中國天
China Zenith

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 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Yuen Tung (resigned as Chairman of the Board and an executive director on 2 February 2012)
Ms. Chan Yuk Foebe (appointed as Chairman of the Board with effect from 2 February 2012)
Mr. Peng Zhanrong
Mr. Chiau Che Kong
Mr. Wu Jianwei

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan
Mr. Tam Ching Ho
Dato' Wong Sin Just
Mr. Wong Sin Lai

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

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 2012.

Business Review

For the year ended 30 June 2012, turnover of the Group amounted to approximately HK$213,791,000, representing a decrease of 84.9% compared with that of the financial year ended 30 June 2011. Loss attributable to owners of the Company amounted to approximately HK$390,112,000 was recorded for the financial year under review as opposed to a profit of approximately HK$95,517,000 last year.

During the financial year under review, the decrease in turnover was primarily attributed by the decrease in the sales volume of both of our coal-related chemical products and bio-chemical products.

The substantial loss attributable to shareholders was mainly due to (i) challenging operating environment of the manufacturing industry with declined demand and inflated borrowing costs resulted from tightening national monetary policies adopted by the government of the People's Republic of China (the "PRC"); (ii) the idle operating cost resulted from the suspension of the production of coal-related chemical products from May 2011 to March 2012 caused by the aftermath of the industrial accident occurred in the calcium carbide production facilities of Mudanjiang Daytech Chemical Limited ("Mudanjiang Daytech"), a wholly owned subsidiary of the Company; (iii) the decrease in profit margins for all bio-chemical products and the unavoidable operating cost occurred from the suspension of the production of the bio-chemical division from October 2011 onwards; (iv) impairment of long-outstanding trade receivables and (v) impairment of goodwill on vitamin C, glucose, starch businesses and impairment of other intangible assets on the heat and power business.

The segment loss of approximately HK$322,271,000 of the Group was attained during the financial year under review whereas there was a segment profit of approximately HK$167,058,000 for the financial year ended 30 June 2011.

The segment loss was primarily the result of approximately HK$136,582,000, approximately HK$112,176,000 and approximately HK$73,513,000 in segment losses incurred by the coal related chemical products division, the heat and power division and the bio-chemical products division, respectively.

The Group's selling and distribution costs for the financial year under review was approximately HK$10,438,000, representing a decrease of 23.7% when compared with that of the financial year ended 30 June 2011. The drop in selling and distribution costs was resulted from the decrease in turnover during the year.

The Group's administrative expenses for the financial year under review was approximately HK$128,331,000, representing an increase of 12.5% when compared with that of the financial year ended 30 June 2011.

During the financial year under review, extra environmental protection expenditure of approximately HK$24,225,000 and the provision of approximately HK$8,966,000 for taxes on the use of land and buildings of the Group located in the PRC were recorded as administrative expenses. The Group complied strictly with the management designated policy for promoting green production.

Excluding the effect of the write-off of approximately HK$12,614,000 of promotional expenses incurred by an unsuccessful fund-raising exercise, and the share option benefit expenses of approximately HK$5,461,000, the Group's normal administrative expenses for the financial year ended 30 June 2011 was approximately HK$95,951,000.

Taking into account of the above, the Group's normal administrative expense was approximately HK$95,140,000 for the financial year under review, representing a slight decrease of approximately HK$0.8 million when compared with that of the financial year ended 30 June 2011.

Business Review (continued)

During the financial year under review, the Group's other operating expenses was approximately HK$327,011,000. Such expenses, as disclosed in Note 12 to the consolidated financial statements for the year ended 30 June 2012 set out on page 69 of the Company's 2012 annual report, mainly represented (i) the factory overhead, namely depreciation and repairs and maintenance of production plant and machinery and direct labour cost, in the sum of approximately HK$106,249,000 incurred as a result of the suspension of the production of the coal-related chemical products from May 2011 to March 2012 caused by the aftermath of the industrial accident occurred in the calcium carbide production facilities of Mudanjiang Daytech and the suspension of the production in the Company's bio-chemical division from October 2011 onwards; (ii) the impairment of goodwill of bio-chemical products business in the sum of approximately HK$64,203,000; (iii) the impairment of other intangible assets of the heat and power division in the sum of approximately HK$82,530,000; (iv) the allowances for receivables in the sum of approximately HK$42,583,000; and (v) revaluation deficits on buildings in the sum of approximately HK$9,077,000.

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

For the year ended 30 June 2012, the Group's other income amounted to approximately HK$20,417,000, mainly representing government grants and subsidies, rental income and gain of disposal of financial assets. The decrease was mainly caused by the decrease in government grants and subsidies.

Coal-related chemical production division

Our production of calcium carbide in Mudanjiang has been suspended in the aftermath of an industrial accident which occurred in the calcium carbide production facilities of Mudanjiang Daytech in May 2011. Aimed at further enhancing work safety and improving work efficiency for all of the Company's production facilities, the increase in the cost of repairs and maintenance for production recorded during the year was substantial.

The operation of vertically integrated product chain from calcium carbide to Polyvinyl-chloride ("PVC") in Mudanjiang was gradually resumed starting from April 2012. Only one of the two calcium carbide reactors was running with the designed annual capacities of 50,000 tonnes since the resumption of production. Unavoidably, the profit margin was worse off since the Group faced a high unit cost of production of calcium carbide with lower production capacities. Moreover, the output of calcium carbide was only sufficient for the production of PVC. Therefore, the production of vinyl acetate was not yet resumed during the financial year under review.

The preferential electricity tariff policy for all manufacturing companies in Mudanjiang had been officially abolished since 2010. The enforcement of no preferential electricity tariff policy became very stringent in 2011. This further increased the cost of production of all calcium carbide and its related downstream chemical products. The management was very cautiously to explore ways to improve the operation methods in order to avoid energy wastage after the production of calcium carbide and PVC was resumed.

PVC

During the year under review, the turnover of the PVC business represented 34.3% of the turnover of the Group.

There was a huge drop in the turnover because PVC production was suspended for about a nine-month period for the year under review. In addition, the PVC production facility was not running at its full capacity since the production of calcium carbide was not very stable after the production was resumed.

Vinyl acetate

The turnover of the vinyl acetate business represented 16.3% of the turnover of the Group.

Business Review (continued)

Coal related chemical production division (continued)

Vinyl acetate (continued)

The production of vinyl acetate had not yet been resumed and was hindered by the supply of internally produced calcium carbide. To maintain good relationship with the nationwide chemical conglomerates, namely, PetroChina and Sinopec, the management of the vinyl acetate division had tried their best to fulfill the minimum purchase order received by making purchase from the open chemical market.

Prospect

Coal related chemical production division

The first phase of construction of our own calcium carbide production facilities in Heihe in the PRC had been completed and the installation work was nearly completed at the moment. Trial run production was scheduled to take place by the end of September 2012. For the first phase, the designed annual production capacity of calcium carbide is expected to be 100,000 tonnes. The management is confident that the trial run will be successful and it is expected that the production facilities will gradually be running smoothly by early 2013.

Heihe City Local Government has guaranteed that Heihe Longjiang Chemical Limited, our subsidiary which owns calcium carbide production facilities of the Group in Heihe, will start to enjoy a preferential electricity tariff from 2012 to 2014. Such electricity tariff is very competitive and is over 50% below that being enforced in Mudanjiang. It will be more cost effective for the Group to produce calcium carbide in Heihe since the calcium carbide production consumes a large amount of electricity. It is expected that calcium carbide production in Heihe will become a growth engine of the Group.

The preferential electricity tariff policy for all manufacturing companies in Mudanjiang had been officially abolished since 2010. The enforcement of no preferential electricity tariff policy became very stringent starting from 2011. This further increased the cost of production of our calcium carbide and its related downstream chemical products in Mudanjiang.

In view of this, feasibility study was conducted to consider relocating the Group's calcium carbide production facilities from Mudanjiang to Heihe. Thereafter, the Group will focus on developing the downstream production facilities in Heihe in light of the competitive advantage provided by the business environment in Heihe.

Future development

The management believes that the business environment is foreseen to become harsher. The global gloomy economic situation triggered by the debt crisis in Europe had been going on for more than one year and is expected to last for another year or two. The economic downturn in the PRC became more and more apparent as both the exports and domestic consumptions shrinked during the year under review.

It is expected that the central government of the PRC will begin to relax certain monetary policies in order to rejuvenate a more stable economic growth in the long run. However, raw materials prices, labour costs and inflation are anticipated to rise in the coming financial year. These will exert operating pressure on all PRC enterprises and including us in the near future.

To cope with the fast changing and challenging business environment, the Group will strive to maintain its competitiveness through carrying out effective cost control, maintaining an efficient production system and developing new chemical products.

The Board is confident that the new calcium carbide business in Heihe will contribute to a prosperous future and success for the Group and will deliver fruitful return to the shareholders as a whole.

Prospect (continued)

Gratitude

On behalf of the Company, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers, banks and to our management and employees for their unreserved support and continuing trust to the Group.

By order of the Board

Chan Yuk, Foebe
Chairman and Chief Executive Officer

Hong Kong, 28 September 2012

Management Discussion and Analysis

Business Environment

During the financial year under review, the Group faced a challenging operating environment resulting from tightened national monetary policies adopted by the central government of the PRC. These had caused tremendous pressure to the operating environment of the manufacturing industry. Moreover, the management had tried the best to cope with the price hikes of major raw materials, for example, coal, which is used for the operation of power-generating facilities, and the increase in cost of conversion, such as cost of electricity consumed for the manufacturing processes for all coal-related chemical products and bio-chemical products.

The increase in the cost of production of the Group was hardly passed to downstream customers, and therefore, the margins of our chemical products had been further squeezed when compared with that of the last financial year.

Business Review

Coal-related chemical production division

PVC

During the financial year under review, the PVC segment recorded revenue of approximately HK$73,345,000, representing a decrease of 90.5% over that of last year. The segment recorded a segment loss of approximately HK$37,857,000 as opposed to the segment profit of approximately HK$105,477,000 last year. Owing to the suspension of production of PVC for over nine months during the current financial year, the turnover of PVC division decreased substantially. The segment loss was caused by the decrease in both the price and quantities of PVC being sold during the year and the unavoidable idle operating cost of the PVC production facilities when PVC production was suspended.

