (continued)

(j) Recognition and derecognition of financial instruments (continued)

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) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value.

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

(l) 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)

(m) 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.

(n) 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.

(o) 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.

3. Significant Accounting Policies (continued)

(p) 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 People's Republic of China ("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 this subsidiary 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.

(q) 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.

(r) Borrowing costs

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

3. Significant Accounting Policies (continued)

(s) 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.

(t) 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.

3. Significant Accounting Policies (continued)

(u) 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;

(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.

(v) 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.

3. Significant Accounting Policies (continued)

(w) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, deferred tax assets, investments, 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.

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.

(x) 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.

(y) 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.

(b) Impairment test of goodwill

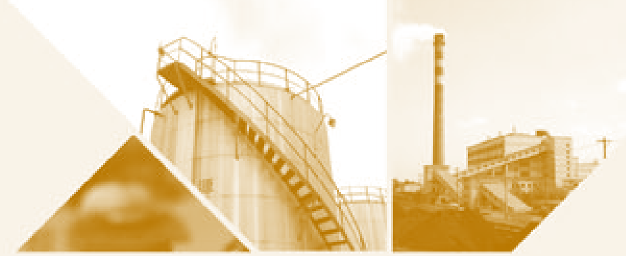
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was approximately HK$111,735,000. Details of the impairment test are provided in note 19 to the 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, price 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") which are the functional currencies of the principal operating entities of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, 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) Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

At 30 June 2008, if the quoted market price of the Group's listed securities had been 10% higher/lower, then profit after tax for the year would have been approximately HK$2,132,000 (2007: HK$Nil) higher/lower.

(c) Credit risk

The carrying amount of the bank and cash balances, trade and other receivables and investments included in the balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group's credit risk is primarily attributable to its trade and other receivables. It has policies in place to ensure that sales are made to customers with an appropriate credit history. 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.

5. Financial Risk Management (continued)

(d) 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.

(e) Interest rate risk

The Group's exposure to interest rate risk mainly arises from its bank borrowings arranged at variable rates.

At 30 June 2008, if interest rates at that date had been 1% lower/higher with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$496,000 (2007: HK$Nil) higher/lower, arising mainly as a result of lower/higher interest expense on bank borrowings.

(f) 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	
	2008	2007
	HK$'000	HK$'000
Continuing operations	**1,666,103**	911,507
Discontinued operations (note 11)	**–**	100,775
	1,666,103	1,012,282

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:

7. Segment Information (continued)

(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	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 2008											
Segment revenue	882,761	450,787	105,272	274,656	(47,373)	1,666,103	–	–	–	–	1,666,103
Segment results	257,041	125,366	(4,517)	2,561	–	380,451	–	–	–	–	380,451
Other income						9,339				–	9,339
Unallocated expenses						(72,545)				–	(72,545)
Consolidated profit from operations						317,245				–	317,245
Finance costs						(4,888)				–	(4,888)
Consolidated profit before tax						312,357				–	312,357
Income tax credit						1,764				–	1,764
Consolidated profit for the year						314,121				–	314,121

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 2008										
Segment assets	**547,499**	**531,178**	**395,735**	**719,904**	**2,194,316**	**–**	**–**	**–**	**–**	**2,194,316**
Unallocated assets					**449,430**					**449,430**
Total assets					**2,643,746**					**2,643,746**
Segment liabilities	**34,554**	**56,517**	**97,796**	**141,580**	**330,447**	**–**	**–**	**–**	**–**	**330,447**
Unallocated liabilities					**75,284**					**75,284**
Total liabilities					**405,731**					**405,731**
Year ended 30 June 2008										
Other segment information:										
Depreciation	**9,031**	**8,887**	**6,889**	**13,921**	**38,728**	**–**	**–**	**–**	**–**	**38,728**
Unallocated depreciation					**666**					**666**
					39,394					**39,394**
Amortisation of other intangible assets	**–**	**1,566**	**4,232**	**–**	**5,798**	**–**	**–**	**–**	**–**	**5,798**
Amortisation of prepaid land lease payments	**646**	**556**	**1,224**	**721**	**3,147**	**–**	**–**	**–**	**–**	**3,147**
Unallocated amortisation					**2,900**					**2,900**
					6,047					**6,047**
Capital expenditure	**20,748**	**30,452**	**12,307**	**3,243**	**66,750**	**–**	**–**	**–**	**–**	**66,750**
Unallocated capital expenditure					**7,020**					**7,020**
					73,770					**73,770**

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 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

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$'000 (Restated)	Lubricants HK$'000	Anti-corrosive coatings HK$'000	Additives HK$'000	Sub-total HK$'000	Total HK$'000 (Restated)
As at 30 June 2007										
Segment assets	516,000	289,016	322,281	644,363	1,771,660	–	–	–	–	1,771,660
Unallocated assets					368,286					368,286
Total assets					2,139,946					2,139,946
Segment liabilities	21,554	40,332	82,999	66,494	211,379	–	–	–	–	211,379
Unallocated liabilities					184,388					184,388
Total liabilities					395,767					395,767
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 other intangible assets	–	1,080	2,116	–	3,196	–	–	–	–	3,196
Amortisation of prepaid land lease payments	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

(b) Geographical segments

Over 90% of the Group's revenue and assets are derived from customers and operations based in the PRC and accordingly, no further analysis of the Group's geographical segments is disclosed.

