



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 September 2005 (in HK Dollars)

1. BASIS OF PREPARATION

The consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2005 except in relation to the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKASs, Interpretation issued by the Standing Interpretations Committee of IASB (“HK(SIC)-Ints”) and Interpretations issued by the HKICPA (“HK-Ints”) which are generally effective for accounting periods beginning on or after 1 January 2005.

These interim financial statements have been prepared in accordance with the HKFRS issued and effective as at the time of preparing these statements. The HKFRS and interpretations that will be applicable at 31 March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. CHANGE IN ACCOUNTING POLICIES

The Group has adopted the following new/revised HKFRSs and HKASs issued up to 30 September 2005 which are pertinent to its operations and have resulted in changes to the Group's accounting policies. The 2005 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HK(SIC)-INT15	Operating Leases-Incentives
HK(SIC)-INT21	Income Taxes-Recovery of Revalued Non-Depreciable Assets
HK(SIC)-INT27	Evaluating the Substance of Transaction Involving the Legal Forms of a Lease
HK-INT2	The Appropriate Accounting Policies for Hotel Properties
HK-INT3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HK-INT4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKFRS2	Share based payments
HKFRS3	Business Combinations

2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Effect of adopting new/revised HKFRSs

- (i) The adoption of new/revised HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 33, 34, 37, 40 HK(SIC)-Ints 15, 27 and HK-Ints 2, 3, 4 did not result in substantial changes to the Group's accounting policies. In summary:
- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period.
 - HKASs 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 33, 34, 37, 40 HK(SIC)-Ints 15, 27 and HK-Ints 2, 3, 4 had no material effect on the Group's policies.
- (ii) The adoption of HKASs 32 and 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

In prior years, the accounting policies for convertible notes issued were stated at amortised cost (including transaction costs).

With effect from 1 January 2005, and in accordance with HKAS 39, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits).

This change was adopted by way of adjustment to the opening balance as at 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(ii) (Continued)

The adoption of revised HKAS 39 resulted in:

	30 September	1 April
	2005	2005
	HK\$'000	HK\$'000
Consolidated Balance Sheet		
(Decrease)/increase in retained profits	(1,577)	4,279
Increase/(decrease) in convertible bonds	1,577	(4,279)
	1,577	(4,279)
	Six months ended	
	30 September	30 September
	2005	2004
	HK\$'000	HK\$'000
Consolidated Income Statement		
Increase in finance costs	1,577	-
	1,577	-

(iii) The adoption of HKFRS 2 results in a change in the accounting policy for share-based payment.

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase in recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to retained earnings.

2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(iii) (Continued)

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except for the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (a) all options granted to employees on or before 7 November 2002; and
- (b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The adoption of revised HKFRS 2 resulted in:

Consolidated Balance Sheet	30 September	1 April
	2005	2005
	HK\$'000	HK\$'000
Decrease in retained profits	1,328	5,291
Increase capital reserve	1,328	5,291
	<hr/>	<hr/>
	Six months ended	
Consolidated Income Statement	30 September	30 September
	2005	2004
	HK\$'000	HK\$'000
Increase in administrative expense	1,328	–
	<hr/>	<hr/>

- (vi) The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required.

Prior to this, positive and negative goodwill were amortised in the income statement on a straight line basis over their estimated useful live.

Following the adoption of HKFRS 3, HKAS 36 and HKAS 38:

- a. The Group ceased amortisation of remaining goodwill and remaining negative goodwill from 1 April 2005;
- b. Accumulated amortisation as at 31 March 2005 has been deducted from the cost of positive goodwill;
- c. For the year ending 31 March 2006 onwards, positive goodwill will be tested annually for impairment, as well as when there is indication of impairment;
- d. In accordance with the transitional provision of HKFRS 3, all negative goodwill was derecognised as at 1 April 2005 with a corresponding decrease in accumulated losses.

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 during the period.

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.

