**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Sino Union Petroleum & Chemical International Limited, you should at once hand this circular to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



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)**

# MAJOR TRANSACTION

# DISPOSAL OF THE ENTIRE EQUITY INTEREST IN XINMIN PETROCHEMICAL

**Financial adviser to the Company**

博大資本國際有限公司
Partners Capital International Limited

A letter from the board of directors of Sino Union Petroleum & Chemical International Limited is set out on pages 3 to 10 of this circular.

7 September 2005

* *For identification purposes only*

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*In this circular, the following expressions have the following meanings, unless the context otherwise requires:–*

| | |
|---|---|
| "Agreement" | a sale and purchase agreement dated 13 July 2005 entered into between the Company and the Purchaser in respect of the Disposal |
| "Board" | the board of Directors |
| "Company" | Sino Union Petroleum & Chemical International Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange |
| "Completion" | completion of the Agreement which has taken place on 13 July 2005 |
| "Consideration" | the consideration of HK$51,000,000 for the Disposal |
| "Director(s)" | the director(s) of the Company |
| "Disposal" | the disposal of the Sale Share by the Company to the Purchaser as stipulated by the Agreement |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Latest Practicable Date" | 5 September 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular |
| "Liaohe Energy" | Liaohe Energy Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company immediately before Completion and a wholly-owned subsidiary of the Purchaser immediately after Completion |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |

| | |
|---|---|
| "Major Shareholder" | Wisdom On Holdings Limited, being the controlling Shareholder holding approximately 62.66% of the existing issued share capital of the Company and the entire issued share capital of which is owned by Dr. Hui Chi Ming, the Chairman of the Company, and Mr. Chen Hua, the Deputy Chairman of the Company, as to 55% and 45% respectively |
| "PRC" | the People's Republic of China |
| "Purchaser" | Glorious Chamber Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Ms. Chen Jing. Ms. Chen Jing is also the sole director of the Purchaser |
| "Sale Share" | one share of US$1.00 each in the issued share capital of Liaohe Energy, being the Company's entire interest in Liaohe Energy |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) |
| "Share(s)" | share(s) of HK$0.10 each in the share capital of the Company |
| "Shareholder(s)" | registered holder(s) for the time being of Shares issued |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Xinmin Petrochemical" | 遼寧新民石油化工有限公司 (Liaoning Xinmin Petrochemical Company Limited), a wholly foreign-owned enterprise established in the PRC and wholly owned by Liaohe Energy |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "US$" | United States dollars, the lawful currency of the United States of America |
| "%" | per cent. |

*For the purpose of this circular, all amounts in RMB are translated into HK$ at an exchange rate of RMB1.04:HK$1.00*

**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)**

*Executive Directors:*
Dr. Hui Chi Ming, *G.B.S., PhD, J.P. (Chairman)*
Mr. Chen Hua *(Deputy Chairman)*
Dr. Chui Say Hoe
Mr. Tsang Kwok Man
Mr. Cheung Shing

*Non-Executive Directors:*
Mr. Chow Charn Ki Kenneth

*Independent Non-Executive Directors:*
Mr. Chan Wai Dune
Dr. Yu Sun Say
Mr. Ng Wing Ka

*Registered Office:*
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Principal place of business in Hong Kong:*
Room 4605-7, 46th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

7 September 2005

*To the Shareholders,*

Dear Sir or Madam,

## MAJOR TRANSACTION

## DISPOSAL OF THE ENTIRE EQUITY INTEREST IN XINMIN PETROCHEMICAL

### INTRODUCTION

On 26 July 2005, the Board announced that on 13 July 2005, the Company as vendor entered into a sale and purchase agreement with the Purchaser, pursuant to which the Company has agreed to dispose of the Sale Share, being its entire interest in Liaohe Energy which sole asset is its 100% equity interest in Xinmin Petrochemical, at a cash consideration of HK$51,000,000.

* *For identification purposes only*

The Disposal constitutes a major transaction of the Company under the Listing Rules and must be made conditional on approval by the Shareholders. Pursuant to Rule 14.44 of the Listing Rules, the approval by the Shareholders may be obtained by means of written approval of the transaction by a Shareholder who holds, or a closely allied group of Shareholders who together hold, more than 50% of the voting rights of the Company. Given that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal; and (ii) a written approval of the Disposal on the terms and conditions of the Agreement and the transaction contemplated thereunder has been given by the Major Shareholder who holds approximately 62.66% of the existing issued share capital of the Company, a special general meeting of the Shareholders will therefore not be convened for the purpose of approving the Disposal.

The purpose of this circular is to give you further information of the Disposal, the Agreement and transactions contemplated thereunder.

**THE AGREEMENT DATED 13 JULY 2005**

**Parties**

*Vendor* : Sino Union Petroleum & Chemical International Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange

*Purchaser* : Glorious Chamber Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Ms. Chen Jing. Ms. Chen Jing is also the sole director of the Purchaser.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser, its sole director and the ultimate sole shareholder are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

**Assets to be disposed**

The Sale Share, being one share of US$1.00 each in the issued share capital of Liaohe Energy, representing the Company's entire interest in Liaohe Energy. There is no restriction on the subsequent sale of the Sale Share.

**Consideration**

The Consideration of HK$51,000,000, which was agreed after arm's length negotiations, shall be paid by the Purchaser to the Company in the following manners:–

(i) as to HK$25,000,000 in cash within 7 business days from the date of the Promissory Note (as defined below); and

(ii) as to HK$26,000,000 in cash within 20 business days from the date of the Promissory Note (as defined below).

The Company has received HK$5,000,000 and HK$20,000,000 on 21 July 2005 and 22 July 2005 respectively. The Company has further received HK$5,000,000 and HK$2,000,000 on 2 August 2005 and 1 September 2005 respectively. On 1 September 2005, the Company and the Vendor entered into a supplemental agreement, pursuant to which the Company and the Purchaser agreed that the remaining balance of the Consideration of HK$26,000,000 shall be paid by the Purchaser to the Company within 60 business days from the date of the Promissory Note (i.e. 6 October 2005). The Directors consider that it is acceptable to extend the payment term of the Consideration given that the Purchaser had paid an aggregate amount of HK$32,000,000 and the Consideration is secured by the Promissory Note, a share mortgage, a debenture and a first priority equity pledge contract as detailed below.