8. Other Income

	Group 2008 HK$'000	2007 HK$'000
Dividend income	**166**	–
Exchange difference	**114**	–
Gain on disposal of financial assets at fair value through profit or loss (held for trading)	**4,756**	1,470
Gain on disposal of fixed assets	**3**	262
Government grants (note)	**3,929**	1,564
Interest income	**4,560**	5,136
Rental income	**–**	300
Reversal of revaluation deficit on buildings	**327**	1,973
Sundry income	**3,392**	1,182
Write back of other payables	**–**	2,334
	17,247	14,221
Representing:		
Continuing operations	**17,247**	10,588
Discontinued operations (note 11)	**–**	3,633
	17,247	14,221

Note: Government grants for the years ended 30 June 2007 and 2008 were received for refund of value-added tax and government charges. There are no unfulfilled conditions or contingencies attached to the grants.

9. Finance Costs

	Group 2008 HK$'000	2007 HK$'000
Continuing operations:		
Interest on bank loans	**2,516**	1,408
Interest on other loans wholly repayable within five years	**–**	1,939
Interest on discounted bills	**2,372**	1,160
	4,888	4,507

10. Income Tax (Credit)/Expense

	Group	
	2008	2007
	HK$'000	HK$'000
Current tax – Overseas		
Provision for the year	**30,009**	2,443
Underprovision in prior years	**5,350**	–
	35,359	2,443
Deferred tax (note 30)	**(37,123)**	–
	(1,764)	2,443

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 (2007: 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.

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 Limited ("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 Company Limited ("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 tax losses brought forward to set off against current year's assessable profit.

10. Income Tax (Credit)/Expense (continued)

The provision for income tax of other subsidiaries operating in the PRC have been calculated at the rate of 33% for the six months ended 31 December 2007 and 25% for the six months ended 30 June 2008 (2007: 33% throughout the year), 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 is effective from 1 January 2008. The impact of the new tax law on the Group's consolidated financial statements has been reflected in the current year's consolidated income statement.

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	
	2008 HK$'000	2008 %	2008 HK$'000	2008 %	2008 HK$'000	2008 %
Profit/(loss) before tax	(54,267)		366,624		312,357	
Tax at the statutory tax rate	(9,497)	(17.5)	91,656	25.0	82,159	26.3
Preferential statutory tax rate offered	–	–	(75,139)	(20.5)	(75,139)	(24.1)
Income tax exempted	(1,043)	(1.9)	(4,317)	(1.2)	(5,360)	(1.7)
Expenses not deductible for tax	10,540	19.4	4,013	1.1	14,553	4.7
Unrecognised temporary differences	–	–	(2,148)	(0.6)	(2,148)	(0.7)
Tax losses not recognised	–	–	380	0.1	380	0.1
Utilisation of tax losses not previously recognised	–	–	(4,637)	(1.3)	(4,637)	(1.5)
Effect of change in tax rate	–	–	(16,922)	(4.6)	(16,922)	(5.4)
Underprovision in prior years	–	–	5,350	1.5	5,350	1.7
Tax credit at the Group's effective tax rate	–	–	(1,764)	(0.5)	(1,764)	(0.6)

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately HK$18,659,000 (2007: HK$Nil). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

10. Income Tax (Credit)/Expense (continued)

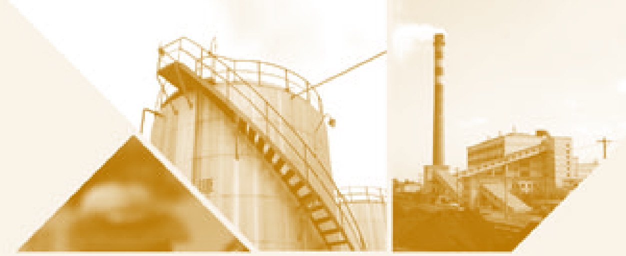
Group

	Hong Kong		The PRC		Total	
	2007	2007	2007	2007	2007	2007
	HK$'000	%	HK$'000	%	HK$'000	%
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

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 held 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"). The disposal was completed on 4 April 2007 and the Group discontinued its Petroleum Refined Products Businesses.



