Notes to the Financial Statements *(for the year ended 30 June 2006)*

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 Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies, Cayman Islands. The address of its principal place of business is Room 1818, 18th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 21 to the financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years except as stated below.

(a) Minority interests

In previous years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the equity holders of the Company.

With effect from 1 July 2005, in order to comply with Hong Kong Accounting Standard ("HKAS") 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and equity holders of the Company. This change in accounting policy has been applied retrospectively.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(b) Leases

Upon the adoption of HKAS 17 "Leases", the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to land use rights under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

The adoption of HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of leasehold land from fixed assets to land use rights. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease. In prior years, the leasehold land was accounted for at fair value less accumulated depreciation and impairment losses. HKAS 17 has been applied retrospectively.

The adoption of HKAS 17 resulted in a decrease in retained profits and fixed assets revaluation reserve at 1 July 2004 by approximately HK$1,529,000 and HK$5,958,000 respectively and resulted in changes in the amounts reported in the financial statements as follows:

	2006 **HK$'000**	2005 HK$'000
Decrease in fixed assets	**(97,646)**	(56,317)
Increase in land use rights	**78,673**	49,088
Decrease in other assets	**–**	(13,061)
Increase in deferred tax assets	**1,897**	2,309
Decrease in fixed asset revaluation reserve	**9,817**	9,817
Decrease in retained profits	**2,768**	3,358
Decrease in minority interests	**4,491**	4,806
Increase in other income	**(1,317)**	–
Decrease in administrative expenses	**–**	(32)
Increase in other operating expenses	**–**	5,614
Increase/(decrease) in profit attributable to minority interests	**315**	(1,444)
Increase/(decrease) in tax	**412**	(2,309)
Decrease in EPS – basic (HK cents)	**–**	(0.1)
Decrease in EPS – diluted (HK cents)	**–**	N/A

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(c) Share-based payment

The adoption of HKFRS 2 "Share-based Payment" has resulted in change in the accounting policy for employee share options. Prior to this, the grant of share options to employees did not result in a charge to the income statement. Upon the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods and expensed to the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 30 June 2005 was expensed retrospectively in the income statement of the respective periods. Because there were no unvested share options at 1 July 2005 and no share options have been granted during the year ended 30 June 2005, the adoption of HKFRS 2 has had no impact on the Group's results for the prior year.

The adoption of HKFRS 2 resulted in changes in the amounts reported in the financial statements as follows:

	2006 **HK$'000**	2005 HK$'000
Increase in share option reserve	**5,345**	–
Increase in share premium	**6,118**	–
Increase in administrative expenses	**(11,463)**	–
Decrease in EPS – basic (HK cents)	**(0.7)**	–
Decrease in EPS – diluted (HK cents)	**(0.7)**	–

(d) Discount on acquisition (previously stated as negative goodwill)

In accordance with HKFRS 3 "Business Combinations", any excess of the Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In accordance with the transitional arrangement under HKFRS 3, the carrying amount of previously recognised discount on acquisition was derecognised at 1 July 2005, with a corresponding adjustment to the opening balance of retained profits.

The adoption of HKFRS 3 resulted in changes in the amounts reported in the financial statements as follows:

	2006 **HK$'000**	2005 HK$'000
Increase in retained profits	**106**	–
Decrease in capital reserve	**(106)**	–

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, 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 ("Listing Rules") 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 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 management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully 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 represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Consolidation (Cont'd)

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and equity holders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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 using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(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 balance sheet presented are translated at the closing rate at the date of that balance sheet;

– 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Foreign currency translation (Cont'd)

(iii) Translation on consolidation (Cont'd)

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 reocogised in the consolidated income statement as part of the profit 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.

(d) Fixed assets

Buildings comprise mainly factories and offices. Buildings are carried at fair values, based on periodic valuations by external independent valuers or directors, 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 historical 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 expensed in the income statement during the period in which they are incurred.

Revaluation increases of buildings are recognised in the income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the fixed asset revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against fixed asset revaluation reserve directly in equity. All other decreases are recognised in the income statement. On the subsequent sale or retirement of a revalued building, the attributable revaluation surplus 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:

Buildings	The shorter of the lease terms and 30 to 50 years
Plant and machinery	10 to 30 years
Leasehold improvements	The shorter of the lease terms and 10 years
Furniture, office equipment and motor vehicles	5 years

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Fixed assets (Cont'd)

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

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 the income statement.

(e) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(f) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are capitalised only if all of the following conditions are met:

– An asset is created that can be identified (such as new products);

– It is probable that the asset created will generate future economic benefits; and

– The development cost of the asset can be measured reliably.

Deferred development costs are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives of five years.

(g) 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.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Trade and other receivables

Trade and other receivables 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 the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement 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.

(j) Cash and cash equivalents

For the purpose of the cash flow statement, 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.

(k) 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.

(l) 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 balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(m) 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.

(n) Equity instruments

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

(o) Revenue recognition

Revenues from the sales of goods are 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.

Rental income is recognised on an accrual basis in accordance with the terms and conditions of the tenancy agreement.

Interest income is recognised on a time-proportion basis using the effective interest method.

Proceeds from the sale of financial assets at fair value through profit and loss and trading securities are recognised when the relevant sale contract became unconditional.

(p) Employee benefits

(i) Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme.

