



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)

Interim Report
2010/2011



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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' Wong Sin Just

Company Secretary

Mr. Tsang Chiu Hung

Registered Office

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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

(as to Hong Kong Law)
Jones Day
29/F, Edinburgh 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
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Heilongjiang Province
PRC

Principal Share Registrar and Transfer Office

HSBC Trustee (Cayman) Limited
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68 West Bay Road
Grand Cayman
Cayman Islands
KY1-1106

Hong Kong Branch Share Registrar and Transfer Office

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28 Queen's Road East
Hong Kong

Stock Code: 00362

Company Website

www.chinazenith.com.hk

Financial Highlights

	Six months ended 31 December		Change
	2010 HK\$'000	2009 HK\$'000	
TURNOVER	798,300	725,358	10.1%
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	103,603	133,309	(22.3%)
BASIC EARNINGS PER SHARE	HK\$1.67 cents	HK\$2.56 cents	(34.8%)
INTERIM DIVIDEND PER SHARE	–	–	–

The Board of Directors (the “**Board**” or “**Directors**”) of China Zenith Chemical Group Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim financial statements (“**Interim Financial Statements**”) of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 31 December 2010 (the “**Period**”). The results had been reviewed by the Company’s audit committee (“**Audit Committee**”).

Condensed Consolidated Income Statement

For the six months ended 31 December 2010

		(Unaudited) Six months ended 31 December	
	Note	2010 HK\$'000	2009 HK\$'000
Turnover	3	798,300	725,358
Cost of sales		(621,746)	(510,820)
Gross profit		176,554	214,538
Other income	5	26,672	29,680
Selling and distribution costs		(7,923)	(6,013)
Administrative expenses		(51,878)	(56,698)
Other operating expenses		(127)	(1,251)
Profit from operations		143,298	180,256
Finance costs		(7,810)	(3,197)
Profit before tax		135,488	177,059
Income tax expense	6	(19,846)	(17,881)
Profit for the Period	7	115,642	159,178
Attributable to:			
Owners of the Company		103,603	133,309
Non-controlling interests		12,039	25,869
		115,642	159,178
EARNINGS PER SHARE	8		
– Basic		HK1.67 cents	HK2.56 cents
– Diluted		HK1.67 cents	HK2.54 cents

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2010

	(Unaudited) Six months ended 31 December	
	2010 HK\$'000	2009 HK\$'000
Profit for the Period	115,642	159,178
Other comprehensive income:		
Exchange differences on translating foreign operations	64,531	6,174
Gains on property revaluation	245	1,128
Other comprehensive income for the Period, net of tax	64,776	7,302
Total comprehensive income for the Period	180,418	166,480
Attributable to:		
Owners of the Company	158,375	139,850
Non-controlling interests	22,043	26,630
	180,418	166,480

Condensed Consolidated Statement of Financial Position

At 31 December 2010

	Note	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000 (restated)
Non-current assets			
Fixed assets	9	2,752,155	2,310,890
Land held under finance leases		69,517	69,858
Prepaid land lease payments		468,554	470,292
Goodwill		123,589	123,589
Other intangible assets		98,430	101,217
Deferred tax assets		1,097	1,065
		3,513,342	3,076,911
Current assets			
Inventories		86,989	103,592
Trade receivables	10	483,830	452,411
Prepayments, deposits and other receivables		132,140	105,259
Financial assets at fair value through profit or loss		4,915	7,102
Bank and cash balances		32,414	14,941
		740,288	683,305
TOTAL ASSETS		4,253,630	3,760,216
Capital and reserves			
Share capital	11	62,563	61,023
Retained profits		1,293,022	1,189,419
Other reserves		1,621,507	1,543,019
Equity attributable to owners of the Company		2,977,092	2,793,461
Non-controlling interests		248,201	226,158
Total equity		3,225,293	3,019,619
Non-current liabilities			
Bank loans	12	278,923	158,201
Deferred tax liabilities		165,066	155,715
		443,989	313,916

Condensed Consolidated Statement of Financial Position

At 31 December 2010

	Note	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000 (restated)
Current liabilities			
Trade payables	13	50,994	79,570
Other payables and accruals	14	360,121	204,370
Due to a director		50,000	10,000
Due to a non-controlling shareholder of a subsidiary		66,124	66,124
Bank loans	12	55,452	58,480
Current tax liabilities		1,657	8,137
		584,348	426,681
Total liabilities		1,028,337	740,597
TOTAL EQUITY AND LIABILITIES		4,253,630	3,760,216
Net current assets		155,940	256,624
Total assets less current liabilities		3,669,282	3,333,535