11. Discontinued Operations (continued)

The Group's loss for the year from the discontinued operations is analysed as follows:

	2007 HK$'000
Loss of discontinued operations	(99,578)
Loss on disposal of discontinued operations before release of exchange reserve	(48,359)
Release of exchange reserve	21,975
	(125,962)

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
Turnover	100,775
Cost of sales	(114,701)
Gross loss	(13,926)
Other income	3,633
Selling and distribution costs	(2,379)
Administrative expenses	(4,403)
Other operating expenses	(82,503)
Loss from operations	(99,578)
Income tax expense	–
Loss for the period	(99,578)

During the year ended 30 June 2007, the disposed subsidiaries paid approximately HK$86,200,000 in respect of operating activities and received approximately HK$200,000 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	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Auditor's remuneration	**930**	980	**–**	–	**930**	980
Allowance for receivables	**2,397**	808	**–**	18,978	**2,397**	19,786
Allowance for inventories (included in cost of inventories sold)	**–**	80	**–**	2,481	**–**	2,561
Write off of fixed assets	**8,101**	1,198	**–**	47,624	**8,101**	48,822
Write off of prepaid land lease payments	**–**	–	**–**	13,420	**–**	13,420
Amortisation of other intangible assets (included in administrative expenses)	**5,798**	3,196	**–**	–	**5,798**	3,196
Cost of inventories sold	**924,651**	519,365	**–**	112,009	**924,651**	631,374
Depreciation	**39,394**	24,783	**–**	2,580	**39,394**	27,363
Minimum lease payment under operating leases for land and buildings	**8,377**	4,073	**–**	1,055	**8,377**	5,128
Research and development costs expensed	**–**	–	**–**	55	**–**	55
Fair value loss on financial assets at fair value through profit or loss (held for trading)	**16,600**	–	**–**	–	**16,600**	–
Staff costs (excluding directors' remuneration – note 13):						
Wages, salaries and benefits in kind	**34,367**	24,176	**–**	633	**34,367**	24,809
Employee share option benefits	**33,668**	–	**–**	–	**33,668**	–
Retirement benefits scheme contributions	**4,238**	3,010	**–**	–	**4,238**	3,010

Cost of inventories sold includes staff costs and depreciation of approximately HK$18,113,000 (2007: HK$12,647,000) and HK$24,833,000 (2007: HK$13,300,000), respectively, which are included in the amounts disclosed separately in the continuing operations.

For the year ended 30 June 2007, cost of inventories sold includes staff costs and depreciation of approximately HK$332,000 and HK$1,003,000, 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		Retirement benefits scheme contributions		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors						
Mr. Chan Yuen Tung (note (a))	**7**	–	**–**	–	**7**	–
Ms. Chan Yuk Foebe	**2,122**	2,096	**–**	–	**2,122**	2,096
Mr. Chiau Che Kong	**255**	249	**12**	11	**267**	260
Mr. Peng Zhanrong	**353**	345	**–**	–	**353**	345
Mr. Wu Jianwei (note (b))	**382**	–	**–**	–	**382**	–
Independent non-executive directors						
Mr. Ma Wing Yun Bryan	**120**	120	**–**	–	**120**	120
Mr. Meng Fanxi (note (c))	**–**	13	**–**	–	**–**	13
Mr. Yau Chung Hong	**120**	120	**–**	–	**120**	120
Mr. Tam Ching Ho (note (d))	**120**	–	**–**	–	**120**	–
Dato' Dr. Wong Sin Just (note (e))	**62**	–	**–**	–	**62**	–
	3,541	2,943	**12**	11	**3,553**	2,954

Notes:

(a) Appointed on 29 October 2007

(b) Appointed on 15 October 2007

(c) Resigned on 30 March 2007

(d) Appointed on 30 June 2007

(e) Appointed on 27 December 2007

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2007: Nil).

13. Directors' and Employees' Remuneration (continued)

The five highest paid individuals in the Group during the year ended 30 June 2008 included Mr. Wu Jianwei who became a director on 15 October 2007. The five highest paid individuals in the Group during the year ended 30 June 2007 included Ms. Chan Yuk Foebe and Mr. Peng Zhanrong whose emoluments are reflected in the analysis presented above.

The emoluments of the five highest paid individuals (including directors) in the Group are set out below:

	Group	
	2008	2007
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**639**	3,312
Employee share option benefits	**16,157**	–
Retirement benefits scheme contributions	**–**	30
	16,796	3,342

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Nil to HK$1,000,000	**–**	4
HK$2,000,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$4,000,000	**5**	–
	5	5

During the year, share options were granted to certain employees in respect of their services to the Group, further details of which are included in note 28 to the financial statements. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above five highest paid individuals' emoluments disclosures.