**Completion**

Completion is subject to, inter alia, the following matters having been taken place:

1. the execution of the Agreement;

2. the Company having obtained the Shareholders' approval on the Disposal;

3. the delivery of a promissory note (the "Promissory Note") executed by the Purchaser, pursuant to which the Purchaser promises to pay to the Company the sum of HK$51,000,000, being the consideration of the Disposal;

4. the execution of a share mortgage between the Company as the covenantee and the Purchaser as the chargor, pursuant to which the Purchaser mortgages and charges by way of a first fixed legal charge the Sale Share to the Company as a continuing security for the due and punctual payment of the Consideration and the due and punctual performance and observance by the Purchaser of its obligations under the Promissory Note;

5. the execution of a debenture between the Company and Liaohe Energy as chargor, pursuant to which Liaohe Energy charges by way of a first floating charge to the Company all the undertaking, property, assets and rights of Liaohe Energy as a continuing security for the due and punctual payment of the Consideration and the due and punctual performance and observance by the Purchaser of its obligations under the Promissory Note; and

6. the execution of a first priority equity pledge contract between the Company as the beneficiary and Liaohe Energy as pledgor, pursuant to which Liaohe Energy pledges by way of a first priority security to the Company the entire interest in Xinmin Petrochemical as a continuing security for the due and punctual payment of the Consideration and the due and punctual performance and observance by the Purchaser of all its obligations under the Promissory Note.

Completion has taken place on 13 July 2005, being the date of the Agreement. Upon Completion, Liaohe Energy has ceased to be a subsidiary of the Company.

**INFORMATION OF XINMIN PETROCHEMICAL**

Xinmin Petrochemical is a wholly foreign-owned enterprise incorporated in the PRC. It is wholly owned by Liaohe Energy and has a registered capital of US$4,800,000. Xinmin Petrochemical is principally engaged in manufacturing and sale of petrochemical products (such as paraffin wax, naphtha, mixed propane and propylene) in Shenyang, Liaoning Province, the PRC. Currently, Xinmin Petrochemical's maximum refinery capacity and current refinery volume of crude oil are approximately 300,000 tonnes per annum and 120,000 tonnes per annum respectively. In addition, Xinmin Petrochemical owns certain shareholdings in two companies in the PRC, namely, (i) 40% equity interest of 瀋陽三和油業有限公司 (Shenyang Shanhe Yiuye Limited) which is principally engaged in manufacturing of organic solvent and lubricant oil with registered capital of US$640,000; and (ii) 30% equity interest of 遼寧京瀋商貿有限公司 (Liaoning Jingshen Shangmao Limited) which is principally engaged in storage of petrochemical products with registered capital of RMB2,000,000.

The following table is a summary of the unaudited consolidated management accounts of Liaohe Energy for the two years ended 31 March 2005 prepared in accordance with accounting principles generally accepted in Hong Kong:

| | **For the 12 months ended 31 March 2005** *RMB'000* | **For the 12 months ended 31 March 2004** *RMB'000* |
|---|---|---|
| Turnover | 392,617 | 407,827 |
| Profit/(loss) before taxation | 390 | (3,168) |
| Net profit/(loss) after taxation | 390 | (5,506) |
| | | |
| Total assets | 242,345 | 193,638 |
| Goodwill | 18,751 | – |
| Total liabilities | 238,085 | 163,623 |
| Net tangible assets | (14,491) | 30,015 |

**REASONS FOR THE DISPOSAL AND USE OF PROCEEDS**

The Group is principally engaged in the sale and distribution of polyurethane materials, PU foams and PU foams products (molded and unmolded) and the manufacture and sale of petrochemical fuel products in the PRC. To the best of the Directors' knowledge, the Purchaser is an investment holding company.

As detailed in the announcement of the Company dated 28 May 2004 and the circular of the Company dated 28 July 2004, Liaohe Energy, a wholly-owned subsidiary of the Company at the time, entered into an acquisition agreement and purchase agreement with various independent third parties as the vendors (the "Sellers"), for the acquisition of an aggregate of 100% equity interest in Xinmin Petrochemical (previously known as 瀋陽市新民蠟化學品實驗廠 (Shenyang Xinmin Chemical Factory)) at an aggregate consideration of RMB45 million (equivalent to approximately HK$43.27 million). Completion of the acquisition took place in August 2004. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Sellers are third parties independent of the Purchaser and its sole beneficial owner, the Company and connected persons (as defined in the Listing Rules) of the Company.

As detailed in the announcement of the Company dated 14 September 2004, the Major Shareholder acquired the entire equity interest of the former major shareholder in the Company, representing approximately 62.66% of the total issued share capital of the Company, and made mandatory cash offers for all the issued Shares other than those already owned by it and parties acting in concert with it and all the outstanding options respectively. Details of the cash offers are set out in the offer document dated 5 October 2004 and the response document dated 19 October 2004. The name of the Company was also changed to "Sino Union Petroleum & Chemical International Limited" with effect from 19 November 2004. After the making of the cash offers, all members of the Board have been changed.

Since the appointment of the new Directors nominated by the Major Shareholder, the new management has been actively reviewing the existing business operation of the Group including Xinmin Petrochemical. As disclosed in this circular, Xinmin Petrochemical could only record marginal net profit after taxation of approximately RMB390,000 (equivalent to approximately HK$375,000) for the 12 months ended 31 March 2005 as compared to net loss after taxation of approximately RMB5,506,000 (equivalent to approximately HK$5,294,000) for the 12 months ended 31 March 2004 which was prior to the acquisition of Xinmin Petrochemical by the Group. Given that a substantial amount of fixed costs has to be incurred for operating the factory of Xinmin Petrochemical, the Directors consider that there is a need to expand the production scale of Xinmin Petrochemical in order to attain the economy of scale required for making profit. As the property market in the region has experienced a strong growth over the past year, it is difficult for Xinmin Petrochemical to acquire a suitable parcel of land in the proximity with a reasonable price for further expansion. Due to the expansion limitation and under the current competitive operating environment, the Directors consider that Xinmin Petrochemical is in a difficult position to achieve a reasonable amount of profit for the Group. Accordingly, the Directors consider that it is appropriate to realize its investment in Xinmin Petrochemical by way of the Disposal and the terms of the Disposal are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole. As the Consideration is higher than the cost of acquisition of RMB45 million (equivalent to approximately HK$43.27 million) and will be paid in cash, the liquidity position of the Group would also be enhanced after Completion.

The net proceeds of the Disposal amounted to approximately HK$50,000,000, of which approximately HK$17,000,000 has been used to repay the entire shareholder's loan due to the Major Shareholder by the Company and the remaining balance of approximately HK$33,000,000 will be used as general working capital and for the expansion of the Group's business and the making of future investments if opportunities arise.

## FINANCIAL EFFECTS ON THE GROUP

Based on the Consideration of HK$51,000,000 and the carrying value of Liaohe Energy as at 30 June 2005 of approximately HK$39,773,000, the Board estimates that the Group will report a gain of around HK$11.2 million as a result of the Disposal. Save as such gain of around HK$11.2 million, the Directors consider that the Disposal will have no material effect on the assets and liabilities of the Company.

## FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group recorded a turnover of HK$884,347,000 for the year ended 31 March 2005, representing an increase of 95% compared to the previous year. Meanwhile, the loss attributable to Shareholders was approximately HK$1,022,000 (2004: profit of HK$12,862,000).