Vinyl acetate

During the financial year under review, segment revenue was approximately HK$34,950,000, representing a decrease of 92.2% over that of last year. The segment recorded a segment loss of approximately HK$36,583,000 as opposed to the segment profit of approximately HK$64,242,000 last year. The segment loss was caused by the decrease in the quantities of vinyl acetate being sold during the year and the unavoidable idle operating cost of the vinyl acetate production facilities during the production suspension period.

Calcium carbide

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.

The acquisition of a further 12% of the equity interests in Racing Dragon Group Limited, the foreign investment company of Heihe Longjiang Chemical Co. Ltd., was completed on 8 September 2011 and had subsequently been approved by the Company's extraordinary general meeting held on 5 December 2011. Our Group owns 67% of the equity interest in Racing Dragon Group Limited after the acquisition.

Heat and Power division

During the year under review, the heat and power segment recorded a turnover of HK$77,265,000, representing an increase of 21.7% over that of last year. Although the turnover increased, segment loss of approximately HK$112,176,000 was recorded during the year under review as opposed to a segment profit of HK$2,128,000 last year. The increase in turnover was mainly caused by heat supplied to additional residential areas. However, the unit cost of production of steam and electricity increased as the price of coal, the major raw material for operation, increased as compared to that of the last financial year.

Business Review (continued)

Bio-chemical products division

During the financial year under review, the vitamin C, glucose and starch segment recorded a revenue of approximately HK$25,697,000, representing a decrease of 79.7% over that of last year. Segmental loss of approximately HK$73,513,000 was attained during the year under review as opposed to segment profit of HK$11,779,000 last year.

During the year under review, the market selling price of vitamin C dropped to a historic low. The revenue contribution was not able to cover the cost of production. Our vitamin C production was seriously affected during the year. The management decided to temporarily shut down the production of vitamin C from October 2011.

PROSPECT

Coal-related chemical production division

The management is not very optimistic on the operation of a vertically integrated product chain from calcium carbide to both PVC and vinyl acetate in Mudanjiang because the cost of electricity and other cost of conversion is relatively high when comparing with that in Heihe. Therefore, the management has performed a feasibility study on relocating the calcium carbide production facilities in Mudanjiang to Heihe.

Heat and Power division

The heat and power division served as a steady supply of steam, one of the major cost ingredients to the production process of the other chemical products of the Group. The cost of coal reached historic price hikes during the current financial year. Thus, it created extra cash flow pressure to the Group during this financial year. The local management had deal with the problem and successfully secured other external steam suppliers to lower the cost of steam for our chemical products.

In order to avoid running the heat and power production facilities at loss and aim for lowering the cost of conversion of our chemical products, the heat and power production facilities was fully shut down in July 2012. The Group started to source the steam or heat for conversion from external steam supplier since then. Furthermore, the price of coal had dropped from the peak from last quarter. This will inevitably reduce the cost of operation of our power generating facilities. As the operating environment is improving, the local management will consider resuming the production of our power plant. At the same time, the local management does not rule out the possibilities of the disposal of the heat and power production facilities to a nationwide power-generating company.

Bio-chemical products division

The management will closely monitor the market price of vitamin C and capture the best time to resume production of vitamin C. Moreover, the management will actively looking for suitable business partners to explore other means to make use of the idle production facilities for the Bio-chemical products of the Group.

On the other hand, since the land resources occupied by the bio-chemical products division is over 300,000 square meters, the management does not rule out the option of changing the usage of land from industrial to business and residential. Feasibility studies had been made for re-development of the land into a business and residential area.

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, debt and equity fundings.

PROSPECT (continued)

Capital Structure, Liquidity and Financial Resources (continued)

Equity funding

On 20 July 2012, the net proceeds raised from the open offer by issuing 1,491,266,346 offer shares at HK$0.150 on the basis of two offer shares for every one existing share held were HK$219.7 million. As at the date of this annual report, approximately HK$70.0 million was applied for finalising the construction of calcium carbide production facilities in Heihe; approximately HK$60.0 million was used to reduce the current debts of the Group and approximately HK$89.7 million was applied to enhance the working capital of the Group.

Liquidity and Financial Ratios

As at 30 June 2012, the Group had total assets of approximately HK$3,981.5 million (2011: HK$4,451.2 million) which were financed by current liabilities of approximately HK$719.5 million (2011: HK$710.1 million), non-current liabilities of approximately HK$164.1 million (2011: HK$203.8 million), non-controlling interests of approximately HK$239.3 million (2011: HK$262.6 million) and shareholders' equity of approximately HK$2,858.6 million (2011: HK$3,274.7 million).

As at 30 June 2012, the current assets of the Group amounted to approximately HK$294.7 million (2011: HK$826.5 million) comprising inventories of approximately HK$56.2 million (2011: HK$111.0 million), trade receivables of approximately HK$156.0 million (2011: HK$438.6 million), prepayments, deposits and other receivables of approximately HK$55.0 million (2011: HK$141.1 million), other loan receivables of approximately HK$0.5 million (2011: HK$10.0 million), financial assets at fair value through profit or loss of approximately HK$21.7 million (2011: HK$49.9 million), current tax assets of approximately HK$Nil (2011: HK$1.0 million), cash and cash equivalents of approximately HK$5.3 million (2011: HK$74.9 million). As at 30 June 2012, 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 0.4 (2011: 1.2), 0.3 (2011: 1.0), 22.2% (2011: 20.5%) and 31.7% (2011: 27.9%), respectively.

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

Significant investment held by the Company

As at 30 June 2012, the Company did not have any significant investments except for the financial assets at fair value through profit or loss of approximately HK$21.7 million, the Company had recorded a fair value loss on financial assets at fair value through profit or loss of approximately HK$9.3 million for the financial year.

Charges on the Group's assets

As at 30 June 2012, bank loans of approximately HK$318.8 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 2012, 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 2012.

PROSPECT (continued)

Number and Remuneration of Employees

As at 30 June 2012, the Group had 1,808 full-time employees in the PRC and Hong Kong. The Group recognises the importance of human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance-related commissions.

As at 30 June 2012, there were approximately 18.8 million share options outstanding. These comprise approximately 12.5 million share options with an exercisable period of up to 3 April 2013 at the exercise price of HK$1.53 per share and 6.3 million share options with an exercisable period of 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.

The Code on Corporate Governance Practices (the "Former CG Code") as set out in Appendix 14 of the Listing Rules was amended and replaced by the Corporate Governance Code (the "New CG Code") effective from 1 April 2012 and has been applicable to financial reports covering the period after 1 April 2012. For corporate governance purposes, the Company has adopted the Former CG Code up to 1 March 2012 and the New CG Code since 1 April 2012.

The Company has applied the principles and has complied with the code provisions of the Former CG Code during the period from 1 July 2011 to 31 March 2012 and has applied the principles and has complied with the code provisions of the New CG Code during the period from 1 April 2012 to 30 June 2012, except for a deviation which is summarised below:

Distinctive Roles of Chairman and Chief Executive Officer

Code Provision A.2.1

Paragraph A.2.1 of the New CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

After Mr. Chan Yuen Tung, the former Chairman of the board of directors (the "Board"), resigned on 2 February 2012, the roles of Chairman of the Board and Chief Executive Officer were performed by the same individual, Ms. Chan Yuk Foebe, and were not separated. The Board met regularly to consider issues related to corporate matters affecting the operations of the Group. The Board considered that such a structure would not impair the balance of power and authority of the Board and the Company's management and believed that this structure would enable effective planning and implementation of corporate strategies and decisions.

This report describes the Group's corporate governance practices applied throughout the year under review.

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 the 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. The Board regularly reviews the contribution required from a director to perform his or her responsibilities to the Company, and whether he or she is spending sufficient time performing them.

As at 30 June 2012, the Board comprises eight members, namely, Ms. Chan Yuk Foebe as the Chairman of the Board (since 2 February 2012) and the Chief Executive Officer, Mr. Peng Zhanrong, Mr. Chiau Che Kong and 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. An updated list of directors of the Company and their respective roles and functions have been maintained on the website of the Hong Kong Stock Exchange and that of the Company.

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.

The Board of Directors (continued)

Composition and Practices (continued)

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. 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.

Appropriate liability insurance for directors has been arranged for indemnifying their liabilities arising out of corporate activities. This insurance coverage is reviewed on an annual basis.

Training and Support for Directors

Directors must keep abreast of their collective responsibilities. Each newly-appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills. The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management, where appropriate, to ensure awareness of best corporate governance practices.

During the period from 1 April 2012 to 30 June 2012, the Directors also read various literature on directors' obligations and responsibilities.

The Board Meeting – Full Directors' Board meeting

The Board meets regularly at least four times a year at quarterly intervals and holds additional meetings as and when the Board thinks appropriate.

During the year ended 30 June 2012, 10 Board meetings 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[1]	6/6
Ms. Chan Yuk Foebe[2] *(Chief Executive Officer)*	10/10
Mr. Peng Zhanrong	9/10
Mr. Chiau Che Kong	10/10
Mr. Wu Jianwei	8/10
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	10/10
Mr. Tam Ching Ho	6/10
Dato' Wong Sin Just	6/10
Mr. Wong Sin Lai	9/10

The Board Meeting – Executive Directors' Board Meeting

In addition, during the year ended 30 June 2012, seven 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.

The Board of Directors (continued)

The Board Meeting – Executive Directors' Board Meeting (continued)

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[3]	2/2
Ms. Chan Yuk Foebe[4]	
(Chief Executive Officer)	7/7
Mr. Peng Zhanrong	5/7
Mr. Chiau Che Kong	7/7
Mr. Wu Jianwei	4/7
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	N/A
Mr. Tam Ching Ho	N/A
Dato' Wong Sin Just	N/A
Mr. Wong Sin Lai	N/A

The Board Meeting – Committee Meeting

During the year ended 30 June 2012, four Board committee meetings were held. The attendance of each director, on a named basis and by category, at Board committee meetings during the year is set out below:

	Number of meetings attended/ Number of meetings held		
Directors	Remuneration Committee	Audit Committee	Nomination Committee
Executive directors			
Mr. Chan Yuen Tung[5]	0/0	N/A	0/0
Ms. Chan Yuk Foebe[6]			
(Chief Executive Officer)	N/A	N/A	0/0
Mr. Peng Zhanrong[7]	0/0	N/A	N/A
Mr. Chiau Che Kong	N/A	N/A	1/1
Mr. Wu Jianwei	N/A	N/A	N/A
Independent non-executive directors			
Mr. Ma Wing Yun Bryan	1/1	2/2	1/1
Mr. Tam Ching Ho	0/1	2/2	0/1
Dato' Wong Sin Just	N/A	N/A	N/A
Mr. Wong Sin Lai	1/1	2/2	1/1

Notes:

1. Mr. Chan Yuen Tung ceased to be the Chairman of the Board, an executive director and a member of the Nomination Committee and the Remuneration Committee on 2 February 2012.