The employees of the Company's subsidiaries operating in the People's Republic of China (the "PRC") participates in the retirement benefits scheme (the "PRC RB Scheme") operated by the local municipal government in Heilongjiang Province, the PRC. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the PRC RB Scheme to fund the benefits. The only obligation of the Group with respect to the PRC RB Scheme is to pay the ongoing required contributions under the PRC RB Scheme. Contributions under the PRC RB Scheme are charged to the income statement as they become payable in accordance with the rules of the PRC RB Scheme.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Employee benefits (Cont'd)

(ii) 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 balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(q) Share-based payments

The Group issues equity-settled payments to certain employees and business associates. 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.

(r) 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.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(s) 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 the income statement over the period necessary to match them with the costs they are intended to compensate.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(t) 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 as reported in the income statement 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 balance sheet date.

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, and is accounted for using the balance sheet liability method. 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 and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(u) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of fixed assets, goodwill, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(v) Segment reporting (Cont'd)

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agree between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(w) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets 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 the income statement, 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 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 the income statement, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(x) 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.

(y) Events after the balance sheet date

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

(a) Critical judgements in applying accounting policies

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

(i) Share-based payment expenses

As mentioned in note 2, the Group has applied HKFRS 2 "Share-based Payment" to account for its share options in the current year. In accordance with HKFRS 2, the fair value of the share options granted to the directors, employees and a business associate of the Group determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Company's share option reserve. During the year, an amount of share option expense of approximately HK$11,463,000 (2005: HK$Nil) has been recognised in the consolidated income statement.

In assessing the fair value of the share options at their respective dates of grants, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the value of share options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules. The Black-Scholes Model requires the input of highly subjective assumptions, including the expected volatility, expected dividend yield and expected life of options. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the directors, the existing model does not necessarily provide a reliable measure of the fair value of the share options. Any change in input assumptions can materially affect the fair value estimate.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Cont'd)

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

(i) Fixed assets and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions. Management will revise the depreciation charge where useful lives 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.

(ii) Recoverability of deferred development costs

During the year, management reconsidered the recoverability of its deferred development costs. Owing to the change in market condition, management expected that the products under development were unable to meet the market demand. Neither future cash inflow nor fair value less costs to sell is expected to be derived from the deferred development costs. Full allowance for impairment on deferred development costs of approximately HK$5,146,000 has been made during the year.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency 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"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) 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.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(e) Fair values

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

6. TURNOVER

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

7. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The Group's business segments are as follows:

Manufacture and sale of:

(a) lubricants;

(b) anti-corrosive coatings;

(c) additives;

(d) vinyl acetate; and

(e) polyvinyl-chloride.

7. SEGMENT INFORMATION (Cont'd)

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

	Manufacture and sale of													
	Lubricants		Anti-corrosive coatings		Additives		Vinyl acetate		Polyvinyl-chloride		Eliminations		Consolidated	
		(Restated)		(Restated)		(Restated)		(Restated)				(Restated)		(Restated)
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue	179,014	380,529	113,149	225,669	5,141	3,949	226,900	83,944	243,189	–	(168)	–	767,225	694,091
Segment results	18,451	62,671	12,902	51,513	531	848	71,779	13,898	38,571	–			142,234	128,930
Unallocated income													6,980	7,592
Unallocated expenses													(28,612)	(20,480)
Operating profit													120,602	116,042
Finance costs													–	(520)
Profit before tax													120,602	115,522
Tax													(7,308)	(15,734)
Profit for the year													113,294	99,788

7. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Manufacture and sale of

	Lubricants		Anti-corrosive coatings		Additives		Vinyl acetate		Polyvinyl-chloride		Consolidated	
		(Restated)		(Restated)		(Restated)		(Restated)				(Restated)
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	332,574	272,914	210,208	126,382	9,551	1,893	220,460	123,674	200,719	–	973,512	524,863
Unallocated assets											227,062	227,341
Total assets											1,200,574	752,204
Segment liabilities	3,351	7,833	2,118	4,646	96	81	11,571	5,941	20,929	–	38,065	18,501
Unallocated liabilities											34,496	66,140
Total liabilities											72,561	84,641
Other segment information:												
Depreciation	2,757	1,708	1,743	1,012	79	18	4,407	809	2,423	–	11,409	3,547
Unallocated depreciation											259	29
											11,668	3,576
Amortisation of intangible assets	–	–	–	–	–	–	786	–	–	–	786	–
Amortisation of land use rights	462	460	292	273	13	5	497	49	439	–	1,703	787
Capital expenditure	2,338	–	1,478	–	67	–	78,947	67,220	91,445	–	174,275	67,220
Unallocated capital expenditure											1,143	–
											175,418	67,220

(b) Geographical segments

All of the Group's revenue and results are derived from and its assets and liabilities are located in the PRC and accordingly, no further detailed analysis of the Group's geographical segments is presented.

8. OTHER INCOME

	Group	
	2006	2005
	HK$'000	HK$'000
Gain on disposal of financial assets at fair value through profit and loss/trading securities	**957**	115
Government grants *(note (a))*	**458**	1,869
Interest income	**2,707**	205
Profit sharing income *(note (b))*	**–**	4,673
Rental income	**845**	20
Reversal of revaluation deficit on buildings	**1,317**	–
Other income	**696**	710
	6,980	7,592

Notes:

(a) During the year ended 30 June 2006, the government grants have been received for refund of value-added tax. There are no unfulfilled conditions or contingencies attached to the grants.

