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 2009

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Yuen Tung
Ms. Chan Yuk Foebe
Mr. Peng Zhanrong
Mr. Chiau Che Kong
Mr. Wu Jianwei

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan
Mr. Yau Chung Hong
Mr. Tam Ching Ho
Dato' Dr. Wong Sin Just

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

HSBC Trustee (Cayman) Limited
P.O. Box 484, HSBC House
68 West Bay Road
Grand Cayman
Cayman Islands
KY1-1106

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:
17 December 2009

Stock Code: 00362

Chairman's Statement

On behalf of China Zenith Chemical Group Limited (the "Company"), I present to all of our shareholders the business results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2009.

Business Review

For the year ended 30 June 2009, turnover of the Group amounted to approximately HK$1,095,614,000, representing a decrease of 34.2% compared with last year. Profit attributable to shareholders amounted to approximately HK$167,896,000 representing a decrease of 36.7% compared with last year. During the financial period under review, the decline in turnover was primarily attributed by to the decrease in prices of all product segments except for the heat and power segment and the temporary suspension of the glucose and starch production. At the same time, the prices of the key raw materials for the production did not decrease in line with the prices of our products.

For the year ended 30 June 2009, the Group's selling expenses amounted to approximately HK$13,970,000, representing a decrease of 63.8% compared with last year. The significant drop was principally due to the temporary suspension of production of glucose and starch.

Taking out the effect of the share option benefit expenses of approximately HK$33,668,000, the Group's normal administrative expenses for the year ended 30 June 2008 was approximately HK$87,966,000. The Group's normal administrative expenses for the year ended 30 June 2009 decreased by approximately HK$9,198,000 compared with last year. The drop was mainly the result of the implementation of stringent control on administrative expenses.

For the year ended 30 June 2009, the Group's other income amounted to approximately HK$95,577,000, representing an increase of 454.2% compared with last year. The significant increase was mainly due to the government grants and government subsidies. The government grants were the result of refund of income tax and value-added tax in the People's Republic of China (the "PRC") amounted to approximately of HK$22,562,000 (2008: HK$1,837,000). Besides, the government subsidies were granted in respect of the incentive for capital expenditure and the related bank interest expense incurred on environment protection amounted approximately of HK$67,234,000 (2008: HK$2,092,000).

Coal related chemical products division

During the year under review, the Group faced a challenging and difficult external operating environment. The 2008 worldwide financial turmoil adversely affected China's export. In turn, China's domestic consumption had also been adversely affected. The demand from our downstream customers diminished from the fourth quarter of 2008 to the end of the first quarter of 2009. The recovery of demand was found in the second quarter of 2009. Nevertheless, the profit margin was worse off since the Group faced increased price of calcium carbide, which is the major raw material of the Group.

After the 2008 financial turmoil, the monthly average price of crude oil (as quoted from the website of Organization of The Petroleum Exporting Countries) had once dropped to the lowest at approximately US$38.6 per barrel. The monthly average price of crude oil has rebounded and sustained at around US$70 per barrel since the end of second quarter of 2009. The coal related chemical products manufactured from our production lines are able to continue its cost competitiveness over our rivals 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 56.2% of the turnover of the Group (after elimination of intra-group sales of approximately HK$1.1 million). The PVC production facility was not running at full capacities throughout the year because of the decline in demand from the downstream customers. Nevertheless, the management is able to maintain good customer relationships by fulfilling urgent orders and arranging customised shipments. In addition, the management was very cautious in finding ways to reduce the production cost. The excellent profit contribution of the PVC segment had proven the effort of the management team.

Business Review (continued)

Vinyl acetate

The turnover of the vinyl acetate business represents 35.6% of the turnover of the Group (after elimination of intra-group sales of approximately HK$1.2 million). The vinyl acetate business was the second largest operating activity of the Group.

Although the demand from our downstream customers was not as strong as compared with last year, the sales team had made their efforts to maintain good relationships with the nationwide chemical conglomerates, namely PetroChina and Sinopec. Furthermore, the management of the vinyl acetate segment had also explored possible customers in Shandong region. After the transfer and registration procedure of cargo trains are completed, the Group may widen the customer base to cover the smaller manufacturers in Shandong region.

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. As previously mentioned, our vinyl acetate plant has continued our cost advantage over those plants which adopt the production technique of ethylene methodology (乙烯法化工工藝方法) at current crude oil price level.

Bio-chemical products division

The production of glucose and starch has been temporarily suspended since May 2008 while the modification and refurbishment of the existing vitamin C production facilities and the expansion of the production capacity have commenced in May 2009.

The Group has employed a team of highly experienced management with expertise in the production of vitamin C to oversee the modification and refurbishment. The experts concluded that the plant and machinery originally designed to produce vitamin C remains intact and could be re-utilised. The Bio-Chemical products division has submitted an application to State Food and Drug Administration, PRC ("SFDA") for the process of obtaining GMP authentication to produce vitamin C. 牡丹江制葯廠 (Mudanjiang Pharmaceutical Factory) was a state-owned enterprise which was the major shareholder of 牡丹江制葯集團有限公司 (Mudanjiang Pharmaceutical Group Limited). Moreover, 牡丹江制葯集團有限公司 (Mudanjiang Pharmaceutical Group Limited) originally owned the registered drug formula of the vitamin C. Application has been made to resume and transfer the aforesaid drug formula of the vitamin C to Mudanjiang Gaoke Bio-Chem Co. Ltd.

After the refurbishment is completed and the test production is successfully confirmed, the SFDA will appoint specialists to authenticate the manufacturing process, quality control policy, hygiene condition and etc. The quality of vitamin C produced is finally assured by the aforesaid authentication practices. Then, the GMP (藥品生產質量管理規範) certificate will be granted to Mudanjiang Gaoke Bio-Chem Co. Ltd.

Prospect

Coal-related chemical products division

Calcium carbide

The production of both vinyl acetate and PVC consumes considerable amount of calcium carbide as the major raw materials. Faced with the challenge from increasing cost and unstable supply of calcium carbide 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 in Mudanjiang for internal consumption has commenced in November 2007. For the first phase, the designed annual production capacities of calcium carbide are 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. The construction of the factory buildings of the first phase was completed in September 2008 and the installation of production equipment is nearly completed. The management is confident that the test run production of calcium carbide will be successful in the near future.

Prospect (continued)

Coal-related chemical products division (continued)

Calcium carbide (continued)

On the other hand, the first phase of construction of our own calcium carbide production facilities in Heihe has commenced in June 2009. For the first phase, the designed annual production capacities of calcium carbide are expected to be 100,000 tonnes. The Group is planning for further development of downstream chemical products in Heihe.

Heihe City Government and the Electric Power Corporation of Heilongjiang Province have guaranteed that the calcium carbide production of the Group in Heihe will enjoy a lower electricity tariff for 10 years from 1 January 2008. By the way, there is abundant supply of hydro-power electricity from Russia. It will be more cost effective for the Group in respect of its production of calcium carbide which will consume a large amount of electricity.

Bio-chemical products division

Vitamin C project

The refurbishment of existing vitamin C production facilities is expected to be completed by the end of the year. Vitamin C produced by our Group will have competitive advantage over our competitors 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 contribution from the bio-chemical segment will be much enhanced.

At the date of this report, the progress of the above two expansion projects is encouraging. After the completion of the Mudanjiang calcium carbide and vitamin C resumption projects, the Board believes that such move will enhance the profit contribution to the Group and benefit the shareholders as a whole in the coming year.

Heat and power division

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 sets of coal powered generation facilities to house the increased aforesaid demand. Provincial government approval has been obtained for such expansion.

The Group has started to construct the first set of coal powered generation facilities as the first phase expansion in October 2007. 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 a common view has been reached. The Board is confident that the approval will be obtained when the first phase expansion is completed.

The aim of the expansion of our coal powered generation facilities is to cover the demand of electricity consumed by the new calcium carbide production facilities. During the production of calcium carbide, the carbon monoxide will be produced as a by-product.

The carbon monoxide produced will be combined with the sodium hydroxide to manufacture sodium formate. During the production of PVC, sodium hydroxide is produced as a by-products. The manufacture of sodium formate can improve the income stream of the Group. The Board expected that the economic benefits of the manufacture of sodium formate using carbon monoxide will be greater than using carbon monoxide as a side ignition fuel for the coal powered boiler of the power generation facilities after feasibility studies are made in respect of production of sodium formate.

At the date of this report, the progress of constructing the first coal powered electricity generating facilities is satisfactory. The Group is presently liaising with banks for long-term bank financing for the project construction. The Group has re-negotiated the payment schedules with the main contractor of the first set of coal powered generation facilities. The subject expansion project is planned to be completed by phrases according to the financial resources of the Group.

Prospect (continued)

Future development

The Group will inevitably grow by developing and producing 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 to prosperous future and success of 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 in-house research and development.

In May 2009, the PRC government imposed a more stringent entry requirement for coal related chemical industries to avoid the problem of excess capacity. In particular, the approval of pure expansion of production capacity of certain coal related projects by the PRC government will be stopped for three years. Such government policy will limit the future competition of the coal related chemical market and in turn will benefit the existing manufacturers in the coal related chemical industries.

The vision of the Board is always ahead of the development of the chemical industries in Northeastern region of the PRC. The Group has focused on the development of coal related chemical segment since 2007. Last month, the National Development and Reform Commission ("NDRC") announced a new round of guidance for developing and reforming the industrial enterprises in the Northeastern part of China. The NDRC will speed up the development of Heilongjiang east coal and electricity chemical production base.