With the economy of the PRC booming, the demand for PU materials in the Greater China region has shown a strong increase. As a result, the Group also has boosted its PU material sales to a record-breaking HK$653 million in the financial year of 2005. However, the Group has still been facing increasing competition in its PU material distribution business. The Group has adopted its strategy to increase market share at the expense of leaner profit margin. Therefore, the profit margin did not record an increase accordingly. Nevertheless, the PU material distribution business has contributed a decent amount of profit to the Group. The Directors intend to continue this line of business.

Despite of the Disposal, the Group is still interested in diversifying into the petroleum and petrochemical related business. The Group will explore other business rationalization, divertment and/or diversification when appropriate in order to enhance the long term potential of the Group. 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, Republic of Madagascar 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 placed on business rationalization and diversification, it is anticipated that these efforts would offer a route to business growth.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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 and unlimited corporate guarantees executed by the Company and certain subsidiaries of the Company. There were no time deposits pledged.

As the Group's transactions are mostly settled by Hong Kong dollars, Renminbi or United States dollars, 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.

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 of the facilities.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2005, the Group's total number of staff was 742. 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 financial year of 2005 and the Directors 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.

## ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

By Order of the Board
**Sino Union Petroleum & Chemical International Limited**
**Hui Chi Ming**
*Chairman*

## 1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated results and the assets and liabilities of the Group for the three years ended 31 March 2005 as extracted from the respective published audited financial statements:

**RESULTS**

| | | For the year ended 31 March | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Turnover** | 884,347 | 453,344 | 520,857 |
| **Profit from Operating Activities** | 8,994 | 15,482 | 8,893 |
| **Profit from Disposal of Subsidiaries** | 112 | – | 1,973 |
| **Profit before Finance Costs and Tax** | 9,106 | 15,482 | 10,886 |
| **Finance Costs** | (5,683) | (92) | (138) |
| **Profit before Tax** | 3,423 | 15,390 | 10,728 |
| **Taxation** | (4,445) | (2,528) | (2,179) |
| **Net (Loss)/ Profit from Ordinary Activities Attributable to Shareholders** | (1,022) | 12,862 | 8,549 |
| **(Loss)/Earnings per Share** | | | |
| Basic | (HK0.1 cent) | HK1.2 cent | HK0.9 cent |
| Diluted | N/A | HK1.1 cent | N/A |

**ASSETS AND LIABILITIES**

| | | At 31 March | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Fixed assets** | 153,157 | 1,163 | 1,504 |
| **Goodwill** | 16,511 | – | – |
| **Current Assets** | 263,579 | 258,419 | 240,344 |
| **Current Liabilities** | (243,962) | (97,126) | (131,488) |
| **Non-Current Liabilities** | (28,083) | (232) | (418) |
| **Shareholders' Funds** | 161,202 | 162,224 | 109,942 |

## 2. AUDITED FINANCIAL STATEMENTS

The following is an extract of the audited financial statements of the Group from the annual report of the Company for the year ended 31 March 2005:

**CONSOLIDATED INCOME STATEMENT**

*for the year ended 31 March 2005 (in HK Dollars)*

| | Note | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Turnover** | 4 | 884,347 | 453,344 |
| **Cost of Sales** | | (845,668) | (419,879) |
| **Gross Profit** | | 38,679 | 33,465 |
| **Other Revenue** | 4 | 2,425 | 1,884 |
| **Selling and Distribution Costs** | | (945) | (6,501) |
| **Administrative Expenses** | | (31,165) | (13,366) |
| **Profit from Operating Activities** | 5 | 8,994 | 15,482 |
| **Profit from Disposal of Subsidiaries** | | 112 | – |
| **Profit before Finance Costs and Tax** | | 9,106 | 15,482 |
| **Finance Costs** | 8 | (5,683) | (92) |
| **Profit before Tax** | | 3,423 | 15,390 |
| **Taxation** | 9 | (4,445) | (2,528) |
| **Net (Loss)/Profit from Ordinary Activities Attributable to Shareholders** | 10, 30 | (1,022) | 12,862 |
| **Dividends** | 11 | – | – |
| **(Loss)/Earnings per Share** | 12 | | |
| Basic | | (HK0.1 cent) | HK1.2 cent |
| Diluted | | N/A | HK1.1 cent |

**CONSOLIDATED BALANCE SHEET**

*at 31 March 2005 (in HK Dollars)*

| | Note | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Fixed assets | 13 | 153,157 | 1,163 |
| Goodwill | 14 | 16,511 | – |
| | | 169,668 | 1,163 |
| **Current Assets** | | | |
| Inventories | 16 | 41,308 | 30,891 |
| Other investments | 17 | 7,967 | – |
| Trade receivables | 18 | 152,322 | 153,220 |
| Prepayments, deposits and other receivables | | 55,736 | 26,014 |
| Pledged bank deposits | 20 | – | 8,207 |
| Cash and bank balances | | 6,246 | 40,087 |
| | | 263,579 | 258,419 |
| **Less: Current Liabilities** | | | |
| Trade and bills payables | 21 | 32,699 | 66,908 |
| Tax payable | | 47,833 | 23,607 |
| Other payables and accruals | | 56,803 | 4,552 |
| Amount due to a holding company | 23 | 12,335 | 1,866 |
| Bank borrowings | 24 | 93,623 | – |
| Obligations under finance leases | 25 | 669 | 193 |
| | | 243,962 | 97,126 |
| **Net Current Assets** | | 19,617 | 161,293 |
| **Total Assets Less Current Liabilities** | | 189,285 | 162,456 |
| **Non-Current Liabilities** | | | |
| Convertible bond | 26 | 26,813 | – |
| Obligations under finance leases | 25 | 1,187 | 149 |
| Deferred tax | 27 | 83 | 83 |
| | | 28,083 | 232 |
| **Net Assets** | | 161,202 | 162,224 |
| **Capital and Reserves** | | | |
| Share capital | 28 | 23,940 | 23,940 |
| Reserves | 30 | 137,262 | 138,284 |
| **Shareholders' Funds** | | 161,202 | 162,224 |

**BALANCE SHEET**
*at 31 March 2005 (in HK Dollars)*

| | Note | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Interests in subsidiaries | *15* | 139,005 | 111,088 |
| **Current Assets** | | | |
| Prepayments and deposits | | 73 | 73 |
| Amount due by a subsidiary | *19* | 17,800 | – |
| Cash and bank balances | | 2 | 17,859 |
| | | 17,875 | 17,932 |
| **Less: Current Liabilities** | | | |
| Amount due to a holding company | *23* | 4,442 | – |
| Amount due to a subsidiary | *19* | 248 | – |
| Other payables and accruals | | 42 | 202 |
| | | 4,732 | 202 |
| **Net Current Assets** | | 13,143 | 17,730 |
| **Total Assets Less Current Liabilities** | | 152,148 | 128,818 |
| **Non-Current Liabilities** | | | |
| Convertible bond | *26* | 26,813 | – |
| **Net Assets** | | 125,335 | 128,818 |
| **Capital and Reserves** | | | |
| Share capital | *28* | 23,940 | 23,940 |
| Reserves | *30* | 101,395 | 104,878 |
| **Shareholders' Funds** | | 125,335 | 128,818 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*for the year ended 31 March 2005 (in HK Dollar)*