During the year ended 30 June 2005, the government grants have been received for subsidising interest incurred by the Group in relation to loans obtained for the refurbishment of certain factory premises. There are no unfulfilled conditions or contingencies attached to the grants.

(b) During the year ended 30 June 2005, the Group entered into a profit sharing agreement with a joint venture partner of a Sino-foreign equity joint venture in relation to the trading of vinyl acetate.

9. OPERATING PROFIT

The Group's operating profit is arrived at after charging:

		Group	
			(Restated)
		2006	2005
	Note	**HK$'000**	HK$'000
Auditors' remuneration		**850**	600
Allowance for doubtful debts		**–**	4,554
Amortisation of intangible assets (included in administrative expenses)		**786**	–
Cost of inventories sold*		**586,864**	530,445
Depreciation*	*16*	**11,668**	3,576
Write off of deferred development costs		**5,146**	–
Allowance for inventories (included in cost of inventories sold)		**12,465**	–
Loss on disposal of an investment property		**–**	70
Loss on disposal of fixed assets		**30**	–
Minimum lease payments under operating leases for land and buildings		**3,321**	2,543
Research and development costs		**1,760**	789
Revaluation deficit on buildings		**–**	5,614
Staff costs (excluding directors' remuneration – *note 10*):			
Wages, salaries and benefits in kind*		**11,227**	7,438
Employee share option benefits		**9,261**	–
Retirement benefits scheme contributions		**33**	37

* Depreciation of approximately HK$7,554,000 (2005 (Restated): HK$2,105,000) and staff costs of approximately HK$5,326,000 (2005: HK$2,684,000) for the year is included in "Cost of sales" on the face of the consolidated income statement.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

The remuneration of directors of the Company for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	**–**	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**1,830**	1,816
Employee share option benefits	**1,372**	–
Retirement benefits scheme contributions	**5**	6
	3,207	1,822

The remuneration of individual director for the year is as follows:

	Basic salaries, housing benefits, other allowances and benefits in kind		Employee share option benefits		Retirement benefits scheme contributions		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Ms. Chan Yuk Foebe	**1,200**	1,200	**686**	–	**–**	6	**1,886**	1,206
Mr. Chu Ki *(note (a))*	**–**	–	**–**	–	**–**	–	**–**	–
Mr. Chiau Che Kong *(note (b))*	**108**	–	**–**	–	**5**	–	**113**	–
Mr. Peng Zhanrong	**195**	180	**686**	–	**–**	–	**881**	180
Mr. Wang Hailou *(note (c))*	**169**	335	**–**	–	**–**	–	**169**	335
Mr. Ma Wing Yun Bryan #	**25**	25	**–**	–	**–**	–	**25**	25
Mr. Meng Fanxi #	**13**	13	**–**	–	**–**	–	**13**	13
Mr. Yau Chung Hong #	**120**	33	**–**	–	**–**	–	**120**	33
Mr. Wong Kai Tat *(note (d))*#	**–**	30	**–**	–	**–**	–	**–**	30
	1,830	1,816	**1,372**	–	**5**	6	**3,207**	1,822

Independent non-executive directors

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Cont'd)

Notes:

(a) Resigned on 14 December 2005

(b) Appointed on 14 December 2005

(c) Resigned on 12 January 2006

(d) Resigned on 21 December 2004

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included one (2005: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining four (2005: two) non-director, highest paid employees are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**64**	383
Employee share option benefits	**6,211**	–
Retirement benefits scheme contributions	**–**	19
	6,275	402

The emoluments (including employee share option benefits) fell within the following bands:

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**–**	2
HK$1,500,001 to HK$2,000,000	**4**	–
	4	2

11. FINANCE COSTS

	Group 2006 HK$'000	2005 HK$'000
Interest on bank loan	–	239
Interest on other loans		
Wholly repayable within five years	–	250
Not wholly repayable within five years	–	31
	–	520

12. TAX

	Group 2006 HK$'000	(Restated) 2005 HK$'000
Hong Kong profits tax		
Current year	–	–
Overseas taxation		
Current year	**6,955**	18,043
Underprovision in prior year	**1,327**	–
Deferred *(note 26)*	**(974)**	(2,309)
Tax charge for the year	**7,308**	15,734

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the year (2005: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

According to the Income Tax Law of the PRC, Daqing Black Bird Chemical Co., Ltd. ("Daqing Black Bird"), a subsidiary of the Company, is subject to an income tax rate of 15%, being the preferential tax rate applicable to Daqing Black Bird operating in one of the high and new technology industrial development zones of the PRC.

12. TAX (Cont'd)

Mudanjiang Dongbei Chemical Engineering Company Limited ("Mudanjiang Dongbei Chemical"), a subsidiary of the Company, is exempted from the income tax of the PRC for two years starting from the first profitable year of its operations, i.e., from 1 January 2005 to 31 December 2006. Mudanjiang Dongbei Chemical is also entitled to a 50% relief from the income tax of the PRC for the following three years, i.e., from 1 January 2007 to 31 December 2009. Upon expiry of the tax relief period, Mudanjiang Dongbei Chemical will be subject to an income tax rate of 33%.