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2010

	(Unaudited)									
	For the six month ended 31 December 2010									
	Attributable to owners of the Company									Non-controlling interests
Share capital	Share premium account	Fixed asset revaluation reserve	Share option reserve	Exchange reserve	Warrant reserve	Retained profits	Sub-total	HK\$'000	HK\$'000	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2010	61,023	1,337,838	32,369	24,670	146,030	2,112	1,189,419	2,793,461	226,158	3,019,619
Total comprehensive income for the Period	-	-	245	-	54,527	-	103,603	158,375	22,043	180,418
Share option benefits										
- Exercise of share options	1,540	23,716	-	-	-	-	-	25,256	-	25,256
- Transfer to share premium	-	24,670	-	(24,670)	-	-	-	-	-	-
Changes in equity for the Period	1,540	48,386	245	(24,670)	54,527	-	103,603	183,631	22,043	205,674
At 31 December 2010	62,563	1,386,224	32,614	-	200,557	2,112	1,293,022	2,977,092	248,201	3,225,293

	(Unaudited)									
	For the six month ended 31 December 2009									
	Attributable to owners of the Company									Non-controlling interests
Share capital	Share premium account	Fixed asset revaluation reserve	Share option reserve	Exchange reserve	Retained profits	Sub-total	HK\$'000	HK\$'000	HK\$'000	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2009	37,409	1,064,852	31,635	17,008	121,703	971,801	2,244,408	176,617	2,421,025	
Total comprehensive income for the period	-	-	1,128	-	5,413	133,309	139,850	26,630	166,480	
Issue of shares on open offer	18,704	182,606	-	-	-	-	201,310	-	201,310	
Grant of share options	-	-	-	10,199	-	-	10,199	-	10,199	
Changes in equity for the period	18,704	182,606	1,128	10,199	5,413	133,309	351,359	26,630	377,989	
At 31 December 2009	56,113	1,247,458	32,763	27,207	127,116	1,105,110	2,595,767	203,247	2,799,014	

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2010

	(Unaudited) Six months ended 31 December	
	2010 HK\$'000	2009 HK\$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	148,929	99,820
NET CASH USED IN INVESTING ACTIVITIES	(315,750)	(303,067)
NET CASH GENERATED FROM FINANCING ACTIVITIES	182,950	206,987
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,129	3,740
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,344	967
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,941	12,388
CASH AND CASH EQUIVALENTS AT END OF PERIOD	32,414	17,095
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	32,414	17,095

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” which is one of the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the 2010 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the 2010 annual financial statements except as stated in note 2 below.

2. Adoption of New and Revised HKFRSs

In the current Period, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting period beginning on 1 July 2010. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current Period and prior years except as stated below.

Classification of Land Leases

Amendments to HKAS 17 “Leases” deleted the guidance in HKAS 17 that when the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

The Group reclassifies a land lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the Group e.g. at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the land.

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

2. Adoption of New and Revised HKFRSs (Continued)

Classification of Land Leases (Continued)

Amendments to HKAS 17 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000
Increase in land held under finance leases	69,517	69,858
Decrease in prepaid land lease payments	69,517	69,858

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Turnover

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

4. Segment Information

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies. The Group has five reportable segments 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").

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

4. Segment Information (Continued)

The accounting policies of the operating segments are the same as those described in the Group's 2010 annual financial statements. Segment profits or losses do not include dividend income from listed investments, fair value gains or losses on financial assets at fair value through profit or loss, gain on disposal of financial assets at fair value through profit or loss and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, financial assets at fair value through profit or loss and corporate administrative assets.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about reportable segment profit or loss and assets:

	(Unaudited)					Total HK\$'000
	Polyvinyl- chloride HK\$'000	Vinyl acetate HK\$'000	Heat and power HK\$'000	Vitamin C, glucose and starch HK\$'000	Calcium carbide HK\$'000	
Six months ended 31 December 2010						
Revenue from external customers	412,857	272,126	27,904	80,698	4,715	798,300
Intersegment revenue	564	4	50,345	–	102,125	153,038
Segment profit/(loss)	71,120	44,797	1,196	12,614	(5,100)	124,627
As at 31 December 2010 Segment assets	635,695	515,598	400,689	760,348	1,693,314	4,005,644