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Total equity at 1 April 2004/2003** | 162,224 | 109,942 |
| **Net (loss)/profit for the year** | (1,022) | 12,862 |
| **Movements in issued share capital and share premium:** | | |
| Share option exercised | – | 35,700 |
| Issue of new shares | – | (1,140) |
| Share issue expenses | – | 4,860 |
| **Total equity at 31 March 2005/2004** | 161,202 | 162,224 |

**CONSOLIDATED CASH FLOW STATEMENT**

*for the year ended 31 March 2005 (in HK Dollar)*

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | 3,423 | 15,390 |
| Adjustments for: | | |
| Interest income | (2) | (45) |
| Gain on disposal of subsidiaries | (112) | – |
| Depreciation | 6,014 | 642 |
| Amortisation of goodwill | 1,179 | – |
| Sales tax | 3,737 | – |
| Provision for bad and doubtful debts | 3,773 | – |
| (Gain)/loss on disposal of fixed assets | (62) | 9 |
| Finance costs | 5,683 | 92 |
| Operating profit before working capital changes | 23,633 | 16,088 |
| Decrease/(increase) in inventories | 14,103 | (22,365) |
| Decrease in trade receivables | 860 | 4,457 |
| Increase in prepayments, deposits and other receivables | (13,056) | (24,332) |
| Decrease in amount due by a related company | – | 18,616 |
| Decrease in trade and bills payables | (42,127) | (32,566) |
| Increase/(decrease) in amount due to a holding company | 3,543 | (4,488) |
| Increase in other payables and accruals | 16,392 | 420 |
| Cash generated from/(used in) operations | 3,348 | (44,170) |
| Interest received | 2 | 45 |
| Hong Kong profits tax paid | – | (170) |
| Hong Kong profits tax refunded | – | 246 |
| *Net cash inflow/(outflow) from operating activities* | 3,350 | (44,049) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Sales proceeds from disposal of fixed assets | 440 | 319 |
| Purchases of fixed assets | (32,575) | (629) |
| Purchase of a subsidiary, net | (34,936) | – |
| Disposal of subsidiaries, net | (28) | – |
| Decrease in pledged bank deposits | 8,207 | 15,685 |
| *Net cash (outflow)/inflow from investing activities* | (58,892) | 15,375 |

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of share capital | – | 35,700 |
| Share issue expenses | – | (1,140) |
| Share option exercised | – | 4,860 |
| Proceeds from issue of convertible bond | 26,813 | – |
| Repayment of bank loans | (943) | – |
| New finance leases | 2,120 | – |
| Capital element of finance lease payments | (606) | (243) |
| Finance costs paid | (5,683) | (92) |
| *Net cash inflow from financing activities* | 21,701 | 39,085 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | (33,841) | 10,411 |
| Cash and cash equivalents at beginning of year | 40,087 | 29,676 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 6,246 | 40,087 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | 6,246 | 40,087 |

**NOTES TO FINANCIAL STATEMENTS**
*31 March 2005 (in HK Dollars)*

## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 5 January 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Group continued in the trading of polyurethane materials. During the year ended 31 March 2005, the Group had acquired 100% equity interest of Liaoning Xinmin Petrochemical Company Limited (formerly known as Shenyang Xinmin Chemical Factory), a factory located in the PRC, and the Group commenced its petrochemical manufacturing business.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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"). A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

### (a) Basis of Preparation

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 as explained in the accounting policies set out below.

**(b) Basis of Consolidation**

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 March 2005. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**(c) Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

On disposal of a subsidiary, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

**(d) Subsidiaries**

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls over more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group.

Investment in subsidiaries in the Company's balance sheet is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company.

**(e) Impairment of Assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the assets recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the consolidated income statement in the period in which it arises.

In respect of assets other than goodwill, a previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the consolidated income statement in the period in which it arises.

**(f) Fixed Assets and Depreciation**

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated so as to write off the cost of each asset over its estimated useful life. The principal annual rates and methods used for this purpose are as follows:

| | | |
|---|---|---|
| Leasehold land | : | Over the unexpired terms of the leases |
| Leasehold buildings | : | Over the unexpired terms of the leases |
| Plant and machinery | : | 20% – 30% on the reducing balance method |
| Furniture, fixtures and equipment | : | 20% – 30% on the reducing balance method |
| Motor vehicles | : | 30% on the reducing balance method |

The gain or loss on disposal or retirement of a fixed asset recognised in the consolidated income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**(g) Leased Assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

**(h) Inventories**

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling prices less any further estimated costs to be incurred to completion and disposal.

**(i) Construction in Progress**

Plant and machinery under construction is stated at specifically identified cost, aggregate cost of development, materials and supplies, wages and other direct expenses, less provision for diminution in value. No depreciation is provided until the completion of the development and when the plant and machinery can be put to effective use.

**(j) Investments in Securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

**(k) Current Assets and Current Liabilities**

Current assets are expected to realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

**(l) Cash Equivalents**

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

**(m) Borrowing Costs**

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the income statement in the year in which the costs are incurred.

**(n) Foreign Currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

On consolidation, the balance sheet items of overseas subsidiaries, and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the income and expense items are translated at the average rate for that period. The resulting translation differences are dealt with in the exchange reserve.

**(o) Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

**(p) Contingent Liabilities and Contingent Assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(q) Related Parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**(r) Related Party Transactions**

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**(s) Revenue Recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**(t) Retirement Benefits Schemes**

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated 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 into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

(iii) The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the consolidated income statement or consolidated balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

**(u) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than 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 investment in subsidiaries and associates, except where the Company 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 year when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(v) Segment Reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or 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 system, the Group has determined that business segments as the primary reporting format and geographical segment information as secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and 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. Intra-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

## 3. 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)*.

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 |

**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 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.*

## 4. 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 |

## 5. PROFIT FROM OPERATING ACTIVITIES

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

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Cost of inventories sold | 828,488 | 419,879 |
| Auditors' remuneration | 710 | 400 |
| Depreciation | 6,014 | 642 |
| Amortisation of goodwill | 1,179 | – |
| Provision for bad and doubtful debt | 3,773 | – |
| 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 – Note 6): | | |
| 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.

## 6. DIRECTORS' REMUNERATION

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

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Fees | 68 | 180 |
| Other emoluments | | |
| Basic salaries, housing benefits, other allowances and benefits in kind | 1,036 | 900 |
| Mandatory provident fund scheme contributions | 12 | 12 |
| | 1,048 | 912 |
| | 1,116 | 1,092 |

Included in the directors' remuneration were fees of HK$68,000 (2004: HK$120,000) paid to independent non-executive directors. No (2004: HK$60,000) fees were paid to executive directors during the year.