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

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 2008 included a loss of approximately HK$18,866,000 (2007: profit of HK$143,684,000) which has been dealt with in the financial statements of the Company.

15. Dividend

The directors do not recommend the payment of dividend for the year ended 30 June 2008 (2007: Nil).

16. Earnings Per Share

(a) Earnings per share 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$265,394,000 (2007: HK$64,256,000) and the weighted average number of ordinary shares of 3,603,712,828 (2007: 2,663,794,684) 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$265,394,000 (2007: HK$64,256,000) and the weighted average number of ordinary shares of 3,631,289,113 (2007: 2,666,152,668), being the weighted average number of ordinary shares of 3,603,712,828 (2007: 2,663,794,684) in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 27,576,285 (2007: 2,357,984) assumed to have been issued at no consideration on the deemed exercise of the share options and warrants outstanding during the year.

(b) Earnings per share from continuing operations

Because there is no discontinued operations during the year ended 30 June 2008, the basic and diluted earnings per share from continuing operations are the same as that from continuing and discontinued operations.

The calculation of basic and diluted earnings per share from continuing operations attributable to equity holders of the Company for the year ended 30 June 2007 is based on the profit for the year from continuing operations attributable to equity holders of the Company of approximately HK$180,084,000 and the denominator used is the same as that detailed above for basic and diluted earnings per share from continuing and discontinued operations.

16. Earnings Per Share (continued)

(c) Loss per share from discontinued operations

Basic loss per share from the discontinued operations for the year ended 30 June 2007 is HK4.35 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.

Diluted loss per share from the discontinued operations for the year ended 30 June 2007 is HK4.34 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 diluted earnings per share from continuing and discontinued operations.

17. Fixed Assets

Group

	Buildings	Construction in progress	Plant and machinery	Leasehold improvements	Furniture, office equipment and motor vehicles	Pipelines and trench	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:							
At 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 and 1 July 2007	193,939	296,969	565,096	657	12,670	25,361	1,094,692
Additions	5,867	47,767	7,049	2,349	5,656	256	68,944
Acquisition of subsidiaries	–	–	–	–	848	–	848
Disposal/write off	(8,086)	–	(305)	–	(17)	–	(8,408)
Transfer	27,896	(308,349)	278,546	–	–	1,907	–
Revaluation	16,442	–	–	–	–	–	16,442
Exchange differences	9,406	13,944	34,057	–	1,270	120	58,797
At 30 June 2008	**245,464**	**50,331**	**884,443**	**3,006**	**20,427**	**27,644**	**1,231,315**

17. Fixed Assets (continued)

Group (continued)

	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture, office equipment and motor vehicles HK$'000	Pipelines and trench HK$'000	Total HK$'000
Accumulated depreciation:							
At 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 and 1 July 2007	–	–	25,412	15	2,727	738	28,892
Charge for the year	5,348	–	29,499	162	2,763	1,622	39,394
Disposal/write off	(229)	–	(64)	–	(8)	–	(301)
Write back on revaluation	(5,309)	–	–	–	–	–	(5,309)
Exchange differences	190	–	2,597	–	311	100	3,198
At 30 June 2008	**–**	**–**	**57,444**	**177**	**5,793**	**2,460**	**65,874**
Carrying amount:							
At 30 June 2008	**245,464**	**50,331**	**826,999**	**2,829**	**14,634**	**25,184**	**1,165,441**
At 30 June 2007	193,939	296,969	539,684	642	9,943	24,623	1,065,800
Analysis of cost or valuation at 30 June 2008							
At cost	**–**	**50,331**	**884,443**	**3,006**	**20,427**	**27,644**	**985,851**
At valuation 2008	**245,464**	**–**	**–**	**–**	**–**	**–**	**245,464**
	245,464	**50,331**	**884,443**	**3,006**	**20,427**	**27,644**	**1,231,315**
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

17. Fixed Assets (continued)

Group (continued)

At 30 June 2008 the carrying amount of fixed asset pledged as security for the Group's bank loans amounted to approximately HK$108,645,000 (2007: HK$68,102,000).

At 30 June 2008, the Group's buildings were revalued on an open market, depreciated replacement cost basis by Castores Magi Surveyors Limited ("Castores Magi"), independent professionally qualified valuers, at approximately HK$245,464,000 (2007: HK$193,939,000). The resulting revaluation surplus and reversal of revaluation deficit of approximately HK$21,424,000 (2007: HK$14,552,000) and HK$327,000 (2007: 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.