	(Unaudited)					Total HK\$'000
	Polyvinyl- chloride HK\$'000	Vinyl acetate HK\$'000	Heat and power HK\$'000	Vitamin C, glucose and starch HK\$'000	Calcium carbide HK\$'000	
Six months ended 31 December 2009						
Revenue from external customers	429,609	268,294	27,455	–	–	725,358
Intersegment revenue	641	5	38,887	–	–	39,533
Segment profit/(loss)	98,707	73,105	22,705	(12,581)	(5,996)	175,940
As at 31 December 2009 Segment assets	607,848	557,659	421,928	686,883	917,306	3,191,624

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

4. Segment Information (Continued)

Reconciliation of reportable segment profit or loss:

	(Unaudited) Six months ended 31 December	
	2010 HK\$'000	2009 HK\$'000
Profit or loss		
Total profit or loss of reportable segments	124,627	175,940
Dividend income	–	69
Gain on disposal of financial assets at fair value through profit or loss	262	514
Fair value gain/(loss) on financial assets at fair value through profit or loss	69	(342)
Corporate administrative expenses	(9,316)	(17,003)
Consolidated profit for the Period	115,642	159,178

5. Other Income

	(Unaudited) Six months ended 31 December	
	2010 HK\$'000	2009 HK\$'000
Dividend income from listed investments	–	69
Gain on disposal of financial assets at fair value through profit or loss	262	514
Government grants	24,701	27,446
Interest income	60	67
Sundry income	1,649	1,584
	26,672	29,680

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

6. Income Tax Expense

	(Unaudited) Six months ended 31 December	
	2010 HK\$'000	2009 <i>HK\$'000</i>
Current tax – Overseas Provision for the Period	20,434	18,564
Deferred tax	(588)	(683)
	19,846	17,881

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (2009: Nil).

Tax charges 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.

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

7. Profit for the Period

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

	(Unaudited)	
	Six months ended	
	31 December	
	2010	2009
	HK\$'000	HK\$'000
Depreciation	42,297	25,353
Amortisation of other intangible assets	3,124	3,053
Interest income	(60)	(67)
Allowance for receivables		
– Trade receivables	86	825
– Other receivables	–	1,704
Write off of fixed assets	–	1,317
Fair value (gain)/loss on financial assets at fair value through profit or loss (held for trading)	(69)	342
Staff costs (including Directors' remuneration):		
Wages, salaries and benefits in kind	19,792	16,435
Employee share option benefits	–	10,199
Retirement benefits scheme contribution	3,622	2,826
Directors' remuneration	1,289	1,428

8. Earnings Per Share

Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the Period attributable to owners of the Company of approximately HK\$103,603,000 (2009: HK\$133,309,000) and the weighted average number of ordinary shares of 6,208,853,475 (2009: 5,210,416,067) in issue during the Period.

Diluted earnings per share

The calculation of diluted earnings per share attributable to owners of the Company is based on the profit for the Period attributable to owners of the Company of approximately HK\$103,603,000 (2009: HK\$133,309,000) and the weighted average number of ordinary shares of 6,222,327,517 (2009: 5,238,819,486), being the weighted average number of ordinary shares of 6,208,853,475 (2009: 5,210,416,067) in issue during the Period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 13,474,042 (2009: 28,403,419) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the Period.

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

9. Capital Expenditure

During the Period, the additions to fixed assets including the construction in progress in the PRC were approximately HK\$410.7 million (2009: HK\$308.0 million) of which an aggregate amount of approximately HK\$29.3 million (2009: HK\$10.3 million) was net off against deposits paid in prior years.

10. Trade Receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 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:

	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000
Within 30 days	150,149	95,224
31 to 60 days	149,368	104,308
61 to 90 days	135,171	84,775
91 to 120 days	46,496	100,732
121 to 150 days	341	60,349
151 to 180 days	116	612
181 to 240 days	224	697
241 to 330 days	696	1,512
331 to 365 days	190	860
Over 365 days	1,079	3,342
	483,830	452,411

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

11. Share Capital

	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000
Authorised: 10,000,000,000 (30 June 2010: 10,000,000,000) ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid: 6,256,331,736 (30 June 2010: 6,102,331,736) ordinary shares of HK\$0.01 each	62,563	61,023

A summary of the movements in the issued share capital of the Company during the Period is as follows:

