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 2011

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 (resigned on 8 April 2011)
Mr. Tam Ching Ho
Dato' Wong Sin Just
Mr. Wong Sin Lai (appointed on 29 April 2011)

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 ADVISER 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
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:
19 December 2011
Financial year end date: 30 June

COMPANY WEBSITE:

www.chinazenith.com.hk

TELEPHONE NUMBER:

2845 3131

FACSIMILE NUMBER:

2845 3535

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 2011.

Business Review

For the year ended 30 June 2011, turnover of the Group amounted to approximately HK$1,415,414,000, representing an increase of 2.5% compared with that of last year. Profit attributable to shareholders amounted to approximately HK$95,517,000, representing a decrease of 56.1% compared with that of last year.

During the financial year under review, the increase in turnover was primarily attributed by the increase in the sales volume of our coal-related chemical products. The substantial drop in profits attributable to shareholders was mainly due to (i) the increase in turnover was not in line with the increase in cost of sales; (ii) recognition of financing and promotion expenses resulting from the Company's discontinued financing exercises including the issuance of Taiwan Depositary Receipts of the Company and the proposed spin-off and separate listing of shares of China Zenith Construction Materials Limited on the main board of The Stock Exchange of Hong Kong Limited; (iii) recognition of share-based payment for employee benefit; (iv) loss incurred as a result of an industrial accident occurred in Mudanjiang calcium carbide production facilities on 30 May 2011; and (v) impairment loss on goodwill for Bio-chem products division.

Taking out the effect of the write-off of approximately HK$12,614,000 of promotional expenses incurred by the unsuccessful fund-raising exercise, and the share option benefit expenses of approximately HK$5,461,000, the Group's administrative expenses for the year ended 30 June 2011 was approximately HK$95,951,000 (2010: HK$101,199,000). Adhering to tight cost control program over daily operating expenses, the Group's administrative expenses for the year ended 30 June 2011 showed a slightly drop by approximately HK$5,248,000 as compared with that of last year.

The Group's other operating expenses for the year ended 30 June 2011 mainly represented the loss of HK$7,271,000 arising from the 30 May 2011 industrial accident and the impairment loss of HK$21,482,000 on goodwill for the Bio-chem products division.

For the year ended 30 June 2011, the Group's other income amounted to approximately HK$32,372,000, representing a decrease of 70.7% compared with that of last year. This was mainly caused by the decrease in government grants and subsidies. The government grants and subsidies represented the result of refund of taxes and the incentive for capital expenditure and related bank interest expense incurred on environmental protection in the People's Republic of China (the "PRC"), which amounted to approximately HK$26,553,000 (2010: HK$95,477,000).

Coal-related chemical products division

During the year under review, the Group faced a challenging but exciting external operating environment. At the beginning of the financial year, the coal-related chemical products business showed a pick up from that of the last financial year. However, when the group started to consume the internally produced calcium carbide, the downstream production of both PVC and vinyl acetate was hindered by the low volume of production of calcium carbide under the test run period. Although the test run period took longer than expected, the calcium carbide production facilities had been running smoothly since April 2011. Unfortunately, the production facilities of calcium carbide had come to a halt after an industrial accident occurred on 30 May 2011. Hence, the production of downstream products was affected since then. Moreover, the profit margin was worse off since the Group faced a high unit cost of production of calcium carbide under the trial run production period.

Business Review (continued)

Polyvinyl-chloride ("PVC")

During the year under review, the turnover of the PVC business represents 54.4% of the turnover of the Group (after elimination of intra-group sales of approximately HK$1.1 million).

The turnover showed a slight growth in light of the best effort made by the sales departments to boost the growth in the sale of PVC. However, the PVC production facility was not running at full capacities throughout the financial year since our Group started to consume the internally produced calcium carbide in October 2010. During the trial production of calcium carbide, the production output was below the design capacities and the production of PVC was hindered by the supply of calcium carbide. Unavoidably, the production of PVC was disrupted by the discontinued production of calcium carbide after the 30 May 2011 industrial accident.

Vinyl acetate

The turnover of the vinyl acetate business represents 31.7% of the turnover of the Group. The vinyl acetate business was the second largest operating activity of the Group.

The vinyl acetate production facility was not running at its full capacities throughout the financial year since our Group start to consume our own produced calcium carbide. The annual production quantities of vinyl acetate were lower when compared to that of the last financial year. Nevertheless, our sales team had made their efforts in maintaining a good relationship with the nationwide chemical conglomerates, namely PetroChina and Sinopec, and was able to meet their minimum purchase quantities as ordered.

Bio-chemical products division

The turnover of vitamin C business represents 8.9% of the turnover of the Group. The vitamin C business was the third largest operating activity of the Group. The vitamin C production has reached the designed annual production capacities of 3,000 tons. However, the gross margin dropped as the Group faced price competition from our rivals. Furthermore, the overall business valuation of the Bio-chemical products division was impaired in the value of approximately HK$21,482,000 as a consequence of the reduction of the projected gross margin for the production and sales of starch and glucose.

Prospect

Coal-related chemical products division

Calcium carbide

Operation of the calcium carbide production facilities in Mudanjiang

The 30 May 2011 industrial accident was a serious mistake in the course of the development of the fully integrated calcium carbide to PVC and vinyl acetate production chain. The local management should learn a lesson from the accident. The Board believes that it was high time for the Company to review and streamline the calcium carbide production procedures during the discontinued production period. The directors expect that the streamlined calcium carbide production facilities will start to make contribution to the Group steadily after the resumption of production.

Development and construction of calcium carbide production facilities in Heihe

The Group has developed a long term plan to further enhance its production capacities of calcium carbide to meet with the increased demand for calcium carbide in the northeastern part of China. To further consolidate the Group's interest and capital in Heihe Longjiang Chemical Co. Ltd., Dragon Boom Investments Limited, a wholly-owned subsidiary of the Company, entered into a share purchase agreement (the "Agreement") with a non-controlling shareholder of Racing Dragon Group Limited ("Racing Dragon") (the "Vendor") on 8 September 2011 to acquire a 12% equity interest in Racing Dragon and a shareholder's loan of approximately HK$22,670,000 owing by Racing Dragon to the Vendor at a consideration of approximately HK$62,000,000. Heihe Longjiang Chemical Co. Ltd. is a wholly foreign-owned enterprise established by Racing Dragon for further developing the Company's coal-related chemical production business in Heihe City, Heilongjiang Province, the PRC. The discloseable and connected transaction as contemplated under the Agreement will be put to a vote at the forthcoming extraordinary general meeting of the Company.

In addition, nearly all the building construction and installation work for the calcium carbide production facilities in Heihe had been completed as at the date of this report. However, the test run for the production facilities was postponed to the second half of 2012 since the Group has agreed with the construction contractor to formulate plans to make modification work on the production facilities for improving efficiency and work safety. For the first phase, the designed annual production capacities of calcium carbide are expected to be 100,000 tons.

Prospect (continued)

Heat and power division

The increase in the production capacities of vinyl acetate, PVC, and calcium carbide will make way for the expansion of the heat and power division. 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 for heat and power from vinyl acetate, PVC and calcium carbide production.

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 consent 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 the 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 in phases according to the financial resources of the Group and bank financing under discussion.

Future development

The management believes that the land and property development sector of the PRC will grow in the coming years as Chinese people become wealthier and pursue for a better living environment. Our downstream customers, including construction and building material industries and emulsifier manufacturers for paint and other decorative coatings will be benefited. Our calcium carbide production in Mudanjiang will be resumed in the near future. The Group will focus on the development of calcium carbide and related raw material products and gather momentum to pursue for its long term goal of becoming one of the most competitive manufacturers of coal-related chemical raw material products in China.

Moreover, the management also considers that the health care product market in the PRC will expand in the future because wealthier people will pursue for better health. Our downstream customers, including health care nutrition producers, drug manufacturers and drink additives producers will in turn benefit from such a trend in the long run.

The Board is also confident that the new calcium carbide business in Heihe will contribute to a 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 to enhance its capability in developing high value-added products and new applications through in-house research and development.

Gratitude

On behalf of the Company, I would like to take this opportunity to express my deepest gratitude to my fellow 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 associates from all business sectors for their continuing trust and support.

By order of the Board

Chan Yuen Tung
Chairman

Hong Kong, 28 September 2011

Management Discussion and Analysis

Business Environment

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. The central government also tried to prevent the economy from overheating by adopting some stimulus measures and economic revitalisation policies over the past two years. In particular, the central government had imposed more stringent control on the grant 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 year.

Coal-related chemical products division

Polyvinyl-chloride ("PVC")

During the financial year under review, the PVC segment recorded a revenue of approximately HK$770,167,000 from external customers under review, representing an increase of 4.1% over that of approximately HK$739,526,000 last year. Segment profit of approximately HK$105,477,000 represented a decrease of 25.2% over that of approximately HK$141,088,000 last year. The rise in turnover was mainly due to the increase in quantities being sold during the financial year under review. The decrease in segment profit was primarily because the PVC raw materials sold was at a lower profit margin when compared with that of the last financial year.

Vinyl acetate

During the financial year under review, revenue from external customers was approximately HK$449,216,000, representing a decrease of 17.3% over that of approximately HK$543,145,000 last year. Segment profit was approximately HK$64,242,000, representing a decrease of 51.2% over that of approximately HK$131,588,000 last year. The decrease in the gross profit margin was mainly the result of an 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 year.

Calcium carbide

The installation of production equipment for our own calcium carbide production facilities in Mudanjiang, the PRC, was completed. The production of calcium carbide was commenced in the fourth quarter of 2010. Although trial run of the production facilities took longer than expected, the production facilities had been running smoothly since April 2011. Unfortunately, the production facilities of calcium carbide had come to a halt after an industrial accident occurred on 30 May 2011. Accordingly, the production of PVC and vinyl acetate, which requires the consumption of calcium carbide as its major raw material, was also suspended since 30 May 2011.

During the year under review, the calcium carbide segment has incurred a segmental loss of approximately HK$16,568,000, representing an increase of 0.1% over that of approximately HK$16,555,000 in the last financial year. Disregarding the effect of the share-based payment of employee benefit of approximately HK$5,461,000 and the effect of the loss of approximately HK$7,271,000 incurred as a result of the industrial accident occurred in the Mudanjiang calcium carbide production facilities, the segmental loss for the current financial year was approximately HK$3,836,000. This represented a decrease of 76.8% when compared with that of the last year. The decrease in segmental loss was primarily because Mudanjiang Daytech Chemical Limited ("Mudanjiang Daytech") started to make contribution by the production and sales of calcium carbide.

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 edge in the region.

Business Environment (continued)

Heat and power division (continued)

During the year under review, the heat and power segment recorded a turnover of approximately HK$63,495,000 (after elimination of intra-group sales of approximately HK$109,578,000), representing an increase of 7.4% over that of approximately HK$59,120,000 (after elimination of intra group sales of approximately HK$78,733,000) last year.

Segment profit of approximately HK$2,128,000 was recorded during the year under review, representing a decrease of 89.2% over that of approximately HK$19,782,000 last year. There was an increase in the turnover because more heat capacity was sold to third party local manufacturing industries. However, the unit cost of production of steam and electricity increased as the price of coal, the major raw material for steam and electricity generation, increased as compared to that of the last financial year. Furthermore, the drop in segmental profit was also the result of a lower consumption of steam from other factories of the Group caused by the temporary suspension of productions at the Mudanjiang calcium carbide production facilities in the course of the trial run and after the industrial accident occurred on 30 May 2011.