3. SEGMENT INFORMATION (CONTINUED)

(a) Business segments

The following table present revenue and results for the Group's business segments.

Group

	Six months ended 30 September					
	PU materials		Petrochemical products (Discontinued)		Consolidated	
	2005	2004	2005	2004	2005	2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	260,588	242,432	40,248	5,732	300,836	248,164
Segment results	5,494	7,787	3,916	1,224	9,410	9,011
Interest income					37	46
Profit from disposal of subsidiaries					13,833	–
Unallocated expenses					(3,703)	(6,658)
Profit from operating activities					19,577	2,399
Finance costs					(5,259)	(789)
Profit before tax					14,318	1,610
Tax					(1,879)	(1,155)
Net profit from ordinary activities attributable to shareholders					12,439	455

There are no sales or other transactions between the business segments.

3. SEGMENT INFORMATION (CONTINUED)

(b) Geographical segments

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

Group

	Six months ended 30 September					
	PRC		Hong Kong		Consolidated	
	2005	2004	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:						
Sales to external customers	<u>300,836</u>	242,383	<u>-</u>	5,781	<u>300,836</u>	248,164
Segment results	<u>9,410</u>	8,993	<u>-</u>	18	<u>9,410</u>	9,011

There are no sales between geographical segments.

4. PROFIT FROM OPERATING ACTIVITIES

	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	
Profit from operating activities has been arrived at after charging:		
Depreciation	<u>2,100</u>	1,122
and after crediting:		
Interest income	<u>(37)</u>	(46)

5. FINANCE COSTS

	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on:		
Trust receipt loans wholly repayable within five years	931	35
Bank loans wholly repayable within five years	2,668	704
Convertible bonds wholly repayable within five years (<i>note 12</i>)	1,577	–
Finance leases	83	50
	5,259	789

6. TAX

Current Taxation

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the period. Taxation on assessable profits 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.

	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current period provision:		
Hong Kong	–	116
Elsewhere	1,879	1,039
	1,879	1,155

Deferred Taxation

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (2004: Nil).

Deferred tax assets have not been recognised due to the unpredictability of future profit streams.

7. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the six months ended 30 September 2005 (2004: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 September 2005 was based on the Group's net profit from ordinary activities attributable to shareholders for the period of approximately HK\$12,439,000 (2004: HK\$455,000) and 1,197,000,000 (2004: 1,197,000,000) shares currently in issue.

The diluted earnings per share for the two periods ended 30 September 2005 and 2004 have not been presented as there were no potential dilutive ordinary shares in existence during either of the periods.

9. GOODWILL

HK\$'000

Cost:

At 1 April 2005 (Audited)	17,690
Adoption of HKFRS 3	(1,179)
	<hr/>
Balance after adoption of HKFRS 3	16,511
Disposal of a subsidiary	(16,511)
	<hr/>
At 30 September 2005	–

Amortisation and impairment:

At 1 April 2005 (Audited)	1,179
Adoption of HKFRS 3	(1,179)
	<hr/>
Balance after adoption of HKFRS 3 and at 30 September 2005	–

Carrying value:

At 30 September 2005	–
	<hr/>
At 31 March 2005 (Audited)	16,511
	<hr/>

10. TRADE RECEIVABLES

The ages of the Group's trade receivables are analysed as follows:

	As at 30 September 2005 HK\$'000 (Unaudited)	As at 31 March 2005 HK\$'000 (Audited)
Current to 30 days	82,483	78,795
31 days to 90 days	40,588	48,028
91 days to 180 days	28,989	20,674
181 days to 360 days	2,374	4,825
	154,434	152,322

11. TRADE AND BILLS PAYABLES

	As at 30 September 2005 HK\$'000 (Unaudited)	As at 31 March 2005 HK\$'000 (Audited)
Trade payables	26,638	31,496
Bills payables	-	1,203
	26,638	32,699

The ages of the Group's trade and bills payables are analysed as follows:

	As at 30 September 2005 HK\$'000 (Unaudited)	As at 31 March 2005 HK\$'000 (Audited)
Current to 30 days	13,713	1,732
31 days to 90 days	10,166	13,616
Over 90 days	2,759	17,351
	26,638	32,699

12. CONVERTIBLE BOND

	<i>HK\$'000</i>
Fair value of convertible bond issued on 24 December 2004	26,813
Equity component	(4,279)
	<hr/>
Liability component on initial recognition at 24 December 2004	22,534
Interest expenses (<i>Note 5</i>)	1,577
	<hr/>
	24,111
	<hr/>

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.

The fair value of the liability component of the convertible bond on 30 September 2005 amounted to approximately HK\$22,239,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7%.

Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 7% to the liability component.

13. SHARE CAPITAL

	As at 30 September 2005 HK\$'000 (Unaudited)	As at 31 March 2005 HK\$'000 (Audited)
Authorised:		
10,000,000,000 ordinary shares of HK\$0.02 each	200,000	200,000
	<hr/>	<hr/>
Issued and fully paid:		
1,197,000,000 ordinary shares of HK\$0.02 each	23,940	23,940
	<hr/>	<hr/>

14. DISPOSAL OF A SUBSIDIARY

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. Summary of the effects of the disposal of subsidiaries are as follows:

	As at 30 September 2005 HK\$'000 (Unaudited)	As at 31 March 2005 HK\$'000 (Audited)
Net assets disposed of:		
Fixed assets	150,171	–
Investment in subsidiaries	42,453	–
Inventories	34,476	–
Other investment	10,595	–
Trade receivables	850	–
Amount due from fellow subsidiaries	31,216	–
Prepayments and deposits	2,206	–
Cash and bank balances	1,784	–
Trade and bills payables	(19,135)	–
Amount due to an intermediate holding company	(31,216)	–
Amount due to fellow subsidiaries	(50,916)	–
Amount due to Wisdom On	(1,500)	–
Other payables and accruals	(38,952)	–
Tax payable	(15,953)	–
Short-term loan	(61,981)	–
Long term loan/convertible bond	(33,442)	–
	<u>20,656</u>	–
Goodwill	16,511	–
Gain on disposal of subsidiaries	13,833	–
	<u>51,000</u>	–
Satisfied by:		
Cash consideration	51,000	–
	<u>51,000</u>	–
Net cash outflow arising on disposal:		
Cash consideration	51,000	–
Cash and bank balances disposed of	(1,784)	–
	<u>49,216</u>	–

For the period from 1 April 2005 to the respective dates of disposal, the above subsidiary was engaged in manufacture and sales of petrochemical fuel products, contributed approximately HK\$40 million to the Group's turnover and approximately HK\$1.2 million to the Group's profit before taxation.

15. DISCONTINUED OPERATION

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. The turnover, results, cash flows for the period ended 30 September 2005 and net assets as at 30 September 2005 of the petrochemical products segment were as follows:

	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover	40,248	–
Cost of sales	(35,295)	–
Administrative expenses	(1,769)	–
	<hr/>	<hr/>
Gross profit	3,184	–
Other revenues	733	–
	<hr/>	<hr/>
Operating profit	3,917	–
Finance costs	(2,668)	–
	<hr/>	<hr/>
Profit before taxation	1,249	–
Taxation	–	–
	<hr/>	<hr/>
Profit after taxation	1,249	–
	<hr/>	<hr/>
Net operating cash inflow	5,622	–
Net investing cash outflow	(2,629)	–
Net financing cash outflow	(4,468)	–
	<hr/>	<hr/>
Total net cash outflow	(1,475)	–
	<hr/>	<hr/>
Non-current assets	150,482	–
Current assets	51,087	–
	<hr/>	<hr/>
Total assets	201,569	–
Total liabilities	(182,248)	–
	<hr/>	<hr/>
Net assets	19,321	–
	<hr/>	<hr/>