	Number of ordinary shares issued <i>'000</i>	Par value <i>HK\$'000</i>
At 1 July 2009	3,740,888	37,409
Issue of shares on open offer (<i>note (a)</i>)	1,870,444	18,704
Placement of new shares (<i>note (b)</i>)	440,000	4,400
Exercise of share options (<i>note (c)</i>)	51,000	510
At 30 June 2010	6,102,332	61,023
Exercise of share options (<i>note (c)</i>)	154,000	1,540
At 31 December 2010	6,256,332	62,563

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

11. Share Capital (Continued)

Note:

- (a) 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\$201,310,000 was 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.
- (b) On 25 February 2010, Mr. Chan Yuen Tung, a substantial shareholder and a Director of the Company, placed 440,000,000 ordinary shares of HK\$0.01 each in the Company to independent third parties at a price of HK\$0.2 each. Mr. Chan Yuen Tung then subscribed for a total 440,000,000 new shares of HK\$0.01 each in the Company at HK\$0.2 per share. The subscription was completed on 2 March 2010. The net proceed of approximately HK\$84,389,000 was used as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.
- (c) During the six months ended 31 December 2010, the subscription rights attaching to 154,000,000 (30 June 2010: 51,000,000) share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK\$0.164 (30 June 2010: HK\$0.164) per share, resulting in the issue of 154,000,000 (30 June 2010: 51,000,000) shares of HK\$0.01 each for the total cash consideration of approximately HK\$25,256,000 (30 June 2010: HK\$8,364,000).

12. Bank Loans

The Group's bank loans are repayable as follows:

	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000
Within one year	55,452	58,480
In the second year	67,360	3,640
In the third to fifth years inclusive	178,311	120,404
After five years	33,252	34,157
	334,375	216,681
Less: Amounts due for settlement within 12 months (shown under current liabilities)	(55,452)	(58,480)
	278,923	158,201

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

12. Bank Loans (Continued)

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

	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000
Hong Kong dollars	44,344	45,417
Renminbi	290,031	171,264
	334,375	216,681

Bank loans of approximately HK\$53,271,000 (30 June 2010: HK\$56,321,000) are arranged at fixed interest rate of 5.841% (30 June 2010: 5.841%) p.a. and expose the Group to fair value interest rate risk. Bank loans of approximately HK\$281,104,000 (30 June 2010: HK\$160,360,000) are arranged at floating rate of 2.10% to 5.76% (30 June 2010: 2.10% to 5.76%) 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, land held under finance leases and prepaid land lease payments.

13. 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:

	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000
Within 30 days	26,140	21,326
31 to 60 days	701	11,668
61 to 90 days	708	6,707
91 to 120 days	315	7,185
121 to 365 days	14,685	22,886
Over 365 days	8,445	9,798
	50,994	79,570

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

14. Other Payables and Accruals

	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000
Accruals	10,206	5,866
Deferred income	45,221	44,598
Trade deposits received	44,312	3,059
Other payables	260,382	150,847
	360,121	204,370

15. Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted on 18 November 2002 for a period of 10 years. Under the Scheme, the Directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company. The exercise period of the share options granted is determinable by the Directors and in any event not later than 10 years from the date of grant of share options, subject to the provisions for early termination thereof.

Details of the specific categories of options are as follows:

Grant date	20 July 2007	22 August 2007	21 August 2009
Vesting period (note (a))	20 July 2007 to 23 July 2007	22 August 2007 to 23 August 2007	N/A
Exercise period	24 July 2007 to 23 July 2010	24 August 2007 to 23 August 2010	21 August 2009 to 20 August 2012
Exercise price			
– at date of grant (note (b))	0.582	0.420	0.164
– adjusted upon the completion of the open offer	0.485	0.350	N/A
Price of the Company's shares at the date of grant (note (c))	0.582	0.420	0.164

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

15. Share Option Scheme (Continued)

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 share options and the average closing price of The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of the grant of the share options.

Details of the share options granted to employees outstanding during the Period are as follows:

	(Unaudited)			
	Six months ended 31 December			
	2010	Weighted average exercise price HK\$	2009	Weighted average exercise price HK\$
	Number of share options		Number of share options	
Outstanding at beginning of the Period (adjusted upon the completion of the open offer)	419,300,900	0.299	265,300,900	0.403
Granted during the Period	–	–	205,000,000	0.164
Exercised during the Period	(154,000,000)	0.164	–	–
Lapsed during the Period	(265,300,900)	0.403	–	–
Outstanding at end of the Period	–	–	470,300,900	0.299
Exercisable at the end of the Period	–	–	470,300,900	0.299

No options were outstanding at 31 December 2010.

