SUNPEC 中聯石化

SINO UNION PETROLEUM & CHEMICAL INTERNATIONAL LIMITED
中聯石油化工國際有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 346)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2005

The board of directors (the "Directors") of Sino Union Petroleum & Chemical International Limited (the "Company") is pleased to announce the audited consolidated results of the Company together with its subsidiaries (the "Group") for the year ended 31 March 2005 as follows:

	Note	**2005** *HK$'000*	2004 *HK$'000*
Turnover	*2, 3*	**884,347**	453,344
Cost of Sales		**(845,668)**	(419,879)
Gross Profit		**38,679**	33,465
Other Revenue		**2,425**	1,884
Selling and Distribution Costs		**(945)**	(6,501)
Administrative Expenses		**(31,165)**	(13,366)
Profit from Operating Activities	*4*	**8,994**	15,482
Profit from Disposal of Subsidiaries		**112**	–
Profit before Finance Costs and Tax		**9,106**	15,482
Finance Costs	*5*	**(5,683)**	(92)
Profit before Tax		**3,423**	15,390
Taxation	*6*	**(4,445)**	(2,528)
Net (Loss)/Profit from Ordinary Activities Attributable to Shareholders		**(1,022)**	12,862
Dividends	*8*	**–**	–
(Loss)/Earnings per Share	*9*		
Basic		**(HK0.1 cent)**	HK1.2 cent
Diluted		**N/A**	HK1.1 cent

* *For identification purposes only*

Notes:

1. Basis of preparation

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to as the "new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statements is historical cost convention and as modified for the revaluation of investments in securities.

2. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the polyurethane ("PU") materials segment involves the trading of PU materials, such as isocyanate, polyols and various kinds of PU catalysts.

(b) the petrochemical products segment involves the manufacture and sales of petrochemical fuel products, which was discontinued subsequent to the balance sheet date (Note 37 to the financial statements).

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

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

Group

	PU materials		Petrochemical products		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**652,717**	453,344	**231,630**	–	**884,347**	453,344
Total revenue	**652,717**	453,344	**231,630**	–	**884,347**	453,344
Segment results	**10,061**	17,772	**(240)**	–	**9,821**	17,772
Interest income					**2**	45
Unallocated expenses					**(829)**	(2,335)
Profit from operating activities					**8,994**	15,482
Profit from disposal of subsidiaries					**112**	–
Profit before finance costs and tax					**9,106**	15,482
Finance costs					**(5,683)**	(92)
Profit before tax					**3,423**	15,390
Tax					**(4,445)**	(2,528)
Net (loss)/profit from ordinary activities attributable to shareholders					**(1,022)**	12,862
Segment assets	**231,678**	238,360	**201,569**	–	**433,247**	238,360
Unallocated assets					**–**	21,222
Total assets					**433,247**	259,582
Segment liabilities	**89,797**	83,546	**182,248**	–	**272,045**	83,546
Unallocated liabilities					**–**	13,812
Total liabilities					**272,045**	97,358
Other segment information:						
Depreciation	**1,346**	642	**4,668**	–	**6,014**	642
Other non-cash expenses	**1,179**	9	**–**	–	**1,179**	9
Capital expenditure	**1,674**	21	**40,352**	–	**42,026**	21

(b) ***Geographical segments***

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments.

Group

	PRC		**Hong Kong**		**Consolidated**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**842,098**	357,238	**42,249**	96,106	**884,347**	453,344
Segment results**	**9,710**	15,584	**111**	2,188	**9,821**	17,772
Other segment information:						
Segment assets	**231,527**	101,508	**201,720**	158,074	**433,247**	259,582
Capital expenditure	**40,352**	–	**1,674**	21	**42,026**	21

** Disclosed pursuant to the requirements of the Listing Rules.

3. Turnover and Other Revenue

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intercompany transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Turnover		
Continuing		
Sale of goods	**652,717**	453,344
Discontinuing		
Sale of goods	**231,630**	–
	884,347	453,344
Other revenue		
Bank interest income	**2**	45
Others	**2,423**	1,839
	2,425	1,884
	886,772	455,228

4. Profit from Operating Activities

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

	Group 2005 HK$'000	2004 HK$'000
Cost of inventories sold	**828,488**	419,879
Auditors' remuneration	**710**	400
Depreciation	**6,014**	642
Amortisation of goodwill	**1,179**	–
Minimum lease payments under operating leases in respect of land and buildings	**1,691**	1,802
Exchange losses, net	**–**	5
Loss on disposal of fixed assets	**–**	9
Staff costs (including Directors' remuneration):		
Salaries and wages	**10,270**	4,234
Mandatory provident fund contributions	**148**	113

and after crediting:

Gain on disposal of fixed assets	**62**	–
Exchange gains, net	**18**	–

The cost of inventories sold includes HK$5,699,000 (2004: Nil) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