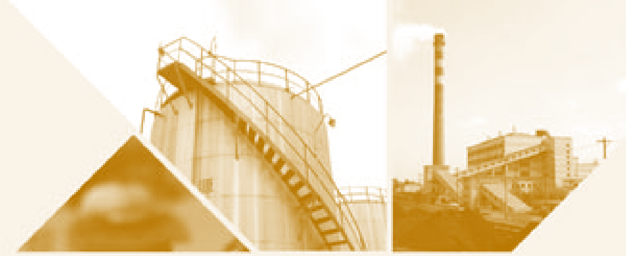
The carrying amount of the Group's buildings would have been approximately HK$210,638,000 (2007: HK$176,844,000) had they been stated at cost less accumulated depreciation and impairment losses.

18. Prepaid Land Lease Payments

The Group's prepaid land lease payments are analysed as follows:

	2008 **HK$'000**	2007 HK$'000
In Hong Kong under long leases	**71,220**	–
Outside Hong Kong under medium-term leases	**291,867**	150,807
	363,087	150,807

At 30 June 2008 the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans amounted to approximately HK$88,425,000 (2007: HK$23,239,000).



19. Goodwill

	Group	
	2008	2007
	HK$'000	HK$'000
Cost and carrying amount:		
At beginning of year	**74,612**	–
Arising on acquisition of subsidiaries (note 34(a))	**37,123**	74,612
At end of year	**111,735**	74,612

During the year ended 30 June 2007, the Group acquired Mudanjiang BD Power of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the year ended 30 June 2008, the Group made certain fair value adjustments to the carrying amounts of the identifiable assets and liabilities of Mudanjiang BD Power acquired as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable assets and liabilities and contingent liabilities were made as if initial accounting had been incorporated form acquisition date.

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	
	2008	2007
	HK$'000	HK$'000
Glucose and starch		
Mudanjiang Gaoke	**85,685**	74,612
Calcium carbide		
Mudanjiang Daytech Chemical Ltd. ("Mudanjiang Daytech Chemical")	**26,050**	–
	111,735	74,612

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 margin 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 margin 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 three and six years for Glucose and starch CGU and Calcium carbide CGU, respectively, with the residual period using the growth rate of 5% for both CGUs. This rate does not exceed the average long-term growth rate for the relevant markets.

The rates used to discount the forecast cash flows from the Group's manufacture and sale of glucose and starch activities and calcium carbide activities are 9.36% and 14.64%, respectively.

20. Other Intangible Assets

	Exclusive right	Trade name	Technical know-how	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost:				
At 1 July 2006	–	–	10,485	10,485
Acquisition of subsidiaries	72,347	33,459	–	105,806
Exchange differences	–	–	606	606
At 30 June 2007 and 1 July 2007	72,347	33,459	11,091	116,897
Additions	–	–	4,826	4,826
Exchange differences	–	–	1,449	1,449
At 1 June 2008	**72,347**	**33,459**	**17,366**	**123,172**
Accumulated amortisation:				
At 1 July 2006	–	–	786	786
Amortisation for the year	1,447	669	1,080	3,196
Exchange differences	–	–	75	75
At 30 June 2007 and 1 July 2007	1,447	669	1,941	4,057
Amortisation for the year	2,894	1,338	1,566	5,798
Exchange differences	–	–	290	290
At 30 June 2008	**4,341**	**2,007**	**3,797**	**10,145**
Carrying amount:				
At 30 June 2008	**68,006**	**31,452**	**13,569**	**113,027**
At 30 June 2007	70,900	32,790	9,150	112,840
Remaining amortisation period:	23.5 years	23.5 years	7.25 to 9.17 years	

21. Investments in Subsidiaries

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted investments, at cost	**41,912**	8,244

21. Investments in Subsidiaries (continued)

Particulars of the subsidiaries as at 30 June 2008 are as follows:

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Cozy Worldwide Ltd.	British Virgin Islands ("BVI")	Ordinary US$1	100%	–	Investment holding
Ever Concept Investments Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Gold Capture Investments Inc.	BVI	Ordinary US$1	100%	–	Investment holding
Perfect Prosper Investments Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Perfect Quality Investments Ltd.	BVI	Ordinary US$1	100%	–	Inactive
Quality Gain Investments Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Better Day Bio-Chem Technology Limited	BVI	Ordinary US$2	–	100%	Investment holding
Better Day Power Limited	BVI	Ordinary US$2	–	100%	Investment holding
Better Lion Holdings Limited ("Better Lion")	BVI	Ordinary US$2	–	100%	Investment holding
Daytech Group Limited ("Daytech Group")	BVI	Ordinary US$2	–	100%	Investment Holding

21. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Powerful Rise Group Limited	BVI/PRC	Ordinary US$1	–	100%	Provision of engineering services
Mudanjiang BD Power	PRC (note (a))	RMB100,726,829	–	100%	Generation and supply of power and heat
Mudanjiang Daytech Chemical	PRC (note (b))	RMB146,702,128	–	100%	Manufacture and sale of calcium carbide
Mudanjiang Dongbei Chemical	PRC (note (c))	RMB110,910,000	–	63.11%	Manufacture and sale of vinyl acetate
Mudanjiang Dongbei Gaoxin	PRC (note (d))	HK$230,000,000	–	100%	Manufacture and sale of polyvinyl-chloride
Mudanjiang Gaoke	PRC (note (e))	RMB100,000,000	–	100%	Manufacture and sale of glucose and starch
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 (f))	RMB500,000	–	63.11%	Sales of vinyl acetate

* Where different

21. Investments in Subsidiaries (continued)

Notes:

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

(b) Mudanjiang Daytech Chemical is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from the approval date of 30 December 2006.

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

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

(e) Mudanjiang Gaoke is a wholly foreign-owned enterprise established in the PRC for an operating period of 50 years commencing from the approval date of 1 March 2006.

(f) 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.

22. Due from Subsidiaries – Company

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

23. Inventories

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**39,076**	47,793
Work in progress	**6,805**	13,373
Finished goods	**57,993**	44,914
	103,874	106,080

24. 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	
	2008	2007
	HK$'000	HK$'000
Within 30 days	**102,990**	59,066
31 to 60 days	**111,542**	48,259
61 to 90 days	**66,297**	19,602
91 to 120 days	**27,412**	5,576
121 to 150 days	**18,532**	5,778
151 to 180 days	**18,099**	3,186
181 to 240 days	**22,893**	1,384
241 to 330 days	**30,223**	–
331 to 365 days	**3,484**	–
Over 365 days	**347**	–
	401,819	142,851

As at 30 June 2008, an allowance was made for estimated irrecoverable trade receivables of approximately HK$2,397,000 (2007: HK$Nil). The movement of allowance is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At beginning of year	**–**	–
Allowance made for the year	**2,397**	19,786
Written off	**–**	(19,786)
At end of year	**2,397**	–

24. Trade Receivables (continued)

As of 30 June 2008, trade receivables of approximately HK$75,959,000 (2007: HK$5,691,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Up to 90 days	**485**	868
91 to 180 days	**18,527**	3,439
180 to 365 days	**56,600**	1,384
Over 365 days	**347**	–
	75,959	5,691

25. Financial Assets at Fair Value Through Profit or Loss

The Group's financial assets at fair value through profit or loss classified as held for trading are equity securities listed in Hong Kong and stated at their market value.

26. Bank and Cash Balances

As at 30 June 2008, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$24,999,000 (2007: HK$45,307,000). 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

	2008	2007
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2007: 10,000,000,000) ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
3,740,887,824 (2007: 3,377,829,074) ordinary shares of HK$0.01 each	**37,409**	33,778

27. Share Capital (continued)

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2007 and 2008 is as follows:

	Number of ordinary shares issued '000	Par value HK$'000
At 1 July 2006	2,101,540	21,015
Issue of shares on open offer (note (a))	1,050,770	10,508
Exercise of share options (note (b))	72,590	726
Exercise of warrants (note (c))	152,929	1,529
At 30 June 2007 and 1 July 2007	3,377,829	33,778
Exercise of share options (note (d))	188,100	1,881
Exercise of warrants (note (e))	174,959	1,750
At 30 June 2008	**3,740,888**	**37,409**

Notes:

(a) 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.

(b) 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.

(c) 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.

(d) During the year ended 30 June 2008, the subscription rights attaching to 188,100,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$0.375 – HK$0.582 per share, resulting in the issue of 188,100,000 shares of HK$0.01 each for a total cash consideration of approximately HK$89,111,000.

(e) During the year ended 30 June 2008, the subscription rights attaching to 174,958,750 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 174,958,750 shares of HK$0.01 each for a total cash consideration of approximately HK$75,232,000.

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 were exercisable from 16 April 2007 to 15 April 2008 at an exercise price of HK$0.43 per share.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes had been made in the objectives, policies and processes during the two years ended 30 June 2008 and 2007.

The only externally imposed capital requirement is that for the Company to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Company demonstrated continuing compliance with the 25% limit throughout the year.

28. Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted on 18 November 2002 for a period of 10 years. The purpose of the Scheme is to enable the Group to grant Options to the eligible participants as incentives or rewards for their contribution to the Group. 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 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	**20 July 2007**	**22 August 2007**	**21 February 2008**
Vesting period (note (a))	20 July 2007 to 23 July 2007	22 August 2007 to 23 August 2007	21 February 2008
Exercise period	24 July 2007 to 23 July 2010	24 August 2007 to 23 August 2010	22 February 2008 to 21 February 2011
Exercise price (note (b))	0.582	0.420	0.375
Price of the Company's shares at the date of grant (note (c))	0.582	0.420	0.375

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 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**	**Total**	**Weighted average exercise price**
Outstanding at 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 and 1 July 2007	–		–		–	
Granted during the year	–		409,000,000	0.479	409,000,000	0.479
Exercised during the year	–		(188,100,000)	0.474	(188,100,000)	0.474
Outstanding at 30 June 2008	–		220,900,000	0.483	220,900,000	0.483
Exercisable at 30 June 2008	–		220,900,000	0.483	220,900,000	0.483
Exercisable at 30 June 2007	–		–		–	

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.478 (2007: HK$0.610). The options outstanding at 30 June 2008 have a weighted average remaining contractual life of 2.11 years and the exercise prices range from HK$0.42 to HK$0.582.

28. Share Option Scheme (continued)

The aggregate estimated fair value of the options granted during the year ended 30 June 2008 calculated using the Black-Scholes pricing model was approximately HK$33,668,000 (2007: HK$Nil). The inputs into the model were as follows:

Grant date	20 July 2007	22 August 2007	21 February 2008
Option value	HK$0.0932	HK$0.067	HK$0.094
Total fair value	HK$15,705,000	HK$11,229,000	HK$6,734,000
Share price at date of grant	HK$0.582	HK$0.420	HK$0.375
Exercisable price	HK$0.582	HK$0.420	HK$0.375
Expected volatility	52.8%	55.1%	53.0%
Risk-free interest rate	3.89%	3.94%	1.56%
Expected life of options	0.52 year	0.52 year	1.4 year
Dividend yield	0%	0%	0%

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.

29. Reserves (continued)

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 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 and 1 July 2007	965,514	–	181,427	1,146,941
Share option benefits				
– Grant of share options	–	33,668	–	33,668
– Exercise of share options	87,230	–	–	87,230
– Transfer to share premium	16,660	(16,660)	–	–
Exercise of warrants	73,482	–	–	73,482
Loss for the year	–	–	(18,866)	(18,866)
At 30 June 2008	**1,142,886**	**17,008**	**162,561**	**1,322,455**

(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(q) to the financial statements.

29. Reserves (continued)

(c) Nature and purpose of reserves of the Group (continued)

(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 on deferred tax assets/(liabilities) account is as follow:

	Group	
	2008	2007
	HK$'000	HK$'000
		(Restated)
At beginning of year	**(154,269)**	1,188
Credit to income statement	**37,123**	–
Acquisition of subsidiaries	**(25,513)**	(153,308)
Charge to equity	**(4,093)**	(3,858)
Exchange differences	**8,907**	1,709
At end of year	**(137,845)**	(154,269)

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**	**Other temporary differences**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 July 2006	1,028	1,803	2,831
Exchange differences	59	104	163
At 30 June 2007 and 1 July 2007	1,087	1,907	2,994
Exchange differences	114	201	315
At 30 June 2008	**1,201**	**2,108**	**3,309**

30. Deferred Tax (continued)

Deferred tax liabilities	**Decelerated tax depreciation**	**Other temporary differences**	**Revaluation of buildings**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2006	541	–	(2,184)	(1,643)
Acquisition of subsidiaries	–	–	(153,308)	(153,308)
Charge to equity	–	–	(3,858)	(3,858)
Exchange differences	31	–	1,515	1,546
At 30 June 2007 and 1 July 2007	572	–	(157,835)	(157,263)
Credit to income statement	5,902	1,795	29,426	37,123
Acquisition of subsidiaries	–	–	(25,513)	(25,513)
Charge to equity	–	–	(4,093)	(4,093)
Exchange differences	96	–	8,496	8,592
At 30 June 2008	**6,570**	**1,795**	**(149,519)**	**(141,154)**

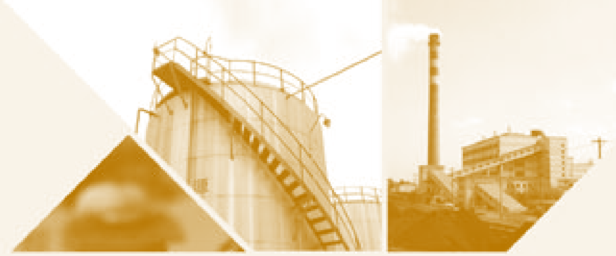
The deferred tax liabilities in relation to revaluation of buildings have been credited to equity directly. The carrying amount of deferred tax liabilities decreased by approximately HK$30,552,000 (2007: HK$Nil) as a result of the change in the PRC enterprise income tax rate from 33% to 25%.