Bio-chemical products division

During the financial year under review, the vitamin C, glucose and starch segment recorded a revenue of approximately HK$126,491,000 from external customers, representing an increase of 219.8% over that of approximately HK$39,551,000 last year. Segmental profit of approximately HK$11,779,000 was attained during the year under review, representing an increase of 35.9% over that of approximately HK$8,665,000 last year.

The refurbished vitamin C production facilities have operated smoothly throughout the financial year under review and have reached the annual production capacity of 3,000 tons. However, the increase in segmental profit of the division was not in line with the increase in turnover. The bio-chemical products division had been facing price competitions and could not shift the increased cost of production to customers.

Prospect

Update on the operation of the production facilities of Mudanjiang Daytech Chemical Limited in the aftermath of the industrial accident occurred on 30 May 2011.

At the date of this report, Mudanjiang Daytech has obtained the final endorsement from Heilongjiang Provincial Administration of Work Safety for the resumption of production of calcium carbide, the source raw materials for our coal-related chemical downstream products.

In the aftermath of the industrial accident occurred on 30 May 2011, Mudanjiang Daytech has completed a safety inspection. To prevent the occurrence of similar accidents, it has also reviewed its operational safety procedures to ensure that they are in strict compliance with the guidelines from the relevant regulatory authorities in Mudanjiang. In respect of the industrial accident, Mudanjiang Administration of Work Safety had completed an accident inspection report and imposed a fine of RMB400,000 to Mudanjiang Daytech and imposed individual penalty on seven concerned persons on 18 August 2011.

On 17 September 2011, the experts in production work safety appointed by Heilongjiang Provincial Administration of Work Safety had completed a review of the operational safety procedures of Mudanjiang Daytech. The specialists' comments on improvements on operational safety procedures had since been issued.

Moreover, all claims from the relatives of the deceased workers had been agreed and settled. Being a responsible employer, the executive directors had treated all the claims seriously and ordered the local management to make sure all the relatives of the deceased workers will obtain reasonable and sufficient compensation.

The Group is confident that when Mudanjiang Daytech resumes its normal production, the operation of a vertically integrated product chain from calcium carbide to both PVC and vinyl acetate in the coal-related chemical business and the production of vitamin C in bio-chemical business will undoubtedly bring benefit to the shareholders as a whole.

Prospect (continued)

Capital Structure, Liquidity and Financial Resources

Capital structure

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

Equity funding

On 12 January 2011, Mr. Chan Yuen Tung ("Mr. Chan"), a substantial shareholder and a director of the Company, placed 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 then subscribed for a total 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 17 January 2011. As at the date of this report, the new proceeds of approximately HK$246.6 million have already been applied by the Group as general working capital of the Group.

During the year ended 30 June 2011, the Company raised funds by issuing 154,000,000 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$25.3 million. As at the date of this report, the whole amount has already been applied by the Group as working capital of the Group.

On 18 December 2009, the Company had announced its plan 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 considered 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 Listing Rules in relation to this proposed spin-off. The application has since lapsed.

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 put on hold the proposed spin-off of the group's PVC and related calcium carbide business. The management will revisit the spin-off proposal as and when appropriate, and will look for other suitable forms of refinancing arrangement for the Group's PVC and related calcium carbide business.

As the Company could not reach a consensus with the Taiwan Stock Exchange Corporation ("Taiwan Stock Exchange") on 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 has, on 1 March 2011, withdrawn its application for the proposed listing of TDR on the Taiwan Stock Exchange from both the Taiwan Stock Exchange and the Central Bank of the Republic of China.

In the financial year under review, the Group recognised an aggregate of approximately HK$12,614,000 (2010: HK$Nil) of financial and promotion expenses resulting from the discontinued refinancing exercises of the Company including the issuance of Taiwan Depositary Receipts of the Company and the above mentioned proposed spin-off.

Liquidity and Financial Ratios

As at 30 June 2011, the Group had total assets of approximately HK$4,451.2 million (2010: HK$3,760.2 million) which were financed by current liabilities of approximately HK$710.1 million (2010: HK$541.6 million), non-current liabilities of approximately HK$203.8 million (2010: HK$199.0 million), non-controlling interests of approximately HK$262.6 million (2010: HK$226.2 million) and shareholders' equity of approximately HK$3,274.7 million (2010: HK$2,793.5 million).

Prospect (continued)

Capital Structure, Liquidity and Financial Resources (continued)

Liquidity and Financial Ratios (continued)

As at 30 June 2011, the current assets of the Group amounted to approximately HK$826.5 million (2010: HK$683.3 million) comprising inventories of approximately HK$111.0 million (2010: HK$103.6 million), trade receivables of approximately HK$438.6 million (2010: HK$452.4 million), prepayments, deposits and other receivables of approximately HK$141.1 million (2010: HK$105.3 million), other loan receivable of approximately HK$10.0 million (2010: HK$Nil), financial assets at fair value through profit or loss of approximately HK$49.9 million (2010: HK$7.1 million), current tax assets of approximately HK$1.0 million (2010: HK$Nil), cash and cash equivalents of approximately HK$74.9 million (2010: HK$14.9 million). As at 30 June 2011, 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 1.2 (2010: 1.3), 1.0 (2010: 1.1), 20.5% (2010: 19.7%) and 27.9% (2010: 26.5%), respectively.

The financial health of the Group was satisfactory throughout the year as indicated by the above figures.

Significant investment held by the Company

As at 30 June 2011, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK$49.9 million, the Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$1.4 million for the financial year.

Charges on the Group's assets

As at 30 June 2011, bank loans of approximately HK$338.2 million are secured by charges over the Group's certain fixed assets, land held under finance leases and prepaid land lease payments.

Contingent liabilities

As at 30 June 2011, the Group did not have any significant contingent liabilities.

Foreign exchange exposure

Although most of the Group's 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 2011.

Number and Remuneration of Employees

As at 30 June 2011, the Group had 2,328 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 year under review, there were 18.8 million share options granted to senior management of the Hong Kong and PRC subsidiaries of the Company. As at 30 June 2011, there were approximately 18.8 million share options outstanding. This comprises approximately 12.5 million share options with exercisable period up to 3 April 2013 at the exercise price of HK$1.53 per share and 6.3 million share options with exercisable period up to 11 May 2013 at the exercise price of HK$1.54 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 2011, 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 2011, 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. Tam Ching Ho, Dato' Wong Sin Just and Mr. Wong Sin Lai 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, Dato' Wong Sin Just and Mr. Wong Sin Lai 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 2011, 12 Board meetings (including physical meetings and obtaining board consents through the circulation of written resolutions) were held for discussion of the Company's matters. The attendance of each director, on a named basis and by category, at the 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)*	12/12
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	11/12
Mr. Peng Zhanrong	6/12
Mr. Chiau Che Kong	12/12
Mr. Wu Jianwei	8/12
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	8/12
Mr. Yau Chung Hong (resigned on 8 April 2011)★	8/9
Mr. Tam Ching Ho	11/12
Dato' Wong Sin Just	6/12
Mr. Wong Sin Lai (appointed on 29 April 2011)♦	2/2

The Board of Directors (continued)

The Board Meeting – Executive Directors' Board Meeting

In addition, during the year ended 30 June 2011, 15 Executive Directors' Board meetings were held to deal with the compliance of legal and administrative procedures, including:

– Issue of shares in respect of the exercise of share options, open offer and placing of shares which had been previously approved by the Board.

– Internal corporate re-structuring and company secretarial matters.

To handle the above-mentioned matters, at least two executive directors of the Company are required to form a quorum.

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

Directors	Number of meetings attended/Number of Executive Directors Board meetings held
Executive directors	
Mr. Chan Yuen Tung *(Chairman)*	10/15
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	8/15
Mr. Peng Zhanrong	0/15
Mr. Chiau Che Kong	13/15
Mr. Wu Jianwei	1/15
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	n/a
Mr. Yau Chung Hong (resigned on 8 April 2011)*	n/a
Mr. Tam Ching Ho	n/a
Dato' Wong Sin Just	n/a
Mr. Wong Sin Lai (appointed on 29 April 2011)♦	n/a

The Board Meeting – Committee Meeting

During the year ended 30 June 2011, six 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:

Directors	Number of meetings attended/Number of meetings held: Remuneration Committee	Audit Committee	Nomination Committee
Executive directors			
Mr. Chan Yuen Tung *(Chairman)*	3/3	–	1/1
Ms. Chan Yuk Foebe *(Chief Executive Officer)*	–	–	–
Mr. Peng Zhanrong	–	–	–
Mr. Chiau Che Kong	–	–	1/1
Mr. Wu Jianwei	–	–	–
Independent non-executive directors			
Mr. Ma Wing Yun Bryan	3/3	2/2	1/1
Mr. Yau Chung Hong (resigned on 8 April 2011)*	1/1	1/2	–
Mr. Tam Ching Ho	1/3	2/2	1/1
Dato' Wong Sin Just	–	–	–
Mr. Wong Sin Lai (appointed on 29 April 2011)♦	1/1	–	–

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.

* indicates the number of Board/Committee meetings held before the resignation of Mr. Yau Chung Hong.

♦ indicates the number of Board/Committee meetings held after the appointment of Mr. Wong Sin Lai.

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

Appointment and Re-election of Directors

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

All independent non-executive directors of the Company are appointed for a specific term. The term of office for Mr. Ma Wing Yun Bryan is two years with effect from 1 April 2011. The term of office for Mr. Tam Ching Ho is two years with effect from 7 December 2009. The term of office for Dato' Wong Sin Just is two years with effect from 31 December 2010. The term of office for Mr. Wong Sin Lai is two years with effect from 29 April 2011.

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 Officer

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. Having made specific enquiry of all directors, the Board confirmed that all the directors have complied with the code provisions set out in the Model Code throughout the year ended 30 June 2011.

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. Wong Sin Lai, 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 2011 and the unaudited financial statements of the Company for the six months ended 31 December 2010.

During the year, the Audit Committee has met twice together with the chief financial officer of the Company. Moreover, the Audit Committee also met once 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. Tam Ching Ho and Mr. Wong Sin Lai and one executive director, Mr. Chan Yuen Tung.

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 three times. The attendance of each member of the Remuneration Committee, on a named basis and by category, at the committee meetings 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 two 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. Tam Ching Ho and Mr. Wong Sin Lai.

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, 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 28 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 2011.

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	1,023

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 to safeguard assets against unauthorised use or disposition, control capital expenditure, maintain proper accounting records and ensure 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 on the adequacy and effectiveness of the Company's internal controls. The review covers aspects relating to financial and compliance controls of the major subsidiaries of the Company. Moreover, operation professionals had been appointed to perform reviews on the new information systems and operations. These reviews included operational workflow and risk management controls over new manufacturing functions of the Company.