The remuneration of all the 10 directors (2004: 4) fell within the nil to HK$1,000,000 band for the years ended 31 March 2005 and 2004.

During the year, bonuses of HK$120,000 (2004: HK$120,000) were paid or payable to the directors. No directors waived or agreed to waive any remuneration during the year (2004: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2004: Nil).

During the year, no (2004: 8,000,000) share options to subscribe for ordinary shares of the Company were granted to directors under the Company's share option scheme.

## 7. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included one (2004: one) director, details of whose remuneration are set out in Note 6 above. The remuneration of the remaining four (2004: four) non-director, highest paid individuals, which each fell within the nil to HK$1,000,000 band, is as follows:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Basic salaries, housing benefits, other allowances and benefits in kind | 1,894 | 2,449 |
| Mandatory provident fund contributions | 95 | 52 |
| | 1,989 | 2,501 |

During the year, bonuses of HK$120,000 (2004: HK$120,000) were paid to one of the five highest paid individuals of the Group. No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2004: Nil).

During the year, no (2004: Nil) share options to subscribe for ordinary shares of the Company were granted to employees under the Company's share option scheme.

## 8. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'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 |

## 9. TAXATION

### (a) Taxation in the consolidated income statement represents:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'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** | | **2004** | |
| | *HK$'000* | *%* | *HK$'000* | *%* |
| (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 |

## 10. 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).

## 11. DIVIDENDS

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

## 12. (LOSS)/EARNINGS PER SHARE

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| (Loss)/Profit attributable to shareholders | (1,022) | 12,862 |
| | **No. of shares** | **No. of shares** |
| | *in thousand* | *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.

## 13. FIXED ASSETS

| Group | Medium term leasehold land and building | Construction in progress | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost:** | | | | | | |
| At 1 April 2004 | – | – | – | 1,432 | 1,034 | 2,466 |
| Additions | 8,621 | 23,803 | 4,548 | 1,295 | 3,759 | 42,026 |
| Acquisition of a subsidiary | 40,786 | – | 71,194 | 664 | 3,956 | 116,600 |
| Disposals | – | – | – | – | (1,034) | (1,034) |
| Disposal of subsidiaries | – | – | – | (240) | – | (240) |
| At 31 March 2005 | 49,407 | 23,803 | 75,742 | 3,151 | 7,715 | 159,818 |
| **Accumulated depreciation:** | | | | | | |
| At 1 April 2004 | – | – | – | 667 | 636 | 1,303 |
| Charges for the year | 1,123 | – | 2,756 | 717 | 1,418 | 6,014 |
| Written back on disposals | – | – | – | – | (656) | (656) |
| At 31 March 2005 | 1,123 | – | 2,756 | 1,384 | 1,398 | 6,661 |
| **Net book value:** | | | | | | |
| At 31 March 2005 | 48,284 | 23,803 | 72,986 | 1,767 | 6,317 | 153,157 |
| At 31 March 2004 | – | – | – | 765 | 398 | 1,163 |

The net book values of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 March 2005, amounted to HK$1,685,600 (2004: HK$398,000).

The net book values of the Group's fixed assets pledged to secure banking facilities of the Group amounted to HK$104,830,000 (2004: Nil).

Certain leasehold land and buildings of the Group situated in the PRC were valued at approximately HK$83,990,000 by Messrs. Shenyang Xinhai Certified Public Accountants Co. Ltd., independent professional qualified valuers in the PRC, as at 31 March 2005. The valuation was performed using current market approach and replacement cost approach as there is no evidence of market value of the relevant leasehold land and buildings because of its specialised nature.

## 14. GOODWILL

**Group**

| | HK$'000 |
|---|---|
| **Cost:** | |
| Arising from acquisition of a subsidiary during the year and at 31 March 2005 | 17,690 |
| **Amortisation:** | |
| Amortised during the year and at 31 March 2005 | 1,179 |
| **Carrying value:** | |
| At 31 March 2005 | 16,511 |

## 15. INTERESTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 54,245 | 54,245 |
| Due from subsidiaries | 84,760 | 56,843 |
| | 139,005 | 111,088 |

The amounts due from subsidiaries are unsecured, interest-free and are not repayable in the next twelve months.

Particulars of the subsidiaries of the Company as at 31 March 2005 were as follows:

| Name of company | Place of incorporation/ establishment | Issued and fully paid-up share/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Market Reach Group Limited | British Virgin Island ("BVI") | Ordinary US$10,000 | 100 | – | Investment holding |
| Wah Tat Industrial Limited | BVI | Ordinary US$10 | – | 100 | Trading of polyurethane materials |
| Wah Tat Industrial (Hong Kong) Limited | Hong Kong | Ordinary HK$2 Non-voting deferred *(Note 1)* HK$1,480,000 | – | 100 | Trading of polyurethane materials |
| Wah Tat Industrial Trading Limited | BVI | Ordinary US$10 | – | 100 | Trading of polyurethane materials |
| Kurow Agents Limited | BVI | Ordinary US$10 | – | 100 | Provision of transportation services in the PRC |
| Revolving Maze Trading Limited | BVI | Ordinary US$10 | – | 100 | Provision of marketing and technical support services in the PRC |
| Harvest Star Investment Limited | BVI | Ordinary US$1 | 100 | – | Investment holding |
| Prime Rose Limited | BVI | Ordinary US$10 | – | 100 | Trading of polyurethane materials |
| Minglun Industrial Limited | Hong Kong | Ordinary HK$2 | – | 100 | Provision of administrative services to fellow subsidiaries in Hong Kong |

| Name of company | Place of incorporation/ establishment | Issued and fully paid-up share/ registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Minglun Industrial (H.K.) Limited | Hong Kong | Ordinary HK$2 | – | 100 | Trading of polyurethane materials |
| Wah Tat PU Industrial (Hong Kong) Limited | Hong Kong | Ordinary HK$10,000 | – | 100 | Trading of polyurethane materials |
| Liaohe Energy Limited | BVI | Ordinary US$1 | – | 100 | Investment holding |
| Liaoning Xinmin Petrochemica Company Limited | PRC *(Note 2)* | US$4,800,000 | – | 100 | Manufacture and sale of petrochemical fuel products |
| Gorly Hill Holdings Limited | BVI | Ordinary US$1 | 100 | – | Investment holding |

*Notes:*

1. The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than one half of the balance of such assets after the sum of HK$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the Company in such winding-up).

2. Liaoning Xinmin Petrochemical Company Limited is a wholly owned foreign enterprise established in the PRC.

## 16. INVENTORIES

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Raw materials | 15,247 | – |
| Goods-in-transit | 2,181 | 18,043 |
| Finished goods | 23,880 | 12,848 |
| | 41,308 | 30,891 |

No inventories were stated at net realisable value at 31 March 2005 (2004: Nil).