5. Finance Costs

	Group 2005 HK$'000	2004 HK$'000
Interest on bank loans wholly repayable within five years	**5,472**	–
Interest on trust receipt loans wholly repayable within five years	**151**	42
Finance charges on obligations under finance leases	**60**	50
	5,683	92

6. Taxation

(a) Taxation in the consolidated income statement represents:

	Group 2005 HK$'000	Group 2004 HK$'000
Current year provision:		
Hong Kong	**–**	129
Overseas	**4,445**	2,399
Tax charge for the year	**4,445**	2,528

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Group 2005 HK$'000	2005 %	2004 HK$'000	2004 %
(Loss)/profit before taxation	**(3,423)**		15,390	
Tax at the Hong Kong profits tax rate of 17.5% (2004: 17.5%)	**(599)**	**(17.5)**	2,693	17.5
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,854)**	**(54.2)**	(228)	(1.5)
Tax effect of expenses that are not deductible in determining taxable profit	**4,774**	**139.5**	1,537	9.9
Tax effect of income that are not taxable in determining taxable profit	**–**	**–**	(1,474)	(9.5)
Tax losses not recognised	**2,124**	**62.1**	–	–
Tax charge for the year	**4,445**	**129.9**	2,528	16.4

7. Net Loss from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 March 2005 was HK$3,483,000 (2004: HK$1,552,000).

8. Dividends

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2005 (2004: Nil).

9. **(Loss)/Earnings per Share**

	2005	2004
	HK$'000	*HK$'000*
(Loss)/Profit attributable to shareholders	**(1,022)**	12,862
	No. of shares *in thousand*	No. of shares *in thousand*
Weighted average number of ordinary shares in issue	**1,197,000**	1,084,172
Incremental shares from assumed exercise of share options	**17,746**	56,046
Diluted weighted average number of shares	**1,214,746**	1,140,218
Basic (loss)/earnings per share	**(HK0.1 cent)**	HK1.2 cent
Diluted (loss)/earnings per share	**N/A**	HK1.1 cent

Diluted loss per share amount for the year ended 31 March 2005 has not been presented as the effect of the assumed conversion of the Company's outstanding share options would be anti-dilutive.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the financial year ended 31 March 2005, the Group recorded a turnover of approximately HK$884,347,000 (2004: HK$453,344,000) up 95% compared to the previous year. When compared to the previous year, the turnover for trading of PU materials increased by 43%. However, loss attributable to shareholders were HK$1,022,000 (2004: profit of HK$12,862,000). Given the uncertainty faced by the Group during the year, we strived to sustain our results by implementation of stringent cost control and adoption of discriminative pricing approach in accepting sales order of the PU materials. Loss per share is HK0.1 cent (2004: earnings per share of HK1.2 cent) per share.

Operational Review

During the year under review, 74% (2004: all) of the Group's revenue derived from distribution of PU materials and 26% of the Group's revenue derived from manufacturing of petroleum products (2004: Nil) and the principal market of the Group was PRC, accounted for approximately 95% (2004: 78.8%) of the Group's turnover. Revenue derived from Hong Kong was approximately 5% (2004: 21.2%).

Distribution of PU materials

During the year under review, revenue from the distribution of PU materials was approximately HK$652,717,000, representing an increase of approximately 44% compared to previous year. The distribution of PU materials contributed approximately HK$10 million to the Group's net profit from operating activities for the year, representing a decrease of 43% compared to previous year. The global market of the PU materials continued to be very competitive although the overall market sentiment during the second half of the financial year improved and there has been a tremendous increase in the demand of PU materials. The Group has consistently adopted a selective approach in accepting PU trading orders by ensuring that these transactions will meet the minimum profit criteria in order to reduce the risk exposure in the competitive environment.

Manufacturing business

During the year under review, the Group had commenced the manufacture and sale of petrochemical fuel products. The manufacturing business contributed an operating loss of approximately HK$0.3 million to the Group's net profit from operating activities for the year. On 13 July 2005, the Group as vendor entered into sale and purchase agreement to dispose the manufacturing division, Liaoning Xinmin Petrochemical Company Limited for a consideration of HK$51 million and the Group expects to recognise a profit of approximately HK$11 million (excluding relevant legal and professional fees) for the disposal of the manufacturing division.

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 March 2005 (2004: Nil).

Liquidity and Financial Resources

During the year, the Group issued a convertible bond of HK$26,813,000. As at 31 March 2005, there were no pledged bank deposits (2004: HK$8,207,000) and cash and bank balances approximately HK$6,246,000 (2004: HK$40,087,000). The bank borrowings as at 31 March 2005 amounted to HK$93,623,000 (2004: Nil).