2. Ms. Chan Yuk Foebe was appointed as the Chairman of the Board and the Chairman of the Nomination Committee on 2 February 2012.

3. Mr. Chan Yuen Tung ceased to be the Chairman of the Board and an executive director and a member of the Nomination Committee and the Remuneration Committee on 2 February 2012.

4. Ms. Chan Yuk Foebe was appointed as the Chairman of the Board and the Chairman of the Nomination Committee on 2 February 2012.

5. Mr. Chan Yuen Tung ceased to be the Chairman of the Board and an executive director and a member of the Nomination Committee and the Remuneration Committee on 2 February 2012. No meetings of the Remuneration Committee and Nomination Committee were held before his resignation.

6. Ms. Chan Yuk Foebe was appointed as the Chairman of the Board and the Chairman of the Nomination Committee on 2 February 2012.

7. Mr. Peng Zhanrong was appointed as a member of the Remuneration Committee on 2 February 2012.

The Board of Directors (continued)

The Board Meeting – Committee Meeting (continued)

Pursuant to the Articles, meetings or extraordinary meetings of the Board may be convened by means of telephone or similar telecommunication facilities. Regular meetings of the Board were held during the year. Extra meetings were also held to cater for important matters arising from time to time. Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least three days before each meeting to keep the directors appraised of the latest developments and financial position of the Company to enable them to make informed decisions.

Minutes of Board/committee meetings would be kept by the company secretary of the Company and shall be open for inspection by directors. Where directors have a material or conflict of interests in any transaction discussed in the Board/committee meetings, 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.

Non-executive directors, including INEDs, should attend Board, committee and general meetings and contribute to the Company's strategy and policies.

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 2011. 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 20 December 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.

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 2012.

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.

Board Committees (continued)

The Board committees are provided with sufficient resources to discharge their duties and upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the expense of the Company.

Audit Committee

The Company set up the Audit Committee on 8 April 2001, with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control systems. In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised on 21 October 2006 and 21 March 2012 in terms substantially the same as the provisions set out in the New 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, during the year, the Audit Committee reviewed the audited financial statements of the Company for the year ended 30 June 2012 and the unaudited financial statements of the Company for the six months ended 31 December 2011. It also reviewed the system of internal control of the Company.

During the year, the Audit Committee met three times with the chief financial officer of the Company. Moreover, the Audit Committee also met twice 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 and revised on 21 March 2012 with specific written terms of reference in compliance with the code provisions in the New 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. Peng Zhanrong (who has replaced Mr. Chan Yuen Tung as a member of the Remuneration Committee since 2 February 2012).

The Remuneration Committee is responsible for, inter alia, advising the Board on the remuneration policy and structure for all remuneration of the Company's directors and senior management, as well as reviewing and either determining with delegated responsibility the remuneration packages of individual executive directors and senior management or making recommendations to the Board on the remuneration packages of individual executive directors and senior management; making recommendations to the Board on the remuneration of non-executive directors, and approving the compensation to executive directors and senior management for any loss or termination of their office or appointment, and reviewing and approving compensation relating to dismissal or removal of directors for misconduct. No director was involved in deciding his/her own remuneration.

Board Committees (continued)

Remuneration of Directors and Senior Management

Pursuant to paragraph B1.5 of the New CG Code, the remuneration of the members of the senior management by band for the year ended 30 June 2012 is set out below:

Remuneration band (HK$)	**Number of individuals**
Nil to 1,000,000	12

Further particulars regarding Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 13 to the financial statements as set out on pages 70 to 71 of this annual report.

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee met once, during which it assessed the performance of the executive directors and approved the terms of executive directors' service contracts. 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.

Nomination Committee

The Nomination Committee was established on 2 November 2007 and revised on 21 March 2012 with specific written terms of reference in compliance with the New CG Code. The Nomination Committee, currently comprises two executive directors, namely Ms. Chan Yuk Foebe (who has replaced Mr. Chan Yuen Tung as the Chairman of the Committee since 2 February 2012) 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, inter alia, the following:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(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 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 met once, during which Ms. Chan Yuk Foebe was nominated as the chairman of the Nomination Committee while Mr. Peng Zhanrong was nominated as a member of the Remuneration Committee. 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.

Board Committees (continued)

Corporate Governance Functions

During the year under review, the Board determined the policy for the corporate governance of the Company, and performed, inter alia, the following duties: (a) developed and reviewed the Company's policies and practices on corporate governance and made recommendations to the Board; (b) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements; (c) developed, reviewed and monitored the code of conduct applicable to employees and directors; and (d) reviewed the Company's compliance with the code and disclosure in the Corporate Governance Report.

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 pages 34 to 35 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 2012.

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

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

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	1,125
Non-audit services:	
Circular and prospectus for open offer	200
Agreed upon procedures	70
	270

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.

Internal Control and Risk Management

(continued)

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. It was also the Board's review to consider the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

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, must attend the annual general meeting to address shareholders' queries. External auditor is also invited to attend the Company's annual general meetings and is available to assist the directors in addressing queries from shareholders relating to the conduct of the audit and the preparation and content of its auditor's report.

Shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings can make a requisition to convene an extraordinary general meeting pursuant to article 64 of the Company's articles of association. The procedures for shareholders to put forward proposals at general meetings are stated as follows:

(a) The written requisition must state the purposes of the meeting, and must be signed by all the shareholders concerned and may consist of several documents in like form each signed by one or more shareholders concerned.

(b) The written requisition must be deposited at Unit 1101-12, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong, the head office of the Company, for the attention of the Directors or the Company Secretary.

(c) The written requisition will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the relevant resolution in the agenda for such general meeting. Such general meeting shall be held within two months after the deposit of such requisition.

(d) If within 21 days of such deposit, the Directors fail to proceed to convene such a general meeting, the requisitionist(s) himself (themselves) may themselves convene a meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors to do so shall be reimbursed to the requisitionist(s) by the Company.

Shareholders' Rights and Investor Relations (continued)

During the year under review, three general meetings were held. The 2011 annual general meeting was held on 19 December 2011. Two extraordinary general meetings were held on 5 December 2011 and 15 June 2012, respectively. The attendance record of each director, on a named basis and by category, at the general meetings held during the year under review is set out below:

Directors	Number of general meetings attended/ Number of general meetings held
Executive directors	
Mr. Chan Yuen Tung[1]	2/2
Ms. Chan Yuk Foebe	2/3
Mr. Peng Zhanrong	0/3
Mr. Chiau Che Kong	3/3
Mr. Wu Jianwei	0/3
Independent non-executive directors	
Mr. Ma Wing Yun Bryan	0/3
Mr. Tam Ching Ho	0/3
Dato' Wong Sin Just	0/3
Mr. Wong Sin Lai	1/3

Note:

1. Mr. Chan Yuen Tung ceased to be the Chairman of the Board, an executive director and a member of the Nomination Committee and the Remuneration Committee on 2 February 2012.

No amendments were made to the Memorandum and Articles of Association of the Company during the year under review. The Memorandum and Articles of Association of the Company is available on both the website of the company and that of HKEx.

Shareholder Services

Any matter in relation to the transfer of shares, change of name or address, or loss of share certificates should be addressed to the Company's Hong Kong branch share registrar and transfer office as follows:

Tricor Tengis Limited

26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong
Tel: 2980 1888
Fax: 2810 8185

Shareholders' Enquiries to the Board

Shareholders of the Company may send their enquiries to the Board in writing with contact details (including registered name, address, telephone number and email address) to the Company Secretary of the Company as follows:

Address: Unit 1101-12, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong
Telephone: 2845 3131
Fax: 2845 3535
Email: info@chinazenith.com.hk

Biographical Details of Directors and Senior Management

Directors

Executive Directors

Mr. Chan Yuen Tung (陳遠東), aged 44, 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 was appointed as a member of remuneration committee in place of Ms. Chan Yuk Foebe with effect from 18 August 2009. Mr. Chan resigned as the Chairman, an executive director, a member of the nomination committee and remuneration committee of the Company on 2 February 2012.

Ms. Chan Yuk Foebe (陳昱), aged 43, is the chairman and 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. Save as disclosed herein, Ms. Chan did not hold any other directorships in listed public companies in the last three years. 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 was appointed as the Chairman and a member of nomination committee in place of Mr. Chan Yuen Tung with effect from 2 February 2012.

Mr. Peng Zhanrong (彭展榮), aged 42, 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 did not hold any other directorships in listed public companies in the last three years. Mr. Peng Zhanrong was appointed as a member of remuneration committee in place of Mr. Chan Yuen Tung with effect from 2 February 2012.

Mr. Chiau Che Kong (周志剛), aged 44, 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 did not hold any other directorships in listed public companies in the last three years.

Directors (continued)

Executive Directors (continued)

Mr. Wu Jianwei (武建偉), aged 58, 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.

Independent Non-executive Directors

Mr. Ma Wing Yun Bryan (馬榮欣), aged 46, 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. Tam Ching Ho (譚政豪), aged 41, 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 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 and another company listed on the Main Board of the Singapore Exchange Limited for a total of about eight 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. Save as disclosed herein, Mr. Tam did not hold any other directorships in listed companies in the last three years.

Dato' Wong Sin Just (黃森捷), aged 46, 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. 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.

Directors (continued)

Independent Non-executive Directors (continued)

Dato' Wong was the non-executive director of SunCorp Technologies Limited (Stock Code: 1063), the shares of which are listed on the Stock Exchange, 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) (Stock Code: 648), the shares of which are listed on the Stock Exchange, until his resignation with effect from 8 December 2009. 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 was an independent non-executive director of China.com Inc. (Stock Code: 8006), the shares of which are listed on the Stock Exchange, until his resignation on 23 March 2011. Dato' Wong was an independent non-executive director of CDC Software Corporation Inc, the shares of which are listed on the NASDAQ market in the United States, until his resignation on 11 April 2012.