Shareholders' Rights and Investor Relations

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

Designated executive directors and senior management maintain regular dialogue with institutional investors and analysts 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 business 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 43, graduated with a bachelor's degree in Computer Engineering from The University of Hong Kong in 1992. Mr. Chan has enormous experience in manufacturing industries in the mainland China, property development and investment in both the 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), whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Since 2000, Mr. Chan has been participating in the investment in the manufacturing industries in the People's Republic of China (the "PRC"). He was appointed as a member of Mudanjiang Committee of the Chinese People's Political Consultative Conference in 2005 and became a member of the 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 the 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 42, is the chief executive officer of the Group and joined the Group in January 2004. Ms. Chan is responsible for the overall management and business development of the Group. Ms. Chan holds a bachelor's degree in Accountancy from the Queensland University of Technology in Australia. Ms. Chan has more than 10 years' experience in the areas of corporate finance and management. Ms. Chan is a non-executive director of Heng Tai Consumables Group Limited ("Heng Tai") (Stock Code: 197), whose shares are listed on the main board of 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 41, 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 obtained a certificate from South China Advanced English College (華南高等英語專修院) in July 1994. Mr. Peng has more than 10 years' experience in the automobile 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 43, is an executive director and a member of the Nomination Committee of the Company. Mr. Chiau is specialised, and has more than 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 a marketing manager. Mr. Chiau was appointed as an 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 57, is an executive director and the chief operation officer of the Company. He is 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 more than 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 45, 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 was an independent director of Celestial Nutrifoods Limited (the shares of which are listed on the main board of Singapore Exchange Securities Trade Limited (the "Singapore Exchange")) until 18 July 2011. Moreover, Mr. Ma was an independent director of China Oilfield Technology Services Group Limited (the shares of which are listed on the main board of the Singapore Exchange) until 30 May 2010. 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 41, was an independent non-executive director. He joined the Group in March 2005 and was 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 Capital VC Limited (formerly known as Sino Katalytics Investment Corporation). He is an independent non-executive director of Freeman Financial Corporation Limited since 26 November 2006 and Radford Capital Investment Limited since 30 June 2011. Moreover, Mr. Yau was an independent non-executive director of Royale Furniture Holdings Limited (formerly known as Chitaly Holdings Limited) until 18 August 2011. All of the aforementioned companies are listed on the main board of the Stock Exchange. Mr. Yau resigned on 8 April 2011.

Mr. TAM Ching Ho, aged 40, appointed on 30 June 2007, is an independent non-executive director and is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Tam is currently a certified public accountant (practising) registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He has previously worked in a reputable international accounting firm for about eight years and specialised in providing assurance services for pre-listing, listed and multinational companies. He has also held senior positions in several companies, including mainly the financial controller of a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and another company listed on the Main Board of the Singapore Exchange Limited for a total of about seven years. Mr. Tam has accumulated extensive experience in corporate finance and administration, listing compliance, investor relations, accounting and auditing. Mr. Tam graduated from City University of Hong Kong with a bachelor's degree of arts with honours in accountancy. He is an associate member of the HKICPA and a fellow member of The Association of Chartered Certified Accountants. Mr. Tam is also an independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited (Stock Code: 682), the shares of which are listed on the Main Board of the Stock Exchange and a Supervisory Board member of CBF China Bio-Fertilizer AG, the shares of which are listed in the Entry Standard of Frankfurt Stock Exchange.

Dato' Wong Sin Just (黃森捷), aged 45, is an independent non-executive director of the Company. Dato' Wong is also an independent non-executive director of CSI Properties Limited (formerly known as Capital Strategic Investment Limited) (Stock Code: 497), the shares of which are listed on the Stock Exchange as well as CDC Software Corporation Inc, the shares of which are listed on the NASDAQ market in the United States. Dato' Wong is the non-executive chairman of Westminster Travel Limited, the shares of which are listed on the Catalist board of the Singapore Exchange. Dato' Wong was an independent non-executive director of China.com Inc. (Stock Code: 8006) until his resignation on 23 March 2011.

Directors (continued)

Independent Non-executive Directors (continued)

Dato' Wong was the non-executive director of Suncorp Technologies Limited until his resignation with effect from 27 October 2009. Moreover, Dato' Wong was a non-executive director of the China Renji Medical Group Limited (formerly known as Softbank Investment International (Strategic) Limited) until his resignation with effect from 8 December 2009. Dato' 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. Furthermore, Dato' Wong was a non-executive director of Intelligent Edge Technologies Berhad, the shares of which are listed on the ACE Market of Bursa Malaysia Securities Berhad until his vacation of office, with effect from 1 January 2010.

Dato' Wong possesses more than 20 years of accounting, venture capital, fund management and investment banking experience and has held senior positions in investment banks and asset management companies. Dato' Wong holds a bachelor's degree in Engineering (First Class Honours) from the Imperial College of Science, Technology and Medicine in London. Dato' 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' 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, a fund dedicated to the underprivileged in Hong Kong. Dato' Wong was appointed as an independent non-executive director of the Company on 27 December 2007.

Mr. Wong Sin Lai (王善豐), aged 53, has been a professional financial advisor since 2001. He obtained a bachelor's degree with honours in social sciences from the University of Hong Kong in November 1982. From 1992 to 1997, he had worked as a financial controller and senior executive in various manufacturing companies (including a garments manufacturer, a food and beverage supplier and a leather products manufacturer) in Hong Kong after obtaining the qualification as a practising accountant. Prior to obtaining the professional qualification, he had worked in the audit department of Banque Nationale de Paris. Currently, he is a member of the Australian Society of Certified Practising Accountants and associate member of Hong Kong Institute of Certified Public Accountants. He has extensive experience in financial, strategic management and debt and equity financing for both listed companies and private enterprises. Since 3 January 2011, Mr. Wong is an independent non-executive director of National Investments Fund Limited (stock code: 1227), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Wong was appointed as an independent non-executive director on 29 April 2011.

Senior Management

Mr. Tsang Chiu Hung Victor (曾超鴻), aged 40, is the company secretary and the chief financial officer of the Group. Mr. Tsang is responsible for the company's secretarial functions and financial reporting of the Group. Mr. Tsang holds a bachelor's degree in Accountancy from the Hong Kong Polytechnic. Prior to joining the Group in May 2004, Mr. Tsang had more than 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 40, is the Vice General Manager of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group, and is mainly responsible for the sales of vinyl acetate. He joined the Group in 2004. Mr. Wu has more than 15 years' extensive experience in sales in large chemical enterprises. He studied construction in Heilongjiang Radio & Television University (黑龍江省廣播電視大學) from 1989 to 1992.

Senior Management (continued)

Mr. Chen Li (陳蠡), aged 44, is the Vice General Manager of the Mudanjiang Dongbei Chemical Engineering Company Limited of the Group, and is mainly responsible for the production and technology management of vinyl acetate. He joined the Group in 2004. Mr. Chen has more than 15 years' extensive experience in the production and technology management of large chemical enterprises. He studied fine chemistry in Qiqihar Institute of Light Industry (齊齊哈爾輕工學院) from 1985 to 1989.

Mr. Liu Hongwei (劉宏為), aged 58, is the Vice General Manager of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. and is mainly responsible for the daily management of the PVC division. Mr. Liu has more than 30 years' experience in accounting and management of large industrial enterprises. He joined the Group in March 2007. Mr. Liu completed a program of industries accounting at Heilongjiang Radio & Television University (黑龍江廣播電視大學) in July 1986. Mr. Liu resigned on 30 April 2011.

Mr. Wang Manqing (王滿慶), aged 46, is the Vice General Manager of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. and is mainly responsible for the daily production of the PVC division. Mr. Wang has over 15 years' experience in the management of enterprises which manufacture PVC. He joined the Group in September 2005. He holds a master's degree in Business Administration from American City University (美國城市大學).

Mr. Sun Wei (孫偉), aged 55, is the Vice General Manager of the Mudanjiang Dongbei Gaoxin Chemical Co., Ltd. and is mainly responsible for the daily management of the PVC division. Mr. Sun has over 20 years' experience in accounting and management of large industrial enterprises in China. He joined the Group in October 2005. He completed a program of economics and management from the Communist Party of China Heilongjiang Provincial Committee Party School (中共黑龍江省委黨校).

Mr. Wu Huamin (吳化民), aged 48, is the Vice General Manager of the Mudanjiang Gaoke Bio-Chem Company Limited and is mainly responsible for the daily production of the Vitamin C division. Mr. Wu has over 15 years' experience in production management of the medicine manufacturing enterprises. He joined the Group on May 2009. He studied mechanical development in Jiamusi Technical College (佳木斯工學院) from 1981 to 1985.

Mr. Gao Lingcai (高令才), aged 48, is the Vice General Manager of the Mudanjiang Gaoke Bio-Chem Company Limited and is mainly responsible for daily production of the Vitamin C division. Mr. Wu has over 15 years' experience in production management of medicine manufacturing enterprises. He joined the Group in May 2009. He studied chemical medicine manufacturing at Shanghai Pharmaceutical Vocational College (上海醫藥職工大學) from 1985 to 1988.

Mr. Bai Yuwen (白玉文), aged 48, is the Vice General Manager of the Mudanjiang Better Day Power Limited of the Group, and is 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 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 54, is the Vice General Manager of the Mudanjiang Better Day Power Limited of the Group, and is mainly responsible for the 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 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.

Senior Management (continued)

Mr. Sun Jianfei (孫劍飛), aged 39, is the Vice General Manager of the Mudanjiang Daytech Chemical Ltd. Mr. Sun has over 10 years' experience in the production management of chemical enterprises. He joined the Group in September 2005 and was promoted to Vice General Manager of the Mudanjiang Daytech Chemical Ltd. Mr. Sun completed a program of chemical technology from Mudanjiang Vocational University (牡丹江職工大學) in July 1995.

Mr. Zhang Jing (張靜), aged 50, is the Vice General Manager of the Mudanjiang Daytech Chemical Ltd. and is mainly responsible for the daily management of the production equipment and project construction of the chemical enterprises. Mr. Zhang has over 20 years' experience in the management and project construction of chemical enterprises. He joined the Group in 2004 and was promoted as the Vice General Manager of the Mudanjiang Daytech Chemical Ltd. since May 2008. Mr. Zhang completed a chemistry program at the Heilongjiang University (黑龍江大學) in July 1986.

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 operational results and share performance of the Group. Most of the members of the senior management have signed result examination contracts' with the Company. In this system, the remuneration of the senior management comprises three parts, namely, 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 bonuses and share options representing approximately 15% to 25% and 50% to 60% respectively of their 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 2011.

Principal Activities

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

An analysis of the Group's performance for the year by business segments is set out in note 8 to the financial statements.

Results and Dividends

The Group's profit for the year ended 30 June 2011 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 29 to 90.

The directors do not recommend the payment of dividend for the year ended 30 June 2011.

