Management Discussion and Analysis

Financial Review

For the financial year ended 31 March 2006, the Group recorded a turnover of approximately HK$618,708,000 (2005: HK$884,347,000) down 30% compared to the previous year. Profit attributable to shareholders was HK$15,567,000 (2005: loss of HK$1,351,000 as restated). 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. Moreover, the Group had disposed its petrochemical manufacturing division because the Board considered the profitability of the petrochemical manufacturing division is not promising. For details, please refer to the following paragraph with headline "MATERIAL ACQUISITIONS AND DISPOSALS". Earnings per share from continuing and discontinued operation is HK1.30 cents (2005: loss per share of HK0.11 cents as restated) per share.

Operational Review

During the year under review, approximately 93% (2005: 74%) of the Group's revenue derived from distribution of PU materials and approximately 7% of the Group's revenue derived from manufacturing of petrochemical products (2005: 26%) and the principal market of the Group was PRC, accounted for approximately 100% (2005: 95%) of the Group's turnover. No revenue derived from Hong Kong (2005: 5%).

Distribution of PU materials

During the year under review, revenue from the distribution of PU materials was approximately HK$577,729,000 (2005: HK$652,717,000), representing decrease of approximately 11% compared to previous year. The distribution of PU materials contributed approximately HK$3.9 million (2005: HK$10 million) to the Group's profit from operating activities for the year, representing a decrease 61% compared to previous year. The market of the PU materials became increasingly competitive during the second half of the financial year and the demand of PU materials showed a decreasing trend during the second half of the financial year. The Group had scale down the revenue in order to deal with the risks coupling with such a competitive environment.

Manufacturing business

During the year under review, the Group's business of manufacture and sale of petrochemical fuel products contributed an operating loss of approximately HK$3.7 million to the Group's net profit for the year. On 13 July 2005, the Group as vendor entered into a sale and purchase agreement to dispose the manufacturing division, Liaoning Xinmin Petrochemical Company Limited. Please refer to the following paragraph with headline "MATERIAL ACQUISITIONS AND DISPOSALS".

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 March 2006 (2005: Nil).

Liquidity and Financial Resources

During the year, a convertible bond issued by the Company of HK$26,813,000 had been fully redeemed. As at 31 March 2006, the Group did not have any outstanding bank borrowings (2005: HK$93.6 million) and cash and bank balances approximately HK$6,028,000 (2005: HK$6,246,000).

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 2006, the current ratio (current assets divided by current liabilities) was 4.18 times (2005: 1.08 times) and the gearing ratio (bank borrowing, convertible bond and finance lease payables divided by shareholders' equity) was zero (2005: 74%).

Charge On Assets

As at 31 March 2006, none of the Group's asset was 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 2006, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

Management Discussion and Analysis (cont'd)

Capital Commitment and Contingent Liabilities

As at 31 March 2006, the Group did not have any capital commitment and contingent liabilities.

Material Acquisitions and Disposals

In July 2005, the Group entered into a sale and purchase agreement to dispose its 100% equity interest in Liaohe Energy Limited, the sole asset of Liaohe Energy Limited is its 100% equity interest in Liaoning Xinmin Petrochemical Company Limited which is principally engaged in the manufacture and sale of petrochemical products in Shenyang, Liaoning Province, the PRC. The consideration of the disposal was HK$51 million and the Group recognised a profit of approximately HK$19 million. For further details, please refer to the circular dated 7 September 2005.

Employees and Remuneration Policies

As at 31 March 2006, the Group's total number of staff was 18 (2005: 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 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 salaries, commissions and bonuses based on individual performance.