The options outstanding at 31 December 2009 have a weighted average remaining contractual life of 1.49 years and the exercise prices ranged from HK\$0.164 to HK\$0.485.

16. Related Party Transactions

Other than Directors' remuneration disclosed in note 7 to the financial statements, there is no other significant related party transaction during the Period (2009: Nil).

Notes to Condensed Consolidated Financial Statements

For the six months ended 31 December 2010

17. Contingent Liabilities

The Group did not have any significant contingent liabilities at the end of the reporting Period (30 June 2010: Nil).

18. Capital Commitments

The Group's capital commitments at the end of the reporting Period are as follows:

	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000
Contracted, but not provided for: Buildings and construction in progress	1,052,998	1,287,849

19. Lease Commitments

At 31 December 2010 the total future minimum lease payments under non-cancellable operating leases are repayable as follows:

	(Unaudited) 31 December 2010 HK\$'000	(Audited) 30 June 2010 HK\$'000
Within one year	1,749	1,749
In the second to fifth years inclusive	338	1,166
	2,087	2,915

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.

20. Events After the Reporting Period

On 12 January 2011, Mr. Chan Yuen Tung, a substantial shareholder and a Director of the Company, entered into a share placing agreement to place 1,200,000,000 ordinary shares of HK\$0.01 each in the Company to independent third parties at a price of HK\$0.22 each. Mr. Chan Yuen Tung then subscribed for a total of 1,200,000,000 new shares of HK\$0.01 each in the Company at HK\$0.22 per share. The subscription was completed on 20 January 2011. The net proceeds of approximately HK\$259,755,000 was intended to be used as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

Management Discussion and Analysis

INTERIM DIVIDEND

The Directors have resolved that no interim dividend will be declared in respect of the Period (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

During the period under review (the “**Period**”), the Group faced a continuously changing operating environment. In the People’s Republic of China (the “**PRC**”), the central government took various measures to avoid any economic and social problems caused by high inflation and to prevent the economy from overheating after some stimulus measures and economic revitalization policies were adopted during the past two years. In particular, the central government had imposed more stringent control over the granting of bank financing to land and property developers and end users. In turn, this affected the demand of our downstream customers, including construction and building material industries and emulsifier manufacturers for paints and other decorative coatings. Moreover, the increased cost of raw materials and cost of conversion could hardly be transferred to our customers. Therefore, the margin of our products had been squeezed when compared with that of the last financial period.

For the six months ended 31 December 2010, turnover of the Group amounted to approximately HK\$798.3 million, representing an increase of 10.1% when compared with that of the last corresponding period.

Profit attributable to owners of the Company amounted to approximately HK\$103.6 million, representing a decrease of 22.3% compared with that of the last corresponding period.

During the financial period under review, the increase in turnover was mainly the result of the resumption of operation of the production and sales of vitamin C starting from early 2010 (2009: there was no turnover for bio-chemical division) which was partly offset by a slight decrease in the turnover contributed by the coal-related chemical products division.

The decrease in segment profit of approximately HK\$51.3 million of the Group during the Period was the result of a drop of approximately HK\$55.0 million and approximately HK\$21.5 million in the segment profits made by the coal related chemical products division and the heat and power division respectively, which was partly compensated by an increase of approximately HK\$25.2 million in the segment profit from the bio-chemical products division.

The Group’s selling and distribution costs for the Period was approximately HK\$7.9 million, representing an increase of 31.8% when compared with that of the last corresponding period. The increase was primarily due to the resumption of production and sales of vitamin C starting from early 2010.

Disregarding the effect of the employee share option benefits of approximately HK\$10.2 million in the last corresponding period, the Group’s administrative expenses for the six months ended 31 December 2010 was approximately HK\$51.9 million, representing an increase of HK\$5.4 million when compared with that of the last corresponding period. The increase was principally due to an increase of approximately HK\$2.2 million in the administrative expenses for the construction activities in Heihe project and of approximately HK\$2.7 million from the operation of the bio-chemical division.

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review

Coal related chemical products division

Polyvinyl – chloride (“PVC”)

During the Period, the PVC segment recorded a turnover of approximately HK\$412.9 million, from external customers, representing a decrease of 3.9% over the corresponding period of the previous year. Segment profit of approximately HK\$71.1 million representing a decrease of 27.9% when compared with that of the corresponding period of the previous year. The decrease in turnover was mainly the result of a decrease in the sales volume of PVC. The decrease in segment profit was mainly due to a decrease in the sales volume of PVC and the fact that only a small part of the increased cost of raw materials (especially calcium carbide) and cost of conversion (such as electricity and labour cost) could be passed on to our downstream customers although the management has promptly responded to the rapidly changing market environment.