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 has been actively involved in various charitable and social organisations. This includes his role as a former member of the Campaign Committee, former 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 55, 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 41, 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 11 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.

Senior Management (continued)

Mr. Wu Lianyong (吳連勇), aged 41, 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.

Mr. Chen Li (陳蠡), aged 45, 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. Wang Manqing (王滿慶), aged 47, 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. Wong resigned on 30 April 2012.

Mr. Sun Wei (孫偉), aged 56, 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 49, 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 49, 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 49, 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 55, 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 40, 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 51, 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.

Mr. Cheng Ming (成明), aged 58, is the Vice General Manager of Heihe Longjiang Chemical Limited ("Heihe Longjiang") and is responsible for the production management and safety control of the calcium carbide production process in Heihe Longjiang. Mr. Cheng has over 20 years' experience in managing production of calcium carbide. He joined the Group in September 2009. He has extensive experience in managing calcium carbide production processes in various coal-related production enterprises in Hebei, Shandong, and Ningxia. Mr. Cheng completed programs of chemical management and chemical production technology at Hebei Chemical College (河北化工學院) in June 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 2012.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 23 to the financial statements.

An analysis of the Group's performance for the year by business segments is set out in note 9 to the financial statements.

Results and Dividends

The Group's profit for the year ended 30 June 2012 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 36 to 96 of this annual report.

The directors do not recommend the payment of dividend for the year ended 30 June 2012.

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				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**213,791**	1,415,414	1,381,342	1,095,614	1,666,103
(LOSS)/PROFIT FROM OPERATIONS	**(440,933)**	153,314	304,390	249,796	317,245
Finance costs	**(7,841)**	(4,274)	(6,325)	(5,894)	(4,888)
(LOSS)/PROFIT BEFORE TAX	**(448,774)**	149,040	298,065	243,902	312,357
Income tax credit/(expense)	**42,610**	(33,675)	(35,089)	(38,042)	1,764
(LOSS)/PROFIT FOR THE YEAR	**(406,164)**	115,365	262,976	205,860	314,121
Attributable to:					
Owners of the Company	**(390,112)**	95,517	217,618	167,896	265,394
Non-controlling interests	**(16,052)**	19,848	45,358	37,964	48,727
	(406,164)	115,365	262,976	205,860	314,121

Summary Financial Information (continued)

ASSETS, LIABILITIES AND EQUITY

	At 30 June				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**3,686,862**	3,624,693	3,076,911	2,451,963	1,756,599
Current assets	**294,671**	826,515	683,305	603,991	887,147
TOTAL ASSETS	**3,981,533**	4,451,208	3,760,216	3,055,954	2,643,746
Non-current liabilities	**164,149**	203,789	198,973	206,059	188,712
Current liabilities	**719,532**	710,126	541,624	428,870	217,019
TOTAL LIABILITIES	**883,681**	913,915	740,597	634,929	405,731
TOTAL EQUITY	**3,097,852**	3,537,293	3,019,619	2,421,025	2,238,015
Attributable to:					
Owners of the Company	**2,858,572**	3,274,747	2,793,461	2,244,408	2,073,859
Non-controlling interests	**239,280**	262,546	226,158	176,617	164,156
	3,097,852	3,537,293	3,019,619	2,421,025	2,238,015

Note: The results of the Group for the year ended 30 June 2012 and the assets, liabilities and equity of the Group as at 30 June 2012 are those set out in the audited financial statements on pages 36 to 37 and pages 38 to 39 of this annual report, respectively.

The results of the Group for the years ended 30 June 2008, 2009, 2010 and 2011 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 2008, 2009, 2010 and 2011 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 18 and 19 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 30 and 31 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. 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 under review are set out in the consolidated statement of changes in equity on page 40 of this annual report and note 32(b) to the financial statements as set out on page 89 of this annual report, respectively.

Distributable Reserves

At 30 June 2012, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK$65,281,000. In addition, the share premium account of the Company of approximately HK$1,698,881,000 as at 30 June 2012 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 36.5% of the Group's total sales for the year and the sales to the largest customer included therein amounted to approximately 9.4%.

Purchases from the Group's five largest suppliers accounted for approximately 66% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 38%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Directors

The directors of the Company during the year were as follows:

Executive Directors:

Mr. Chan Yuen Tung (resigned as Chairman of the Board and an executive director on 2 February 2012)
Ms. Chan Yuk Foebe (appointed as Chairman of the Board with effect from 2 February 2012)
Mr. Peng Zhanrong
Mr. Chiau Che Kong
Mr. Wu Jianwei

Independent Non-executive Directors:

Mr. Ma Wing Yun Bryan
Mr. Tam Ching Ho
Dato' Wong Sin Just
Mr. Wong Sin Lai

In accordance with articles 108 and 112 of the Articles, Mr. Chiau Che Kong, Mr. Wu Jianwei and Mr. Tam Ching Ho, 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 20 to 24 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. Chan Yuen Tung resigned as Chairman of the Board and an executive director of the Company on 2 February 2012.

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 since renewed twice for a further term of two years commencing from 1 April 2009 and 1 April 2011, respectively.

Directors' Service Contracts (continued)

The Company entered into a service contract with Mr. Tam Ching Ho commencing from 30 June 2007 to the following 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 since renewed twice for a further term of two years commencing from 7 December 2009 and 7 December 2011, respectively.

The Company entered into a service contract with Dato' Wong Sin Just for a term commencing from 27 December 2007 to the following 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 Just 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 term of 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 last annual general meeting (i.e. 19 December 2011) of the Company. On 20 December 2011, the Company renewed the service contract with Mr. Wong Sin Lai for a term of two years as an independent non-executive director of the Company commencing from 20 December 2011.

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 2012, 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

* Resigned on 2 February 2012

Save as disclosed herein, as at 30 June 2012, 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 2012, the following persons, other than a director or chief executive of the Company had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

Name	Number of Ordinary shares	Capacity (subject to the notes below)	Approximate percentage interest
Value Convergence Holdings Limited	Long position 1,077,554,260 (note 1)	Interest of controlled corporation	48.17% (note 3)
VC Brokerage Limited	Long position 1,077,554,260 (note 1)	Beneficial owner	48.17% (note 3)
VC Financial Group Limited	Long position 1,077,554,260 (note 1)	Interest of controlled corporation	48.17% (note 3)
Chung Oi Ling Stella	Long position 213,050,000 (note 2)	Interest of controlled corporation	9.52% (note 3)
Flame Capital Limited	Long position 209,680,000 (note 2)	Beneficial owner	9.37% (note 3)
UOB Kay Hian (Hong Kong) Limited	Long position 46,670,000	Have a security interest in shares	6.26%

Notes:

1. VC Brokerage Limited is the underwriter under the Open Offer announced by the Company on 26 April 2012. Value Convergence Holdings Limited has a controlling interest in VC Brokerage Limited and VC Financial Group Limited, and therefore, is deemed to have an interest in the underwritten Shares, being not more than 1,077,554,260 offer shares pursuant to the underwriting agreement.

2. Ms. Chung Oi Ling, Stella is a controlling shareholder of Flame Capital Limited. In accordance with the SFO, the interests of Flame Capital Limited are deemed to be, and have therefore been included in the interests of Ms. Chung Oi Ling, Stella. The 209,680,000 shares represent the interest as a sub-underwriter to the Underwriter.

3. Approximate percentage interest on the basis that no shares are allotted pursuant to the share options and that (i) none of the shareholders (save for Mr. Chan Yuen Tung, Ms. Chan Yuk Foebe and Mr. Chaiu Che Kong who take up an aggregate of 413,712,086 offer shares, being their entitlement in full under the Open Offer) takes up any of the offer shares; and (ii) all the underwritten shares are taken up by the underwriter pursuant to the underwriting agreement dated 26 April 2012.

Save as disclosed above, as far as the directors of the Company are aware, as at 30 June 2012, no other person had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

Emolument Policy and Long-term Incentive Scheme of the Group

Compensation for the Group is made reference to the prevailing market conditions, individual performance, contributions as well as duties and responsibilities.

A share option scheme is in place to provide appropriate long-term incentive to key staff of the Group including Executive Directors. Details of the share option scheme of the Company are set out in note 31 to the financial statements in this annual report.

Basis of Determining Emolument to Directors

The same remuneration philosophy is applicable to the Directors of the Company. Apart from benchmarking against the prevailing market condition, the Company will assess individual performance, contributions, duties and responsibilities in determining the remuneration for each Director.

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 under review 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 2012 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 2012.

Auditor

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

ON BEHALF OF THE BOARD

Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong
28 September 2012

Independent Auditor's Report

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 36 to 96, which comprise the consolidated and Company statements of financial position as at 30 June 2012, 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 the 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 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 2012, 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.