## 17. OTHER INVESTMENTS

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Equity securities | | |
| Unlisted outside Hong Kong, at fair value | 7,967 | – |

## 18. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at the original invoiced amount less an allowance for any doubtful debts. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Trade receivables | 152,322 | 153,220 |

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

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Current to 30 days | 78,795 | 129,810 |
| 31 days to 90 days | 48,028 | 19,423 |
| 91 days to 180 days | 20,674 | 3,987 |
| 181 days to 360 days | 4,825 | – |
| | 152,322 | 153,220 |

**19. AMOUNT DUE BY/TO A SUBSIDIARY**

The amount due is unsecured, interest-free and recoverable/repayable on demand.

**20. PLEDGED BANK DEPOSITS**

At 31 March 2005, no (2004: HK$8,207,000) time deposits of the Group were pledged for general banking facilities granted from banks to the Group *(Note 22)*.

**21. TRADE AND BILLS PAYABLES**

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Trade payables | 31,496 | 39,613 |
| Bills payable | 1,203 | 27,295 |
| | 32,699 | 66,908 |

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

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Current to 30 days | 1,732 | 12,453 |
| 31 days to 90 days | 13,616 | 47,634 |
| Over 90 days | 17,351 | 6,821 |
| | 32,699 | 66,908 |

## 22. BANKING FACILITIES

At 31 March 2005, the Group's banking facilities were secured by:

(i) unlimited corporate guarantees executed by the Company;

(ii) unlimited corporate guarantees executed by certain subsidiaries of the Company;

(iii) no time deposits were pledged by the Group (2004: HK$5,206,952); and

(iv) fixed assets with net book value of HK$104,830,000 (2004: Nil).

There were no trade finance facilities at 31 March 2005. Of the trade finance facilities of HK$41,500,000 at 31 March 2004, the undrawn facilities amounted to HK$14,205,000.

## 23. AMOUNT DUE TO A HOLDING COMPANY

The amount due to a holding company is unsecured, interest-free and repayable on demand.

## 24. BANK BORROWINGS

| | Group 2005 | Group 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank loans, secured | | |
| – repayable within one year | 93,623 | – |

As at 31 March 2005, bank loans which had been overdue amounted to HK$70,886,000 (2004: Nil).

## 25. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain of its motor vehicles under finance leases with lease terms of four years.

At 31 March 2005, the total future minimum lease payments under the finance leases and their present values, were as follows:

**Group**

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Amounts payable: | | | | |
| Within one year | 766 | 224 | 669 | 193 |
| In the second year | 585 | 141 | 538 | 136 |
| In the third to fifth years, inclusive | 671 | 12 | 649 | 13 |
| Total minimum finance lease payments | 2,022 | 377 | 1,856 | 342 |
| Future finance charges | (166) | (35) | | |
| Total net finance lease payables | 1,856 | 342 | | |
| Portion classified as current liabilities | (669) | (193) | | |
| Long term portion | 1,187 | 149 | | |

## 26. CONVERTIBLE BOND

| | Group and Company 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Principal amount | | |
| Issued during the year and at 31 March 2005 | 26,813 | – |

For further details, please refer to Note 36 to the financial statements.

## 27. DEFERRED TAX

| | Group 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At beginning of year and end of year | 83 | 83 |

The provision for deferred tax of the Group is made principally in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

The Group and the Company did not have any significant unprovided deferred tax liabilities at 31 March 2005 (2004: Nil).

## 28. SHARE CAPITAL

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount** | **Number of shares** | **Amount** |
| | *'000* | *HK$'000* | *'000* | *HK$'000* |
| *Authorised:* | | | | |
| Ordinary shares of HK$0.02 (HK$0.10) each | | | | |
| At beginning of year | 10,000,000 | 200,000 | 2,000,000 | 200,000 |
| Ordinary shares of HK$0.02 each | | | | |
| Effect of decrease in nominal value of shares from HK$0.10 each to HK$0.02 each *(Note a)* | – | – | 8,000,000 | – |
| At end of year | 10,000,000 | 200,000 | 10,000,000 | 200,000 |
| *Issued and fully paid:* | | | | |
| Ordinary shares of HK$0.02 (HK$0.10) each | | | | |
| At beginning of year | 1,197,000 | 23,940 | 200,000 | 20,000 |
| Ordinary shares of HK$0.02 each | | | | |
| Effect of decrease in nominal value of shares from HK$0.10 each to HK$0.02 each *(Note a)* | – | – | 800,000 | – |
| Issue of new shares *(Note b)* | – | – | 170,000 | 3,400 |
| Share options exercised *(Note 29)* | – | – | 27,000 | 540 |
| At end of year | 1,197,000 | 23,940 | 1,197,000 | 23,940 |

*Notes:*

(a) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 16 June 2003, the par value of each issued share and unissued share was adjusted from HK$0.10 to HK$0.02 by subdividing each share into five subdivided shares with effect from 17 June 2003. Following the share subdivision becoming effective on 17 June 2003, the authorised share capital of the Company is HK$200,000,000 divided into 10,000,000,000 shares of HK$0.02 each, of which 1,000,000,000 shares were in issue and fully paid. The subdivided shares will rank pari passu in all respects with each other and the share subdivision did not result in any change in the relative rights of the shareholders.

(b) Details of issue of new shares:

| | Number of shares | Issued price per share | Aggregate amount received |
|---|---|---|---|
| | *'000* | *$* | *$'000* |
| 16 October 2003 | 170,000 | 0.21 | 35,700 |

The new ordinary shares rank pari passu in all respect with existing shares.

## 29. SHARE OPTION SCHEME

The Company operates the a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme was adopted on 1 November 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme. In addition, the maximum number of shares in respect of which share options may be granted to any eligible person within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercised as the Directors may at their discretion determine.

The following table discloses movements in the Company's share options during the year ended 31 March 2005:

| Name or category of participant | At 1 April 2004 | Number of share options Lapsed during the year* | Granted during the year | At 31 March 2005 | Date of grant of share options** (dd/mm/yyyy) | Exercise period of share options (dd/mm/yyyy) | Exercise price of share options *HK$* | Price of Company's share at grant date of share options *HK$* |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Mr. Zhou Yiming | 10,000,000 | (10,000,000) | – | – | – | – | – | – |
| Mr. Cheung Wai Yin, Wilson | 10,000,000 | (10,000,000) | – | – | – | – | – | – |
| Mr. Lu Zhiming | 10,000,000 | (10,000,000) | – | – | – | – | – | – |
| Mr. Wong Hing Tat | 1,000,000 | (1,000,000) | – | – | – | – | – | – |
| Mr. Kwong Chi Ho | 1,000,000 | (1,000,000) | – | – | – | – | – | – |
| Mr. Qin Gang | 8,000,000 | (8,000,000) | – | – | – | – | – | – |
| Mr. Tsang Kwok Man | – | – | 11,000,000 | 11,000,000 | 8/11/2004 | 8/11/2004 to 7/11/2014 | 0.132 | 0.13 |
| **Employees other than Directors** | | | | | | | | |
| In aggregate | 33,000,000 | (33,000,000) | 62,000,000 | 62,000,000 | 8/11/2004 | 8/11/2004 to 7/11/2014 | 0.132 | 0.13 |
| | 73,000,000 | (73,000,000) | 73,000,000 | 73,000,000 | | | | |

* Upon the completion of the Offers as mentioned under the heading "Changes in Directors and Management" in the Report of the Directors, all the Company's share options were lapsed

** The vesting period of the share options is from the date of grant until the commencement of the exercise period.

At 31 March 2005, the Company had 73,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the capital structure of the Company as at 31 March 2005, result in the issue of 73,000,000 additional ordinary shares of HK$0.02 each of the Company and additional share capital of HK$1,460,000 and share premium of HK$8,176,000.

