

Chairman's Statement

BUSINESS REVIEW

The price of crude oil remained at high level throughout the financial year. In turn, this caused the prices of primary petrochemical product materials to stay at high level. The management has promptly responded to the rather formidable market condition, but was merely able to transfer a small part of the significant cost increment to customers due to the extremely fierce competition within the lubricants and anti-corrosive coating business. On the other hand, the excellent results have been obtained from both vinyl acetate and polyvinyl-chloride ("PVC") business because of the expansion in market share and operation efficiency. As a whole, the Group's better than expected operating results during the past year under review once again proven its ability to overcome the challenges from adverse market environment.

Lubricants and anti-corrosive coating

The lubricant and anti-corrosive coating market faced tremendous challenges during the financial year. The rising trend of upstream raw materials prices, which already started in 2005 financial year, has continued in current financial year and the pace of increment has also accelerated. Especially, the price of base oil, the main raw material for lubricant, rose steeply due to the shortage of supply. This caused both the lower sales quantities and gross margins. As a result, the contribution of lubricant and anti-corrosive coating business to the Group dropped significantly. The Group has formulated plans such as enhancement of quality and service standard to cope with the adverse market conditions.

Vinyl acetate

During the Period, the Group has devoted more resources and efforts in the development of coal related chemical sector. Our Mudanjiang vinyl acetate plant is the first and only PRC plant using the production technique of calcium carbide methodology (電石法化工工藝方法) to produce vinyl acetate with superior quality (concentration greater than 99.98%). Our vinyl acetate plant is operated at better cost efficient than those adopt the production technique of ethylene methodology (乙烯法化工工藝方法) during high crude oil price period. Owing to the promising contribution from vinyl acetate business in the past financial period, the Group has started the second phase expansion in production capacities project in September 2006. Another group of vinyl acetate production facilities with designed production capacity of 15,000 tons will be built in the expansion project.

PVC

The Group continued to step up the development of coal related chemical sector with PVC as its second coal related chemical project. The Group successfully acquired assets including land, plants and production facilities of Mudanjiang PVC Factory through a tender in May 2005. On 27 September 2005, the Group formally took over the assets and related operations of Mudanjiang PVC factory. During the period under review, the fruitful results from the operation of PVC business has proven the success of the Group's direction of migrating from petroleum related chemical production methodology to coal related chemical production methodology.

PROSPECT

PVC

The demand for PVC materials is high in developed countries, such as United States and European countries. Since PRC is moving from developing country towards developed country, the expected demand for PVC materials in the PRC is also substantial. In view of this, the Group has started to construct a new PVC production line aiming at producing high-grade PVC raw materials in April 2006. It is expected that the high-grade PVC production line will be completed in early 2007. The profit margin of high-grade PVC material is greater than that of the existing suspension PVC raw material. As a consequence of the revised product mix (starting to manufacture high grade PVC raw materials), the PVC business is expected to yield considerable profits for our Group in the coming year.

Glucose and starch business

The Group has successfully acquired the entire share capital of Better Day Bio-Chem Technology Limited ("Better Day Bio-Chem") on 16 August 2006. The substance of the acquisition is the purchase of the assets and equipment which are starch and glucose production facilities, such purchase to be established through the acquisition of Better Day Bio-Chem. The purchased corn-processing plant is the largest facilities in the Heilongjiang province, the PRC. In addition, the price of corn is the most inexpensive among the northeastern region of the PRC. With suitable economy scale of the production and abundant inexpensive supply of corn, the starch and glucose products will certainly have market competitiveness. The refurbishment of glucose production facilities was successfully completed in August 2006. The trial production has been launched in September 2006. The glucose business will start to make contributions to the profits of the Group in the near future. Besides, feasibilities studies have been conducted to explore the opportunities to make use of the other production facilities being purchased to produce other downstream chemical products.

Moreover, the Group will continue to explore business opportunities to acquire or merger with other coal related chemical factories and businesses in the northeastern region of the PRC. The Board is confident that the Group will be able to expand into upstream and downstream businesses and establish a high value added production chain for coal related chemical products, the synergy of such production chain will provide enormous return for shareholders.

Gratitude

On behalf of the Company, I would like to express my gratitude to all stakeholders, including our employees, investors, bankers, customers and business partners who always give support to us.

By order of the Board

Chan Yuk Foebe

Chairman and Chief Executive Officer

Hong Kong, 11 October 2006