MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

OPERATIONAL REVIEW

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

Distribution of PU materials

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

Manufacturing business

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

DIVIDEND

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

CHARGE ON ASSETS

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENT

Details of the capital commitment of the Group are set out in Note 34 to financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS

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

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

EMPLOYEES AND REMUNERATION POLICIES

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

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