Mudanjiang Dongbei Gaoxin Chemical Company Limited ("Mudanjiang Dongbei Gaoxin"), a subsidiary of the Company, is exempted from the income tax of the PRC for two years starting from the first profitable year of its operations, i.e., from 1 January 2006 to 31 December 2007. Mudanjiang Dongbei Gaoxin is also entitled to a 50% relief from the income tax of the PRC for the following three years, i.e., from 1 January 2008 to 31 December 2010. Upon expiry of the tax relief period, Mudanjiang Dongbei Gaoxin will be subject to an income tax rate of 33%.

The provision for income tax of the other subsidiaries operating in the PRC have been calculated at the rate of 33%, based on existing legislation, interpretations and practices in respect thereof.

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

12. TAX (Cont'd)

Group

	Hong Kong		**The PRC**		**Total**	
	2006	**2006**	**2006**	**2006**	**2006**	**2006**
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax	**(18,286)**		**138,888**		**120,602**	
Tax at the statutory tax rate	**(3,200)**	**(17.5)**	**45,833**	**33.0**	**42,633**	**35.3**
Preferential statutory tax rate offered	**–**	**–**	**(4,610)**	**(3.3)**	**(4,610)**	**(3.8)**
Income tax exempted	**–**	**–**	**(35,744)**	**(25.7)**	**(35,744)**	**(29.6)**
Expenses not deductible for tax	**3,200**	**17.5**	**–**	**–**	**3,200**	**2.7**
Unrecognised temporary difference	**–**	**–**	**502**	**0.4**	**502**	**0.4**
Under provision in prior year	**–**	**–**	**1,327**	**0.9**	**1,327**	**1.1**
Tax charge at the Group's effective tax rate	**–**	**–**	**7,308**	**5.3**	**7,308**	**6.1**

	Hong Kong		The PRC		Total	
	2005	2005	2005	2005	2005	2005
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(13,383)		128,905		115,522	
Tax at the statutory tax rate	(2,342)	(17.5)	42,539	33.0	40,197	34.8
Preferential statutory tax rate offered	–	–	(21,771)	(16.9)	(21,771)	(18.9)
Income tax exempted	–	–	(7,042)	(5.5)	(7,042)	(6.1)
Income not subject to tax	(50)	(0.4)	–	–	(50)	–
Expenses not deductible for tax	2,408	18.0	2,008	1.6	4,416	3.8
Unrecognised temporary difference	(18)	(0.1)	–	–	(18)	–
Deferred tax assets in respect of tax losses not recognised	2	–	–	–	2	–
Tax charge at the Group's effective tax rate	–	–	15,734	12.2	15,734	13.6

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 30 June 2006 is dealt with in the financial statements of the Company to the extent of approximately HK$1,730,000 (2005: HK$153,000).

14. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 30 June 2006 (2005: Nil).

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company for the year of approximately HK$84,529,000 (2005 (restated): HK$83,921,000) and the weighted average of 1,751,724,495 (2005: 1,351,636,164) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30 June 2006 is based on the Group's profit attributable to equity holders of the Company for the year of approximately HK$84,529,000. The weighted average number of ordinary shares used in the calculation represents the weighted average of 1,751,724,495 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 1,549,687 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

No dilute earnings per share was presented for the year ended 30 June 2005 as there were no potential ordinary shares in existence during the year.

16. FIXED ASSETS

Group

	Restated					
	Buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improve-ments HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:						
At 1 July 2004	23,169	50,777	17,981	3,218	3,584	98,729
Additions	20,606	–	34,878	–	1,642	57,126
Disposal	–	–	–	–	(70)	(70)
Revaluation	(6,651)	–	–	–	–	(6,651)
At 30 June 2005	37,124	50,777	52,859	3,218	5,156	149,134
Additions	33,383	46,525	91,646	–	3,864	175,418
Disposal/written off	–	–	(2,273)	(76)	(1,730)	(4,079)
Transfer	47,020	(56,632)	9,612	–	–	–
Revaluation	4,483	–	–	–	–	4,483
Exchange alignment	1,443	1,971	2,053	118	205	5,790
At 30 June 2006	**123,453**	**42,641**	**153,897**	**3,260**	**7,495**	**330,746**
Accumulated depreciation:						
At 1 July 2004	–	–	6,932	816	2,092	9,840
Provided during the year	1,037	–	1,670	315	554	3,576
Disposal	–	–	–	–	(70)	(70)
Written back upon revaluation	(1,037)	–	–	–	–	(1,037)
At 30 June 2005	–	–	8,602	1,131	2,576	12,309
Provided during the year	3,454	–	6,594	326	1,294	11,668
Disposal/written off	–	–	(2,274)	(76)	(1,695)	(4,045)
Written back upon revaluation	(3,454)	–	–	–	–	(3,454)
Exchange alignment	–	–	334	42	105	481
At 30 June 2006	**–**	**–**	**13,256**	**1,423**	**2,280**	**16,959**
Net book value:						
At 30 June 2006	**123,453**	**42,641**	**140,641**	**1,837**	**5,215**	**313,787**
At 30 June 2005	37,124	50,777	44,257	2,087	2,580	136,825

16. FIXED ASSETS (Cont'd)

Group (Cont'd)

	Restated					
	Buildings	Construction in progress	Plant and machinery	Leasehold improve-ments	Furniture, office equipment and motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Analysis of cost or valuation at 30 June 2006:						
At cost	**–**	**42,641**	**153,897**	**3,260**	**7,495**	**207,293**
At valuation	**123,453**	**–**	**–**	**–**	**–**	**123,453**
	123,453	**42,641**	**153,897**	**3,260**	**7,495**	**330,746**
Analysis of cost or valuation at 30 June 2005:						
At cost	–	50,777	52,859	3,218	5,156	112,010
At valuation	37,124	–	–	–	–	37,124
	37,124	50,777	52,859	3,218	5,156	149,134

The Group's buildings included above are held under medium term leases in the PRC.