Looking forward, the Group will perform to 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 opportunity to express my sincere gratitude to our members of the Board for their diligent guidance and leadership, our employees for their industrious 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, 21 October 2009

Management Discussion and Analysis

Business Environment

The financial turmoil, which has taken the world by storm, has had a major impact on the global economy. China's export has been adversely affected. Likewise, China's domestic consumption has also been weakened. Moreover, after the Beijing Olympic Games 2008, the development of new large scale infrastructure construction project generally slowed down to avoid overheating economy and over investment. The PRC government has also imposed more stringent macro economic measures to stabilise the growth of both financial and properties markets. The decline in export, local consumption and both public and private investment contributed to a surprisingly rapid and drastic downturn of the economy of China.

Facing the formidable external operating environment, the Group's operation was inevitably and unfavorably affected by the weakening of demand from our downstream customers including: construction and building industries, automobile accessories' material manufacturing, healthcare products industries, manufacture of chemical fibers, emulsifiers and paper-making industries. Moreover, the unprecedented volatilities in key raw materials prices had also raised our overall cost of production.

Business Review

Coal related chemical products division

PVC

During the financial year, the PVC segment recorded a turnover of approximately HK$616,382,000 representing a decrease of 30.2% over approximately HK$882,761,000 in last year. Operating profit of approximately HK$150,644,000 represented a decrease of 41.4% over approximately HK$257,041,000 in last year. Nevertheless, separating the effect of the government grants and government subsidies of approximately HK$27,863,000 and HK$1,474,000 for both of the years ended 30 June 2009 and 30 June 2008 respectively, the operating profit without government grants and subsidies for the year ended 30 June 2009 was approximately HK$122,781,000, representing a decrease of 52.0% over approximately HK$255,567,000 in last year.

The decline in turnover was mainly driven by the fall in demand of PVC by our customers. The reduction in production volume made an undesirable effect on the economies scales of production previously attained by the segment.

Vinyl acetate

During the financial year, turnover was approximately HK$391,497,000, representing a decrease of 13.2% over approximately HK$450,787,000 in last year. Operating profit was approximately HK$124,788,000, representing a decrease of 0.5% over approximately HK$125,366,000 in last year. Nevertheless, separating the effect of the government grants and government subsidies of approximately HK$30,193,000 and HK$2,084,000 for both of the years ended 30 June 2009 and 30 June 2008 respectively, the operating profit without government grants and subsidies for the year ended 30 June 2009 was approximately HK$94,595,000, representing a decrease of 23.3% over approximately HK$123,282,000 in last year.

The price of the major raw materials, namely calcium carbide, remained at high level during the financial year. However, we could not shift the cost burden to our customers. Consequently, the margin and operating profit of vinyl acetate segment was squeezed during the financial year.

Calcium Carbide

The first phase of construction of our own calcium carbide production facilities in Mudanjiang for internal consumption is nearly completed at the moment. Currently, the Mudanjiang management is planning for the test run of the production facilities of calcium carbide.

On the other hand, the Group has acquired a single piece of industrial land with a site area of approximately 1,000,000 square metres through the completion of acquisition of 55% of the issued share capital of Racing Dragon Group Limited on 19 June 2009. The first phase of construction of our own calcium carbide production facilities in Heihe has commenced in mid-2009.

Business Review (continued)

Calcium Carbide (continued)

During the year under review, the Group's calcium carbide project is still in development phase and has yet generate any revenue. Operating loss of approximately HK$6,763,000 was recorded during the year under review while there was an operating loss of approximately HK$4,862,000 in last year. The operating loss mainly represented the amortisation charge of prepaid land lease payments and the administrative expenses incurred during the project construction phase.

Bio-chemical products division

During the financial year, the vitamin C, glucose and starch segment recorded a turnover of approximately HK$16,448,000 representing a decrease of 94.0% over approximately HK$274,656,000 in last year. Operating loss of approximately HK$35,521,000 was attained during the year under review while there was an operating profit of approximately HK$2,561,000 in last year.

The production of glucose and starch has been temporarily suspended since May 2008 while the modification and refurbishment of the existing vitamin C production facilities and the expansion of the production capacity have started. Inevitably, it was not possible to avoid the fixed factory overhead to keep the machinery in working condition.

Heat and power division

The heat and power division had secured a steady supply of steam, the key input to the production process of the Group. Moreover, the heat and power division 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$73,713,000 (after elimination of intra-group sales of approximately HK$37,632,000), representing an increase of 19.9% over approximately HK$61,496,000 (after elimination of intra-group sales of approximately HK$43,776,000) in last year. Operating profit of approximately HK$38,221,000 was recorded during the year under review while there was an operating loss of approximately HK$4,517,000 in last year. Nonetheless, taking out the effect of the government subsidies granted of approximately HK$31,256,000 for the year ended 30 June 2009, the operating profit for the year ended 30 June 2009 was approximately HK$6,965,000.

Mudanjiang Better Day Power Ltd. had made application for the increase in tariff of both steam and electricity. The local government had not approved the tariff increase. Instead, government subsidies were granted to relieve the burden of the increased production cost.

Prospects

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

PRC government economic stimulus plan

Owing to the worldwide financial turmoil, the PRC economy could never be stand alone in the global economy and thus was also adversely affected. The PRC government has been publicly endorsing and implementing various expansionary fiscal and administrative policies to stimulate domestic demand in order to maintain a continuous, stable and healthy growth of the PRC economy.

The PRC government announced its RMB4 trillion economic stimulus plans in the first quarter of 2009. Around RMB3 trillion was planned to be spent on public infrastructure, housing and technology reform projects in the coming five years. The Board expects that such large scale of nationwide construction projects will consume enormous amount of construction materials and in turn, the demand of PVC in the PRC will be expected to be substantial in the near future.

Prospects (continued)

PRC government economic stimulus plan (continued)

The domestic demand for the Group's products is increasing as indicated by its increased sales since the second quarter of 2009.

Test run production of vitamin C

The refurbishment and upgrade of vitamin C production facilities is re-scheduled to be completed in the fourth quarter of 2009. The test run of the first manufacturing process of vitamin C has commenced in October 2009. The second and third manufacturing processes of vitamin C are undergoing further refurbishment. The refurbished vitamin C production facilities are expected to operate at annual designed production capacities of 3,000 tonnes.

Test run production of calcium carbide

The test run of the newly built calcium carbide production facilities is scheduled to be completed in the fourth quarter of 2009. The production facilities are expected to operate at annual designed production capacities of 100,000 tonnes. When the calcium carbide production facilities operate at designed capacities, the output can be nearly consumed internally by the PVC and vinyl acetate production. It will further lower the overall cost of production of PVC and vinyl acetate.

The Board believes that as the PRC economy recovers, the benefits from the improvement in the results of the Group's coal-related business and bio-chemical business will be more apparent.

Capital Structure, Liquidity and Financial Resources

Equity funding

During the financial period under review, no equity fund raising exercise was performed.

During the year ended 30 June 2008, 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, the whole amount was utilised as working capital of the Group.

The net proceeds raised from the open offer announced on 18 June 2009 by issuing 1,870,443,912 offer shares at HK$0.11 on the basis of one offer share for two shares held were approximately HK$201 million. As at the date of this report, approximately HK$149 million had been utilised as working capital and approximately HK$52 million working capital was not yet utilised by the Group.

Liquidity and Financial Ratios

As at 30 June 2009, the Group had total assets of approximately HK$3,056.0 million (2008: HK$2,643.7 million) which were financed by current liabilities of approximately HK$428.9 million (2008: HK$217.0 million), non-current liabilities of approximately HK$206.1 million (2008: HK$188.7 million), minority interests of approximately HK$176.6 million (2008: HK$164.1 million) and shareholders' equity of approximately HK$2,244.4 million (2008: HK$2,073.9 million).

As at 30 June 2009, the current assets of the Group amounted to approximately HK$604.0 million (2008: HK$887.1 million) comprising inventories of approximately HK$62.3 million (2008: HK$103.9 million), trade receivables of approximately HK$435.2 million (2008: HK$401.8 million), prepayments, deposits and other receivables of approximately HK$86.9 million (2008: HK$303.9 million), financial assets at fair value through profit or loss of approximately HK$7.2 million (2008: HK$21.3 million), cash and cash equivalents of approximately HK$12.4 million (2008: HK$56.2 million).

Capital Structure, Liquidity and Financial Resources (continued)

Liquidity and Financial Ratios (continued)

As at 30 June 2009, 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 1.4 (2008: 4.1), 1.3 (2008: 3.6), 20.8% (2008: 15.3%) and 28.3% (2008: 19.6%), respectively.

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

Significant investment held by the Company

As at 30 June 2009, the Company did not have any significant investments except the financial assets at fair value through profit or loss of approximately HK$7.2 million, the Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$9.3 million for the financial year.

Charges on the Group's assets

As at 30 June 2009, bank loans of approximately HK$103.0 million are secured by charges over the Group's certain fixed assets and prepaid land lease payments.

Contingent liabilities

As at 30 June 2009, 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 2009.

Number and Remuneration of Employees

As at 30 June 2009, the Group had 1,706 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.

As at 30 June 2009, there was approximately 220.9 million share options outstanding. The issue of the offer shares, in respect of the open offer announced on 18 June 2009, has adjusted the outstanding share options by approximately of 44.4 million share options. Subsequent to the financial year ended 30 June 2009, there were 205.0 million share options granted to senior management of the Hong Kong and PRC subsidiaries of the Company. As at the date of this report, approximately 470.3 million share options were outstanding. This comprises approximately 103.4 million share options with exercisable period up to 23 July 2010 at the exercise price of HK$0.485 per share, approximately 161.9 million share options with exercisable period up to 23 August 2010 at the exercise price of HK$0.35 per share and 205.0 million share options with exercisable period up to 20 August 2012 at the exercise price of HK$0.164 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 2009, 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.