Material Uncertainty Relating to the Going Concern Basis

Without qualifying our opinion, we draw attention to note 2 to the financial statements which mentions that the Group incurred a loss of approximately HK$406,164,000 for the year ended 30 June 2012 and as at 30 June 2012 the Group had net current liabilities of approximately HK$424,861,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

28 September 2012

Consolidated Income Statement

for the year ended 30 June 2012

	Note	2012 HK$'000	2011 HK$'000
Turnover	7	**213,791**	1,415,414
Cost of sales		**(209,361)**	(1,135,790)
Gross profit		**4,430**	279,624
Other income	8	**20,417**	32,372
Selling and distribution costs		**(10,438)**	(13,676)
Administrative expenses		**(128,331)**	(114,026)
Other operating expenses		**(327,011)**	(30,980)
(Loss)/profit from operations		**(440,933)**	153,314
Finance costs	10	**(7,841)**	(4,274)
(Loss)/profit before tax		**(448,774)**	149,040
Income tax credit/(expense)	11	**42,610**	(33,675)
(Loss)/profit for the year	12	**(406,164)**	115,365
Attributable to:			
Owners of the Company	14	**(390,112)**	95,517
Non-controlling interests		**(16,052)**	19,848
		(406,164)	115,365
(Loss)/earnings per share			
– Basic	16	**(HK52.3 cents)**	HK14.1 cents
– Diluted		**(HK52.3 cents)**	HK14.0 cents

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2012

	Note	2012 HK$'000	2011 HK$'000
(Loss)/profit for the year		**(406,164)**	115,365
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		**33,961**	101,651
(Deficits)/gains on property revaluation		**(27,908)**	23,318
Other comprehensive income for the year, net of tax	17	**6,053**	124,969
Total comprehensive income for the year		**(400,111)**	240,334
Attributable to:			
Owners of the Company		**(389,591)**	203,946
Non-controlling interests		**(10,520)**	36,388
		(400,111)	240,334

Consolidated Statement of Financial Position

at 30 June 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Fixed assets	18	**3,100,635**	2,882,586
Land held under finance leases	19	**68,495**	69,176
Prepaid land lease payments	20	**468,208**	475,195
Goodwill	21	**37,904**	102,107
Other intangible assets	22	**7,123**	95,629
Deferred tax assets	33	**4,497**	–
		3,686,862	3,624,693
Current assets			
Inventories	25	**56,171**	110,991
Trade receivables	26	**155,957**	438,601
Other loan receivables	27	**500**	10,000
Prepayments, deposits and other receivables		**54,966**	141,106
Financial assets at fair value through profit or loss	28	**21,744**	49,941
Current tax assets		**–**	967
Bank and cash balances	29	**5,333**	74,909
		294,671	826,515
TOTAL ASSETS		**3,981,533**	4,451,208
Capital and reserves			
Share capital	30	**74,563**	74,563
Reserves	32	**2,784,009**	3,200,184
Equity attributable to owners of the Company		**2,858,572**	3,274,747
Non-controlling interests		**239,280**	262,546
Total equity		**3,097,852**	3,537,293

Consolidated Statement of Financial Position

at 30 June 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Bank loans	37	**38,806**	41,055
Deferred tax liabilities	33	**125,343**	162,734
		164,149	203,789
Current liabilities			
Trade payables	34	**48,121**	79,342
Other payables and accruals		**258,262**	257,640
Other loans	35	**74,414**	–
Due to a non-controlling shareholder of a subsidiary	36	**58,764**	66,124
Bank loans	37	**279,961**	297,183
Current tax liabilities		**10**	9,837
		719,532	710,126
Total liabilities		**883,681**	913,915
TOTAL EQUITY AND LIABILITIES		**3,981,533**	4,451,208
Net current (liabilities)/assets		**(424,861)**	116,389
Total assets less current liabilities		**3,262,001**	3,741,082

Chan Yuk Foebe
Chairman

Chiau Che Kong
Executive Director

Consolidated Statement of Changes in Equity

for the year ended 30 June 2012

	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 30)	12,000	234,623	–	–	–	–	–	246,623	–	246,623
Share option benefits										
– Grant of share options (note 31)	–	–	–	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	–	–	–	–	–	(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 and 1 July 2011	74,563	1,620,847	55,687	5,461	231,141	–	1,287,048	3,274,747	262,546	3,537,293
Total comprehensive income for the year	–	–	(27,908)	–	28,429	–	(390,112)	(389,591)	(10,520)	(400,111)
Purchase of non-controlling interests (note 38(a))	–	–	–	–	–	–	(26,584)	(26,584)	(12,746)	(39,330)
Changes in equity for the year	–	–	(27,908)	–	28,429	–	(416,696)	(416,175)	(23,266)	(439,441)
At 30 June 2012	74,563	1,620,847	27,779	5,461	259,570	–	870,352	2,858,572	239,280	3,097,852

Consolidated Statement of Cash Flows

for the year ended 30 June 2012

	Note	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(448,774)**	149,040
Adjustments for:			
Finance costs		**7,841**	4,274
Interest income		**(392)**	(528)
Dividend income		**(3,324)**	–
Depreciation		**97,645**	87,768
Amortisation of prepaid land lease payments		**10,449**	10,082
Amortisation of other intangible assets		**6,103**	6,020
Allowance for inventories		**2,393**	–
Allowance for receivables		**42,583**	85
Gain on disposal of a subsidiary	38(b)	**(45)**	–
Gain on disposal of fixed assets		**(150)**	–
Write off of fixed assets		**16**	29
Fair value loss on financial assets at fair value through profit or loss		**9,334**	1,355
Gain on disposal of financial assets at fair value through profit or loss		**(1,950)**	(1,143)
Revaluation deficits/(reversal of revaluation deficits) on buildings		**9,077**	(2,234)
Impairment of goodwill		**64,203**	21,482
Impairment of other intangible assets		**82,530**	–
Share option benefits		**–**	5,461
Operating (loss)/profit before working capital changes		**(122,461)**	281,691
Decrease/(increase) in inventories		**52,427**	(7,399)
Decrease in trade receivables		**249,965**	13,725
Decrease/(increase) in other loan receivables		**9,500**	(10,000)
Decrease/(increase) in prepayments, deposits and other receivables		**76,287**	(38,629)
Decrease in trade payables		**(31,221)**	(228)
Increase in other payables and accruals		**616**	53,270
Decrease/(increase) in financial assets at fair value through profit or loss		**20,813**	(43,051)
Cash generated from operations		**255,926**	249,379
Interest received		**392**	528
Dividend received		**3,324**	–
Interest paid		**(24,670)**	(17,693)
Income taxes paid		**(290)**	(36,296)
Net cash generated from operating activities		**234,682**	195,918

Consolidated Statement of Cash Flows

for the year ended 30 June 2012

	Note	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		**(314,974)**	(520,659)
Proceeds from disposal of fixed assets		**271**	–
Purchase of prepaid land lease payments		**–**	(877)
Net cash used in investing activities		**(314,703)**	(521,536)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		**–**	246,623
Exercise of share options		**–**	25,256
Other loans raised		**74,414**	–
Purchase of non-controlling interests	38(a)	**(46,690)**	–
Decrease in amount due to a director		**–**	(10,000)
Bank loans raised		**48,932**	169,505
Repayment of bank loans		**(72,540)**	(59,439)
Net cash generated from financing activities		**4,116**	371,945
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(75,905)**	46,327
Effect of foreign exchange rate changes		**6,329**	13,641
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**74,909**	14,941
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,333**	74,909
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**5,333**	74,909

Statement of Financial Position

at 30 June 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Investments in subsidiaries	23	**511,921**	511,921
Current assets			
Due from subsidiaries	24	**1,604,663**	1,570,080
Bank and cash balances		**145**	1,592
		1,604,808	1,571,672
TOTAL ASSETS		**2,116,729**	2,083,593
Capital and reserves			
Share capital	30	**74,563**	74,563
Reserves	32	**1,769,623**	1,787,689
Total equity		**1,844,186**	1,862,252
Current liabilities			
Due to subsidiaries	24	**219,654**	219,654
Other loans	35	**50,000**	–
Other payables and accruals		**2,889**	1,687
		272,543	221,341
TOTAL EQUITY AND LIABILITIES		**2,116,729**	2,083,593
Net current assets		**1,332,265**	1,350,331
Total assets less current liabilities		**1,844,186**	1,862,252

Chan Yuk Foebe
Chairman

Chiau Che Kong
Executive Director

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 23 to the financial statements.

2. Going Concern Basis

The Group incurred a loss of approximately HK$406,164,000 for the year ended 30 June 2012 and as at 30 June 2012 the Group had net current liabilities of approximately HK$424,861,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

On 26 April 2012, the Company announced a proposed open offer on the basis of two offer shares for one existing share held. On 20 July 2012, the Company issued 1,491,266,346 offer shares at HK$0.15 each with net proceeds of approximately HK$219,650,000.

In addition, the Group has bank loans of approximately HK$277,709,000 which are subject to a repayment on demand clause and therefore are classified as current liabilities as at 30 June 2012. According to the scheduled repayments, an amount of approximately HK$143,890,000 is payable after one year. The directors do not consider that the banks will exercise their discretion to demand immediate repayment.

The directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 July 2011. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years.

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

4. Significant Accounting Policies

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings and investments which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 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.

4. 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.

4. 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.

4. 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.

4. Significant Accounting Policies (continued)

(e) Operating leases

(i) The Group as lessee

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.

(ii) The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(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 life of 10 years.

(ii) Trade name and exclusive right

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

4. 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.

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.

4. Significant Accounting Policies (continued)

(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.

(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.

Dividend income is recognised when the shareholders' rights to receive payment are established.

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

4. Significant Accounting Policies (continued)

(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 until 31 May 2012 and HK$1,250 commencing from 1 June 2012 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.

(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.

4. Significant Accounting Policies (continued)

(q) Borrowing costs (continued)

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.

(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.

4. Significant Accounting Policies (continued)

(s) Taxation (continued)

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.

(t) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

4. Significant Accounting Policies (continued)

(u) 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.

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.

(v) 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.

(w) 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.

5. Critical Judgements and Key Estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

(a) Going concern basis

These financial statements have been prepared on a going concern basis, the validity of which depends upon whether the banks will exercise their discretion to demand immediate repayment of bank loans which are subject to a repayment on demand clause. Details are explained in note 2 to financial statements.

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 and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the cash-generating unit to which goodwill and other intangible assets have 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 and other intangible assets at the end of the reporting period were approximately HK$37,904,000 and HK$7,123,000, respectively, after impairment losses of approximately HK$64,203,000 and HK$82,530,000, respectively, were recognised during the year ended 30 June 2012. Details of the impairment loss calculation are provided in notes 21 and 22 to the financial statements.

5. Critical Judgements and Key Estimates (continued)

Key sources of estimation uncertainty (continued)

(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.

(f) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

6. 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 2012, if the prices of the Group's investments increase/decrease by 10%, loss after tax (2011: profit after tax) for the year would have been approximately HK$2,174,000 lower/higher (2011: HK$4,994,000 higher/lower).

6. Financial Risk Management (continued)

(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.

(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.

6. Financial Risk Management (continued)

(d) Liquidity risk (continued)

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

	On demand HK$'000	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 30 June 2012					
Term loans subject to a repayment on demand clause	277,709	–	–	–	–
Other bank loans	–	3,092	3,092	9,274	32,716
Trade payables	–	48,121	–	–	–
Other payables and accruals	–	164,697	–	–	–
Other loans	–	75,210	–	–	–
Due to a non-controlling shareholder of a subsidiary	–	58,764	–	–	–
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	–	–	–

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.

6. Financial Risk Management (continued)

(d) Liquidity risk (continued)

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 2012	147,621	125,553	23,539	–
At 30 June 2011	17,558	110,129	147,052	–

(e) Interest rate risk

At 30 June 2012 bank loans of approximately HK$318,767,000 (2011: HK$284,058,000) and other loans were arranged at floating rates varied with the then prevailing market condition.

At 30 June 2011 bank loans of approximately HK$54,180,000 were arranged at fixed interest rates and therefore were subject to fair value interest rate risk.

At 30 June 2012 if interest rates at that date had been 1% lower/higher with all other variables held constant, consolidated loss after tax (2011: profit after tax) for the year would have been approximately HK$777,000 lower/higher (2011: HK$433,000 higher/lower), arising mainly as a result of lower/higher interest expense on bank loans.

(f) Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets:		
Financial assets at fair value through profit or loss:		
Held for trading	**21,744**	49,941
Loans and receivables (including cash and cash equivalents)	**166,875**	528,610
Financial liabilities:		
Financial liabilities at amortised cost	**664,763**	649,168

6. 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**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Financial assets at fair value through profit or loss			
Equity investments	**21,744**	**–**	**21,744**
	Level 1	Level 2	2011
	HK$'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

7. 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.

8. Other Income

	Group	
	2012	2011
	HK$'000	HK$'000
Dividend income from listed investments	**3,324**	–
Gain on disposal of a subsidiary	**45**	–
Gain on disposal of fixed assets	**150**	–
Sales of scrap materials	**2,206**	286
Gain on disposal of financial assets at fair value through profit or loss	**1,950**	1,143
Government grants (note)	**3,178**	26,553
Bank interest income	**50**	107
Other interest income	**342**	421
Rental income	**3,314**	–
Consultancy service income	**1,500**	–
Reversal of revaluation deficits on buildings	**–**	2,234
Construction income of installation of pipe	**3,186**	1,589
Sundry income	**1,172**	39
	20,417	32,372

Note: Government grants for the year ended 30 June 2012 were received as incentive for capital expenditure and subsidy for operating costs. Government grants for the year ended 30 June 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.

9. 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.

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include impairment of goodwill, gain on disposal of a subsidiary, 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 receivables, financial assets at fair value through profit or loss and corporate assets. Segment liabilities do not include bank loans, other loans, 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.

9. Segment Information (continued)

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 2012						
Revenue from external customers	73,345	34,950	77,265	25,697	2,534	213,791
Intersegment revenue	–	–	14,391	–	26,638	41,029
Segment loss	(37,857)	(36,583)	(112,176)	(73,513)	(62,142)	(322,271)
Interest revenue	–	13	–	–	34	47
Interest expense	–	3,646	1,715	–	–	5,361
Depreciation and amortisation	15,061	13,950	13,814	34,053	35,599	112,477
Other material items of income and expense:						
Government grants	–	–	441	1,223	1,514	3,178
Construction income of installation of pipe	–	–	3,186	–	–	3,186
Income tax credit	(8,945)	(4,164)	(21,666)	(4,802)	(3,033)	(42,610)
Other material non-cash items:						
Allowance for inventories	–	–	–	2,393	–	2,393
Allowance for receivables						
– trade receivables	6,812	4,408	2,298	18,299	862	32,679
– other receivables	3,971	1,441	–	2,171	2,321	9,904
Impairment of other intangible assets	–	–	82,530	–	–	82,530
Additions to segment non-current assets	27,955	248	15,520	105	287,975	331,803
As at 30 June 2012						
Segment assets	470,907	334,367	321,410	653,637	2,058,655	3,838,976
Segment liabilities	17,967	36,425	72,332	180,480	120,413	427,617

9. 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 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

9. Segment Information (continued)

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

	2012 HK$'000	2011 HK$'000
Profit or loss		
Total profit or loss of reportable segments	**(322,271)**	167,058
Impairment of goodwill	**(64,203)**	(21,482)
Gain on disposal of a subsidiary	**45**	–
Fair value loss on financial assets at fair value through profit or loss	**(9,334)**	(1,355)
Gain on disposal of financial assets at fair value through profit or loss	**1,950**	1,143
Dividend income from listed investments	**3,324**	–
Corporate administrative expenses	**(15,675)**	(29,999)
Consolidated (loss)/profit for the year	**(406,164)**	115,365
Assets		
Total assets of reportable segments	**3,838,976**	4,135,900
Goodwill	**37,904**	102,107
Bank and cash balances	**5,333**	74,909
Financial assets at fair value through profit or loss	**21,744**	49,941
Other loan receivables	**500**	10,000
Other assets	**77,076**	78,351
Consolidated total assets	**3,981,533**	4,451,208
Liabilities		
Total liabilities of reportable segments	**427,617**	506,281
Bank loans	**318,767**	338,238
Other loans	**74,414**	–
Due to a non-controlling shareholder of a subsidiary	**58,764**	66,124
Other payables and accruals for general administrative use	**4,119**	3,272
Consolidated total liabilities	**883,681**	913,915

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 revenue during the years ended 30 June 2011 and 2012 and accordingly, no major customers information is presented.

10. Finance Costs

	Group	
	2012	2011
	HK$'000	HK$'000
Interest on bank loans	**21,141**	17,347
Interest on other loans – wholly repayable within five years	**3,174**	–
Interest on discounted bills	**355**	346
Total borrowing costs	**24,670**	17,693
Amount capitalised	**(16,829)**	(13,419)
	7,841	4,274

11. Income Tax (Credit)/Expense

	Group	
	2012	2011
	HK$'000	HK$'000
Current tax – Overseas		
(Tax credit)/provision for the year	**(8,712)**	37,572
Deferred tax (note 33)	**(33,898)**	(3,897)
	(42,610)	33,675

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 (2011: 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 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.

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

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 no assessable profit for the year ended 30 June 2012. Mudanjiang BD Power has sufficient tax losses brought forward to set off against the assessable profit for the year ended 30 June 2011.

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 2012 (2011: Nil).

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 (2011: Nil).

Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Dongbei Chemical"), a subsidiary of the Company, is subject to PRC enterprise income tax at the rate of 25% (2011: 25%). No provision for PRC enterprise income tax has been made as Mudanjiang Dongbei Chemical has no assessable profit for the year.

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% (2011: 25%). No provision for PRC enterprise income tax has been made as Heihe LongJiang Chemical has no assessable profit for the year (2011: 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.

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

A reconciliation of the tax expense applicable to (loss)/profit 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 2012

	Hong Kong		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(24,896)		(423,878)		(448,774)	
Tax at the statutory tax rate	(4,108)	(16.5)	(105,970)	(25.0)	(110,078)	(24.5)
Income tax exempted	(1,074)	(4.3)	(1,395)	(0.3)	(2,469)	(0.6)
Expenses not deductible for tax	2,267	9.1	16,143	3.8	18,410	4.1
Unrecognised temporary differences	216	0.9	5,571	1.3	5,787	1.3
Tax losses not recognised	2,699	10.8	43,041	10.2	45,740	10.2
Tax credit at the Group's effective tax rate	–	–	(42,610)	(10.0)	(42,610)	(9.5)

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

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

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$59,611,000 (2011: HK$96,608,000). 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.

12. (Loss)/Profit for the Year

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

	2012 **HK$'000**	2011 HK$'000
Auditor's remuneration	**1,125**	1,023
Allowance for inventories (included in other operating expenses)	**2,393**	–
Allowance for receivables		
– trade receivables	**32,679**	85
– other receivables	**9,904**	–
Write off of fixed assets	**16**	29
Amortisation of other intangible assets (included in administrative expenses)	**6,103**	6,020
Cost of inventories sold	**209,361**	1,135,790
Depreciation	**97,645**	87,768
Minimum lease payments under operating leases for land and buildings	**12,629**	11,831
Factory overhead incurred during suspension of production (note)	**106,249**	–
Fair value loss on financial assets at fair value through profit or loss		
(held for trading)	**9,334**	1,355
Impairment of goodwill (included in other operating expenses)	**64,203**	21,482
Impairment of other intangible assets (included in other operating expenses)	**82,530**	–
Revaluation deficits on buildings	**9,077**	–
Staff costs (excluding directors' emoluments – note 13):		
Wages, salaries and benefits in kind	**42,406**	45,839
Employee share option benefits	**–**	5,461
Retirement benefits scheme contributions	**6,737**	7,255

Cost of inventories sold includes staff costs and depreciation of approximately HK$11,818,000 (2011: HK$27,917,000) and HK$10,497,000 (2011: HK$69,128,000), respectively, which are included in the amounts disclosed separately above.

Note: Factory overhead incurred during suspension of production was resulted from an accident which occurred in the calcium carbide production facilities of Mudanjiang Daytech Chemical. Detailed explanation is included in Management Discussion and Analysis of the Company's annual report for the year ended 30 June 2012.

13. Directors' and Employees' Emoluments

The emoluments of each director were as follows:

	Basic salaries, housing benefits, other allowances and benefits in kind		Retirement benefits scheme contributions		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors						
Mr. Chan Yuen Tung (note (a))	**6**	10	**–**	–	**6**	10
Ms. Chan Yuk Foebe	**1,200**	1,200	**–**	–	**1,200**	1,200
Mr. Chiau Che Kong	**360**	360	**12**	12	**372**	372
Mr. Peng Zhanrong	**180**	240	**–**	–	**180**	240
Mr. Wu Jianwei	**547**	609	**–**	–	**547**	609
Independent non-executive directors						
Mr. Ma Wing Yun Bryan	**120**	120	**–**	–	**120**	120
Mr. Yau Chung Hong (note (b))	**–**	93	**–**	–	**–**	93
Mr. Tam Ching Ho	**120**	120	**–**	–	**120**	120
Mr. Wong Sin Lai (note (c))	**120**	20	**–**	–	**120**	20
Dato' Dr. Wong Sin Just	**120**	120	**–**	–	**120**	120
	2,773	2,892	**12**	12	**2,785**	2,904

Notes:

(a) Resigned on 2 February 2012.

(b) Resigned on 8 April 2011.

(c) Appointed on 29 April 2011.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2011: Nil).

13. Directors' and Employees' Emoluments (continued)

The five highest paid individuals in the Group during the year included 3 (2011: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2011: 3) individuals are set out below:

	Group	
	2012	2011
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**909**	222
Employee share option benefits	**–**	5,461
	909	5,683

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Nil to HK$1,000,000	**2**	–
HK$1,500,001 to HK$2,000,000	**–**	3

During the year ended 30 June 2011, share options were granted to certain employees in respect of their services to the Group. 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.

14. (Loss)/Profit for the Year Attributable to Owners of the Company

The (loss)/profit for the year attributable to owners of the Company included a loss of approximately HK$18,066,000 (2011: HK$26,012,000) which has been dealt with in the financial statements of the Company.

15. Dividend

The directors do not recommend the payment of dividend for the year ended 30 June 2012 (2011: Nil).

16. (Loss)/Earnings Per Share

Basic (loss)/earnings per share

The calculation of basic loss (2011: earnings) per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$390,112,000 (2011: profit of approximately HK$95,517,000) and the weighted average number of ordinary shares of 745,633,173 (2011: 679,092,900) in issue during the year.

Diluted (loss)/earnings per share

The Company did not have any dilutive potential ordinary shares during the year ended 30 June 2012. Diluted loss per share presented is the same as the basic loss per share for the year ended 30 June 2012.

For the year ended 30 June 2011, the calculation of diluted earnings per share attributable to owners of the Company was based on the profit for the year attributable to owners of the Company of approximately HK$95,517,000 and the weighted average number of ordinary shares of 680,325,552, being the weighted average number of ordinary shares of 679,092,900 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 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.

17. Other Comprehensive Income

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

	2012			2011		
	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	**33,961**	**–**	**33,961**	101,651	–	101,651
(Deficits)/gains on property revaluation	**(37,327)**	**9,419**	**(27,908)**	30,739	(7,421)	23,318
Other comprehensive income	**(3,366)**	**9,419**	**6,053**	132,390	(7,421)	124,969

18. Fixed Assets

Group

	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture, office equipment and motor vehicles HK$'000	Pipelines and trench HK$'000	Total HK$'000
Cost or valuation							
At 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 and 1 July 2011	449,202	1,083,680	1,496,179	3,038	29,514	57,356	3,118,969
Additions	847	330,016	476	–	464	–	331,803
Disposal/write off	–	–	(21)	–	(1,187)	–	(1,208)
Transfer	40,938	(128,568)	83,850	–	–	3,780	–
Revaluation	(63,317)	–	–	–	–	–	(63,317)
Exchange differences	4,076	13,912	13,268	–	313	430	31,999
At 30 June 2012	**431,746**	**1,299,040**	**1,593,752**	**3,038**	**29,104**	**61,566**	**3,418,246**
Accumulated depreciation							
At 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 and 1 July 2011	–	–	208,884	1,085	16,187	10,227	236,383
Charge for the year	16,415	–	73,847	304	3,247	3,151	96,964
Disposal/write off	–	–	(5)	–	(1,066)	–	(1,071)
Write back on revaluation	(16,913)	–	–	–	–	–	(16,913)
Exchange differences	498	–	1,396	–	184	170	2,248
At 30 June 2012	**–**	**–**	**284,122**	**1,389**	**18,552**	**13,548**	**317,611**

18. Fixed Assets (continued)

	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture, office equipment and motor vehicles HK$'000	Pipelines and trench HK$'000	Total HK$'000
Carrying amount							
At 30 June 2012	**431,746**	**1,299,040**	**1,309,630**	**1,649**	**10,552**	**48,018**	**3,100,635**
At 30 June 2011	449,202	1,083,680	1,287,295	1,953	13,327	47,129	2,882,586
Analysis of cost or valuation at 30 June 2012							
At cost	**–**	**1,299,040**	**1,593,752**	**3,038**	**29,104**	**61,566**	**2,986,500**
At valuation 2012	**431,746**	**–**	**–**	**–**	**–**	**–**	**431,746**
	431,746	**1,299,040**	**1,593,752**	**3,038**	**29,104**	**61,566**	**3,418,246**
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

At 30 June 2012 the carrying amount of fixed assets pledged as security for the Group's bank loans and other loans amounted to approximately HK$345,674,000 (2011: HK$398,904,000).

At 30 June 2012 the Group's buildings were revalued on the depreciated replacement cost basis by Ample Appraisal Limited, independent firm of chartered surveyors, at approximately HK$431,746,000. The resulting revaluation deficits of approximately HK$37,327,000 and HK$9,077,000 were charged to fixed asset revaluation reserve to offset previous revaluation gains and charged to profit or loss, respectively.

18. Fixed Assets (continued)

At 30 June 2011 the Group's buildings were revalued on the depreciated replacement cost basis by Castores Magi (Hong Kong) Limited, independent firm of chartered surveyors, at approximately HK$449,202,000. The resulting revaluation surpluses of approximately HK$30,739,000 and HK$2,234,000 were credited to fixed asset revaluation reserve and credited to profit or loss to reverse revaluation deficits previously recognised in profit or loss, respectively.

The carrying amount of the Group's buildings would have been approximately HK$405,859,000 (2011: HK$375,960,000) had they been stated at cost less accumulated depreciation and impairment losses.

During the year, the Group leased out certain fixed assets under operating leases. The average lease term is 4 years. All leases are on a fixed rental basis and do not include contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2012 HK$'000	2011 HK$'000
Within one year	2,441	–
In the second to fifth years inclusive	8,545	–
	10,986	–

19. Land Held Under Finance Leases

	Group	
	2012 **HK$'000**	2011 HK$'000
Cost		
At beginning and end of year	**71,562**	71,562
Accumulated depreciation		
At beginning of year	**2,386**	1,704
Charge for the year	**681**	682
At end of year	**3,067**	2,386
Carrying amount		
At end of year	**68,495**	69,176
At beginning of year	**69,176**	69,858

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 were pledged as security for the Group's bank loans at 30 June 2012 and 2011.

20. 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 2012 the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans and other loans amounted to approximately HK$293,372,000 (2011: HK$240,942,000).

21. Goodwill

	Group	
	2012	2011
	HK$'000	HK$'000
Cost		
At beginning and end of year	**123,589**	123,589
Accumulated impairment losses		
At beginning of year	**21,482**	–
Impairment loss recognised in the current year	**64,203**	21,482
At end of year	**85,685**	21,482
Carrying amount		
At end of year	**37,904**	102,107
At beginning of year	**102,107**	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	
	2012	2011
	HK$'000	HK$'000
Vitamin C, glucose and starch		
Mudanjiang Gaoke	**–**	64,203
Calcium carbide		
Mudanjiang Daytech Chemical	**26,050**	26,050
Heihe LongJiang Chemical	**11,854**	11,854
	37,904	102,107

21. 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 five (2011: two) years for Vitamin C, glucose and starch CGU and three to five (2011: three to five) years for Calcium carbide CGU, with the residual period using the growth rate of 2.7% (2011: 2.8%) 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 12.66% (2011: 9.98%) and 12.23% to 13.98% (2011: 11.09% to 11.32%), respectively.

At 30 June 2012 before impairment testing, goodwill of approximately HK$64,203,000 (2011: 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$64,203,000 (2011: HK$21,482,000) during the year.

22. Other Intangible Assets

	Exclusive right HK$'000	Trade name HK$'000	Technical know-how HK$'000	Total HK$'000
Cost				
At 1 July 2010	72,347	33,459	17,587	123,393
Exchange differences	–	–	834	834
At 30 June 2011 and 1 July 2011	72,347	33,459	18,421	124,227
Exchange differences	–	–	255	255
At 30 June 2012	**72,347**	**33,459**	**18,676**	**124,482**
Accumulated amortisation and impairment losses				
At 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 and 1 July 2011	13,022	6,023	9,553	28,598
Amortisation for the year	2,893	1,338	1,872	6,103
Impairment loss	56,432	26,098	–	82,530
Exchange differences	–	–	128	128
At 30 June 2012	**72,347**	**33,459**	**11,553**	**117,359**
Carrying amount				
At 30 June 2012	**–**	**–**	**7,123**	**7,123**
At 30 June 2011	59,325	27,436	8,868	95,629
Remaining amortisation period:	–	–	3.25 to 5.17 years	

The Group carried out reviews of the recoverable amount of its other intangible assets as at 30 June 2012, having regard to its operating effectiveness. These assets are used in the Group's heat and power segment. The review led to the recognition of an impairment loss of approximately HK$82,530,000 (2011: HK$Nil) that has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 11.72%.

23. Investments in Subsidiaries

	Company 2012 HK$'000	Company 2011 HK$'000
Unlisted investments, at cost	**511,921**	511,921

Particulars of the subsidiaries as at 30 June 2012 are as follows:

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Dragon Boom Investments Limited	British Virgin Islands ("BVI")	Ordinary US$1	100%	–	Investment holding
Ever Strength Investments Limited	BVI	Ordinary US$1	100%	–	Inactive
Gold Capture Investments Inc.	BVI	Ordinary US$1	100%	–	Investment holding
Prosper Path Limited	BVI	Ordinary US$1	100%	–	Investment holding
Quality Gain Investments Limited	BVI	Ordinary US$1	100%	–	Investment holding
Better Day Bio-Chem Technology Ltd.	BVI	Ordinary US$2	100%	–	Investment holding
Better Day Power Ltd.	BVI	Ordinary US$2	100%	–	Investment holding
Master King Group Limited	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	–	67% (2011: 55%)	Investment holding

23. Investments in Subsidiaries (continued)

Name	Place of incorporation/ registration and operation*	Issued and paid up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Mudanjiang BD Power	PRC (note (a))	RMB110,000,000	–	100%	Generation and supply of heat and power
Mudanjiang Daytech Chemical	PRC (note (b))	RMB558,844,178 (2011: 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	–	67% (2011: 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 and consultancy services
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

23. 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.

24. Due from/(to) Subsidiaries – Company

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

25. Inventories

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**36,439**	68,826
Work in progress	**7,324**	8,096
Finished goods	**12,408**	34,069
	56,171	110,991

26. Trade Receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 180 days (2011: 60 to 180 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	
	2012	2011
	HK$'000	HK$'000
Within 30 days	**42,708**	53,567
31 to 60 days	**35,028**	117,408
61 to 90 days	**1,498**	113,574
91 to 120 days	**1,732**	115,661
121 to 150 days	**2,982**	20,025
151 to 180 days	**149**	7,650
181 to 240 days	**1,991**	7,287
241 to 330 days	**14,090**	256
331 to 365 days	**18,561**	37
Over 365 days	**37,218**	3,136
	155,957	438,601

As at 30 June 2012 an allowance of approximately HK$36,896,000 (2011: HK$6,847,000) was made for estimated irrecoverable trade receivables.

The reconciliation of allowance for trade receivables is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At beginning of year	**6,847**	6,609
Allowance made for the year	**32,679**	85
Amounts written off	**(2,661)**	–
Exchange differences	**31**	153
At end of year	**36,896**	6,847

26. Trade Receivables (continued)

As of 30 June 2012 trade receivables of approximately HK$74,799,000 (2011: HK$14,868,000) 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	
	2012 HK$'000	2011 HK$'000
Up to 90 days	**654**	692
91 to 180 days	**2,285**	3,460
181 to 365 days	**34,642**	7,580
Over 365 days	**37,218**	3,136
	74,799	14,868

The Group's trade receivables are denominated in RMB.

27. Other Loan Receivables

Loans granted to independent third parties are unsecured, interest bearing at 6% (2011: 8.57%) p.a. and repayable on 31 October 2012 (2011: 31 October 2011).

28. Financial Assets at Fair Value Through Profit or Loss

	2012 HK$'000	2011 HK$'000
Equity securities listed in Hong Kong, at market value	**21,744**	1,237
Equity linked investments, at fair value	**–**	48,704
	21,744	49,941

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

29. Bank and Cash Balances

As at 30 June 2012 the bank and cash balances of the Group denominated in RMB amounted to approximately HK$3,775,000 (2011: HK$69,443,000). 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.

30. Share Capital

	2012 **HK$'000**	2011 HK$'000
Authorised:		
5,000,000,000 (2011: 2,000,000,000) ordinary shares of HK$0.10 (2011: HK$0.10) each (note (a))	**500,000**	200,000
Issued and fully paid:		
745,633,173 (2011: 745,633,173) ordinary shares of HK$0.10 (2011: HK$0.10) each	**74,563**	74,563

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2011 and 2012 is as follows:

	Number of ordinary shares issued '000	**Par value** HK$'000
At 1 July 2010	6,102,332	61,023
Exercise of share options (note (c))	154,000	1,540
Placement of new shares (note (d))	1,200,000	12,000
Share consolidation (note (b))	(6,710,699)	–
At 30 June 2011, 1 July 2011 and 30 June 2012	745,633	74,563

Notes:

(a) On 15 June 2012, the authorised share capital of the Company was increased from HK$200,000,000 to HK$500,000,000 by creation of 3,000,000,000 shares of HK$0.10 each and such new shares, upon issue, shall rank pari passu in all respects with the existing shares of the Company.

(b) 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.

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

(d) On 12 January 2011, Mr. Chan Yuen Tung ("Mr. Chan"), a substantial shareholder, 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.

30. Share Capital (continued)

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes had been made in the objectives, policies and processes during the two years ended 30 June 2011 and 2012.

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.

31. Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted on 18 November 2002 for a period of 10 years. The purpose of the Scheme is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution to the Group. Under the Scheme, the directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of the offer of grant, which must be a business day; and (iii) the nominal value of the shares. The offer for a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and in any event not later than 10 years from the date of grant of share options, subject to the provisions for early termination thereof.

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

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

31. Share Option Scheme (continued)

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 on 19 August 2009	0.485	0.350	N/A	N/A	N/A
– adjustment upon the completion of the share consolidation on 20 June 2011	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

31. 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 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, 1 July 2011 and 30 June 2012	18,750,000	1.533
Exercisable at 30 June 2011 and 2012	18,750,000	1.533

The weighted average share price at the date of exercise for share options exercised during the year ended 30 June 2011 was HK$0.212. The options outstanding at the end of the year have a weighted average remaining contractual life of 0.80 (2011: 1.80) year(s) and the exercise prices range from HK$1.530 to HK$1.540 (2011: HK$1.530 to HK$1.540).

32. 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 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 and 1 July 2011	1,698,881	5,461	–	83,347	1,787,689
Loss for the year	–	–	–	(18,066)	(18,066)
At 30 June 2012	**1,698,881**	**5,461**	**–**	**65,281**	**1,769,623**

32. 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 is dealt with in accordance with the accounting policies adopted for buildings in note 4(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 4(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 4(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.

33. Deferred Tax

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

	Group	
	2012	2011
	HK$'000	HK$'000
At beginning of year	**(162,734)**	(154,650)
Credit to profit or loss (note 11)	**33,898**	3,897
Credit/(charge) to equity (note 17)	**9,419**	(7,421)
Exchange differences	**(1,429)**	(4,560)
At end of year	**(120,846)**	(162,734)

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**	**Revaluation of buildings and prepaid land lease payments**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 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 and 1 July 2011	–	–	–	–
Credit/(charge) to profit or loss	3,653	5,762	(4,231)	5,184
Credit to equity	–	–	(678)	(678)
Exchange differences	(7)	(12)	10	(9)
At 30 June 2012	**3,646**	**5,750**	**(4,899)**	**4,497**

33. Deferred Tax (continued)

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 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 and 1 July 2011	15,719	18,279	(196,732)	(162,734)
Credit/(charge) to profit or loss	(2,101)	1,229	29,586	28,714
Credit to equity	–	–	10,097	10,097
Exchange differences	254	224	(1,898)	(1,420)
At 30 June 2012	13,872	19,732	(158,947)	(125,343)

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

34. Trade Payables

The Group normally obtains credit terms ranging from 30 to 120 days (2011: 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	
	2012	2011
	HK$'000	HK$'000
Within 30 days	**6,397**	19,194
31 to 60 days	**1,382**	21,027
61 to 90 days	**1,054**	843
91 to 120 days	**540**	5,017
121 to 365 days	**4,091**	22,854
Over 365 days	**34,657**	10,407
	48,121	79,342

The Group's trade payables are denominated in RMB.

35. Other Loans

Loans of the Group and the Company of approximately HK$50,000,000 granted from independent third parties were unsecured, interest bearing at 6% p.a. and repaid on 30 July 2012.

A loan of the Group of approximately HK$24,414,000 granted from an independent third party was interest bearing at 12% p.a., repaid on 7 September 2012 and secured by the pledge of the Group's fixed assets and prepaid land lease payments.

36. Due to a Non-Controlling Shareholder of a Subsidiary

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

37. Bank Loans

The Group's bank loans are repayable as follows:

	2012 **HK$'000**	2011 HK$'000
Term loans subject to a repayment on demand clause	**277,709**	240,800
Within one year	**2,252**	56,383
In the second year	**2,299**	2,252
In the third to fifth years inclusive	**7,192**	7,042
After five years	**29,315**	31,761
	318,767	338,238
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(279,961)**	(297,183)
	38,806	41,055

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

	2012 **HK$'000**	2011 HK$'000
Hong Kong dollars	**41,058**	43,258
RMB	**277,709**	294,980
	318,767	338,238

37. Bank Loans (continued)

At 30 June 2012 bank loans of approximately HK$318,767,000 (2011: HK$284,058,000) were arranged at floating rates ranging from 2.10% to 7.57% (2011: 2.10% to 6.65%) p.a., thus exposed the Group to cash flow interest rate risk. At 30 June 2011, bank loans of approximately HK$54,180,000 were arranged at fixed interest rate of 5.84% p.a. and exposed the Group to fair value 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.

38. Notes to the Consolidated Statement of Cash Flows

(a) Purchase of non-controlling interests

On 8 September 2011, the Group entered into a share purchase agreement for the acquisition of 12% of the issued share capital (the "Acquisition") of Racing Dragon. Racing Dragon is the legal and beneficial owner of the entire equity interest in Heihe LongJiang Chemical which is engaged in the manufacture and sale of calcium carbide, polyvinyl-alcohol and vinyl acetate in the PRC. The vendor of the Acquisition was Hope High Holdings Limited ("Hope High"). Hope High was the then legal and beneficial owner of 35% of the issued share capital of Racing Dragon. The Group originally owned 55% of the issued share capital of Racing Dragon. Upon completion of the Acquisition, the Group holds 67% of the equity interest in Racing Dragon and Heihe LongJiang Chemical.

The effect of the Acquisition on the equity attributable to the owners of the Company is as follows:

	HK$'000
Share of net assets in Racing Dragon and Heihe LongJiang Chemical acquired	12,746
Consideration	39,330
Loss on acquisition recognised directly in equity	(26,584)
Satisfied by:	
Cash consideration as stated in the share purchase agreement	62,000
Assignment of shareholder's loan from the non-controlling shareholder to the Group	(22,670)
	39,330

The consideration payable of approximately HK$15,310,000 was outstanding as at 30 June 2012.

38. Notes to the Consolidated Statement of Cash Flows (continued)

(b) Disposal of a subsidiary

On 4 January 2012, the Group disposed of Green Concept Investments Limited, the then wholly owned subsidiary of the Company, to an independent third party at a consideration of approximately HK$51,000.

Net liabilities at the date of disposal were as follows:

	HK$'000
Due from a fellow subsidiary	51
Due to a fellow subsidiary	(57)
Net liabilities disposed of	(6)
Gain on disposal of a subsidiary	(45)
Total consideration	(51)

The consideration receivable was outstanding as at 30 June 2012.

39. Capital Commitments

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

	2012	2011
	HK$'000	HK$'000
Contracted but not provided for		
Buildings and construction in progress	**799,906**	983,718

The Company did not have any capital commitments as at 30 June 2012 (2011: Nil).

40. Lease Commitments

At 30 June 2012 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**3,042**	1,166
In the second to fifth years inclusive	**2,028**	–
	5,070	1,166

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases are negotiated for a lease term of 2 years (2011: 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 2012 (2011: Nil).

41. Events After the Reporting Period

On 20 July 2012, 1,491,266,346 ordinary shares of HK$0.1 each were issued at HK$0.15 per share by way of an open offer on the basis of two offer shares for every one share held. The net proceed of approximately HK$219,650,000 will be used to finance the acquisition of fixed assets, reduce current debts 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.

42. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 September 2012.