At 30 June 2006, the Group's buildings in the PRC were revalued on an open market, depreciated replacement cost basis by Castores Magi Surveyors Limited ("Castores Magi"), independent professionally qualified valuers, and directors at approximately HK$78,000,000 (2005: HK$37,124,000) and HK$45,453,000 (2005: HK$Nil) respectively. The resulting revaluation surplus and reversal of revaluation deficit of approximately HK$6,620,000 (2005: HK$Nil) and HK$1,317,000 (2005: HK$Nil) has been credited to the fixed asset revaluation reserve as set out in the consolidated statement of changes in equity and consolidated income statement respectively.

Had the Group's buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$122,081,000 (2005 (restated): HK$43,664,000).

17. LAND USE RIGHTS

The Group's land use rights represent prepaid operating lease payments of the land element of properties located in the PRC which are held under medium term leases.

The Group is in the process of obtaining land use rights certificates together with the related building ownership certificates for certain of its leasehold land and buildings situated in Daqing, Heilongjiang Province, the PRC. The parcel of land was acquired by the Group with a cash consideration of RMB14,800,000 (equivalent to approximately HK$13,832,000) during the year ended 30 June 2003 and the carrying value was approximately HK$13,209,000 (2005: HK$13,061,000) as at 30 June 2006. In the opinion of the directors, the Group has obtained the right to use the land and the related improvements legally. Once the Group obtains all of the relevant certificates, the Group will have the right to assign, lease or mortgage the land and its improvements.

18. INTANGIBLE ASSETS

	Deferred development costs	**Technical know-how**	**Total**
	HK$'000	HK$'000	HK$'000
Cost:			
At 1 July 2004	4,953	–	4,953
Additions	–	10,094	10,094
At 30 June 2005	4,953	10,094	15,047
Written off	(5,146)	–	(5,146)
Exchange alignment	193	391	584
At 30 June 2006	**–**	**10,485**	**10,485**
Accumulated amortisation:			
At 1 July 2004 and 30 June 2005	–	–	–
Provided during the year	–	786	786
At 30 June 2006	**–**	**786**	**786**
Net book value:			
At 30 June 2006	**–**	**9,699**	**9,699**
At 30 June 2005	4,953	10,094	15,047

18. INTANGIBLE ASSETS (Cont'd)

During the year ended 30 June 2005, the Group acquired certain technical know-how in relation to the improvement in the production of vinyl acetate at a total consideration of RMB10,800,000 (equivalent to approximately HK$10,094,000) in which the Group acquired a technical know-how from a joint venture partner of a Sino-foreign equity joint venture at a consideration of RMB8,000,000 (equivalent to approximately HK$7,477,000).

19. DEPOSIT PAID FOR THE ESTABLISHMENT OF A PROPOSED JOINT VENTURE

	Group	
	2006	2005
	HK$'000	HK$'000
Huludao BoHai Shipping Black Bird Painting Co., Ltd. ("Huludao Subsidiary")	**5,206**	5,140

On 20 January 2003, the Group entered into an agreement with an independent third party to establish the Huludao Subsidiary, a Sino-foreign equity joint venture in the PRC (the "Huludao Agreement"). Pursuant to the Huludao Agreement, the Group would have a 65% equity interest in the Huludao Subsidiary. The principal activities of the Huludao Subsidiary are the manufacture and sale of anti-corrosive coatings. The proposed total investment in the Huludao Subsidiary is RMB20,000,000 (equivalent to approximately HK$19,417,000 (2005: HK$18,692,000)), of which approximately HK$12,487,000 (2005: HK$12,149,000) in the total contribution required from the Group. As at 30 June 2006, the Group had paid approximately HK$5,206,000 (2005: HK$5,140,000) as a partial contribution for its commitment. The remaining contribution required from the Group to fulfil the proposed total investment in the Huludao Subsidiary is approximately HK$7,281,000 (2005: HK$7,009,000).

20. AMOUNT PAID FOR THE ACQUISITION OF FIXED ASSETS AND LAND USE RIGHTS

	Group	
	2006	2005
	HK$'000	HK$'000
Acquisition cost	**–**	73,551

During the year ended 30 June 2005, the Group paid a consideration of RMB78,700,000 (equivalent to approximately HK$73,551,000) to an auctioneer for the acquisition of fixed assets and land use rights of a polyvinyl-chloride factory ("PVC Factory"). The acquisition of the PVC Factory was completed on 1 October 2005.

As at 30 June 2006, the Group had a commitment, which was authorised by the directors of the Company but not contracted for, to pay RMB20,000,000 (equivalent to approximately HK$19,417,000 (2005: HK$18,692,000) as development funds to an account designated by 牡丹江市經濟委員會 (the "Mudanjiang City Economic Committee") for use in technological improvements and environmental protection in respect of the operation of the PVC Factory. Up to the date of this report, the Mudanjiang City Economic Committee has not demand for such payment.

21. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**86,478**	78,234

21. INVENTMENTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries as at the balance sheet date are as follows:

Name	Place of incorporation/ establishment and operations*	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Directly held					
Cozy Worldwide Ltd.	British Virgin Islands ("BVI")	Ordinary US$1	**100**	–	Investment holding
Powerful Rise Group Limited	BVI/PRC	Ordinary US$1	**100**	–	Provision of engineering services
Earlsmead Enterprises Limited	BVI	Ordinary US$100	**100**	100	Investment holding
Gold Capture Investments Inc.	BVI	Ordinary US$1	**100**	100	Investment holding
Indirectly held					
Daqing Black Bird	PRC *(note (a))*	RMB5,000,000	**90**	90	Manufacture and sale of petroleum refined products
Mudanjiang Dongbei Chemical	PRC *(note (b))*	RMB110,910,000	**63.11**	63.11	Manufacture and sale of vinyl acetate
Mudanjiang Dongbei Gaoxin	PRC *(note (c))*	HK$145,000,000	**100**	100	Manufacture and sale of polyvinyl-chloride

21. INVENTMENTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries as at the balance sheet date are as follows: (Cont'd)

Name	Place of incorporation/ establishment and operations*	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Indirectly held (Cont'd)					
Ombudsman Developments Limited	BVI	Ordinary US$1	**100**	100	Inactive
STB Company Limited	Hong Kong	Ordinary HK$2	**100**	100	Inactive
Success Eagle Investment Limited	Hong Kong	Ordinary HK$1	**100**	100	Provision of administrative services
Tsai Hong Properties Limited	BVI	Ordinary US$1	**100**	100	Inactive
大慶高新區東北化工銷售有限公司	PRC *(note (d))*	RMB500,000	**63.11**	–	Sales of vinyl acetate

* Where different

Notes:

(a) Daqing Black Bird is a Sino-foreign equity joint venture established in the PRC for an operating period of 15 years commencing from the approval date of 20 August 1997 as stated on its certificate of approval.

(b) 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 as stated on its certificate of approval.

(c) 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 20 April 2005 as stated on its certificate of approval.

(d) 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.

22. DUE FROM SUBSIDIARIES – COMPANY

The amounts due from subsidiaries are interest free, unsecured and have no fixed terms of repayment.

23. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**58,588**	84,625
Work in progress	**5,648**	6,494
Finished goods	**20,925**	34,782
	85,161	125,901

24. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 150 days.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 30 days	**51,527**	80,811
31 – 60 days	**37,201**	61,930
61 – 90 days	**19,369**	21,846
91 – 120 days	**11,030**	12,247
121 – 365 days	**5,609**	2
	124,736	176,836

Included in the Group's trade receivables as at 30 June 2005 was an amount due from a joint venture partner of the proposed Sino-foreign equity joint venture of approximately HK$10,764,000, which was repayable on credit terms similar to those offered to other customers of the Group.

25. CASH AND CASH EQUIVALENTS

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$304,859,000 (2005: HK$142,867,000). The RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. DEFERRED TAX

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

	Group	
	2006	2005
	HK$'000	HK$'000
At 1 July	**2,309**	–
Credit to income statement	**974**	2,309
Charge to equity	**(2,184)**	–
Exchange alignment	**89**	–
At 30 June	**1,188**	2,309

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	**Accelerated tax depreciation**	**Other temporary difference**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 July 2004	–	–	–
Credit to income statement for the year	176	2,133	2,309
At 30 June 2005 and 1 July 2005	176	2,133	2,309
Credit/(charge) to income statement for the year	845	(412)	433
Exchange alignment	7	82	89
At 30 June 2006	**1,028**	**1,803**	**2,831**

26. DEFERRED TAX (Cont'd)

Deferred tax liabilities	Accelerated tax depreciation	Other temporary difference	Total
	HK$'000	HK$'000	HK$'000
At 1 July 2004 and 2005	–	–	–
Charge to equity for the year	–	(2,184)	(2,184)
Credit to income statement for the year	541	–	541
At 30 June 2006	**541**	**(2,184)**	**(1,643)**

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

27. SHARE CAPITAL

Shares

	2006	2005
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2005: 2,000,000,000) ordinary shares of HK$0.01 each *(note (a))*	**100,000**	20,000
Issued and fully paid:		
2,101,540,000 (2005: 1,449,600,000) ordinary shares of HK$0.01 each	**21,015**	14,496

27. SHARE CAPITAL (Cont'd)

Shares (Cont'd)

A summary of the movements in the issued share capital of the Company during the two years ended 30 June 2005 and 2006 is as follows:

	Number of ordinary shares issued	Par value
	'000	HK$'000
At 1 July 2004	966,400	9,664
Rights issue *(note (b))*	483,200	4,832
At 30 June 2005	1,449,600	14,496
Issue of new shares to a substantial shareholder on 4 July 2005 *(note (c))*	214,810	2,148
Issue of new shares to a substantial shareholder on 27 April 2006 *(note (d))*	249,260	2,493
Issue of new shares to a substantial shareholder on 16 May 2006 *(note (e))*	83,540	835
Share options exercised *(note (f))*	104,330	1,043
At 30 June 2006	**2,101,540**	**21,015**

Notes:

(a) On 28 April 2006, the authorised share capital of the Company was increased from HK$20,000,000 to HK$100,000,000 by the creation of 8,000,000,000 shares of HK$0.01 each and that such new shares, upon issue, shall rank pari passu in all respects with the existing shares of the Company.