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 2009, 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, 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 Rule 3.10(2) of the Listing Rules.

The Board Meeting – Full Directors Board meeting

During the year ended 30 June 2009, 7 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 8 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)*	7/7
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	7/7
Mr. Peng Zhanrong	6/7
Mr. Chiau Che Kong	7/7
Mr. Wu Jianwei	7/7
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	6/7
Mr. Yau Chung Hong	7/7
Mr. Tam Ching Ho	6/7
Dato' Dr. Wong Sin Just	6/7

The Board of Directors (continued)

The Board Meeting – Executive Directors Board Meeting

In addition, during the year ended 30 June 2009, 4 executive directors Board meetings were held for dealing with the compliance of legal and administrative procedures, including:

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

– Internal corporate re-structuring.

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)*	2/4
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	2/4
Mr. Peng Zhanrong	0/4
Mr. Chiau Che Kong	4/4
Mr. Wu Jianwei	0/4
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	n/a

The Board Meeting – Committee Meeting

During the year ended 30 June 2009, 4 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
Executive directors			
Mr. Chan Yuen Tung *(Chairman)*	–	–	1/1
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	1/1	–	–
Mr. Peng Zhanrong	–	–	–
Mr. Chiau Che Kong	–	–	1/1
Mr. Wu Jianwei	–	–	–
Independent non-executive directors			
Mr. Ma Wing Yun Bryan	1/1	1/2	1/1
Mr. Yau Chung Hong	1/1	2/2	1/1
Mr. Tam Ching Ho	1/1	2/2	1/1
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.

The Board of Directors (continued)

The Board Meeting – Committee Meeting (continued)

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.

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 two years with effect from 1 April 2009. 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 two years with effect from 31 December 2008.

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.

Distinctive Roles of Chairman and Chief Executive Director

The roles of chairman and chief executive officer are segregated in order to ensure a balance of power and authority in the management of the Board and the day-to-day management of the business. The Chairman of the Company is Mr. Chan Yuen Tung and the Chief Executive Officer is Ms. Chan Yuk Foebe.

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 2009.

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.

Board Committees (continued)

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.

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 2009 and the unaudited financial statements of the Company for the six months ended 31 December 2008.

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 with 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, Mr. Chan Yuen Tung. Mr. Chan Yuen Tung was appointed as a member of remuneration committee in place of Ms. Chan Yuk Foebe with effect from 18 August 2009.

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 one time. 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.

Board Committees (continued)

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.

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 2009.

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

Accountability and Auditor's Remuneration
(continued)

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. The Board has not taken any different view from that of the Audit Committee in respect of the selection, appointment, resignation or dismissal of external auditor.

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

Type of services provided by the external auditor	**Fee paid/payable** HK$'000
Audit services:	
Audit of annual financial statements	850
Other services	150

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. Enquiries 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.

Biographical Details of Directors and Senior Management

Directors

Executive Directors

Mr. Chan Yuen Tung (陳遠東), aged 41, 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. He was appointed as a member of Heilongjiang Province Committee of Chinese People's Political Consultative Conference in 2007. Save as disclosed herein, Mr. Chan did not hold any other directorships in any listed public companies 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. Mr. Chan Yuen Tung was appointed as a member of remuneration committee in place of Ms. Chan Yuk Foebe with effect from 18 August 2009.

Ms. Chan Yuk Foebe (陳昱), aged 40, 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. Chan Yuen Tung was appointed as a member of remuneration committee in place of Ms. Chan Yuk Foebe with effect from 18 August 2009.

Mr. Peng Zhanrong (彭展榮), aged 39, 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 was also an executive director of Heng Tai until his resignation with effect from 8 December 2008.

Mr. Chiau Che Kong (周志剛), aged 41, is an executive director and a member of the Nomination Committee 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 was also an executive director of Heng Tai until his resignation with effect from 8 December 2008.

Mr. Wu Jianwei (武建偉), aged 55, 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 43, is an independent non-executive director and is also the chairman of the Audit Committee and the Remuneration Committee and a member of 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 39, 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). All of the aforementioned companies are listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Tam Ching Ho (譚政豪), aged 38, 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 16 years of experience in areas of corporate finance and administration, listing compliance, investor relations, accounting and auditing. 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 43, is an independent non-executive director of the Company. He is also 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. Dato' Dr Wong is the non-executive chairman of Westminster Travel Limited, the shares of which are listed on the Singapore Exchange CATALIST board. Dato' Dr. Wong 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 20 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. Dato' Dr. Wong was qualified as an associate of the Institute of Chartered Accountants, England and Wales in 1992 and during his service as a public accountant.

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. Tsang Chiu Hung Victor (曾超鴻), aged 38, 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 an associate member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.

Mr. Wu Lianyong (吳連勇), aged 38, is the Vice General Manager of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group, mainly responsible for the sales of vinyl acetate. He joined the Group in 2004. Mr. Wu has over 15 years' extensive experience in sales aspect of large chemical enterprises. He studied in Heilongjiang Radio & Television University (黑龍江省廣播電視大學) for construction profession during 1989-1992.

Mr. Chen Li (陳蠡), aged 42, is the Vice General Manager of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group, mainly responsible for production and technology management of vinyl acetate. He joined the Group in 2004. Mr. Chen has over 15 years' extensive experience in production and technology management aspects of large chemical enterprises. He studied in Qiqihar Institute of Light Industry (齊齊哈爾輕工學院) for fine chemistry profession during 1985-1989.

Mr. Liu Hongwei (劉宏為), aged 56, 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 further studied and graduated in 1986 in China Television University (中國電視大學), majoring in industrial accounting profession.

Mr. Wang Manqing (王滿慶), aged 44, 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 53, 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. Wu Huamin (吳化民), aged 46, is the Vice General Manager of the Mudanjiang Gaoke Bio-Chem Company Limited mainly responsible for daily production of Vitamin C division. Mr. Wu have over 15 years' experience in production management of the medicine manufacturing enterprises. He joined the Group on May 2009. He studied in Jiamusi Technical College (佳木斯工學院) for mechanical development during 1981-1985.

Mr. Gao Lingcai (高令才), aged 46, is the Vice General Manager of the Mudanjiang Gaoke Bio-Chem Company Limited mainly responsible for daily production of Vitamin C division. Mr. Wu have over 15 years' experience in production management of the medicine manufacturing enterprises. He joined the Group on May 2009. He studied in Shanghai Pharmaceutical Vocational College (上海醫藥職工大學) for chemical medicine manufacturing during 1985-1988.

Senior Management (continued)

Mr. Bai Yuwen (白玉文), aged 46, 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 December 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 further studied and 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 52, is the Vice General Manager of the Mudanjiang Better Day Power Limited of the Group, mainly responsible for production technology of power and steam. He joined the Group in December 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 further studied and graduated from Heilongjiang Province Economic Cadre Institute (黑龍江省經濟幹部學院) in 2000, majoring in economic management.

Mr. Sun Jianfei (孫劍飛), aged 37, is the Vice General Manager of the Mudanjiang Daytech Chemical Ltd. Mr. Sun have over 10 years' experience in production management of large chemical enterprises. He joined the Group in September 2005 and promoted to Vice General Manager of the Mudanjiang Daytech Chemical Ltd. He studied in Mudanjiang Labour University (牡丹江職工大學) for chemical technics during 1992-1995.

Mr. Zhang Jing (張靜), aged 48, is the Vice General Manager of the Mudanjiang Daytech Chemical Ltd. mainly responsible for its production equipment and project construction. Mr. Zhang have over 20 years' experience in management and project construction aspects of the large chemical enterprises. He joined the Group in 2004 and promoted to Vice General Manager of the Mudanjiang Daytech Chemical Ltd. He graduated from the Heilongjiang University (黑龍江大學) in 1986, majoring in physical chemistry.

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 2009.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 20 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 2009 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 2009.

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				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER					
From continuing operations	**1,095,614**	1,666,103	911,507	469,921	83,944
From discontinued operations	**–**	–	100,775	297,304	610,147
	1,095,614	1,666,103	1,012,282	767,225	694,091
PROFIT FROM OPERATIONS	**249,796**	317,245	207,938	98,447	4,976
Finance costs	**(5,894)**	(4,888)	(4,507)	–	(336)
PROFIT BEFORE TAX	**243,902**	312,357	203,431	98,447	4,640
Income tax (expense)/credit	**(38,042)**	1,764	(2,443)	(2,967)	2,309
Profit for the year from continuing operations	**205,860**	314,121	200,988	95,480	6,949
(Loss)/profit for the year from discontinued operations	**–**	–	(125,962)	17,814	92,839
PROFIT FOR THE YEAR	**205,860**	314,121	75,026	113,294	99,788
Attributable to:					
Equity holders of the Company	**167,896**	265,394	64,256	84,529	83,921
Minority interests	**37,964**	48,727	10,770	28,765	15,867
	205,860	314,121	75,026	113,294	99,788

Summary Financial Information (continued)

ASSETS, LIABILITIES AND EQUITY

	At 30 June				
			(Restated)		
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**2,451,963**	1,756,599	1,457,053	410,196	281,960
Current assets	**603,991**	887,147	682,893	790,378	470,244
TOTAL ASSETS	**3,055,954**	2,643,746	2,139,946	1,200,574	752,204
Non-current liabilities	**206,059**	188,712	157,263	1,643	–
Current liabilities	**428,870**	217,019	238,504	70,918	84,641
TOTAL LIABILITIES	**634,929**	405,731	395,767	72,561	84,641
TOTAL EQUITY	**2,421,025**	2,238,015	1,744,179	1,128,013	667,563
Attributable to:					
Equity holders of the Company	**2,244,408**	2,073,859	1,503,402	1,014,340	586,010
Minority interests	**176,617**	164,156	240,777	113,673	81,553
	2,421,025	2,238,015	1,744,179	1,128,013	667,563

Note: The results of the Group for the year ended 30 June 2009 and of the assets, liabilities and equity of the Group as at 30 June 2009 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 2005, 2006, 2007 and 2008 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 2005, 2006 and 2008 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 16 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 26 and 27 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 Listing Rules and the Company considers all 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 28(b) to the financial statements, respectively.