## 30. RESERVES

| Group | Share premium account<br>*HK$'000* | Contributed surplus<br>*HK$'000* | Retained profits<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| At 1 April 2003 | 17,647 | 3,156 | 69,139 | 89,942 |
| Issue of shares | 32,300 | – | – | 32,300 |
| Share issue expenses | (1,140) | – | – | (1,140) |
| Share options exercised | 4,320 | – | – | 4,320 |
| Net profit for the year | – | – | 12,862 | 12,862 |
| At 31 March 2004 and 1 April 2004 | 53,127 | 3,156 | 82,001 | 138,284 |
| Net loss for the year | – | – | (1,022) | (1,022) |
| **At 31 March 2005** | 53,127 | 3,156 | 80,979 | 137,262 |

| Company | Share premium account<br>*HK$'000* | Contributed surplus<br>*HK$'000* | Accumulated losses<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| At 1 April 2003 | 17,647 | 54,045 | (742) | 70,950 |
| Issue of shares | 32,300 | – | – | 32,300 |
| Share issue expenses | (1,140) | – | – | (1,140) |
| Share options exercised | 4,320 | – | – | 4,320 |
| Net loss for the year | – | – | (1,552) | (1,552) |
| At 31 March 2004 and 1 April 2004 | 53,127 | 54,045 | (2,294) | 104,878 |
| Net loss for the year | – | – | (3,483) | (3,483) |
| **At 31 March 2005** | 53,127 | 54,045 | (5,777) | 101,395 |

*Notes:*

(a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 30 March 2001, over the nominal value of the shares of the Company issued in exchange therefore.

The contributed surplus of the Company represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange therefore.

(b) The Company had distributable reserves of HK$101,395,000 (2004: HK$104,878,000) at 31 March 2005, which included the Company's contributed surplus in the amount of HK$54,045,000 (2004: HK$54,045,000). Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders of the Company in certain circumstances. In addition, the Company's share premium account, in the amount of HK$53,127,000 (2004: HK$53,127,000) at 31 March 2005, may be distributed in the form of fully paid bonus shares.

## 31. ACQUISITION OF A SUBSIDIARY

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Net assets acquired: | | |
| Fixed assets | 116,600 | – |
| Inventories | 24,520 | – |
| Other investments | 7,967 | – |
| Trade receivables | 715 | – |
| Other receivables | 13,513 | – |
| Cash and bank balances | 7,517 | – |
| Trade payables | (7,918) | – |
| Other payables | (27,541) | – |
| Tax payable | (16,044) | – |
| Bank borrowings | (94,566) | – |
| Net assets | 24,763 | – |
| Goodwill arising on acquisition | 17,690 | – |
| Total purchase price | 42,453 | – |
| Satisfied by: | | |
| Cash consideration paid | 42,453 | – |
| Analysis of net outflow of cash and cash equivalents in connection with the acquisition of the subsidiary: | | |
| Cash consideration paid | (42,453) | – |
| Cash and bank balances acquired | 7,517 | – |
| | (34,936) | – |

The subsidiary acquired during the year contributed approximately HK$231,630,000 to the Group's turnover and loss after tax of approximately HK$5,711,000 to the Group for the year.

## 32. DISPOSALS OF SUBSIDIARIES

| | 2005 | 2004 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Net assets disposed of: | | |
| Fixed assets | 240 | – |
| Trade receivables | 753 | – |
| Cash and bank balances | 28 | – |
| Other payables | (1,133) | – |
| Net liabilities | (112) | – |
| Gain on disposal of subsidiaries | 112 | – |
| | – | – |
| Satisfied by: | | |
| Cash consideration received | – | – |
| Analysis of net outflow of cash and cash equivalents in connection with the disposal of subsidiaries: | | |
| Cash consideration received | – | – |
| Cash and bank balances disposed of | (28) | – |
| | (28) | – |

The subsidiaries disposed of during the year contributed approximately HK$4,820,000 to the Group's turnover and loss after tax of approximately HK$113,000 to the Group for the year.

## 33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between 1 and 2 years.

At 31 March 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *HK$'000* | *HK$'000* |
| Within one year | 1,560 | 1,560 |
| In the second to fifth years, inclusive | 390 | 1,950 |
| | 1,950 | 3,510 |

## 34. COMMITMENTS

Apart from the operating lease commitments detailed in Note 25 to financial statements above, at the balance sheet date, 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.

## 35. CONTINGENT LIABILITIES

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.

## 36. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, during the year, the Group had entered into the following material transaction with related parties:

Pursuant to the ordinary resolutions passed in a special general meeting of the Company on 24 December 2004, the Company issued a convertible bond in the principal of HK$26,812,800 (the "Convertible Bond") to Wisdom On Holdings Limited (the "Bondholder"), the controlling shareholder of the Company. The Bondholder may at any time after the expiry of the period of six months from the date of issue of the Convertible Bond up to the second anniversary of the issue of the Convertible Bond convert the whole or part of the principal amount of the Convertible Bond into shares of HK$0.02 each in the share capital of the Company, at the conversion price of HK$0.112 per share. The Bondholder may at any time after the period of six months from the date of issue of the Convertible Bond and while the Convertible Bond is still outstanding require the Company to redeem the principal amount outstanding under the Convertible Bond. The Convertible Bond may be assigned or transferred to any third party and interest of 1% per annum will be accrued from the date of issue on a day to day basis on the principal amount of the Convertible Bond outstanding, payable semi-annually in arrears.