(b) On 14 September 2004, the Company issued 483,200,000 ordinary shares of HK$0.01 each at HK$0.3 per share by way of a rights issue in the proportion of one rights share for every two shares held by the shareholders. The net proceed from the rights issue of approximately HK$140,898,000 was used to finance business acquisition and as general working capital of the Group. The rights shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(c) On 22 June 2005, Master Oriental Limited, a substantial shareholder of the Company, placed 214,810,000 ordinary shares of HK$0.01 each in the Company to independent third parties at a price of HK$0.455 each. Master Oriental Limited then subscribed for a total of 214,810,000 new shares of HK$0.01 each in the Company at HK$0.455 per share. The subscription was completed on 4 July 2005. The net proceed of approximately HK$95,988,000 was used to finance potential acquisitions and as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(d) On 5 April 2006, Master Oriental Limited placed 249,260,000 ordinary shares of HK$0.01 each in the Company to independent third parties at a price of HK$0.48 each. Master Oriental Limited then subscribed for a total of 249,260,000 new shares of HK$0.01 each in the Company at HK$0.48 per share. The subscription was completed on 27 April 2006. The net proceed of approximately HK$118,456,000 was used to finance potential acquisitions and as general working capital of the Group. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(e) On 3 May 2006, Master Oriental Limited placed 83,540,000 ordinary shares of HK$0.01 each in the Company to independent third parties at a price of HK$0.52 each. Master Oriental Limited then subscribed for a total of 83,540,000 new shares of HK$0.01 each in the Company at HK$0.52 per share. The subscription was completed on 16 May 2006. The net proceed of approximately HK$43,039,000 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.

(f) During the year ended 30 June 2006, the subscription rights attaching to 104,330,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$0.363 - HK$0.552 per share, resulting in the issue of 104,330,000 shares of HK$0.01 each for a total cash consideration of approximately HK$46,509,000 (before expenses).

27. SHARE CAPITAL (Cont'd)

Shares options

Details of the Company's share option scheme and the share options issued thereunder are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on 18 November 2002 for a period of 10 years. Under the Scheme, the directors may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company 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 of Hong Kong Limited (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.

At 30 June 2006, there were 67,770,000 share options granted which remained outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 67,770,000 additional ordinary shares of the Company and additional share capital of approximately HK$678,000 and share premium of approximately HK$34,129,000 (before share issue expenses).

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

28. SHARE OPTION SCHEME (Cont'd)

The following share options were outstanding under the share option schemes during the year:

Grantee	Number of share options						Date of grant of share options *(note (a))*	Exercise period of share options	Exercise price of share options *(note (b))*	Price of Company's shares	
	At 1 July 2005	Granted during the year	Reclassifi-cation	Exercised during the year	Lapsed during the year	At 30 June 2006				At grant date of options *(note (c))*	At exercise date of options
									HK$	HK$	HK$
Directors											
Ms. Chan Yuk Foebe	–	13,770,000	–	–	–	13,770,000	3 January 2006	10 January 2006 to 9 January 2009	0.363	0.38	N/A
Mr. Peng Zhanrong	–	13,770,000	–	(13,770,000)	–	–	3 January 2006	10 January 2006 to 9 January 2009	0.363	0.38	0.45
Mr. Chiau Che Kong	–	–	6,000,000	(6,000,000)	–	–	1 April 2004	7 April 2004 to 6 April 2007	0.47	0.475	0.51
	–	27,540,000	6,000,000	(19,770,000)	–	13,770,000					
Other employees	13,000,000	–	(6,000,000)	–	(7,000,000)	–	1 April 2004	7 April 2004 to 6 April 2007	0.47	0.475	N/A
	–	49,920,000	–	(49,920,000)	–	–	3 February 2006	8 February 2006 to 7 February 2009	0.455	0.51	0.50 – 0.51
	–	72,000,000	–	(18,000,000)	–	54,000,000	4 May 2006	4 May 2006 to 3 May 2009	0.552	0.58	0.57
	13,000,000	121,920,000	(6,000,000)	(67,920,000)	(7,000,000)	54,000,000					
Business associate	–	16,640,000	–	(16,640,000)	–	–	3 January 2006	10 January 2006 to 9 January 2009	0.363	0.38	0.44
Total	13,000,000	166,100,000	–	(104,330,000)	(7,000,000)	67,770,000					

28. SHARE OPTION SCHEME (Cont'd)

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 a 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 average Stock Exchange closing price for the five business days immediately preceding the date of the grant of the share options.

The number and weighted average exercise price of the share options are as follows:

	2006		2005	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
		HK$		HK$
Outstanding at the beginning of the year	**13,000,000**	**0.470**	13,000,000	0.470
Granted during the year	**166,100,000**	**0.473**	–	–
Lapsed during the year	**(7,000,000)**	**0.470**	–	–
Exercised during the year	**(104,330,000)**	**0.446**	–	–
Outstanding at the end of the year	**67,770,000**	**0.514**	13,000,000	0.470
Exercisable at the end of the year	**67,770,000**	**0.514**	13,000,000	0.470

The weighted average share price at the dates of exercise for share options exercised during the year was HK$0.500. The options outstanding at the end of the year have a weighted average remaining contractual life of 2.8 years (2005: 1.8 years) and the exercise prices range from HK$0.363 to HK$0.522 (2005: HK$0.470).