Distributable Reserves

At 30 June 2009, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK$117,946,000. In addition, the share premium account of the Company of approximately HK$1,142,886,000 as at 30 June 2009 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 15.0% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 3.5%.

Purchases from the Group's five largest suppliers accounted for approximately 69% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 38%.

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

Independent Non-executive Directors:

Mr. Ma Wing Yun Bryan
Mr. Yau Chung Hong
Mr. Tam Ching Ho
Dato' Dr. Wong Sin Just

In accordance with articles 108 and 112 of the Articles, Mr. Chiau Che Kong, Mr. Peng Zhanrong and Mr. Wu Jianwei will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 17 to 20 of this 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.

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 term 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. Moreover, the term of his appointment was renewed for a further two years commencing from 1 April 2009.

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. The term of his appointment was renewed for a further two years commencing from 1 April 2009.

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.

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 (i.e. 31 December 2008) of the Company. On 31 December 2008, the Company renewed the service contract with Dato' Dr. Wong Sin for a term of two years as an independent non-executive director of the Company commencing from 31 December 2008.

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 2009, 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 (long position) (% of issued capital of the Company) (note 4)		Share options held
Mr. Chan Yuen Tung	The Company	Beneficial Interest	1,586,100,430 (note 1)	28.27%	Nil
Mr. Chiau Che Kong	The Company	Beneficial Interest	124,170,000 (note 2)	2.21%	Nil
Ms. Chan Yuk Foebe	The Company	Beneficial Interest	22,125,000 (note 3)	0.39%	Nil
Mr. Tam Ching Ho	The Company	Beneficial Interest	1,920,000	0.03%	Nil

Notes:

1. On 19 August 2009, 1,870,443,912 ordinary shares of HK$0.01 each were issued at HK$0.11 per share by way of an open offer ("Open Offer") on the basis of one offer share for every two shares held. Of Mr. Chan Yuen Tung's 1,586,100,430 shares, 528,700,143 are shares with a deemed interest by virtue of an irrevocable undertaking dated 18 June 2009 under the Open Offer to subscribe for 528,700,143 offer shares.

2. Of Mr. Chiau Che Kong's 124,170,000 shares, 41,390,000 are shares with a deemed interest by virtue of an irrevocable undertaking dated 18 June 2009 under the Open Offer to subscribe for 41,390,000 offer shares.

3. Of Ms. Chan Yuk Foebe's 22,125,000 shares, 7,375,000 are shares with a deemed interest by virtue of an irrevocable undertaking dated 18 June 2009 under the Open Offer to subscribe for 7,375,000 offer shares.

4. Approximate percentage interest on the basis that no shares are allotted pursuant to the share options and that (i) none of the shareholders (save for Mr. Chan Yuen Tung, Ms. Chan Yuk Foebe, and Mr. Chiau Che Kong who take up an aggregate of 577,465,143 offer shares, being their entitlement in full under the Open Offer) takes up any of the offer shares; and (ii) all the underwritten shares are taken up by the underwriter pursuant to the underwriting agreement dated 18 June 2009.

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 2009, the following persons, other than a director or chief executives 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	Number of ordinary shares	Capacity (subject to the notes below)	Approximate percentage interest (note 9)
Ho Lawrence Yau Lung	Long position 1,403,428,769 (note 1)	Interest of controlled corporation	25.01%
VC Brokerage Limited	Long position 1,403,428,769 (note 1)	Beneficial owner (note 1)	25.01%
Metage Capital Limited	Long position 431,370,000 (note 2)	Investment manager	7.69%
Mr. Webb Richard Ian	Long position 431,370,000 (note 2)	Interest of controlled corporation	7.69%
Pope Asset Management, LLC	Long position 410,186,000	Investment manager	7.31%
Wang Ruiyun	Long position 394,699,240 (note 3)	Beneficial owner (note 3)	7.03%
QVT Financial LP	Long position 370,075,000 (note 5)	Investment manager	6.60%
Deutsche Bank Aktiengesellschaft	Long position 373,725,000 (note 4)	Beneficial interest and having a security interest in shares	6.66%
QVT Financial GP LLC	Long position 334,746,000 (note 5)	Interest of controlled corporation	5.97%
QVT Associates GP LLC	Long position 327,987,023 (note 6)	Interest of controlled corporation	5.85%
UBS AG	Long position 310,500,000	Having a security interest in shares	5.53%
Chung Oi Ling Stella	Long position 320,440,872 (note 7)	Beneficial owner (note 7)	5.71%
Polygon Global Opportunities Master Fund	Long position 310,500,000 (note 8)	Beneficial owner	5.53%
Polygon Investment Partners LLP	Long position 310,500,000 (note 8)	Investment manager	5.53%
Polygon Investment Partners LP	Long position 310,500,000 (note 8)	Investment manager	5.53%
Polygon Investment Partners HK Limited	Long position 310,500,000 (note 8)	Investment manager	5.53%
QVT Fund LP	Long position 294,933,822 (note 6)	Beneficial owner	5.26%

Interests of Shareholders Disclosable under the SFO (continued)

Notes:

1. VC Brokerage Limited is the underwriter under the Open Offer. Mr. Ho Lawrence Yau Lung, through various intermediate corporations, namely, VC Financial Group Limited, Value Convergence Holdings Limited, Melco Financial Group Limited and Melco International Development Limited, has a controlling interest in the underwriter, and therefore, is also deemed to have an interest in the underwritten Shares, being not more than 1,403,428,760 offer shares pursuant to the underwriting agreement.

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

3. The 394,699,240 shares represent the interest as a sub-underwriter to the underwriter.

4 Of the 373,725,000 shares, 42,503,085 shares are held beneficially, and the balance of 331,221,915 shares are deemed interests by virtue of having a security interest in 331,221,915 shares.

5. 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.

6. 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.

7. The 320,440,872 shares represent the interest as a sub-underwriter to the Underwriter.

8. 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.

9. Approximate percentage interest on the basis that no shares are allotted pursuant to the share options and that (i) none of the shareholders (save for Mr. Chan Yuen Tung, Ms. Chan Yuk Foebe, and Mr. Chiau Che Kong who take up an aggregate of 577,465,143 offer shares, being their entitlement in full under the Open Offer) takes up any of the offer shares; and (ii) all the underwritten shares are taken up by the underwriter pursuant to the underwriting agreement dated 18 June 2009.

Save as disclosed above, as far as the directors of the Company are aware, as at 30 June 2009, 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 2009 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
21 October 2009

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 2009, 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 2009 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

21 October 2009

Consolidated Income Statement

for the year ended 30 June 2009

	Note	2009 HK$'000	2008 HK$'000
Turnover	6	**1,095,614**	1,666,103
Cost of sales		**(832,637)**	(1,180,137)
Gross profit		**262,977**	485,966
Other income	8	**95,577**	17,247
Selling and distribution costs		**(13,970)**	(38,579)
Administrative expenses		**(78,768)**	(121,634)
Other operating expenses		**(16,020)**	(25,755)
Profit from operations		**249,796**	317,245
Finance costs	9	**(5,894)**	(4,888)
Profit before tax		**243,902**	312,357
Income tax (expense)/credit	10	**(38,042)**	1,764
Profit for the year	11	**205,860**	314,121
Attributable to:			
Equity holders of the Company	13	**167,896**	265,394
Minority interests		**37,964**	48,727
		205,860	314,121
Earnings per share			
– Basic	15	**HK4.49 cents**	HK7.36 cents
– Diluted	15	**HK4.49 cents**	HK7.31 cents

Consolidated Balance Sheet

at 30 June 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Fixed assets	16	**1,673,320**	1,165,441
Prepaid land lease payments	17	**546,428**	363,087
Goodwill	18	**123,589**	111,735
Other intangible assets	19	**107,032**	113,027
Deferred tax assets	29	**1,594**	3,309
		2,451,963	1,756,599
Current assets			
Inventories	22	**62,305**	103,874
Trade receivables	23	**435,241**	401,819
Prepayments, deposits and other receivables		**86,855**	303,913
Financial assets at fair value through profit or loss	24	**7,202**	21,324
Bank and cash balances	25	**12,388**	56,217
		603,991	887,147
TOTAL ASSETS		**3,055,954**	2,643,746