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				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER					
From continuing operations	**1,415,414**	1,381,342	1,095,614	1,666,103	911,507
From discontinued operations	**–**	–	–	–	100,775
	1,415,414	1,381,342	1,095,614	1,666,103	1,012,282
PROFIT FROM OPERATIONS	**153,314**	304,390	249,796	317,245	207,938
Finance costs	**(4,274)**	(6,325)	(5,894)	(4,888)	(4,507)
PROFIT BEFORE TAX	**149,040**	298,065	243,902	312,357	203,431
Income tax (expense)/credit	**(33,675)**	(35,089)	(38,042)	1,764	(2,443)
Profit for the year from continuing operations	**115,365**	262,976	205,860	314,121	200,988
(Loss)/profit for the year from discontinued operations	**–**	–	–	–	(125,962)
PROFIT FOR THE YEAR	**115,365**	262,976	205,860	314,121	75,026
Attributable to:					
Owners of the Company	**95,517**	217,618	167,896	265,394	64,256
Non-Controlling interests	**19,848**	45,358	37,964	48,727	10,770
	115,365	262,976	205,860	314,121	75,026

Summary Financial Information (continued)

ASSETS, LIABILITIES AND EQUITY

	At 30 June				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)			
Non-current assets	**3,624,693**	3,076,911	2,451,963	1,756,599	1,457,053
Current assets	**826,515**	683,305	603,991	887,147	682,893
TOTAL ASSETS	**4,451,208**	3,760,216	3,055,954	2,643,746	2,139,946
Non-current liabilities	**203,789**	198,973	206,059	188,712	157,263
Current liabilities	**710,126**	541,624	428,870	217,019	238,504
TOTAL LIABILITIES	**913,915**	740,597	634,929	405,731	395,767
TOTAL EQUITY	**3,537,293**	3,019,619	2,421,025	2,238,015	1,744,179
Attributable to:					
Equity holders of the Company	**3,274,747**	2,793,461	2,244,408	2,073,859	1,503,402
Non-controlling interests	**262,546**	226,158	176,617	164,156	240,777
	3,537,293	3,019,619	2,421,025	2,238,015	1,744,179

Note: The results of the Group for the year ended 30 June 2011 and of the assets, liabilities and equity of the Group as at 30 June 2011 are those set out on page 29 to 30 and pages 31 to 32 of the financial statements, respectively.

The results of the Group for the years ended 30 June 2007, 2008, 2009 and 2010 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, 2008, 2009 and 2010 have been extracted from the audited financial statements of the Company for the respective years and have been restated as appropriate.

Fixed Assets

Details of movements in the Group's fixed assets and land held under finance leases are set out in notes 17 and 18 to the financial statements respectively.

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 29 and 30 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, Dato' Wong Sin Just and Mr. Wong Sin Lai 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 of the Company to be 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 31(b) to the financial statements, respectively.

Distributable Reserves

At 30 June 2011, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK$83,347,000. In addition, the share premium account of the Company of approximately HK$1,698,881,000 as at 30 June 2011 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

During the year, the sales to the Group's five largest customers accounted for approximately 20.4% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 4.9%.

Purchases from the Group's five largest suppliers accounted for approximately 50% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 19%.

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 (resigned on 8 April 2011)
Mr. Tam Ching Ho
Dato' Wong Sin Just
Mr. Wong Sin Lai (appointed on 29 April 2011)

In accordance with articles 108 and 112 of the Articles, Mr. Peng Zhanrong, Mr. Ma Wing Yun Bryan, Dato' Wong Sin Just and Mr. Wong Sin Lai, 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 16 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 his 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 three years from the commencing date.

Mr. Ma Wing Yun Bryan was appointed for a term of two years as an independent non-executive director of the Company commencing from 28 February 2001. The term of his appointment was renewed for a further two-year term commencing from 28 February 2003. Upon 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 the service contract with Mr. Ma Wing Yun, Bryan for a further term of three years, commencing from 1 April 2006. The term of his appointment was renewed for a further term of two years commencing from 1 April 2009 and commencing from 1 April 2011, respectively.

Directors' Service Contracts (continued)

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 did not renew the service contract with Mr. Yau Chung Hong. Mr. Yau resigned on 8 April 2011.

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. Moreover, the term of his appointment was renewed for a further term of two years commencing from 7 December 2009.

The Company entered into a service contract with Dato' 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' Wong Sin for a term of two years as an independent non-executive director of the Company commencing from 31 December 2008. Moreover, the term of his appointment was renewed for a further two years commencing from 31 December 2010.

The Company entered into a service contract with Mr. Wong Sin Lai for a term commencing from 29 April 2011 to the next annual general meeting (i.e. 19 December 2011) of the Company.

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 30 June 2011, 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)		Share options held
Mr. Chan Yuen Tung	The Company	Beneficial Interest	191,112,543	25.63%	Nil
Mr. Chiau Che Kong	The Company	Beneficial Interest	13,531,000	1.81%	Nil
Ms. Chan Yuk Foebe	The Company	Beneficial Interest	2,212,500	0.30%	Nil
Mr. Tam Ching Ho	The Company	Beneficial Interest	300,000	0.04%	Nil

Save as disclosed herein, as at 30 June 2011, none of the Directors and chief executives of the Company and their respective associates had or was deemed to have any interests or short positions in any Shares, underlying Shares or debentures of the Company or 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 which they are deemed or taken to have under provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed 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 Discloseable under the SFO

As far as the directors of the Company are aware, as at 30 June 2011, no person (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.

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 the 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 2011 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 enquiry of all directors, the Board confirmed that all the directors have complied with the code provisions in the Model Code throughout the year ended 30 June 2011.

Auditor

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

ON BEHALF OF THE BOARD

Chan Yuen Tung
Chairman

Hong Kong
28 September 2011

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") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 90, which comprise the consolidated and Company statements of financial position as at 30 June 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 2011, 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

28 September 2011

Consolidated Income Statement

for the year ended 30 June 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	6	**1,415,414**	1,381,342
Cost of sales		**(1,135,790)**	(1,049,531)
Gross profit		**279,624**	331,811
Other income	7	**32,372**	110,333
Selling and distribution costs		**(13,676)**	(14,543)
Administrative expenses		**(114,026)**	(111,398)
Other operating expenses		**(30,980)**	(11,813)
Profit from operations		**153,314**	304,390
Finance costs	9	**(4,274)**	(6,325)
Profit before tax		**149,040**	298,065
Income tax expense	10	**(33,675)**	(35,089)
Profit for the year	11	**115,365**	262,976
Attributable to:			
Owners of the Company	13	**95,517**	217,618
Non-controlling interests		**19,848**	45,358
		115,365	262,976
			(Restated)
Earnings per share			
– Basic	15	**HK14.1cents**	HK38.8cents
– Diluted	15	**HK14.0cents**	HK38.5cents

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Note	2011 HK$'000	2010 HK$'000
Profit for the year		**115,365**	262,976
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		**101,651**	28,510
Gains on property revaluation		**23,318**	734
Other comprehensive income for the year, net of tax	16	**124,969**	29,244
Total comprehensive income for the year		**240,334**	292,220
Attributable to:			
Owners of the Company		**203,946**	242,679
Non-controlling interests		**36,388**	49,541
		240,334	292,220

Consolidated Statement of Financial Position

at 30 June 2011

	Note	**As at 30 June 2011 HK$'000**	As at 30 June 2010 HK$'000 (Restated)	As at 1 July 2009 HK$'000 (Restated)
Non-current assets				
Fixed assets	17	**2,882,586**	2,310,890	1,673,320
Land held under finance leases	18	**69,176**	69,858	70,539
Prepaid land lease payments	19	**475,195**	470,292	475,889
Goodwill	20	**102,107**	123,589	123,589
Other intangible assets	21	**95,629**	101,217	107,032
Deferred tax assets	32	**–**	1,065	1,594
		3,624,693	3,076,911	2,451,963
Current assets				
Inventories	24	**110,991**	103,592	62,305
Trade receivables	25	**438,601**	452,411	435,241
Other loan receivable	26	**10,000**	–	–
Prepayments, deposits and other receivables		**141,106**	105,259	86,855
Financial assets at fair value through profit or loss	27	**49,941**	7,102	7,202
Current tax assets		**967**	–	–
Bank and cash balances	28	**74,909**	14,941	12,388
		826,515	683,305	603,991
TOTAL ASSETS		**4,451,208**	3,760,216	3,055,954
Capital and reserves				
Share capital	29	**74,563**	61,023	37,409
Reserves	31	**3,200,184**	2,732,438	2,206,999
Equity attributable to owners of the Company		**3,274,747**	2,793,461	2,244,408
Non-controlling interests		**262,546**	226,158	176,617
Total equity		**3,537,293**	3,019,619	2,421,025

Consolidated Statement of Financial Position

at 30 June 2011

	Note	As at 30 June 2011 HK$'000	As at 30 June 2010 HK$'000 (Restated)	As at 1 July 2009 HK$'000 (Restated)
Non-current liabilities				
Bank loans	35	**41,055**	43,258	45,416
Deferred tax liabilities	32	**162,734**	155,715	160,643
		203,789	198,973	206,059
Current liabilities				
Trade payables	33	**79,342**	79,570	43,821
Other payables and accruals		**257,640**	204,370	226,471
Due to a director	34	**–**	10,000	–
Due to a non-controlling shareholder of a subsidiary	34	**66,124**	66,124	82,124
Bank loans	35	**297,183**	173,423	57,606
Current tax liabilities		**9,837**	8,137	18,848
		710,126	541,624	428,870
Total liabilities		**913,915**	740,597	634,929
TOTAL EQUITY AND LIABILITIES		**4,451,208**	3,760,216	3,055,954
Net current assets		**116,389**	141,681	175,121
Total assets less current liabilities		**3,741,082**	3,218,592	2,627,084

Chan Yuen Tung
Chairman

Chan Yuk Foebe
Executive Director

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

	Attributable to owners of the Company									
	Issued share capital HK$'000	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'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 year	–	–	23,318	–	85,111	–	95,517	203,946	36,388	240,334
Issue of shares (note 29)	12,000	234,623	–	–	–	–	–	246,623	–	246,623
Share option benefits										
– Grant of share options (note 30)	–	–	–	5,461	–	–	–	5,461	–	5,461
– Exercise of share options	1,540	23,716	–	–	–	–	–	25,256	–	25,256
– Transfer to share premium	–	24,670	–	(24,670)	–	–	–	–	–	–
Expiry of warrants (note 29)	–	–	–	–	–	(2,112)	2,112	–	–	–
Changes in equity for the year	13,540	283,009	23,318	(19,209)	85,111	(2,112)	97,629	481,286	36,388	517,674
At 30 June 2011	74,563	1,620,847	55,687	5,461	231,141	–	1,287,048	3,274,747	262,546	3,537,293

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

	Attributable to owners of the Company									
	Issued share capital HK$'000	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'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 year	–	–	734	–	24,327	–	217,618	242,679	49,541	292,220
Issue of shares (note 29)	23,104	262,595	–	–	–	–	–	285,699	–	285,699
Share option benefits										
– Grant of share options (note 30)	–	–	–	10,199	–	–	–	10,199	–	10,199
– Exercise of share options	510	7,854	–	–	–	–	–	8,364	–	8,364
– Transfer to share premium	–	2,537	–	(2,537)	–	–	–	–	–	–
Issue of warrants (note 29)	–	–	–	–	–	2,112	–	2,112	–	2,112
Changes in equity for the year	23,614	272,986	734	7,662	24,327	2,112	217,618	549,053	49,541	598,594
At 30 June 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

Consolidated Statement of Cash Flows

for the year ended 30 June 2011

	2011	2010
	HK$'000	HK$'000
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**149,040**	298,065
Adjustments for:		
Finance costs	**4,274**	6,325
Interest income	**(528)**	(87)
Dividend income	**–**	(70)
Depreciation	**87,768**	59,117
Amortisation of prepaid land lease payments	**10,082**	9,172
Amortisation of other intangible assets	**6,020**	5,973
Allowance for receivables	**85**	5,552
Write off of fixed assets	**29**	278
Fair value loss on financial assets at fair value through profit or loss	**1,355**	2,374
Gain on disposal of financial assets at fair value through profit or loss	**(1,143)**	(1,132)
Reversal of revaluation deficit on buildings	**(2,234)**	(425)
Impairment of goodwill	**21,482**	–
Share option benefits	**5,461**	10,199
Operating profit before working capital changes	**281,691**	395,341
Increase in inventories	**(7,399)**	(41,287)
Decrease/(increase) in trade receivables	**13,725**	(17,997)
Increase in other loan receivable	**(10,000)**	–
Increase in prepayments, deposits and other receivables	**(38,629)**	(23,129)
(Decrease)/increase in trade payables	**(228)**	35,749
Increase/(decrease) in other payables and accruals	**53,270**	(22,101)
Increase in financial assets at fair value through profit or loss	**(43,051)**	(1,142)
Cash generated from operations	**249,379**	325,434
Interest received	**528**	87
Dividend received	**–**	70
Interest paid	**(17,693)**	(6,325)
Income taxes paid	**(36,296)**	(52,185)
Net cash generated from operating activities	**195,918**	267,081
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	**(520,659)**	(672,697)
Purchase of prepaid land lease payments	**(877)**	–
Net cash used in investing activities	**(521,536)**	(672,697)

Consolidated Statement of Cash Flows

for the year ended 30 June 2011

	2011 HK$'000	2010 HK$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of shares	**246,623**	285,699
Exercise of share options	**25,256**	8,364
Issue of warrants	**–**	2,112
Decrease in amount due to a non-controlling shareholder of a subsidiary	**–**	(16,000)
(Decrease)/increase in amount due to a director	**(10,000)**	10,000
Bank loan raised	**169,505**	169,510
Repayment of bank loan	**(59,439)**	(57,859)
Net cash generated from financing activities	**371,945**	401,826
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**46,327**	(3,790)
Effect of foreign exchange rate changes	**13,641**	6,343
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**14,941**	12,388
CASH AND CASH EQUIVALENTS AT END OF YEAR	**74,909**	14,941
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**74,909**	14,941

Statement of Financial Position

at 30 June 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Investments in subsidiaries	22	**511,921**	511,921
Current assets			
Prepayments		**–**	1,211
Due from subsidiaries	23	**1,570,080**	1,324,863
Bank and cash balances		**1,592**	3,171
		1,571,672	1,329,245
TOTAL ASSETS		**2,083,593**	1,841,166
Capital and reserves			
Share capital	29	**74,563**	61,023
Reserves	31	**1,787,689**	1,549,901
Total equity		**1,862,252**	1,610,924
Current liabilities			
Due to subsidiaries	23	**219,654**	219,869
Due to a director	34	**–**	10,000
Other payables and accruals		**1,687**	373
		221,341	230,242
TOTAL EQUITY AND LIABILITIES		**2,083,593**	1,841,166
Net current assets		**1,350,331**	1,099,003
Total assets less current liabilities		**1,862,252**	1,610,924

Chan Yuen Tung
Chairman

Chan Yuk Foebe
Executive Director

Notes to the Financial Statements

for the year ended 30 June 2011

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 22 to the financial statements.

2. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 July 2010. HKFRSs comprise Hong Kong Financial Reporting Standards; 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 and amounts reported for the current year and prior years except as stated below.

a. 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.

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

	30 June 2011 **HK$'000**	30 June 2010 HK$'000	1 July 2009 HK$'000
Increase/(decrease) in			
Land held under finance leases	**69,176**	69,858	70,539
Prepaid land lease payments	**(69,176)**	(69,858)	(70,539)

2. Adoption of New and Revised Hong Kong Financial Reporting Standards (continued)

b. Classification of term loans

In November 2010 the HKICPA issued Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause". The Interpretation is effective immediately and is a clarification of an existing standard, HKAS 1 "Presentation of Financial Statements". It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of Hong Kong Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

Hong Kong Interpretation 5 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	30 June 2011	30 June 2010	1 July 2009
	HK$'000	HK$'000	HK$'000
Increase/(decrease) in			
Current liabilities			
Bank loans	**239,295**	114,943	–
Non-current liabilities			
Bank loans	**(239,295)**	(114,943)	–

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.

3. Significant Accounting Policies (continued)

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.

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 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 that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated exchange reserve.

Intragroup transactions, balances and unrealised profits 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.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

3. Significant Accounting Policies (continued)

(a) Consolidation (continued)

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (v) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

3. Significant Accounting Policies (continued)

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– 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 consolidated profit or loss as part of the gain 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.

3. Significant Accounting Policies (continued)

(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 recognised in profit or loss during the period in which they are incurred.

Revaluation increases of buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the fixed asset revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the fixed asset revaluation reserve are charged against the fixed asset revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued building, the attributable revaluation increase remaining in the fixed asset revaluation reserve is transferred directly to retained profits.

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

Land held under finance leases	Over the lease terms
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 the end of each reporting period.

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 profit or loss.

3. Significant Accounting Policies (continued)

(e) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense 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.

(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 lives 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 lives 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.

3. Significant Accounting Policies (continued)

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position 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 the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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 profit or loss.

(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 profit or loss.

(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 profit or loss.

3. Significant Accounting Policies (continued)

(k) Trade and other receivables (continued)

Impairment losses are reversed in subsequent periods and recognised in profit or loss 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 statement of cash flows, 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 reporting period.

(ii) Trade and other payables

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

(iii) Equity instruments

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

(iv) Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The net proceed received from the issue of warrants is recognised in equity (warrant reserve). The warrant reserve will be transferred to share capital and share premium account upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to retained profits.

3. Significant Accounting Policies (continued)

(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.

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 end of the reporting period.

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

(iii) Termination benefits

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

3. Significant Accounting Policies (continued)

(p) Share-based payments

The Group issues equity-settled share-based payments to certain employees. 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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss 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 profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

3. Significant Accounting Policies (continued)

(s) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss 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 end of the reporting period.

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. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 the end of each reporting period 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 end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

3. Significant Accounting Policies (continued)

(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.

(u) Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

(v) Impairment of assets

At the end of each reporting period, 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 profit or loss, 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 profit or loss, 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 reporting period

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

4. Key Estimates

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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, residual values and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives and residual values of fixed assets of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values 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 end of the reporting period was approximately HK$102,107,000. Details of the impairment test calculation are provided in note 20 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.

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 the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with different risk profiles.

At 30 June 2011, if the prices of the Group's investments increase/decrease by 10%, profit after tax for the year would have been approximately HK$4,994,000 (2010: HK$710,000) higher/lower.

(c) Credit risk

The carrying amount of the bank and cash balances, trade and other receivables, other loan receivable and investments included in the statement of financial position 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 credit risk on investments is limited because the counterparties are well-established securities broker firms in Hong Kong.

The Group's credit risk is primarily attributable to its trade and other receivables and other loan receivable. 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.

For term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment date.

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

	On demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 30 June 2011					
Term loans subject to a repayment on demand clause	240,800	–	–	–	–
Other bank loans	–	57,808	3,092	9,274	35,807
Trade payables	–	79,342	–	–	–
Other payables and accruals	–	165,464	–	–	–
Due to a non-controlling shareholder of a subsidiary	–	66,124	–	–	–
At 30 June 2010					
Term loans subject to a repayment on demand clause	114,943	–	–	–	–
Other bank loans	–	59,824	3,092	9,274	38,899
Trade payables	–	79,570	–	–	–
Other payables and accruals	–	123,002	–	–	–
Due to a director	–	10,000	–	–	–
Due to a non-controlling shareholder of a subsidiary	–	66,124	–	–	–

5. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Taking into account the Group's financial position, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

The maturity analysis of term loans subject to a repayment on demand clause based on scheduled repayments 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 2011	17,558	110,129	147,052	–
At 30 June 2010	6,621	8,057	119,581	–

(e) Interest rate risk

Bank loans of approximately HK$54,180,000 (2010: HK$56,321,000) are arranged at fixed interest rates and therefore are subject of fair value interest rate risk.

Bank loans of approximately HK$284,058,000 (2010: HK$160,360,000) are arranged at floating rate varied with the then prevailing market condition.

At 30 June 2011, 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$433,000 (2010: HK$1,604,000) higher/lower, arising mainly as a result of lower/higher interest expense on bank loans.

(f) Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets:		
Financial assets at fair value through profit or loss:		
Held for trading	**49,941**	7,102
Loans and receivables (including cash and cash equivalents)	**528,610**	480,119
Financial liabilities:		
Financial liabilities at amortised cost	**649,168**	495,377

5. Financial Risk Management (continued)

(g) Fair values

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

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy

	Fair value measurement using:		**Total**
	Level 1	**Level 2**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Financial assets at fair value through profit or loss			
Equity investments	**1,237**	**–**	**1,237**
Equity linked investments	**–**	**48,704**	**48,704**

	Level 1	Level 2	2010
	HK$'000	HK$'000	HK$'000
Financial assets at fair value through profit or loss			
Equity investments	7,102	–	7,102

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. Other Income

	Group 2011 HK$'000	Group 2010 HK$'000
Dividend income from listed investments	**–**	70
Gain on disposal of financial assets at fair value through profit or loss	**1,143**	1,132
Government grants (note)	**26,553**	95,477
Bank interest income	**107**	87
Other interest income	**421**	–
Reversal of revaluation deficit on buildings	**2,234**	425
Construction income of installation of pipe	**1,589**	11,437
Sundry income	**325**	1,705
	32,372	110,333

Note: Government grants for the years ended 30 June 2010 and 2011 were received as incentive for capital expenditure and environmental protection, subsidy for operating costs and refund of value-added tax, business tax, income tax and land use tax. There are no unfulfilled conditions or contingencies attached to the grants.

8. Segment Information

The Group has five reportable segments as follows:

Polyvinyl-chloride – manufacture and sale of polyvinyl-chloride;

Vinyl acetate – manufacture and sale of vinyl acetate;

Heat and power – generation and supply of heat and power;

Vitamin C, glucose and starch – manufacture and sale of vitamin C, glucose and starch; and

Calcium carbide – manufacture and sale of calcium carbide.

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.

8. Segment Information (continued)

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include impairment of goodwill, fair value loss on financial assets at fair value through profit or loss, gain on disposal of financial assets at fair value through profit or loss, dividend income from listed investments and corporate administrative expenses. Segment assets do not include goodwill, bank and cash balances, other loan receivable, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, amount due to a director, amount due to a non-controlling shareholder of a subsidiary and other payables and accruals for general administrative use.