28. SHARE OPTION SCHEME (Cont'd)

The fair value of options granted during the year determined at the date of granted using the Black-Scholes valuation model was approximately HK$11,463,000. The significant input into the model were as follows:

Grant date	3 January 2006	3 February 2006	4 May 2006
Option value	HK$0.050	HK$0.064	HK$0.086
Total fair value	HK$2,202,000	HK$3,050,000	HK$6,211,000
Share price at date of grant	HK$0.38	HK$0.51	HK$0.58
Exercisable price	HK$0.363	HK$0.455	HK$0.552
Expected volatility	38%	35%	39%
Risk-free interest rate	4.06%	3.972%	4.406%
Expected life of options	1.25 years	1.25 years	1.25 years
Dividend yield	6.5%	5.2%	4.25%

The expected volatility was determined by calculating the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The share premium account of the Group 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.

Share option reserve represents the fair value of the outstanding share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments.

29. RESERVES (Cont'd)

(b) Company

	Share premium account HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2004	125,375	–	35,860	161,235
Rights issue	140,128	–	–	140,128
Rights issue expenses	(4,062)	–	–	(4,062)
Profit for the year	–	–	153	153
At 30 June 2005	261,441	–	36,013	297,454
Issue of shares	255,348	–	–	255,348
Share issue expenses	(3,341)	–	–	(3,341)
Share option benefits				
– Grant of share options	–	11,463	–	11,463
– Exercise of share options	45,466	–	–	45,466
– Transfer to share premium	6,118	(6,118)	–	–
Profit for the year	–	–	1,730	1,730
At 30 June 2006	**565,032**	**5,345**	**37,743**	**608,120**

Note:

The share premium account of the Company includes (i) the premium arising from the issue of shares; and (ii) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the group reorganisation referred to in note (a) above, over the nominal value of the shares of the Company issued in exchange therefor.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company 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 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.

Share option reserve represents the fair value of the outstanding share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments.

30. SHORT TERM BORROWING

At 30 June 2005, the loan of the Group was unsecured, interest free and wholly repayable on or before 27 July 2005. The loan was granted by a company which was controlled by a substantial shareholder of the Company.

31. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 30 days	**12,771**	8,173
31 – 60 days	**458**	–
61 – 90 days	**3,279**	–
Over 90 days	**1,323**	25
	17,831	8,198

32. COMMITMENTS

(a) Commitments under operating leases

The Group leases certain land and buildings under operating lease arrangements. The original lease terms for these land and buildings range from one to ten years.

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases for land and buildings falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**1,748**	1,358
In the second to fifth years inclusive	**5,243**	4,486
After five years	**1,553**	2,617
	8,544	8,461

The Company did not have any operating lease arrangements as at 30 June 2006 (2005: Nil).

(b) Capital commitments

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
(i) Buildings and plant under construction	**40,664**	79,159
(ii) Development costs	**–**	1,963
	40,664	81,122

The Company did not have any capital commitments as at 30 June 2006 (2005: Nil).

33. MAJOR NON-CASH TRANSACTIONS

Additions to fixed assets and land use rights of approximately HK$45,382,000 and HK$28,169,000, respectively were offset against deposit paid for the acquisition of fixed assets and land use rights of the PVC factory.

During the year ended 2005, a joint venture partner of a Sino-foreign equity joint venture injected fixed assets and land use rights of approximately HK$14,776,000 and HK$23,457,000 respectively as its capital contribution to the Sino-foreign equity joint venture.

34. POST BALANCE SHEET EVENTS

In addition to those disclosed elsewhere in the financial statements, the Group has the following significant post balance sheet events:

On 18 May 2006, Cozy Worldwide Ltd., a wholly owned subsidiary of the Company, entered into a share purchase agreement with Better Day Group Limited, an independent third party, in relation to the acquisition of the entire issued share capital of Better Day Bio-Chem Technology Ltd. ("Better Day Bio-Chem"), an investment holding company incorporated in the BVI. Better Day Bio-Chem has a 60% equity interest in Mudanjiang Gaoke Bio-Chem Co. Ltd. ("Mudanjiang Gaoke"), a Sino-foreign equity joint venture established in the PRC. Mudanjiang Gaoke is engaged in the production and sale of glucose and starch and owns certain assets and equipment located in the PRC.

The total consideration for the acquisition of approximately HK$280 million is subject to any adjustment made to the capacity payment as stipulated in the share purchase agreement. The capacity payment is determined based on the annualised production capacity of the assets acquired to be assessed by independent valuers not later than five business days following the date falling six months after the date of completion. The acquisition of Better Day Bio-Chem was completed on 16 August 2006.

Goodwill arising on acquisition, at the best estimation of the directors, is approximately HK$75 million. The estimated goodwill is subject to capacity payment which is based on annualised production capacity of the assets owned by Mudanjiang Gaoke.

The estimated goodwill is attributable to the existing strong demand in glucose and starch in the north-eastern region of the PRC which is expected to provide a favourable return to the Group.

34. POST BALANCE SHEET EVENTS (Cont'd)

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	Acquiree's carrying value HK$'000
Fixed assets	421,518	55,823
Prepayments, deposits and other receivables	77	77
Bank and cash balances	7,494	7,494
Deferred tax liabilities	(120,679)	–
Amount due to a director	(4,400)	(4,400)
Minority interests	(98,887)	(881)
Net assets acquired	205,123	58,113

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 October 2006.