Consolidated Balance Sheet

at 30 June 2009

	Note	2009 HK$'000	2008 HK$'000
Capital and reserves			
Issued share capital	26	**37,409**	37,409
Retained profits		**971,801**	803,905
Other reserves		**1,235,198**	1,232,545
Equity attributable to equity holders of the Company		**2,244,408**	2,073,859
Minority interests		**176,617**	164,156
Total equity		**2,421,025**	2,238,015
Non-current liabilities			
Bank loans	32	**45,416**	47,558
Deferred tax liabilities	29	**160,643**	141,154
		206,059	188,712
Current liabilities			
Trade payables	30	**43,821**	29,386
Other payables and accruals		**226,471**	146,515
Due to a minority shareholder of a subsidiary	31	**82,124**	–
Bank loans	32	**57,606**	30,398
Current tax liabilities		**18,848**	10,720
		428,870	217,019
Total liabilities		**634,929**	405,731
TOTAL EQUITY AND LIABILITIES		**3,055,954**	2,643,746
Net current assets		**175,121**	670,128
Total assets less current liabilities		**2,627,084**	2,426,727

Chan Yuen Tung
Chairman

Chan Yuk Foebe
Director

Consolidated Statement of Changes in Equity

for the year ended 30 June 2009

		Attributable to equity holders of the Company								
		Issued share capital	**Share premium account**	**Fixed asset revaluation reserve**	**Share option reserve**	**Exchange reserve**	**Retained profits**	**Sub-total**	**Minority interests**	**Total**
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2008		37,409	1,064,852	27,545	17,008	123,140	803,905	2,073,859	164,156	2,238,015
Revaluation surplus on buildings	16	–	–	5,443	–	–	–	5,443	–	5,443
Deferred tax liabilities	29	–	–	(1,353)	–	–	–	(1,353)	–	(1,353)
Translation difference		–	–	–	–	(1,437)	–	(1,437)	(335)	(1,772)
Net income recognised directly in equity		–	–	4,090	–	(1,437)	–	2,653	(335)	2,318
Profit for the year		–	–	–	–	–	167,896	167,896	37,964	205,860
Total recognised income and expense for the year		–	–	4,090	–	(1,437)	167,896	170,549	37,629	208,178
Business combination	33	–	–	–	–	–	–	–	44,541	44,541
Dividend paid to minority interests		–	–	–	–	–	–	–	(69,709)	(69,709)
At 30 June 2009		**37,409**	**1,064,852**	**31,635**	**17,008**	**121,703**	**971,801**	**2,244,408**	**176,617**	**2,421,025**

Consolidated Statement of Changes in Equity

for the year ended 30 June 2009

		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	16	–	–	21,424	–	–	–	21,424	–	21,424
Deferred tax liabilities	29	–	–	(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		–	–	–	–	–	–	–	(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 2009

	Note	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**243,902**	312,357
Adjustments for:			
Finance costs		**5,894**	4,888
Interest income		**(570)**	(4,560)
Dividend income		**(521)**	(166)
Depreciation		**47,264**	39,394
Amortisation of prepaid land lease payments		**6,796**	6,047
Amortisation of other intangible assets		**5,967**	5,798
Allowance for receivables		**6,788**	2,397
Write off of fixed assets		**2,401**	8,101
Fair value loss on financial assets at fair value through profit or loss		**9,250**	16,600
Gain on disposal of fixed assets		**(9)**	(3)
Gain on disposal of financial assets at fair value through profit or loss		**(856)**	(4,756)
Reversal of revaluation deficit on buildings		**(1,371)**	(327)
Share option benefits		**–**	33,668
Operating profit before working capital changes		**324,935**	419,438
Decrease in inventories		**41,569**	2,206
Increase in trade receivables		**(37,648)**	(261,365)
Decrease/(increase) in prepayments, deposits and other receivables		**8,525**	(38,262)
Increase/(decrease) in trade payables		**14,435**	(37,441)
Increase in other payables and accruals		**10,118**	1,262
Decrease/(increase) in financial assets at fair value through profit or loss		**5,728**	(33,168)
Cash generated from operations		**367,662**	52,670
Interest received		**570**	4,560
Dividend received		**521**	166
Interest paid		**(5,894)**	(4,888)
Income taxes paid		**(31,623)**	(25,541)
Net cash generated from operating activities		**331,236**	26,967

Consolidated Cash Flow Statement

for the year ended 30 June 2009

	Note	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	33	**38**	(247,562)
Deposit paid for acquisition of prepaid land lease payments		**–**	(1,736)
Purchases of fixed assets		**(338,089)**	(66,726)
Purchases of prepaid land lease payments		**–**	(23,380)
Purchases of other intangible assets		**–**	(4,826)
Proceeds from disposal of fixed assets		**227**	9
Net cash used in investing activities		**(337,824)**	(344,221)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of warrants		**–**	75,232
Exercise of share options		**–**	89,111
Dividend paid to a minority shareholder of a subsidiary		**(62,738)**	–
Bank loan raised		**27,211**	–
Repayment of bank loan		**(2,049)**	(821)
Net cash (used in)/generated from financing activities		**(37,576)**	163,522
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(44,164)**	(153,732)
Effect of foreign exchange rate changes		**335**	39,902
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**56,217**	170,047
CASH AND CASH EQUIVALENTS AT END OF YEAR		**12,388**	56,217
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**12,388**	56,217

Balance Sheet

at 30 June 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Investments in subsidiaries	20	**501,722**	41,912
Current assets			
Due from subsidiaries	21	**1,033,479**	1,307,159
Bank and cash balances		**274**	11,127
		1,033,753	1,318,286
TOTAL ASSETS		**1,535,475**	1,360,198
Capital and reserves			
Issued share capital	26	**37,409**	37,409
Retained profits	28	**117,946**	162,561
Other reserves	28	**1,159,894**	1,159,894
Total equity		**1,315,249**	1,359,864
Current liabilities			
Due to subsidiaries	21	**219,869**	–
Other payables and accruals		**357**	334
		220,226	334
TOTAL EQUITY AND LIABILITIES		**1,535,475**	1,360,198
Net current assets		**813,527**	1,317,952
Total assets less current liabilities		**1,315,249**	1,359,864

Chan Yuen Tung
Chairman

Chan Yuk Foebe
Director

Notes to the Financial Statements

for the year ended 30 June 2009

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 20 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 2008. HKFRSs comprise Hong Kong Financial Reporting Standards; 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 previously recognised in the income statement. 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 remaining in the fixed asset revaluation reserve 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 know-how is measured initially at purchase cost and is amortised on a straight-line basis over its estimated useful life of 10 years.

(ii) Trade name and exclusive right

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

(h) 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.

(i) Recognition and derecognition of financial instruments

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

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

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

(j) 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.

3. Significant Accounting Policies (continued)

(k) Trade and other receivables

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

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

(l) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

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

(i) Borrowings

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

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

(ii) Trade and other payables

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

3. Significant Accounting Policies (continued)

(m) Financial liabilities and equity instruments (continued)

(iii) Equity instruments

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

(n) Revenue recognition

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

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

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

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

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefits schemes

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

The employees of the Group's subsidiaries established in the 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 these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

3. Significant Accounting Policies (continued)

(o) Employee benefits (continued)

(iii) Termination benefits

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

(p) Share-based payments

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

(q) Borrowing costs

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

(r) Government grants

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

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

(s) Taxation

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

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

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

3. Significant Accounting Policies (continued)

(s) Taxation (continued)

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

(t) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

(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.

3. Significant Accounting Policies (continued)

(u) Segment reporting

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

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

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

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

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

(v) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and 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.

3. Significant Accounting Policies (continued)

(v) Impairment of assets (continued)

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

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

(w) Provisions and contingent liabilities

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

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

(x) Events after the balance sheet date

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

4. Critical Judgements and Key Estimates

Key sources of estimation uncertainty

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

(a) Fixed assets and depreciation

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

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) 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$123,589,000. Details of the impairment test are provided in note 18 to the financial statements.

(d) 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.

(e) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

4. Critical Judgements and Key Estimates (continued)

Key sources of estimation uncertainty (continued)

(f) 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 2009, 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$720,000 (2008: HK$2,132,000) 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.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 30 June 2009				
Bank loans	59,154	3,091	9,275	41,990
Trade payables	43,821	–	–	–
Other payables and accruals	226,471	–	–	–
Due to a minority shareholder of a subsidiary	82,124	–	–	–
At 30 June 2008				
Bank loans	31,805	3,161	9,484	46,066
Trade payables	29,386	–	–	–
Other payables and accruals	146,515	–	–	–

(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 2009, 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$475,000 (2008: HK$496,000) 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.

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:

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

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

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

(iv) manufacture and sale of vitamin C, glucose and starch ("Vitamin C, glucose and starch"); and

(v) manufacture and sale of calcium carbide ("Calcium carbide").