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	
	2008	2007
	HK$'000	HK$'000
Within 30 days	**12,613**	34,649
31 to 60 days	**1,511**	11,266
61 to 90 days	**3,061**	5,438
91 to 120 days	**4,215**	509
121 to 365 days	**5,848**	10,535
Over 365 days	**2,138**	4,430
	29,386	66,827



32. Due to a Minority Shareholder of a Subsidiary

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

33. Bank Loans

The Group's bank loans are repayable as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**30,398**	25,675
In the second year	**2,069**	–
In the third to fifth years inclusive	**6,502**	–
After five years	**38,987**	–
	77,956	25,675
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(30,398)**	(25,675)
	47,558	–

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2008 **HK$'000**	2007 HK$'000
Hong Kong dollars	**49,579**	–
RMB	**28,377**	25,675
	77,956	25,675

Bank loan of approximately HK$28,377,000 (2007: HK$25,675,000) is arranged at fixed interest rate of 7.524% (2007: 6.435%) p.a. and exposes the Group to fair value interest rate risk. At 30 June 2008, bank loan of approximately HK$49,579,000 (2007: HK$Nil) is arranged at floating rate of 2.35% p.a. (2007: Nil), thus exposing the Group to cash flow interest rate risk. Bank loans are secured by the pledge of the Group's fixed assets and prepaid land lease payments.

34. Notes to the Consolidated Cash Flow Statement

(a) Acquisition of subsidiaries

(i) Daytech Group

On 17 August 2007, the Group completed the acquisition of the entire issued share capital of Daytech Group. Daytech Group is the legal and beneficial owner of the entire equity interest in Mudanjiang Daytech Chemical. Mudanjiang Daytech Chemical 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.

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

	Fair value	**Daytech Group's carrying amount**
	HK$'000	HK$'000
Fixed assets	848	848
Prepaid land lease payments	141,221	39,168
Bank and cash balances	10,438	10,438
Deferred tax liabilities	(25,513)	–
Other payables	(44)	(44)
Net assets acquired	126,950	50,410
Goodwill	26,050	
Satisfied by:		
Cash consideration paid	153,000	
Net cash outflow arising on acquisition:		
Cash consideration paid	153,000	
Deposit paid in prior year	(50,000)	
Cash and cash equivalents acquired	(10,438)	
	92,562	

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 Chemical.

The acquired business did not contribute revenues and contributed loss for the year of approximately HK$3,089,000 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$1,666,103,000 and profit for the year would have been approximately HK$314,121,000.

34. Notes to the Consolidated Cash Flow Statement (continued)

(a) Acquisition of subsidiaries (continued)

(ii) Better Lion

On 27 May 2008, the Group completed the acquisition of the entire issued share capital of Better Lion (the "Acquisition") at a cash consideration of HK$155 million, which was announced on 10 April 2008. The vendor of the Acquisition was Kenelly Group Limited. Kenelly Group Limited was the original legal and beneficial owner of the entire issued share capital of Better Lion, which in turn held 40% equity interest in Mudanjiang Gaoke, an indirect non wholly-owned subsidiary of the Company. Kenelly Group Limited was therefore an associate of a substantial shareholder of a subsidiary of the Company and was a connected person of the Company pursuant to the Listing Rules. The Group originally owned 60% of the equity interest in the Mudanjiang Gaoke. Upon completion of the acquisition of Better Lion, Mudanjiang Gaoke became an indirect wholly-owned subsidiary of the Company.

The goodwill arising on acquisition of Better Lion as at the date of acquisition is as follows:

	HK$'000
Share of Mudanjiang Gaoke's net assets acquired	143,930
Other payables and accruals	(3)
Goodwill	11,073
Satisfied by:	
Cash consideration paid	155,000

The cash consideration was fully paid in the current financial year.

The goodwill arising on the acquisition of Better Lion is attributable to anticipated profitability of the expansion of Mudanjiang Gaoke upon completion of the acquisition to include further processing of glucose into acetic acid which is a major raw material used in the production of vinyl acetate and the manufacture and sale of which is a major business of the Group.

(b) Major non-cash transactions

Additions to fixed assets and prepaid land lease payments of approximately HK$50,400,000 were financed by a bank loan.

35. Capital Commitments

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

	2008 HK$'000	2007 HK$'000
Contracted, but not provided for:		
Buildings and construction in progress	**306,575**	30,623
Acquisition of a subsidiary	**–**	103,000
	306,575	133,623

The Company did not have any capital commitments as at 30 June 2008 (2007: Nil).

36. Lease Commitments

At 30 June 2008 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2008 **HK$'000**	2007 HK$'000
Within one year	**2,028**	2,796
In the second to fifth years inclusive	**1,352**	3,380
	3,380	6,176

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for lease terms ranging from 2 to 3 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 2008 (2007: Nil).

37. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 23 September 2008.