With the available resources and the proceeds from the sale of the Group's subsidiaries subsequent to the balance sheet date, the Group has adequate working capital to finance its business operations.

As at 31 March 2005, the current ratio (current assets divided by current liabilities) was 1.08 times (2004: 2.66 times) and the gearing ratio (bank borrowing, convertible bond and finance lease payables divided by shareholders' equity) was 76% (2004: 0.21%).

CHARGE ON ASSETS

As at 31 March 2005, the facilities of the Group were supported by certain of the Group's fixed assets with net book value of approximately HK$104,830,000 (2004: Nil) and unlimited corporate guarantees executed by the Company and certain subsidiaries of the Company. There were no (2004: HK$8.2 million) time deposits pledged.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

As the Group's transactions are mostly settled by Hong Kong dollars, Renminbi or Hong Kong dollars pegged currencies, the exposure to foreign exchange fluctuation is minimal, therefore no use of financial instruments for hedging purpose is considered necessary.

As at 31 March 2005, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

CONTINGENT LIABILITIES

As at 31 March 2005, the Company had executed several guarantees, with unlimited amount, in favour of banks in respect of general banking facilities granted to certain subsidiaries. As at 31 March 2005, the subsidiaries had utilised approximately HK$1 million (2004: HK$27 million) of the facilities.

CAPITAL COMMITMENT

The Group had capital expenditure contracted for but not provided in the financial statements of approximately HK$8 million in respect of a subsidiary's improvement project for certain plant and machineries.

MATERIAL ACQUISITIONS AND DISPOSALS

In May 2004, the Group entered into acquisition and purchase agreements to acquire an aggregate of 100% equity interest in Liaoning Xinmin Petrochemical Company Limited (the "Acquisition") which is principally engaged in the manufacture and sale of petrochemical fuel products in Shenyang, Liaoning Province, the PRC. The Acquisition was completed in August 2004.

In July 2005, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in Liaohe Energy Limited, which sole asset is its 100% equity interest in Liaoning Xinmin Petrochemical Company Limited.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2005, the Group's total number of staff was 742 (2004: 25). Salaries of employees are maintained at a competitive level. The Group has not encountered any problem with the recruitment of its employees. None of the companies in the Group has experienced any labour disputes during the year and the Directors of the Company consider that the Group has maintained an excellent employment relationship.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual performance.

LOOKING AHEAD

Despite of the aforesaid disposal, the Group is still interested in diversify into the petroleum and petrochemical related business. The Group will explore other business rationalization, divertment and/or diversification will appropriate in order to enhance the long term potential of the Group. Any acquisition or disposal will be made in accordance with the Listing Rules. However, at present no detailed plan has been formulated. The excellent economic performance of the PRC will continue to stimulate both local demands and attract global traders flocking to the PRC for investment opportunities. Meanwhile, the Republic of Madagasca has extensive reserve of resources required by the PRC and the global markets. With strong financial resources and extensive network in the PRC and Madagascar, the Group is well-positioned to reap business opportunities arising from the exchange of pattern of global trade. With future emphasis being place on business rationalization and diversification, it is anticipated that these efforts would offer a route to business growth. Looking ahead, the Board is dedicated to bring the best return and to enhance the shareholders' value in the long run. The Group will continue to strive for advancement in both quantity and quality of earnings and expansion of business by all means, including merger, acquisition or establishment of business ventures.

COMPLIANCE WITH CODE OF BEST PRACTICE

In the opinion of the current directors, the Company which was in force prior to 1 January 2005 complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules during the year ended 31 March 2005, except that the independent non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company adopted a code of conduct regarding directors' securities transactions based on the terms as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules, throughout the Period. After having made specific enquiry to all directors of the Company, the directors are of the opinion that they have complied with the required standard set out in the Model Code regarding securities transactions by directors throughout the Period.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 March 2005 and are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The 2005 Annual Report of the Company containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange will be published on the website of the Stock Exchange in due course.

APPRECIATION

I would like to thank our management team and all our staff for their untiring efforts and significant contribution during the past year. I would also like to take this opportunity to express my sincere gratitude and appreciation to all our fellow shareholders and institutional investors for their continuous support and confidence in our Group.

By order of the Board
Chui Say Hoe
Executive Director

Hong Kong, 28 July 2005

As at the date of this announcement, the Board comprises of (1) Executive Directors: Dr. Hui Chi Ming, Mr. Chen Hua, Dr. Chui Say Hoe, Mr. Tsang Kwok Man and Mr. Cheung Shing; (2) Non-Executive Directors: Mr. Chow Charn Ki Kenneth; and (3) Independent Non-Executive Directors: Mr. Chan Wai Dune, Dr. Yu Sun Say and Mr. Ng Wing Ka.

Please also refer to the published version of this announcement in The Standard.