(a) Business segments

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Eliminations HK$'000	Consolidated HK$'000
Year ended 30 June 2009							
Segment revenue	616,382	391,497	111,345	16,448	–	(40,058)	1,095,614
Segment results	150,644	124,788	38,221	(35,521)	(6,763)	–	271,369
Other income							1,949
Unallocated expenses							(23,522)
Profit from operations							249,796
Finance costs							(5,894)
Profit before tax							243,902
Income tax expense							(38,042)
Profit for the year							205,860

7. Segment Information (continued)

(a) Business segments (continued)

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Eliminations HK$'000	Consolidated HK$'000
Year ended 30 June 2008							
Segment revenue	882,761	450,787	105,272	274,656	–	(47,373)	1,666,103
Segment results	257,041	125,366	(4,517)	2,561	(4,862)	–	375,589
Other income							9,339
Unallocated expenses							(67,683)
Profit from operations							317,245
Finance costs							(4,888)
Profit before tax							312,357
Income tax credit							1,764
Profit for the year							314,121

7. Segment Information (continued)

(a) Business segments (continued)

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Consolidated HK$'000
As at 30 June 2009						
Segment assets	574,120	484,256	427,949	653,687	684,299	2,824,311
Unallocated assets						231,643
Total assets						3,055,954
Segment liabilities	13,540	14,880	80,478	89,099	51,597	249,594
Unallocated liabilities						385,335
Total liabilities						634,929
Year ended 30 June 2009						
Other segment information:						
Depreciation	13,429	10,203	6,503	16,138	98	46,371
Unallocated depreciation						893
						47,264
Amortisation of other intangible assets	–	1,735	4,232	–	–	5,967
Amortisation of prepaid land lease payments	683	588	1,247	763	2,833	6,114
Unallocated amortisation						682
						6,796
Capital expenditure	2,282	1,363	109,128	90,613	348,696	552,082
Unallocated capital expenditure						18
						552,100

7. Segment Information (continued)

(a) Business segments (continued)

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Consolidated HK$'000
As at 30 June 2008						
Segment assets	547,499	531,178	395,735	719,904	195,909	2,390,225
Unallocated assets						253,521
Total assets						2,643,746
Segment liabilities	24,075	25,667	70,820	54,184	–	174,746
Unallocated liabilities						230,985
Total liabilities						405,731
Year ended 30 June 2008						
Other segment information:						
Depreciation	9,031	8,887	6,889	13,921	96	38,824
Unallocated depreciation						570
						39,394
Amortisation of other intangible assets	–	1,566	4,232	–	–	5,798
Amortisation of prepaid land lease payments	646	556	1,224	721	2,559	5,706
Unallocated amortisation						341
						6,047
Capital expenditure	20,748	30,452	12,307	3,243	16	66,766
Unallocated capital expenditure						7,004
						73,770

7. Segment Information (continued)

(b) Geographical segments

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

8. Other Income

	Group	
	2009	2008
	HK$'000	HK$'000
Dividend income	**521**	166
Exchange difference	**–**	114
Gain on disposal of financial assets at fair value through profit or loss (held for trading)	**856**	4,756
Gain on disposal of fixed assets	**9**	3
Government grants (note)	**89,796**	3,929
Interest income	**570**	4,560
Reversal of revaluation deficit on buildings	**1,371**	327
Sundry income	**2,454**	3,392
	95,577	17,247

Note: Government grants for the year ended 30 June 2009 were received for subsidies and refund of value-added tax and government charges. Government grants for the year ended 30 June 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	
	2009	2008
	HK$'000	HK$'000
Interest on bank loans	**5,239**	2,516
Interest on discounted bills	**655**	2,372
	5,894	4,888

10. Income Tax Expense/(Credit)

	Group	
	2009	2008
	HK$'000	HK$'000
Current tax – Overseas		
Provision for the year	**39,745**	30,009
Underprovision in prior years	**40**	5,350
Withholding tax on dividend income	**11,926**	–
	51,711	35,359
Deferred tax (note 29)	**(13,669)**	(37,123)
	38,042	(1,764)

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 (2008: 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 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made as Mudanjiang BD Power has tax losses brought forward to set off against current year's assessable profit.

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

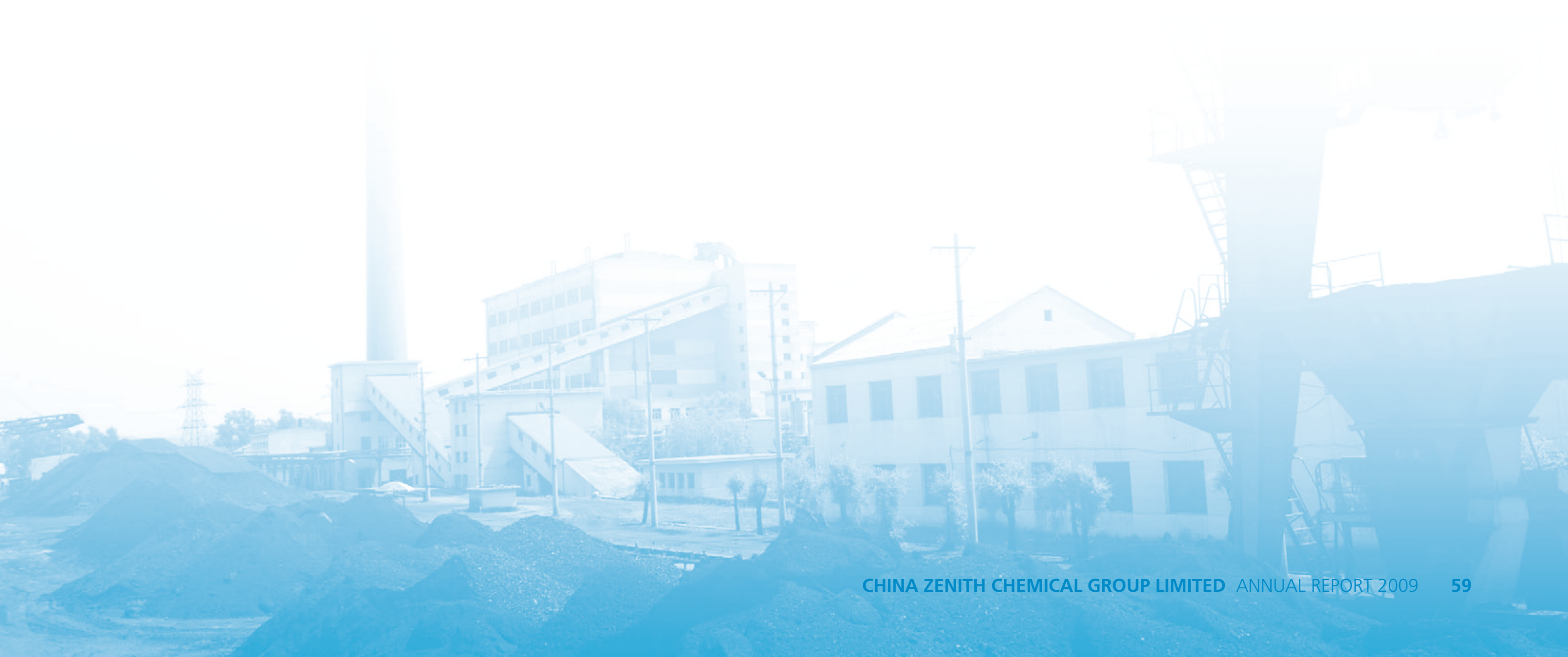
Mudanjiang Gaoke Bio-Chem Company Limited ("Mudanjiang Gaoke"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made as Mudanjiang Gaoke has no assessable profit for the year.

Mudanjiang Daytech Chemical Ltd. ("Mudanjiang Daytech Chemical"), a subsidiary of the Company, is exempted from PRC enterprise income tax for the two years from 1 January 2008 and thereafter is entitled to a 50% relief from PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made as Mudanjiang Daytech Chemical has no assessable profit for the year.

The provision for income tax of other subsidiaries operating in the PRC have been calculated at the rate of 25% for the year ended 30 June 2009 (2008: 33% for the six months ended 31 December 2007 and 25% for the six months ended 30 June 2008), based on existing legislation, interpretation and practices in respect thereof.

Pursuant to the Corporate Income Tax Law of the PRC approved by the National People's Congress on 16 March 2007, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividend derived from sources within the PRC.

According to the notice Cai Shui [2008] No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from withholding tax. Accordingly, the retained profits at 31 December 2007 in the Group's foreign-invested enterprises' books and accounts will not be subject to withholding tax on dividend at 10% on future distribution.



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

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

Group

For the year ended 30 June 2009

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(17,978)		261,880		243,902	
Tax at the statutory tax rate	(2,966)	(16.5)	65,470	25.0	62,504	25.6
Preferential statutory tax rate offered	–	–	(40,733)	(15.6)	(40,733)	(16.7)
Income tax exempted	(90)	(0.5)	–	–	(90)	–
Expenses not deductible for tax	333	1.8	–	–	333	0.1
Unrecognised temporary differences	64	0.4	(3,558)	(1.4)	(3,494)	(1.4)
Tax losses not recognised	2,659	14.8	4,096	1.6	6,755	2.8
Withholding tax	–	–	11,926	4.6	11,926	4.9
Effect of change in tax rate in prior year	–	–	801	0.3	801	0.3
Underprovision in prior years	–	–	40	–	40	–
Tax expense at the Group's effective tax rate	–	–	38,042	14.5	38,042	15.6

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$45,500,000 (2008: HK$18,659,000). 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 Expense/(Credit) (continued)

Group

For the year end 30 June 2008

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

11. Profit for the Year

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

	2009	2008
	HK$'000	HK$'000
Auditor's remuneration	**850**	930
Allowance for receivables		
– trade receivables	**4,226**	2,397
– other receivables	**2,562**	–
Write off of fixed assets	**2,401**	8,101
Amortisation of other intangible assets (included in administrative expenses)	**5,967**	5,798
Cost of inventories sold	**832,637**	1,180,137
Depreciation	**47,264**	39,394
Minimum lease payment under operating leases for land and buildings	**9,136**	8,377
Fair value loss on financial assets at fair value through profit or loss		
(held for trading)	**9,250**	16,600
Staff costs (excluding directors' remuneration – note 12):		
Wages, salaries and benefits in kind	**28,194**	34,367
Employee share option benefits	**–**	33,668
Retirement benefits scheme contributions	**5,298**	4,238

Cost of inventories sold includes staff costs and depreciation of approximately HK$11,686,000 (2008: HK$18,113,000) and HK$30,983,000 (2008: HK$24,833,000), respectively, which are included in the amounts disclosed separately above.

12. 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	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors						
Mr. Chan Yuen Tung	**10**	7	**–**	–	**10**	7
Ms. Chan Yuk Foebe	**1,200**	2,122	**–**	–	**1,200**	2,122
Mr. Chiau Che Kong	**253**	255	**12**	12	**265**	267
Mr. Peng Zhanrong	**360**	353	**–**	–	**360**	353
Mr. Wu Jianwei	**541**	382	**–**	–	**541**	382
Independent non-executive directors						
Mr. Ma Wing Yun Bryan	**120**	120	**–**	–	**120**	120
Mr. Yau Chung Hong	**120**	120	**–**	–	**120**	120
Mr. Tam Ching Ho	**120**	120	**–**	–	**120**	120
Dato' Dr. Wong Sin Just	**120**	62	**–**	–	**120**	62
	2,844	3,541	**12**	12	**2,856**	3,553

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2008: Nil).

The five highest paid individuals in the Group during the year ended 30 June 2009 included Ms. Chan Yuk Foebe, Mr. Wu Jianwei and Mr. Peng Zhanrong whose emoluments are reflected in the analysis presented above. 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.

12. Directors' and Employees' Remuneration (continued)

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

	Group	
	2009	2008
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**2,839**	639
Employee share option benefits	**–**	16,157
Retirement benefits scheme contributions	**24**	–
	2,863	16,796

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
Nil to HK$1,000,000	**4**	–
HK$1,000,001 to HK$2,000,000	**1**	–
HK$3,000,001 to HK$4,000,000	**–**	5
	5	5

During the year ended 30 June 2008, share options were granted to certain employees in respect of their services to the Group, further details of which are included in note 27 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 year ended 30 June 2008 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.

13. 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 2009 included a loss of approximately HK$44,615,000 (2008: HK$18,866,000) which has been dealt with in the financial statements of the Company.

14. Dividend

The directors do not recommend the payment of dividend for the year ended 30 June 2009 (2008: Nil).

15. Earnings Per Share

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$167,896,000 (2008: HK$265,394,000) and the weighted average number of ordinary shares of 3,740,887,824 (2008: 3,603,712,828) in issue during the year.

Diluted earnings per share

There were no potential ordinary shares in issue during the year ended 30 June 2009. No diluted earnings per share information is disclosed.

The calculation of diluted earnings per share attributable to equity holders of the Company for the year ended 30 June 2008 is based on the profit for the year ended 30 June 2008 attributable to equity holders of the Company of approximately HK$265,394,000 and the weighted average number of ordinary shares of 3,631,289,113, being the weighted average number of ordinary shares of 3,603,712,828 in issue during the year ended 30 June 2008 used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 27,576,285 assumed to have been issued at no consideration on the deemed exercise of the share options and warrants outstanding during the year ended 30 June 2008.

16. 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 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 and 1 July 2008	245,464	50,331	884,443	3,006	20,427	27,644	1,231,315
Additions	1,191	547,703	2,031	11	952	212	552,100
Acquisition of subsidiaries	–	834	–	–	11	–	845
Disposal/write off	–	(2,381)	–	–	(259)	–	(2,640)
Transfer	2,463	(20,845)	8,968	–	132	9,282	–
Revaluation	464	–	–	–	–	–	464
Exchange differences	(255)	(561)	(1,065)	–	(41)	(16)	(1,938)
At 30 June 2009	**249,327**	**575,081**	**894,377**	**3,017**	**21,222**	**37,122**	**1,780,146**

16. Fixed Assets (continued)

Group (continued)

	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
Accumulated depreciation:							
At 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 and 1 July 2008	–	–	57,444	177	5,793	2,460	65,874
Charge for the year	6,518	–	35,581	301	3,299	1,565	47,264
Disposal/write off	–	–	–	–	(21)	–	(21)
Write back on revaluation	(6,350)	–	–	–	–	–	(6,350)
Exchange differences	(168)	–	(225)	–	80	372	59
At 30 June 2009	**–**	**–**	**92,800**	**478**	**9,151**	**4,397**	**106,826**
Carrying amount:							
At 30 June 2009	**249,327**	**575,081**	**801,577**	**2,539**	**12,071**	**32,725**	**1,673,320**
At 30 June 2008	245,464	50,331	826,999	2,829	14,634	25,184	1,165,441
Analysis of cost or valuation at 30 June 2009							
At cost	**–**	**575,081**	**894,377**	**3,017**	**21,222**	**37,122**	**1,530,819**
At valuation 2009	**249,327**	**–**	**–**	**–**	**–**	**–**	**249,327**
	249,327	**575,081**	**894,377**	**3,017**	**21,222**	**37,122**	**1,780,146**
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

16. Fixed Assets (continued)

Group (continued)

At 30 June 2009 the carrying amount of fixed assets pledged as security for the Group's bank loans amounted to approximately HK$241,397,000 (2008: HK$108,645,000).

At 30 June 2009, the Group's buildings were revalued on the depreciated replacement cost basis by Castores Magi Surveyors Limited ("Castores Magi"), independent professionally qualified valuers, at approximately HK$249,327,000 (2008: HK$245,464,000). The resulting revaluation surplus and reversal of revaluation deficit of approximately HK$5,443,000 (2008: HK$21,424,000) and HK$1,371,000 (2008: HK$327,000) 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$208,639,000 (2008: HK$210,638,000) had they been stated at cost less accumulated depreciation and impairment losses.

17. Prepaid Land Lease Payments

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

	2009	2008
	HK$'000	HK$'000
In Hong Kong under long leases	**70,539**	71,220
Outside Hong Kong under medium-term leases	**475,889**	291,867
	546,428	363,087

At 30 June 2009 the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans amounted to approximately HK$85,339,000 (2008:HK$88,425,000).

18. Goodwill

	Group	
	2009	2008
	HK$'000	HK$'000
Cost and carrying amount:		
At beginning of year	**111,735**	74,612
Arising on acquisition of subsidiaries (note 33)	**11,854**	37,123
At end of year	**123,589**	111,735

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	
	2009	2008
	HK$'000	HK$'000
Vitamin C, glucose and starch		
Mudanjiang Gaoke	**85,685**	85,685
Calcium carbide		
Mudanjiang Daytech Chemical	**26,050**	26,050
Heihe LongJiang Chemical Co. Ltd. ("Heihe LongJiang Chemical")	**11,854**	–
	123,589	111,735

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 two (2008: three) years for Vitamin C, glucose and starch CGU and four to five (2008: six) years for Calcium carbide CGU, respectively, with the residual period using the growth rate of 5.9% (2008: 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 Vitamin C, glucose and starch activities and Calcium carbide activities are 10.13%, and 9.96% to 11.96% (2008: 9.36% and 14.64%), respectively.

19. Other Intangible Assets

	Exclusive right	Trade name	Technical know-how	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost:				
At 1 July 2007	72,347	33,459	11,091	116,897
Acquisition of subsidiaries	–	–	4,826	4,826
Exchange differences	–	–	1,449	1,449
At 30 June 2008 and 1 July 2008	72,347	33,459	17,366	123,172
Exchange differences	–	–	(38)	(38)
At 30 June 2009	**72,347**	**33,459**	**17,328**	**123,134**
Accumulated amortisation:				
At 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 and 1 July 2008	4,341	2,007	3,797	10,145
Amortisation for the year	2,894	1,339	1,734	5,967
Exchange differences	–	–	(10)	(10)
At 30 June 2009	**7,235**	**3,346**	**5,521**	**16,102**
Carrying amount:				
At 30 June 2009	**65,112**	**30,113**	**11,807**	**107,032**
At 30 June 2008	68,006	31,452	13,569	113,027
Remaining amortisation period:	22.5 years	22.5 years	6.25 to 8.17 years	

20. Investments in Subsidiaries

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted investments, at cost	**501,722**	41,912

20. Investments in Subsidiaries (continued)

Particulars of the subsidiaries as at 30 June 2009 are as follows:

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

20. 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	Indirect	Principal activities
Powerful Rise Group Limited	BVI	Ordinary US$1	–	100%	Inactive
Racing Dragon Group Limited ("Racing Dragon")	BVI	Ordinary US$100	–	55%	Investment holding
Mudanjiang BD Power	PRC (note (a))	RMB100,726,929	–	100%	Generation and supply of power and heat
Mudanjiang Daytech Chemical	PRC (note (b))	HK$156,000,000	–	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 Vitamin C, glucose and starch
Heihe LongJiang Chemical	PRC (note (f))	RMB13,872,680	–	55%	Manufacture and sale of calcium carbide

20. 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	Indirect	Principal activities
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 (g))	RMB500,000	–	63.11%	Sales of vinyl acetate

* Where different

Notes:

(a) Mudanjiang BD Power is a wholly foreign-owned enterprise registered in the PRC for an operating period of 50 years commencing from 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) Heihe LongJiang Chemical is a wholly foreign-owned enterprise established in the PRC for an operating period of 20 years commencing from the approval date of 5 June 2008.

(g) 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.