## 37. SUBSEQUENT EVENTS

On 13 July 2005, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in Liaohe Energy Limited to individual third party together with its 100% equity interest in Liaoning Xinmin Petrochemical Company Limited, for a cash consideration of HK$51,000,000 with the Group's acquisition cost amounted to HK$42,453,000. The operation of Liaohe Energy Limited and Liaoning Xinmin Petrochemical Company Limited is reported in the financial statements as a discontinuing operation. For details, please refer to the Company's announcement dated 26 July 2005. The turnover, results, cash flows for the year ended 31 March 2005 and net assets as at 31 March 2005 of the petrochemical products segment were as follows:

| | **2005** | **2004** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Turnover | 231,630 | – |
| Cost of sales | (220,808) | – |
| Administrative expenses | (11,309) | – |
| Other operating expenses | (103) | – |
| Gross loss | (590) | – |
| Other revenues | 351 | – |
| Operating loss | (239) | – |
| Finance costs | (5,472) | – |
| Loss before taxation | (5,711) | – |
| Taxation | – | – |
| Loss after taxation | (5,711) | – |
| Net operating cash inflow | 24,945 | – |
| Net investing cash outflow | (32,575) | – |
| Net financing cash inflow | (14,065) | – |
| Total net cash outflow | (21,695) | – |
| Non-current assets | 150,482 | – |
| Current assets | 51,087 | – |
| Total assets | 201,569 | – |
| Total liabilities | (182,248) | – |
| Net assets | 19,321 | – |

### 38. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be Wisdom On Holdings Limited, a company incorporated in the British Virgin Islands.

### 39. COMPARATIVE FIGURES

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

### 40. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 July 2005.

## 3. INDEBTEDNESS

### Borrowings

As at 31 July 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group's obligations under financial leases amounted to approximately HK$1.9 million and the Group had convertible bond amounted to approximately HK$27 million.

### Commitment and Contingent Liabilities

As at 31 July 2005, the Group had no material commitment and contingent liabilities.

### Disclaimer

Save as the borrowings, commitment and contingent liabilities as mentioned in this section and apart from intra-group liabilities, the Group did not have, at the close of business on 31 July 2005, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, changes, obligations under hire purchases or finance leases, guarantees or other material contingent liabilities.

## 4. WORKING CAPITAL

Taking into account the financial resources available to the Group including the proceeds from disposal of Xinmin Petrochemical and internally generated funds, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

## 5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 March 2005, being the date to which the latest audited consolidated financial statements of the Group were made up.

## 1, RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries and that to the best of their knowledge and belief there are no other facts the omission of which would made any statement therein misleading.

## 2. DISCLOSURE OF INTERESTS

### Interests of Directors

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

***Ordinary share of the Company***

| Name of director | Nature of interest | Number of Shares held | Percentage of issued Shares |
|---|---|---|---|
| Dr. Hui Chi Ming *(Note)* | Corporate | 750,080,000 | 62.66% |
| Mr. Chen Hua *(Note)* | Corporate | 750,080,000 | 62.66% |

*Note:* These Shares are beneficially owned by Wisdom On Holdings Limited ("Wisdom On"), the entire issued share capital of which is owned by Dr. Hui Chi Ming and Mr. Chen Hua as to 55% and 45% respectively.

***Share options of the Company***

| Name of director | Number of share options held | Percentage of issued Shares |
|---|---|---|
| Mr. Tsang Kwok Man | 11,000,000 | 0.92% |

*Ordinary share of associated corporation*

| Name of director | Name of associated corporation | Nature of interest | Percentage of issued shares |
|---|---|---|---|
| Dr. Hui Chi Ming | Wisdom On | Personal | 55% |
| Mr. Chen Hua | Wisdom On | Personal | 45% |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Save as disclosed herein, as at the Latest Practicable date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**Substantial Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) who have, directly or indirectly, interested in 5% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any subsidiary of the Company.

*Ordinary share of the Company*

| Name of shareholder | Number of Shares held | Percentage of issued Shares |
|---|---|---|
| Wisdom On *(Note)* | 750,080,000 | 62.66% |

**Convertible Bond**

| Number of underlying Shares upon exercise of the convertible bond | Percentage of issued Shares |
|---|---|
| 239,400,000 | 20% |

| Name of bondholder | Principal amount |
|---|---|
| Wisdom On *(Note)* | HK$26,812,800 |

*Note:* The entire issued share capital of Wisdom On is owned by Dr. Hui Chi Ming and Mr. Chen Hua as to 55% and 45% respectively.

Save as disclosed herein, as at the Latest Practicable Date, so far as is known to the Directors, there was no person known to the Directors or chief executive of the Company who was, had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 5% or more of the nominal value of any class of shares of the Company or any other members of the Group.

**Interests in contract or arrangement**

None of the Directors has any interests in contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group taken as a whole.

**Interests in assets**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2005, being the date to which the latest published audited accounts of the Company were made up.

**Service contracts**

There is no service contract between any member of the Group and any Director (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations)).

## 3. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

## 4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

1. a subscription agreement dated 16 October 2003 entered into between the Company and Chance Profit Investments Limited for Chance Profit Investment Limited to subscribe the 170,000,000 new shares of the Company at a subscription price of approximately HK$34 million;

2. a placing agreement dated 16 October 2003 entered into between the Company and Guotai Junan Securities (Hong Kong) Limited to place the 170,000,000 then existing shares of the Company on a best effort basis to independent investors at a price of HK$0.21 per Share;

3. an investment agreement dated 20 December 2003 entered into between Minglun Utilities Limited, a wholly-owned subsidiary of the Company and Beijing Chang Dong Shun Gas Co., Ltd., 孫海林(Sun Hailin), 郭京軍(Guo Jingjun) and 金玉領 (Jin Yuling) to invest RMB22.5 million in cash in Beijing Chang Dong Shun Gas Co., Ltd;

4. a sale and purchase agreement dated 22 May 2004 entered into between 新民市石油化工總公司(“新民化工公司”) and Liaohe Energy pursuant to which 新民化工公司 agreed to sell and Liaohe Energy agreed to purchase 75.88% equity interests in 潘陽市新民蠟化學品實驗廠(Shenyang Xinmin Chemical Factory) at a consideration of RMB32,565,500;

5. 13 sets of sale and purchase agreements dated 22 May 2004 entered into between Liaohe Energy and each of Han Wanqing (韓萬青), Cao Bin (曹斌), Zhang Juncheng (張俊成), Li Zhongshan (李忠山), Wang Gang (王剛), Lian Zhenghe (連忠和), Gao Yungui (高雲貴), Ren Zhirong (任志榮), Zhao Zhongqiang (趙忠強), Zhang Jun (張軍), Wang Chang'an (王長安), Li Guoliang (李國良), Li Yusheng (李玉升) pursuant to which they agreed to sell and Liaohe Energy agreed to purchase an aggregate of 24.12% equity interests in 瀋陽市新民蠟化學品實驗廠 (Shenyang Xinmin Chemical Factory) at an aggregate consideration of RMB12,434,500; and

6. the Agreement.

## 5. GENERAL

(a) The company secretary and the qualified accountant of the Company is Fu Wing Kwok Ewing, an associate member of the HKICPA.

(b) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(c) The principal place of business of the Company in Hong Kong is Room 4605-7, 46th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

(d) The Company's branch registrar and transfer office in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai Hong Kong.

## 6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principle place of business of the Company in Hong Kong at Room 4605-7, 46th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong during normal business hours up to and including 21 September 2005:

(a) the memorandum of association and the bye-laws of the Company;

(b) the annual reports of the Company for the two financial years ended 31 March 2005; and

(c) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix.