

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 21 to the financial statements. The Group commenced the manufacture and sale of polyvinyl-chloride during the year.

An analysis of the Group's performance for the year by business segments is set out in note 7 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 June 2006 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 33 to 88.

The directors do not recommend the payment of dividend for the year ended 30 June 2006.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$97,000.

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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

	2006 HK\$'000	Year ended 30 June			
		(Restated) 2005 HK\$'000	(Restated) 2004 HK\$'000	(Restated) 2003 HK\$'000	(Restated) 2002 HK\$'000
TURNOVER	767,225	694,091	408,882	366,876	305,287
OPERATING PROFIT	120,602	116,042	84,620	105,911	96,267
Finance costs	–	(520)	(310)	(197)	(225)
PROFIT BEFORE TAX	120,602	115,522	84,310	105,714	96,042
Tax	(7,308)	(15,734)	(9,907)	(7,991)	(16,500)
PROFIT FOR THE YEAR	113,294	99,788	74,403	97,723	79,542
Attributable to:					
Equity holders of the Company	84,529	83,921	66,518	87,551	75,987
Minority interests	28,765	15,867	7,885	10,172	3,555
	113,294	99,788	74,403	97,723	79,542

SUMMARY FINANCIAL INFORMATION (Cont'd)

ASSETS, LIABILITIES AND EQUITY

		At 30 June			
		(Restated)	(Restated)	(Restated)	(Restated)
	2006	2005	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	410,196	281,960	154,376	123,150	62,895
Current assets	790,378	470,244	303,091	235,914	201,865
TOTAL ASSETS	1,200,574	752,204	457,467	359,064	264,760
Non-current liabilities	1,643	–	3,956	4,363	4,618
Current liabilities	70,918	84,641	65,305	53,036	52,292
TOTAL LIABILITIES	72,561	84,641	69,261	57,399	56,910
TOTAL EQUITY	1,128,013	667,563	388,206	301,665	207,850
Attributable to:					
Equity holders of the Company	1,014,340	586,010	360,753	282,099	198,457
Minority interests	113,673	81,553	27,453	19,566	9,393
	1,128,013	667,563	388,206	301,665	207,850

Note: The results of the Group for the four years ended 30 June 2002, 2003, 2004 and 2005 and of the assets, liabilities and equity of the Group as at these dates have been extracted from the audited financial statements of the Company for the respective years and restated as appropriate. The results of the Group for the year ended 30 June 2006 and of the assets, liabilities and equity of the Group as at 30 June 2006 are those set out on page 33 and pages 34 and 35 of the financial statements, respectively.

FIXED ASSETS

Details of movements in the Group's fixed assets are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements, respectively.

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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.

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 or any of its subsidiaries' listed securities during the year.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 36 and 37 and note 29(b) to the financial statements, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2006, the Company had reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounting to approximately HK\$37,743,000. In addition, the share premium account of the Company of approximately HK\$565,032,000 as at 30 June 2006 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 46% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 13%.

Purchases from the Group's five largest suppliers accounted for approximately 79% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 29%.

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:

Ms. Chan Yuk Foebe

Mr. Peng Zhanrong

Mr. Chiau Che Kong (appointed on 14 December 2005)

Mr. Chu Ki (resigned on 14 December 2005)

Mr. Wang Hailou (resigned on 12 January 2006)

Independent Non-executive Directors:

Mr. Ma Wing Yun Bryan

Mr. Meng Fanxi

Mr. Yau Chung Hong

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

Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi were appointed for a term of two years commencing from 28 February 2001. The terms of their appointment were renewed for a further two years commencing from 28 February 2003. Upon the expiry of their appointment on 27 February 2005, the Company did not renew the service contracts with Mr. Ma Wing Yun Bryan and Mr. Meng Fanxi until 24 March 2006. The Company renewed service contracts with Mr. Ma Wing Yun, Bryan and Mr. Meng Fanxi for a term of three years and one year commencing from 1 April 2006 respectively. At the same date, the Company entered into a service contract with Mr. Yau Chung Hong for a term of three years commencing from 1 April 2006.

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 18 to 22 of the annual report.

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DIRECTORS' SERVICE CONTRACTS

Each of Ms. Chan Yuk Foebe and Mr. Peng Zhanrong has entered into a service contract with the Company commencing from 22 November 2004, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other. Mr. Chiau Che Kong has entered into a service contract with the Company commencing from 14 December 2005, which shall, subject to the re-appointment as a director of the Company in accordance with the Company's Articles, continue until terminated by either party giving not less than three months' notice in writing to the other.

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' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Details of the directors' interests in share options granted by the Company are set out in note 28 to the financial statements. Save as disclosed above, as at 30 June 2006, none of the directors and chief executive of the Company had any interest or short position in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, 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

Apart from as disclosed in the share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

As far as the directors of the Company are aware, as at 30 June 2006, the following persons, other than a director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares	Nature of interests	Approximate percentage of interests
Master Oriental Limited ("Master Oriental")	Long position 279,340,000 (note 1)	Corporate interests	13.29%
Heng Tai Consumables Group Limited ("Heng Tai")	Long position 279,340,000 (note 1)	Corporate interests	13.29%
Metage Capital Limited	Long position 239,650,000 (note 2)	Corporate interests	11.40%
Mr. Webb Richard Ian	Long position 239,650,000 (note 2)	Beneficial owner	11.40%
Pope Asset Management, LLC	Long position 183,645,000	Corporate interests	8.74%
Mr. Chan Yuen Tung	Long position 197,055,488	Beneficial owner	9.38%
UBS AG	Long position 188,800,408	Corporate interests	8.98%
	Short position 49,330,000		2.35%
Deutsche Bank Aktiengesellschaft	Long position 201,560,000	Corporate interests	9.59%
QVT Financial GP LLC	Long position 163,660,000 (note 3)	Corporate interests	7.79%
QVT Financial LP	Long position 163,660,000 (note 3)	Corporate interests	7.79%

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Name of shareholder	Number of ordinary shares	Nature of interests	Approximate percentage of interests
QVT Associates GP LLC	Long position 140,961,350 (<i>note 4</i>)	Corporate interests	6.71%
QVT Fund LP	Long position 140,961,350 (<i>note 4</i>)	Corporate interests	6.71%
Polygon Global Opportunities Master Fund	Long position 140,000,000 (<i>note 5</i>)	Corporate interests	6.66%
Polygon Investment Partners LLP	Long position 140,000,000 (<i>note 5</i>)	Corporate interests	6.66%
Polygon Investment Partners LP	Long position 140,000,000 (<i>note 5</i>)	Corporate interests	6.66%

Notes:

1. Master Oriental, a company incorporated in Hong Kong with limited liability, is a wholly owned subsidiary of Heng Tai, a company incorporated in the Cayman Islands with limited liabilities whose shares are listed on the Stock Exchange. In accordance with the SFO, the interests of Master Oriental are deemed to be, and have therefore been included in the interests of Heng Tai.
2. Mr. Webb Richard Ian is a controlling shareholder of Metage Capital Limited. In accordance with the SFO, the interests of Metage Capital Limited are deemed to be, and have therefore been included in the interests of Mr. Webb Richard Ian.
3. QVT Financial GP LLC is deemed to be interested in the shares of the Company through its controlled corporation, QVT Financial LP. In accordance with the SFO, the interests of QVT Financial LP are deemed to be, and have therefore been included in the interests of QVT Financial GP LLC.
4. QVT Associates GP LLC is deemed to be interested in the shares of the Company through its controlled corporation, QVT Fund LP. In accordance with the SFO, the interests of QVT Fund LP are deemed to be, and have therefore been included in the interests of QVT Associates GP LLC.
5. Each of Polygon Investment Partners LLP and Polygon Investment Partners LP acts as an investment manager of Polygon Global Opportunities Master Fund. In accordance with the SFO, the interests of Polygon Global Opportunities Master Fund are deemed to be, and have therefore been included in each of the interests of Polygon Investment Partners LLP and Polygon Investment Partners LP.

Save as disclosed above, as far as the directors of the Company are aware, as at 30 June 2006, no other person had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to date of this report, no director of the Company is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements and results of the Group for the year ended 30 June 2006 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 set out in Appendix 10 of the Listing Rules as its own Code of conduct regarding securities transactions by the Directors. Having made specific enquiries to all the directors, all the directors confirmed that they have complied with the code provisions in the Model Code.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

AUDITORS

The financial statements for the year ended 30 June 2003 were audited by Ernst & Young. The financial statements for the three years ended 30 June 2004, 2005 and 2006 were audited by RSM Nelson Wheeler.

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

ON BEHALF OF THE BOARD

Chan Yuk Foebe

Chairman and Chief Executive Officer

Hong Kong

11 October 2006