Vinyl Acetate

During the Period, turnover from external customers was approximately HK\$272.1 million, representing an increase of 1.4% over that of the corresponding period of the previous year. Segment profit was approximately HK\$44.8 million, representing a significant decrease of 38.7% over that of the corresponding period of the previous year. The pointed decrease in the gross profit margin was mainly the result of adverse change in the price of the major raw materials for production and a sharp drop in the sales orders for liquid acetaldehyde, a by-product of vinyl acetate being sold to nation-wide institutional customers with specified concentration requested during the financial period under review.

Calcium Carbide

The installation of production equipment for our own calcium carbide production facilities in Mudanjiang, the PRC, was completed. The production facilities were commenced in the fourth quarter of 2010.

During the Period under review, calcium carbide segment has incurred segment loss of approximately HK\$5.1 million, representing a decrease of 14.9% over that of the corresponding period of the previous year. The decrease in the segment loss was principally because the calcium carbide production facilities in Mudanjiang had made a slight profit contribution to the segment whereas the calcium carbide production facilities in Heihe was still in the construction phase during the financial period under review.

Bio-chemical products division

The refurbished vitamin C production facilities have been running very closely to the designed capacity of 3,000 tons since last May. During the financial period, the vitamin C segment recorded a revenue of approximately HK\$80.7 million from external customers whereas no turnover was recorded over that of last financial period. Segment profit of approximately HK\$12.6 million was attained during the financial period under review while there was a segment loss of approximately HK\$12.6 million for the last financial period. The division has attained satisfactory financial performance in the current financial period.

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

Heat and Power division

During the Period, turnover from external customers was approximately HK\$27.9 million, representing an increase of 1.6% over the corresponding period of the previous year.

The segment profit of approximately HK\$1.2 million (after elimination of intra-group sales of approximately HK\$50.3 million) was attained during the Period. The segment profit of the corresponding period of the previous year was approximately HK\$22.7 million (after elimination of intra-group sales of approximately HK\$38.9 million). The significant drop in the segment profit was primarily the result of an increase in the price of coal, the major raw materials consumed for the electricity and steam production.

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Equity funding

The net proceeds raised by the placing of 1,200,000,000 existing shares and subscription of 1,200,000,000 new shares of the Company by a substantial shareholder announced on 12 January 2011 was approximately HK\$260 million. As at the date of this report, the whole amount of the net proceed has already been applied by the Group as working capital of the Group.

On 18 December 2009, the Company had announced to streamline the management and administration of the Company's PVC and its related Calcium Carbide business. In order to finance the operation and expansion of such business segment of the Company, the Company had been considering a possible spin-off of its PVC and related Calcium Carbide business by way of a separate listing of such business on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and has engaged professionals to advise and assist in the possible spin-off. On 12 March 2010, the Company had submitted to the Stock Exchange a spin-off proposal pursuant to Practice Note 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in relation to this proposed spin-off and the Company will provide an update as and when there is any significant further development on this matter.

As a result of weak market sentiment in June and July of 2010, and the delay in the completion schedule of our new Calcium Carbide plant, the management has been cautiously pushing ahead with the proposed spin-off of the Group's PVC and related Calcium Carbide business, pending the publication of the consolidated financial reports of the Company for the full financial year ending 30 June 2011 and the confirmation of a better market condition for the spin-off.

As the Company cannot reach a consensus with the Taiwan Stock Exchange Corporation ("**Taiwan Stock Exchange**") over the proposed spin-off of the Company's business in the production of PVC and related Calcium Carbide, the Board considers it is in the interests of the Company and the Shareholders as a whole to withdraw the application made on 4 November 2010 for the proposed issue of Taiwan Depositary Receipt ("**TDR**"). Accordingly, the Company will withdraw the application for the proposed listing of TDR on the Taiwan Stock Exchange on 1 March 2011 from both the Taiwan Stock Exchange and the Central Bank of the Republic of China.