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, assets and liabilities:

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Total HK$'000
Year ended 30 June 2011						
Revenue from external customers	770,167	449,216	63,495	126,491	6,045	1,415,414
Intersegment revenue	1,070	–	109,578	–	303,643	414,291
Segment profit/(loss)	105,477	64,242	2,128	11,779	(16,568)	167,058
Interest revenue	37	33	–	–	26	96
Interest expense	–	3,340	–	–	–	3,340
Depreciation and amortisation	14,366	12,798	15,421	32,845	27,087	102,517
Other material items of income and expense:						
Government grants	15,814	–	1,464	7,627	1,648	26,553
Construction income of installation of pipe	–	–	1,589	–	–	1,589
Income tax expense/(credit)	20,011	15,936	(865)	(239)	(1,168)	33,675
Other material non-cash items:						
Allowance for receivables						
– trade receivables	–	–	85	–	–	85
Additions to segment non-current assets	9,782	194	18,868	4,144	502,859	535,847
As at 30 June 2011						
Segment assets	613,017	467,193	452,006	789,022	1,814,662	4,135,900
Segment liabilities	30,372	40,470	112,672	209,053	113,714	506,281

8. Segment Information (continued)

	Polyvinyl-chloride HK$'000	Vinyl acetate HK$'000	Heat and power HK$'000	Vitamin C, glucose and starch HK$'000	Calcium carbide HK$'000	Total HK$'000
Year ended 30 June 2010						
Revenue from external customers	739,526	543,145	59,120	39,551	–	1,381,342
Intersegment revenue	1,688	–	78,733	–	–	80,421
Segment profit/(loss)	141,088	131,588	19,782	8,665	(16,555)	284,568
Interest revenue	16	21	12	3	31	83
Interest expense	1,092	3,702	–	–	552	5,346
Depreciation and amortisation	15,516	12,655	13,903	24,608	6,000	72,682
Other material items of income and expense:						
Government grants	19,364	28,963	3,864	42,780	506	95,477
Construction income of installation of pipe	–	–	11,437	–	–	11,437
Income tax expense/(credit)	21,481	23,626	(5,113)	(3,745)	(1,160)	35,089
Other material non-cash items:						
Allowance for receivables						
– trade receivables	429	398	–	–	–	827
– other receivables	2,846	–	1,515	364	–	4,725
Additions to segment non-current assets	18,805	4,536	8,426	115,787	525,096	672,650
As at 30 June 2010						
Segment assets	595,162	519,797	412,309	776,416	1,225,424	3,529,108
Segment liabilities	12,383	39,927	124,150	200,475	68,001	444,936

8. Segment Information (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities:

	2011 HK$'000	2010 HK$'000
Profit or loss		
Total profit or loss of reportable segments	**167,058**	284,568
Impairment of goodwill	**(21,482)**	–
Fair value loss on financial assets at fair value through profit or loss	**(1,355)**	(2,374)
Gain on disposal of financial assets at fair value through profit or loss	**1,143**	1,132
Dividend income from listed investments	**–**	70
Corporate administrative expenses	**(29,999)**	(20,420)
Consolidated profit for the year	**115,365**	262,976
Assets		
Total assets of reportable segments	**4,135,900**	3,529,108
Goodwill	**102,107**	123,589
Bank and cash balances	**74,909**	14,941
Financial assets at fair value through profit or loss	**49,941**	7,102
Other loan receivable	**10,000**	–
Other assets	**78,351**	85,476
Consolidated total assets	**4,451,208**	3,760,216
Liabilities		
Total liabilities of reportable segments	**506,281**	444,936
Bank loans	**338,238**	216,681
Due to a director	**–**	10,000
Due to a non-controlling shareholder of a subsidiary	**66,124**	66,124
Other payables and accruals for general administrative use	**3,272**	2,856
Consolidated total liabilities	**913,915**	740,597

The Group's revenue is derived from customers based in the PRC and accordingly, no geographical information is presented.

None of the Group's customers contributed 10% or more of the Group's revenues during the years ended 30 June 2010 and 2011 and accordingly, no major customers information is presented.

9. Finance Costs

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on bank loans	**17,347**	6,021
Interest on discounted bills	**346**	304
	17,693	6,325
Amount capitalised	**(13,419)**	–
	4,274	6,325

10. Income Tax Expense

	Group	
	2011	2010
	HK$'000	HK$'000
Current tax – Overseas		
Provision for the year	**37,572**	47,344
Overprovision in prior years	**–**	(6,040)
	37,572	41,304
Deferred tax (note 32)	**(3,897)**	(6,215)
	33,675	35,089

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 (2010: Nil).

Tax charge on profits assessable elsewhere has 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.

10. Income Tax Expense (continued)

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, i.e., from 1 January 2010 to 31 December 2012. No provision for PRC enterprise income tax has been made as Mudanjiang BD Power has sufficient tax losses brought forward to set off against current year's assessable profit (2010: Nil).

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, i.e., from 1 January 2010 to 31 December 2012. No provision for PRC enterprise income tax has been made as Mudanjiang Gaoke has no assessable profit for the year ended 30 June 2010.

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 (2010: Nil).

Heihe LongJiang Chemical Company Limited ("Heihe LongJiang Chemical"), a subsidiary of the Company, is subject to PRC enterprise income tax at the rate of 25%. No provision for PRC enterprise income tax has been made as Heihe LongJiang Chemical has no assessable profit for the year. (2010: Nil).

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 on future distribution.

10. Income Tax Expense (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate 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 2011

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(61,343)		210,383		149,040	
Tax at the statutory tax rate	(10,122)	(16.5)	52,596	25.0	42,474	28.5
Preferential statutory tax rate offered	–	–	(15,113)	(7.2)	(15,113)	(10.1)
Income tax exempted	(71)	(0.1)	(1,333)	(0.6)	(1,404)	(0.9)
Expenses not deductible for tax	8,664	14.1	2,220	1.1	10,884	7.3
Unrecognised temporary differences	(74)	(0.1)	(319)	(0.2)	(393)	(0.3)
Tax losses not recognised	1,603	2.6	1,496	0.7	3,099	2.1
Utilisation of unrecognised tax losses	–	–	(5,872)	(2.8)	(5,872)	(4.0)
Tax expense at the Group's effective tax rate	–	–	33,675	16.0	33,675	22.6

10. Income Tax Expense (continued)

Group (continued)

For the year ended 30 June 2010

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(23,722)		321,787		298,065	
Tax at the statutory tax rate	(3,914)	(16.5)	80,447	25.0	76,533	25.7
Preferential statutory tax rate offered	–	–	(42,811)	(13.3)	(42,811)	(14.4)
Income tax exempted	(12)	–	–	–	(12)	–
Expenses not deductible for tax	2,888	12.1	2,541	0.8	5,429	1.8
Unrecognised temporary differences	68	0.3	2,302	0.7	2,370	0.8
Tax losses not recognised	970	4.1	5,982	1.9	6,952	2.3
Utilisation of unrecognised tax losses	–	–	(7,332)	(2.3)	(7,332)	(2.4)
Overprovision in prior years	–	–	(6,040)	(1.9)	(6,040)	(2.0)
Tax expense at the Group's effective tax rate	–	–	35,089	10.9	35,089	11.8

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately HK$96,608,000 (2010: HK$78,859,000). 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.

11. Profit for the Year

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

	2011	2010
	HK$'000	HK$'000
		(Restated)
Auditor's remuneration	**1,023**	930
Allowance for receivables		
– trade receivables	**85**	827
– other receivables	**–**	4,725
Write off of fixed assets	**29**	278
Amortisation of other intangible assets (included in administrative expenses)	**6,020**	5,973
Cost of inventories sold	**1,135,790**	1,049,531
Depreciation	**87,768**	59,117
Minimum lease payment under operating leases for land and buildings	**11,831**	11,557
Fair value loss on financial assets at fair value through profit or loss (held for trading)	**1,355**	2,374
Impairment of goodwill (included in other operating expenses)	**21,482**	–
Staff costs (excluding directors' remuneration – note 12):		
Wages, salaries and benefits in kind	**45,839**	34,337
Employee share option benefits	**5,461**	10,199
Retirement benefits scheme contributions	**7,255**	5,723

Cost of inventories sold includes staff costs and depreciation of approximately HK$27,917,000(2010: HK$18,698,000) and HK$69,128,000 (2010: HK$34,864,000), 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	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors						
Mr. Chan Yuen Tung	**10**	10	**–**	–	**10**	10
Ms. Chan Yuk Foebe	**1,200**	1,200	**–**	–	**1,200**	1,200
Mr. Chiau Che Kong	**360**	285	**12**	12	**372**	297
Mr. Peng Zhanrong	**240**	360	**–**	–	**240**	360
Mr. Wu Jianwei	**609**	539	**–**	–	**609**	539
Independent non-executive directors						
Mr. Ma Wing Yun Bryan	**120**	120	**–**	–	**120**	120
Mr. Yau Chung Hong (note (a))	**93**	120	**–**	–	**93**	120
Mr. Tam Ching Ho	**120**	120	**–**	–	**120**	120
Dato' Dr. Wong Sin Just	**120**	120	**–**	–	**120**	120
Mr. Wong Sin Lai (note (b))	**20**	–	**–**	–	**20**	–
	2,892	2,874	**12**	12	**2,904**	2,886

Notes:

(a) Resigned on 8 April 2011

(b) Appointed on 29 April 2011

12. Directors' and Employees' Remuneration (continued)

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2010: Nil).

The five highest paid individuals in the Group during the year included 2 (2010: Nil) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2010: 5) individuals are set out below.

	Group	
	2011	2010
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**222**	293
Employee share option benefits	**5,461**	9,204
	5,683	9,497

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
HK$1,500,001 to HK$2,000,000	**3**	5

During the years ended 30 June 2011 and 2010, share options were granted to certain employees in respect of their services to the Group, further details of which are included in note 30 to the financial statements. The fair value of such options, which has been recognised to profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements 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 Owners of the Company

The profit for the year attributable to owners of the Company for the year ended 30 June 2011 included a loss of approximately HK$26,012,000 (2010: HK$10,699,000) 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 2011 (2010: Nil).

15. 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 year attributable to owners of the Company of approximately HK$95,517,000 (2010: HK$217,618,000) and the weighted average number of ordinary shares of 679,092,900 (2010: 560,531,582, as adjusted to reflect the share consolidation on 20 June 2011) in issue during the year.

Diluted earnings per share

The calculation of diluted earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$95,517,000 (2010: HK$217,618,000) and the weighted average number of ordinary shares of 680,325,552 (2010: 564,558,482, as adjusted to reflect the share consolidation on 20 June 2011), being the weighted average number of ordinary shares of 679,092,900 (2010: 560,531,582), in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 1,232,652 (2010: 4,026,900, as adjusted to reflect the share consolidation on 20 June 2011) assumed to have been issued at no consideration on the deemed exercise of the share options and warrants outstanding at the end of the reporting period.

16. Other Comprehensive Income

Tax effects relating to each component of other comprehensive income for the year:

	2011			2010		
	Amount before tax HK$'000	**Tax HK$'000**	**Amount after tax HK$'000**	Amount before tax HK$'000	Tax HK$'000	Amount after tax HK$'000
Exchange differences on translating foreign operations	**101,651**	**–**	**101,651**	28,510	–	28,510
Gains on property revaluation	**30,739**	**(7,421)**	**23,318**	1,143	(409)	734
Other comprehensive income	**132,390**	**(7,421)**	**124,969**	29,653	(409)	29,244

17. Fixed Assets

Group

	Buildings	Construction in progress	Plant and machinery	Leasehold improvements	Furniture, office equipment and motor vehicles	Pipelines and trench	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:							
At 1 July 2009	249,327	575,081	894,377	3,017	21,222	37,122	1,780,146
Additions	479	641,037	27,496	21	3,664	–	672,697
Disposal/write off	–	(247)	(50)	–	(17)	–	(314)
Transfer	31,062	(204,114)	157,029	–	–	16,023	–
Revaluation	(6,745)	–	–	–	–	–	(6,745)
Exchange differences	1,903	11,160	8,729	–	285	340	22,417
At 30 June 2010 and 1 July 2010	276,026	1,022,917	1,087,581	3,038	25,154	53,485	2,468,201
Additions	80	523,984	4,711	–	3,387	1,916	534,078
Disposal/write off	–	(11)	–	–	(21)	–	(32)
Transfer	143,166	(508,470)	365,304	–	–	–	–
Revaluation	18,557	–	–	–	–	–	18,557
Exchange differences	11,373	45,260	38,583	–	994	1,955	98,165
At 30 June 2011	**449,202**	**1,083,680**	**1,496,179**	**3,038**	**29,514**	**57,356**	**3,118,969**
Accumulated depreciation:							
At 1 July 2009	–	–	92,800	478	9,151	4,397	106,826
Charge for the year	8,436	–	43,743	303	3,568	2,386	58,436
Disposal/write off	–	–	(19)	–	(17)	–	(36)
Write back on revaluation	(8,313)	–	–	–	–	–	(8,313)
Exchange differences	(123)	–	534	–	60	(73)	398
At 30 June 2010 and 1 July 2010	–	–	137,058	781	12,762	6,710	157,311
Charge for the year	14,058	–	66,560	304	2,938	3,226	87,086
Disposal/write off	–	–	–	–	(3)	–	(3)
Write back on revaluation	(14,416)	–	–	–	–	–	(14,416)
Exchange differences	358	–	5,266	–	490	291	6,405
At 30 June 2011	**–**	**–**	**208,884**	**1,085**	**16,187**	**10,227**	**236,383**

17. Fixed Assets (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
Carrying amount:							
At 30 June 2011	**449,202**	**1,083,680**	**1,287,295**	**1,953**	**13,327**	**47,129**	**2,882,586**
At 30 June 2010	276,026	1,022,917	950,523	2,257	12,392	46,775	2,310,890
Analysis of cost or valuation							
at 30 June 2011							
At cost	**–**	**1,083,680**	**1,496,179**	**3,038**	**29,514**	**57,356**	**2,669,767**
At valuation 2011	**449,202**	**–**	**–**	**–**	**–**	**–**	**449,202**
	449,202	**1,083,680**	**1,496,179**	**3,038**	**29,514**	**57,356**	**3,118,969**
Analysis of cost or valuation							
at 30 June 2010							
At cost	–	1,022,917	1,087,581	3,038	25,154	53,485	2,192,175
At valuation 2010	276,026	–	–	–	–	–	276,026
	276,026	1,022,917	1,087,581	3,038	25,154	53,485	2,468,201

At 30 June 2011 the carrying amount of fixed assets pledged as security for the Group's bank loans amounted to approximately HK$398,904,000 (2010: HK$368,426,000).

At 30 June 2011, the Group's buildings were revalued on the depreciated replacement cost basis by Castores Magi (Hong Kong) Limited ("Castores Magi"), independent professionally qualified valuers, at approximately HK$449,202,000 (2010: HK$276,026,000). The resulting revaluation surplus and reversal of revaluation deficit of approximately HK$30,739,000 (2010: HK$1,143,000) and HK$2,234,000 (2010: HK$425,000) has been credited to the fixed asset revaluation reserve as set out in the consolidated statement of changes in equity and profit or loss respectively.

The carrying amount of the Group's buildings would have been approximately HK$375,960,000 (2010: HK$235,742,000) had they been stated at cost less accumulated depreciation and impairment losses.

18. Land Held Under Finance Leases

	Group	
	2011	2010
	HK$'000	HK$'000
Cost:		
At beginning of year and end of year	**71,562**	71,562
Accumulated depreciation:		
At beginning of year	**1,704**	1,023
Charge for the year	**682**	681
At end of year	**2,386**	1,704
Carrying amount:		
At end of year	**69,176**	69,858
At beginning of year	**69,858**	70,539

The Group's land held under finance leases are located in Hong Kong and held under long leases.

The Group's land held under finance leases pledged as security for the Group's bank loans at 30 June 2011 and 2010.

19. Prepaid Land Lease Payments

The Group's prepaid land lease payments represent payments for land use rights outside Hong Kong under medium-term leases.

At 30 June 2011 the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans amounted to approximately HK$240,942,000 (2010: HK$236,571,000, restated).

20. Goodwill

	Group	
	2011	2010
	HK$'000	HK$'000
Cost		
At beginning and end of year	**123,589**	123,589
Accumulated impairment losses		
At beginning of year	**–**	–
Impairment loss recognised in the current year	**21,482**	–
At end of year	**21,482**	–
Carrying amount		
At end of year	**102,107**	123,589
At beginning of year	**123,589**	123,589

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	
	2011	2010
	HK$'000	HK$'000
Vitamin C, glucose and starch		
Mudanjiang Gaoke	**64,203**	85,685
Calcium carbide		
Mudanjiang Daytech Chemical	**26,050**	26,050
Heihe LongJiang Chemical	**11,854**	11,854
	102,107	123,589

20. Goodwill (continued)

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 (2010: one) year(s) for Vitamin C, glucose and starch CGU and three to five (2010: two to three) years for Calcium carbide CGU, with the residual period using the growth rate of 2.8% (2010: 3.3%) 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 9.98% (2010: 7.99%) and 11.09% to 11.32% (2010: 9.21% to 9.81%), respectively.

At 30 June 2011, before impairment testing, goodwill of approximately HK$85,685,000 was allocated to Mudanjiang Gaoke within the Vitamin C, glucose and starch segment. Due to changes in market condition, the Group has revised its cash flow forecasts for this CGU. The goodwill allocated to Mudanjiang Gaoke has therefore been reduced to its recoverable amount through recognition of an impairment loss against goodwill of approximately HK$21,482,000 during the year.

21. Other Intangible Assets

	Exclusive right	Trade name	Technical know-how	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost:				
At 1 July 2009	72,347	33,459	17,328	123,134
Exchange differences	–	–	259	259
At 30 June 2010 and 1 July 2010	72,347	33,459	17,587	123,393
Exchange differences	–	–	834	834
At 30 June 2011	**72,347**	**33,459**	**18,421**	**124,227**
Accumulated amortisation:				
At 1 July 2009	7,235	3,346	5,521	16,102
Amortisation for the year	2,894	1,339	1,740	5,973
Exchange differences	–	–	101	101
At 30 June 2010 and 1 July 2010	10,129	4,685	7,362	22,176
Amortisation for the year	2,893	1,338	1,789	6,020
Exchange differences	–	–	402	402
At 30 June 2011	**13,022**	**6,023**	**9,553**	**28,598**
Carrying amount:				
At 30 June 2011	**59,325**	**27,436**	**8,868**	**95,629**
At 30 June 2010	62,218	28,774	10,225	101,217
Remaining amortisation period:	20.5 years	20.5 years	4.25 to 6.17 years	

22. Investments in Subsidiaries

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted investments, at cost	**511,921**	511,921

Particulars of the subsidiaries as at 30 June 2011 are as follows:

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Dragon Boom Investments Ltd. ("Dragon Boom")	British Virgin Islands ("BVI")	Ordinary US$1	100%	–	Investment holding
Ever Strength Investments Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Gold Capture Investments Inc.	BVI	Ordinary US$1	100%	–	Investment holding
Prosper Path Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Quality Gain Investments Ltd.	BVI	Ordinary US$1	100%	–	Investment holding
Better Day Bio-Chem Technology Limited	BVI	Ordinary US$2	100%	–	Investment holding
Better Day Power Limited	BVI	Ordinary US$2	100%	–	Investment holding
Master King Group Ltd.	Hong Kong	Ordinary HK$1	100%	–	Inactive
Better Lion Holdings Limited	BVI	Ordinary US$2	–	100%	Investment holding
Daytech Group Limited	BVI	Ordinary US$2	–	100%	Investment holding
Powerful Rise Group Limited	BVI	Ordinary US$1	–	100%	Inactive
Racing Dragon Group Limited ("Racing Dragon")	BVI	Ordinary US$100	–	55%	Investment holding

22. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Mudanjiang BD Power	PRC (note (a))	RMB110,000,000	–	100%	Generation and supply of power and heat
Mudanjiang Daytech Chemical	PRC (note (b))	HK$230,000,000	–	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))	RMB265,000,000	–	55%	Manufacture and sale of calcium carbide, polyvinyl-alcohol and vinyl acetate
China Zenith Construction Materials Limited	Cayman Islands	Ordinary HK$0.01	–	100%	Inactive
STB Company Limited	Hong Kong	Ordinary HK$2	–	100%	Inactive
Success Eagle Investment Limited	Hong Kong	Ordinary HK$1	–	100%	Provision of administrative services
Green Concept Investments Ltd.	Hong Kong	Ordinary HK$1	–	100%	Inactive
大慶高新區東北化工銷售有限公司	PRC (note (g))	RMB500,000	–	63.11%	Sale of vinyl acetate

* Where different

22. Investments in Subsidiaries (continued)

Notes:

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

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

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

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

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

(f) 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.

23. Due from/(to) Subsidiaries – Company

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

24. Inventories

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**68,826**	48,791
Work in progress	**8,096**	7,902
Finished goods	**34,069**	46,899
	110,991	103,592

25. Trade Receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (2010: 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:

	Group	
	2011	2010
	HK$'000	HK$'000
Within 30 days	**53,567**	95,224
31 to 60 days	**117,408**	104,308
61 to 90 days	**113,574**	84,775
91 to 120 days	**115,661**	100,732
121 to 150 days	**20,025**	60,349
151 to 180 days	**7,650**	612
181 to 240 days	**7,287**	697
241 to 330 days	**256**	1,512
331 to 365 days	**37**	860
Over 365 days	**3,136**	3,342
	438,601	452,411

As at 30 June 2011, an allowance was made for estimated irrecoverable trade receivables of approximately HK$6,847,000 (2010: HK$6,609,000).

The reconciliation of allowance for trade receivables:

	Group	
	2011	2010
	HK$'000	HK$'000
At beginning of year	**6,609**	6,146
Allowance made for the year	**85**	827
Written off	**–**	(399)
Exchange differences	**153**	35
At end of year	**6,847**	6,609

25. Trade Receivables (continued)

As of 30 June 2011, trade receivables of approximately HK$14,868,000 (2010: HK$9,198,000) 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	
	2011	2010
	HK$'000	HK$'000
Up to 90 days	**692**	461
91 to 180 days	**3,460**	2,326
181 to 365 days	**7,580**	3,069
Over 365 days	**3,136**	3,342
	14,868	9,198

The Group's trade receivables are denominated in RMB.

26. Other Loan Receivable

A loan granted to an independent third party is unsecured, interest bearing at 8.57% p.a. and repayable on 31 October 2011.

27. Financial Assets at Fair Value Through Profit and Loss

	2011	2010
	HK$'000	HK$'000
Equity securities listed in Hong Kong, at market value	**1,237**	7,102
Equity linked investments, at fair value (note)	**48,704**	–
	49,941	7,102

The Group's financial assets at fair value through profit or loss are classified as held for trading.

27. Financial Assets at Fair Value Through Profit and Loss (continued)

Note: Equity linked investments were designated by management as financial assets at fair value through profit or loss on initial recognition.

As these investments are not publicly traded and in the absence of readily available information to determine the fair value of these investments, the Group has adopted the valuation provided by the issuers as its best estimate of the fair value of these investments.

Major terms of the equity linked investments are as follows:

(i) The aggregate nominal value of the equity linked investments is approximately HK$50,000,000 with maturity period ranging from one to three months.

(ii) The equity linked investments are non-interest bearing except for investments at aggregate carrying amount of approximately HK$9,159,000 which are interest bearing at pre-determined rates, subject to the market prices of the underlying equity securities at certain pre-determined price levels.

(iii) The equity linked investments are subject to mandatory redemption clauses at various time intervals until the maturity date depending on the market prices of the underlying equity securities. The equity linked investments will be redeemed based on the original nominal amounts.

(iv) At maturity date, if the equity linked investments, depending on the market prices of the underlying equity securities at certain pre-determined price levels, are still outstanding, the equity linked investments will be redeemed by the issuers at the nominal amounts in cash or by shares at pre-determined strike prices. The equity linked investments are measured at fair value at the date of the reporting period which were based on the valuation provided by the issuers.

28. Bank and Cash Balances

As at 30 June 2011, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$69,443,000 (2010: HK$10,809,000). 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.

29. Share Capital

Shares

	2011 **HK$'000**	2010 HK$'000
Authorised:		
2,000,000,000 (2010: 10,000,000,000) ordinary shares of HK$0.10 (2010: HK$0.01) each (note (a) and (b))	**200,000**	100,000
Issued and fully paid:		
745,633,173 (2010: 6,102,331,736) ordinary shares of HK$0.10 (2010: HK$0.01) each	**74,563**	61,023

29. Share Capital (continued)

Shares (continued)

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2010 and 2011 is as follows:

	Number of ordinary shares issued	Par value
	'000	HK$'000
At 1 July 2009	3,740,888	37,409
Issue of shares on open offer (note (c))	1,870,444	18,704
Placement of new shares (note (d))	440,000	4,400
Exercise of share options (note (e))	51,000	510
At 30 June 2010 and 1 July 2010	6,102,332	61,023
Exercise of share options (note (e))	154,000	1,540
Placement of new shares (note (f))	1,200,000	12,000
Share consolidation (note (b))	(6,710,699)	–
At 30 June 2011	745,633	74,563

Notes:

(a) Pursuant to an ordinary resolution passed on 20 June 2011, every 10 ordinary shares of HK$0.01 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK$0.1 each in the issued and unissued share capital of the Company.

(b) On 20 June 2011, the authorised share capital of the Company was increased from HK$100,000,000 to HK$200,000,000 by creation of 1,000,000,000 shares of HK0.10 each and that such new shares, upon issue, shall rank pari passu in all respects with the existing shares of the Company.

(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$201,310,000 was used to finance the acquisition of fixed assets and as general working capital for the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on that date.

(d) On 25 February 2010, Mr. Chan Yuen Tung ("Mr. Chan"), 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 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.

(e) During the year ended 30 June 2011, the subscription rights attaching to 154,000,000 (2010: 51,000,000) shares options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$0.164 (2010: HK$0.164) per share, resulting in the issue of 154,000,000 (2010: 51,000,000) shares of HK$0.01 each for the total cash consideration of approximately HK$25,256,000 (2010: HK$8,364,000).

(f) On 12 January 2011, Mr. Chan placed 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 then subscribed for a total 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 17 January 2011. The new proceed of approximately HK$246,623,000 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.

29. Share Capital (continued)

Warrants

On 9 March 2010, the Company issued warrants at a placing price of HK$0.005 conferring rights to subscribe for 440,000,000 shares of the Company at a subscription price of HK$0.285 per share from the date of issue to 8 March 2011.

No warrants were exercised during the year.

The Groups 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 2010 and 2011.

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.

30. 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.

30. Share Option Scheme (continued)

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

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

Details of the specific categories of options are as follows:

Grant date	20 July 2007	22 August 2007	21 August 2009	4 April 2011	12 May 2011
Vesting period (note (a))	20 July 2007 to 23 July 2007	22 August 2007 to 23 August 2007	21 August 2009	4 April 2011	12 May 2011
Exercise period	24 July 2007 to 23 July 2010	24 August 2007 to 23 August 2010	21 August 2009 to 20 August 2012	4 April 2011 to 3 April 2013	12 May 2011 to 11 May 2013
Exercise price					
– at date of grant (note (b))	0.582	0.420	0.164	0.153	0.154
– adjustment upon the completion of the open offer	0.485	0.350	N/A	N/A	N/A
– adjustment upon the completion of the share consolidation	N/A	N/A	N/A	1.530	1.540
Price of the Company's shares at the date of grant (note (c))	0.582	0.420	0.164	0.153	0.153

30. 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 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 2009	220,900,000	0.483
Granted during the year	205,000,000	0.164
Adjustment upon the completion of the open offer	44,400,900	0.403
Exercised during the year	(51,000,000)	0.164
Outstanding at 30 June 2010 and 1 July 2010	419,300,900	0.315
Exercised during the year	(154,000,000)	0.164
Granted during the year	187,500,000	0.153
Expired during the year	(265,300,900)	0.403
Adjustment upon the completion of share consolidation	(168,750,000)	1.533
Outstanding at 30 June 2011	**18,750,000**	**1.533**
Exercisable at 30 June 2011	**18,750,000**	**1.533**
Exercisable at 30 June 2010	419,300,900	0.315

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.212 (2010: HK$0.248). The options outstanding at the end of the year have a weighted average remaining contractual life of 1.80 (2010: 0.95) year(s) and the exercise prices range from HK$1.530 to HK$1.540 (2010: HK$0.164 to HK$0.485).

30. Share Option Scheme (continued)

(c) (continued):

The aggregate estimated fair value of the options granted during the year ended 30 June 2011 calculated using the Black-Scholes pricing model was approximately HK$5,461,000 (2010: HK$10,199,000). The inputs into the model were as follows:

	Share options granted on		
	21 August 2009	**4 April 2011**	**12 May 2011**
Option value	HK$0.050	HK$0.029	HK$0.029
Total fair value	HK$10,199,000	HK$3,646,000	HK$1,815,000
Exercisable price	HK$0.164	HK$0.153	HK$0.154
Expected volatility	68.1%	42.9%	43.1%
Risk-free interest rate	0.33%	0.37%	0.29%
Expected life of options	1.4 year	1.28 year	1.28 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.

31. Reserves

(a) Group

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

(b) Company

	Share premium account HK$'000	**Share option reserve** HK$'000	**Warrant reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 July 2009	1,142,886	17,008	–	117,946	1,277,840
Loss for the year	–	–	–	(10,699)	(10,699)
Issue of shares	262,595	–	–	–	262,595
Share option benefits					
– Grant of share options	–	10,199	–	–	10,199
– Exercise of share options	7,854	–	–	–	7,854
– Transfer to share premium	2,537	(2,537)	–	–	–
Issue of warrants	–	–	2,112	–	2,112
At 30 June 2010 and 1 July 2010	1,415,872	24,670	2,112	107,247	1,549,901
Loss for the year	–	–	–	(26,012)	(26,012)
Issue of shares	234,623	–	–	–	234,623
Share option benefits					
– Grant of share options	–	5,461	–	–	5,461
– Exercise of share options	23,716	–	–	–	23,716
– Transfer to share premium	24,670	(24,670)	–	–	–
Expiry of warrants	–	–	(2,112)	2,112	–
At 30 June 2011	**1,698,881**	**5,461**	**–**	**83,347**	**1,787,689**

31. Reserves (continued)

(c) Nature and purpose of reserves of the Group

(i) Share premium account

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

(ii) 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.

(iii) 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.

(iv) 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.

(v) Warrant reserve

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. Warrant reserve will be transferred to share premium account upon the exercise of the warrants or released to retained profits if the warrants remain unexercised at the expiry date.

32. Deferred Tax

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

	Group	
	2011	2010
	HK$'000	HK$'000
At beginning of year	**(154,650)**	(159,049)
Credit to profit or loss (note 10)	**3,897**	6,215
Charge to equity (note 16)	**(7,421)**	(409)
Exchange differences	**(4,560)**	(1,407)
At end of year	**(162,734)**	(154,650)

32. Deferred Tax (continued)

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

Deferred tax assets	**Decelerated tax depreciation**	**Other temporary differences**	**Total**
	HK$000	HK$000	HK$000
At 1 July 2009	513	1,081	1,594
Charge to profit or loss	(461)	(87)	(548)
Exchange differences	3	16	19
At 30 June 2010 and 1 July 2010	55	1,010	1,065
Charge to profit or loss	(56)	(1,027)	(1,083)
Exchange differences	1	17	18
At 30 June 2011	**–**	**–**	**–**

Deferred tax liabilities	**Decelerated tax depreciation**	**Other temporary differences**	**Revaluation of buildings and prepaid land lease payments**	**Total**
	HK$000	HK$'000	HK$000	HK$000
At 1 July 2009	10,665	12,103	(183,411)	(160,643)
Credit to profit or loss	2,105	3,498	1,160	6,763
Charge to equity	–	–	(409)	(409)
Exchange differences	198	188	(1,812)	(1,426)
At 30 June 2010 and 1 July 2010	12,968	15,789	(184,472)	(155,715)
Credit to profit or loss	1,977	1,835	1,168	4,980
Charge to equity	–	–	(7,421)	(7,421)
Exchange differences	774	655	(6,007)	(4,578)
At 30 June 2011	**15,719**	**18,279**	**(196,732)**	**(162,734)**

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

33. Trade Payables

The Group normally obtains credit terms ranging from 30 to 120 days (2010: 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	
	2011	2010
	HK$'000	HK$'000
Within 30 days	**19,194**	21,326
31 to 60 days	**21,027**	11,668
61 to 90 days	**843**	6,707
91 to 120 days	**5,017**	7,185
121 to 365 days	**22,854**	22,886
Over 365 days	**10,407**	9,798
	79,342	79,570

The Group's trade payables are denominated in RMB.

34. Due to a Director and a Non-Controlling Shareholder of a Subsidiary

The amounts due to a director and a non-controlling shareholder of a subsidiary are unsecured, interest-free and have no fixed terms of repayment.

35. Bank Loans

The Group's bank loans are repayable as follows:

	2011 HK$'000	2010 HK$'000 (Restated)
Term loans subject to a repayment on demand clause	**240,800**	114,943
Within one year	**56,383**	58,480
In the second year	**2,252**	2,203
In the third to fifth years inclusive	**7,042**	6,898
After five years	**31,761**	34,157
	338,238	216,681
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(297,183)**	(173,423)
	41,055	43,258

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

	2011 HK$'000	2010 HK$'000
Hong Kong dollars	**43,258**	45,417
RMB	**294,980**	171,264
	338,238	216,681

Bank loans of approximately HK$54,180,000 (2010: HK$56,321,000) are arranged at fixed interest rate of 5.841% (2010: 5.841%) p.a. and exposes the Group to fair value interest rate risk. Bank loans of approximately HK$284,058,000 (2010: HK$160,360,000) are arranged at floating rate of 2.10% to 6.65% (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.

36. Capital Commitments

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

	2011 **HK$'000**	2010 HK$'000
Contracted but not provided for		
Buildings and construction in progress	**983,718**	1,287,849

The Company did not have any capital commitments as at 30 June 2011 (2010: Nil).

37. Lease Commitments

At 30 June 2011 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2011 **HK$'000**	2010 HK$'000
Within one year	**1,166**	1,749
In the second to fifth years inclusive	**–**	1,166
	1,166	2,915

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for lease terms of 3 years (2010: 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 2011 (2010: Nil).

38. Events After the Reporting Period

On 8 September 2011, Dragon Boom entered into a share purchase agreement with one of the non-controlling shareholders of Racing Dragon (the "Vendor") for the acquisition of 12% equity interest of Racing Dragon and a loan of approximately HK$22,670,000 owing by Racing Dragon to the Vendor at a total consideration of approximately HK$62,000,000. The total consideration will be satisfied by cash and is payable within 90 days from the date of completion of the acquisition.

39. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 September 2011.