21. Due from/(to) Subsidiaries – Company

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

22. Inventories

	Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**33,334**	39,076
Work in progress	**6,447**	6,805
Finished goods	**22,524**	57,993
	62,305	103,874

23. 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	
	2009	2008
	HK$'000	HK$'000
Within 30 days	**145,071**	102,990
31 to 60 days	**93,243**	111,542
61 to 90 days	**60,647**	66,297
91 to 120 days	**37,992**	27,412
121 to 150 days	**29,013**	18,532
151 to 180 days	**14,512**	18,099
181 to 240 days	**8,885**	22,893
241 to 330 days	**1,677**	30,223
331 to 365 days	**1,157**	3,484
Over 365 days	**43,044**	347
	435,241	401,819

23. Trade Receivables (continued)

As at 30 June 2009, an allowance was made for estimated irrecoverable trade receivables of approximately HK$6,146,000 (2008: HK$2,397,000). The movement of allowance is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
At beginning of year	**2,397**	–
Allowance made for the year	**4,226**	2,397
Written off	**(475)**	–
Exchange differences	**(2)**	–
At end of year	**6,146**	2,397

As of 30 June 2009, trade receivables of approximately HK$70,792,000 (2008: HK$75,959,000) 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	
	2009	2008
	HK$'000	HK$'000
Up to 90 days	**995**	485
91 to 180 days	**15,034**	18,527
181 to 365 days	**11,719**	56,600
Over 365 days	**43,044**	347
	70,792	75,959

24. 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.

25. Bank and Cash Balances

As at 30 June 2009, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$9,634,000 (2008: HK$24,999,000). 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.

26. Share Capital

Shares

	2009	2008
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2008: 10,000,000,000) ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
3,740,887,824 (2008: 3,740,887,824) ordinary shares of HK$0.01 each	**37,409**	37,409

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2008 and 2009 is as follows:

	Number of ordinary shares issued	Par value
	'000	HK$'000
At 1 July 2007	3,377,829	33,778
Exercise of share options (note (a))	188,100	1,881
Exercise of warrants (note (b))	174,959	1,750
At 30 June 2008 and 2009	3,740,888	37,409

Notes:

(a) 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.

(b) 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.

(c) On 19 August 2009, 1,870,443,912 ordinary shares of HK$0.01 each were issued at HK$0.11 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$201,311,000 will be used to finance the acquisition 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.

26. Share Capital (continued)

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. During the year ended 30 June 2009, 455,503,250 outstanding warrants lapsed.

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 2009.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group received a report from the share registrars on substantial share interests showing the non-public float and it demonstrated continuing compliance with the 25% limit throughout the year.

27. 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.

27. Share Option Scheme (continued)

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 rights or bonus issue, or other similar changes in the Company's share capital.

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

Details of the grantees are as follows:

	Number of share options	
	Employees	Weighted average exercise price
Outstanding at 1 July 2007	–	
Granted during the year	409,000,000	0.479
Exercised during the year	(188,100,000)	0.474
Outstanding at 30 June 2008 and 30 June 2009	220,900,000	0.483
Exercisable at 30 June 2008 and 30 June 2009	220,900,000	0.483

27. Share Option Scheme (continued)

No share options were granted, exercised or lapsed during the year.

The weighted average share price at the date of exercise for share options exercised during the year ended 30 June 2008 was HK$0.478. The options outstanding at 30 June 2009 have a weighted average remaining contractual life of 1.11 years (2008: 2.11 years) and the exercise prices range from HK$0.42 to HK$0.582 (2008: HK$0.42 to HK$0.582).

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. 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
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.

On 21 August 2009, 205,000,000 share options were granted to certain employees of the Group. The exercise price of the share options is HK$0.16.

28. Reserves

(a) Group

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

28. Reserves (continued)

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 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 and 1 July 2008	1,142,886	17,008	162,561	1,322,455
Loss for the year	–	–	(44,615)	(44,615)
At 30 June 2009	**1,142,886**	**17,008**	**117,946**	**1,277,840**

(c) Nature and purpose of reserves of the Group

(i) Share premium account

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

(ii) Share option reserve

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

(iii) Exchange reserve

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

(iv) Fixed asset revaluation reserve

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

29. Deferred Tax

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

	Group	
	2009	2008
	HK$'000	HK$'000
At beginning of year	**(137,845)**	(154,269)
Credit to income statement	**13,669**	37,123
Acquisition of subsidiaries	**(33,409)**	(25,513)
Charge to equity	**(1,353)**	(4,093)
Exchange differences	**(111)**	8,907
At end of year	**(159,049)**	(137,845)

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 2007	1,087	1,907	2,994
Exchange differences	114	201	315
At 30 June 2008 and 1 July 2008	1,201	2,108	3,309
Charge to income statement	(686)	(1,023)	(1,709)
Exchange differences	(2)	(4)	(6)
At 30 June 2009	**513**	**1,081**	**1,594**

29. Deferred Tax (continued)

Deferred tax liabilities	Decelerated tax depreciation HK$'000	Other temporary differences HK$'000	Revaluation of buildings and prepaid land lease payment HK$'000	Total HK$'000
At 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 and 1 July 2008	6,570	1,795	(149,519)	(141,154)
Credit to income statement	4,100	10,318	960	15,378
Acquisition of subsidiaries	–	–	(33,409)	(33,409)
Charge to equity	–	–	(1,353)	(1,353)
Exchange differences	(5)	(10)	(90)	(105)
At 30 June 2009	**10,665**	**12,103**	**(183,411)**	**(160,643)**

The deferred tax liabilities in relation to revaluation of buildings have been credited to equity directly. As at 30 June 2008, the carrying amount of deferred tax liabilities decreased by approximately HK$30,552,000 as a result of the change in the PRC enterprise income tax rate from 33% to 25% with effective from 1 January 2008.

30. 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	
	2009 HK$'000	2008 HK$'000
Within 30 days	**10,035**	12,613
31 to 60 days	**14,216**	1,511
61 to 90 days	**4,424**	3,061
91 to 120 days	**3,626**	4,215
121 to 365 days	**5,495**	5,848
Over 365 days	**6,025**	2,138
	43,821	29,386

31. Due to a Minority Shareholder of a Subsidiary

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

32. Bank Loans

The Group's bank loans are repayable as follows:

	2009 HK$'000	2008 HK$'000
Within one year	**57,606**	30,398
In the second year	**2,158**	2,069
In the third to fifth years inclusive	**6,754**	6,502
After five years	**36,504**	38,987
	103,022	77,956
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(57,606)**	(30,398)
	45,416	47,558

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

	2009 HK$'000	2008 HK$'000
Hong Kong dollars	**47,530**	49,579
RMB	**55,492**	28,377
	103,022	77,956

Bank loans of approximately HK$55,492,000 (2008: HK$28,377,000) are arranged at fixed interest rate of 8.217% (2008: 7.524%) p.a. and exposes the Group to fair value interest rate risk. Bank loan of approximately HK$47,530,000 (2008: HK$49,579,000) is arranged at floating rate of 2.10% (2008: 2.35%) p.a., 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.

33. Business Combination

Racing Dragon

On 19 June 2009, the Group completed the acquisiton of a 55% of the issued share capital of Racing Dragon. Racing Dragon is the legal and beneficial owner of the entire equity interest in Heihe LongJiang Chemical. Heihe LongJiang Chemical is engaged in the manufacture and sale of calcium carbide. It is holding a piece of industrial land with a site area of approximately 1,000,000 square metres which located at Heilongjiang Province, Heihe Border Economy Cooperate District Southwestern Industrial Region, the PRC.

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

	Fair value	Racing Dragon's carrying amount
	HK$'000	HK$'000
Fixed assets	845	845
Prepaid land lease payments	190,260	56,625
Prepayments, deposits and other receivables	8,040	8,040
Bank and cash balances	38	38
Other payables	(66,793)	(66,793)
Deferred tax liabilities	(33,409)	–
Net assets/(liabilities) acquired	98,981	(1,245)
Minority interests	(44,541)	
Goodwill	11,854	
Total consideration payable	66,294	
Satisfied by:		
Consideration as stated in the share purchase agreement	75,000	
Assignment of shareholder's loan from the minority shareholder to the Group	(8,706)	
	66,294	
Net cash inflow arising on acquisition:		
Cash and cash equivalents acquired	38	

The consideration payable was outstanding as at 30 June 2009.

The goodwill arising on the acquisition of Racing Dragon is attributable to anticipated profitability of the expansion of the Group's existing businesses using the piece of land held by Heihe LongJiang Chemical.

33. Business Combination (continued)

Racing Dragon (continued)

The acquired business did not contribute revenues nor incurre any loss for the period between date of acquisition and the balance sheet date. If the acquisition had occurred on 1 July 2008, the Group's revenue would have been approximately HK$1,095,614,000 and profit for the year would have been approximately HK$205,860,000.

34. Capital Commitments

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

	2009	2008
	HK$'000	HK$'000
Authorised, but not contracted for:		
Buildings and construction in progress	**91,522**	–
Contracted, but not provided for:		
Buildings and construction in progress	**290,115**	306,575
	381,637	306,575

The Company did not have any capital commitments as at 30 June 2009 (2008: Nil).

35. Lease Commitments

At 30 June 2009 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**1,352**	2,028
In the second to fifth years inclusive	**–**	1,352
	1,352	3,380

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 2009 (2008: Nil).

36. Related Party Transactions

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

(a) A director, Mr. Wu Jianwei, transferred a motor vehicle to the Group at a consideration of approximately HK$232,000 in exchange for inventories.

(b) The Group purchased a motor vehicle from and sold a motor vehicle to a director, Mr. Peng Zhanrong, at considerations of approximately HK$306,000 and HK$227,000 respectively.

37. Events after the Balance Sheet Date

(a) On 5 August 2009, the Group entered into a construction agreement for the improvement of production with a contract value of plants at approximately HK$12,469,000. No deposit was paid as at 30 June 2009.

(b) On 17 August 2009, the Group entered into an agreement with a bank located in the PRC for a bank loan of RMB20,000,000 for a period of six months. The bank loan is pledged with the Group's fixed assets and prepaid land lease payments of approximately HK$156,898,000 and HK$4,831,000 respectively.

38. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

39. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 21 October 2009.