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Capital Structure, Liquidity and Financial Resources (Continued)

Equity funding (Continued)

As at 31 December 2010, the Group had total assets of approximately HK\$4,253.6 million (30 June 2010: HK\$3,760.2 million) which were financed by current liabilities of approximately HK\$584.3 million (30 June 2010: HK\$426.7 million), non-current liabilities of approximately HK\$444.0 million (30 June 2010: HK\$313.9 million), non-controlling interests of approximately HK\$248.2 million (30 June 2010: HK\$226.2 million) and owners' equity of approximately HK\$2,977.1 million (30 June 2010: HK\$2,793.5 million).

As at 31 December 2010, the current assets of the Group amounted to approximately HK\$740.2 million (30 June 2010: HK\$683.3 million) comprising inventories of approximately HK\$87.0 million (30 June 2010: HK\$103.6 million), trade receivables of approximately HK\$483.8 million (30 June 2010: HK\$452.4 million), prepayments, deposits and other receivables of approximately HK\$132.1 million (30 June 2010: HK\$105.3 million), financial assets at fair value through profit or loss of approximately HK\$4.9 million (30 June 2010: HK\$7.1 million), cash and cash equivalents of approximately HK\$32.4 million (30 June 2010: HK\$14.9 million).

Non-equity funding

As at 31 December 2010, the bank loans of the Group amounted to approximately HK\$334.4 million (30 June 2010: HK\$216.7 million). Of the approximately HK\$334.4 million, approximately HK\$55.5 million (30 June 2010: HK\$58.5 million) was repayable within one year, of which approximately HK\$2.2 million was denominated in Hong Kong Dollars and HK\$53.3 million was denominated in Renminbi (30 June 2010: HK\$2.2 million was denominated in Hong Kong Dollars and HK\$56.3 million was denominated in Renminbi). The bank loans carried interest at floating or fixed rate.

As at 31 December 2010, the Group's current ratio (current assets/current liabilities), quick ratio ((current assets – inventories)/(current liabilities)), gearing ratio (total debts/total assets) and debts to equity ratio (total debts/owners' equity) of the Group were approximately 1.3 (30 June 2010: 1.6), 1.1 (30 June 2010: 1.3), 24.2% (30 June 2010: 19.7%) and 34.5% (30 June 2010: 26.5%), respectively.

The Group's financial position was satisfactory throughout the Period as indicated by the above figures.

Significant investment held by the Company

As at 31 December 2010, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK\$4.9 million. The Company had recorded a fair value gain on financial assets at fair value through profit or loss of approximately HK\$0.1 million for the Period.

Charges on the Group's assets

As at 31 December 2010, bank loans of approximately HK\$334.4 million were secured by charges over the Group's certain fixed assets, land held under finance leases and prepaid land lease payments.

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Capital Structure, Liquidity and Financial Resources (Continued)

Contingent liabilities

As at 31 December 2010, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure

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, which are the functional currencies of the principal operating entities of the Group. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2010.

Number and remuneration of Employees

As at 31 December 2010, the Group had 2,070 full time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance-related commissions.

During the Period under review, no share options were granted to senior management of the Hong Kong and PRC subsidiaries of the Company. As at 31 December 2010, no share options were outstanding.

PROSPECT

Coal-related chemical products division

Production of calcium carbide in Mudanjiang

At the date of this report, our calcium carbide production facilities operate smoothly with an annualised production capacity of more than 100,000 tons. Almost all of the output from our calcium carbide production is now consumed internally by our downstream products.

Construction of calcium carbide production facilities in Heihe

On the other hand, the first phase of construction of our own calcium carbide production facilities in Heihe has commenced in June 2009 and the trial run production is scheduled for the second half of 2011. For the first phase, the designed annual production capacity of calcium carbide is expected to be 100,000 tons. Heihe City Local 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. It will be more cost effective for the Group to produce calcium carbide which consumes a large amount of electricity.

The Group has planned to further expand the production capacities of calcium carbide to meet the increased demand in the Northeastern region of the PRC.

Management Discussion and Analysis

PROSPECT (Continued)

Bio-chemical products division

Production of Vitamin C in Mudanjiang

The refurbished vitamin C production facilities have been operated for almost a year and has reached the annual production capacity of approximately 2,600 tons which was very close to the designed capacity of 3,000 tons. The management will attempt to operate the production facilities at its full production capacity to further lower the cost of production.

The contribution from the biochemical segment will further be enhanced in the coming financial period.

At the date of this report, the progress of the afore-said expansion in Mudanjiang is satisfactory. The management is confident that the test run in the calcium carbide production facilities in Heihe will be successful this year.

The Board believes that in the long run, the operation of a vertical product chain from calcium carbide to PVC in the Group's coal-related chemical products business and the steady sales and production of vitamin C in bio-chemical business will benefit the shareholders a whole.

Heat and power division

The increase in the production capacities of vinyl acetate, PVC, and calcium carbide will give an opportunity for the heat and power division to expand. Provincial government approval has been obtained for the Group's plan to build another two sets of coal-powered generation facilities in Mudanjiang to meet the growing demand in vinyl acetate, PVC and calcium carbide.

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 the new PVC and calcium carbide expansion project in Mudanjiang have been filed and local government approval had been obtained in early 2010. Recently, preliminary approval has been obtained by the Group from the National Development and Reform Commission ("NDRC") for the reorganized structure of the Group's PRC subsidiaries of which the self-generated electricity allocated for self-consumption policy could be applied. Under the policy, the electricity charge is calculated as the sum of the cost of the self-generated electricity plus a fee for the use of electricity grid. The Board is confident that the detailed and final approval from both NDRC and the State Grid Corporation of China will be obtained when the first phase expansion is completed.

The construction of the first coal-powered electricity generating facilities has been slowed down. The Group has liaised with banks in the PRC for long-term project-based bank loans. In addition, the Group has renegotiated the payment schedules with the main contractor of the first set of coal powered generation facilities. The subject expansion project is intended to be completed by phrases according to the financial resources of the Group and bank financing under discussion.

Management Discussion and Analysis

PROSPECT (Continued)

Future development

To pursue continuous growth, the Group will make every effort to diversify its product mix, as well as to enhance its capability in developing high value-added products and new production techniques through in-house research and development.

The vision of the Board is always ahead of the development of the chemical raw materials industries in the Northeastern region of the PRC. The Group has focused on the development of coal-related chemical segment since 2007.

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 PRC government will stop approving pure expansion of production capacity of certain coal-related projects which do not consider recycling materials and without a green production method for three years. Such a government policy will limit the future competition of the coal-related chemical products market and in turn will benefit the existing manufacturers like us which are integrated vertically in the coal-related chemical production.

In September 2009, the 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 as a coal and electricity chemical production base.

Looking forward, the Group will perform to its best endeavors to capture market opportunities followed from the favorable government policies. The management will attempt to exhibit the Group's growth potential through suitable economy of scale in its production by speeding up its expansion through the development of our fully vertically integrated coal-related chemical products business in the Northeastern region of the PRC.

Disclosure of Additional Information

Directors' Interests or Short Positions in Shares and Underlying Shares

As at 31 December 2010, the interests of the Directors and chief executive of the Company in the shares (the "Shares") of the Company, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Interests in the Shares and Underlying Shares

Name of director	Name of company	Type of interest	Number of Ordinary Shares held (long position) (% of issued share capital of the Company)		Share options held
Mr. Chan Yuen Tung	The Company	Beneficial Interest	1,673,785,430	26.75%	Nil
Ms. Chan Yuk Foebe	The Company	Beneficial Interest	22,125,000	0.35%	Nil
Mr. Chiau Che Kong	The Company	Beneficial Interest	124,170,000	1.98%	Nil
Mr. Tam Ching Ho	The Company	Beneficial Interest	2,880,000	0.05%	Nil

Save as disclosed above, as at 31 December 2010, none of the Directors and chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Disclosure of Additional Information

Interests of Shareholders Discloseable under the SFO

So far as the Directors of the Company are aware, as at 31 December 2010, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary Shares	Capacity	Approximate percentage of interest
Pope Asset Management, LLC	Long position 369,880,000	Investment manager	5.91%

Save as disclosed above, as at 31 December 2010, no other person had an interest or a short position in the Shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

Sufficiency of Public Float

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

Purchase, Sale or Redemption of Listed Securities of the Company

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

Pre-emptive Rights

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

Model Code for Securities Transactions

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

Disclosure of Additional Information

Corporate Governance

Code on Corporate Governance Practices

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the Period.

Audit Committee

The Company set up the Audit Committee on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision on the Group's financial reporting process and internal control systems. The Audit Committee comprises three independent non-executive Directors of the Company, namely, Mr. Ma Wing Yun Bryan, Mr. Yau Chung Hong and Mr. Tam Ching Ho. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal control and financial reporting aspects of the Company including the review of the unaudited interim results of the Company for the Period and there was no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

Remuneration Committee

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

By order of the Board
Chan Yuk Foebe
Chief Executive Officer

Hong Kong, 28 February 2011