Notes to Financial Statements

31 March 2006 (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 HM 11, Bermuda. The principal place of business of the Company in Hong Kong is located at Units 10-12, 19/F., China Merchants Tower, Shun Tak Centre, 168-200 Connuaght Road Central, Sheung Wan, Hong Kong.

The Company acts as an investment holding company while its subsidiaries are engaged in the trading of polyurethane materials.

The company has its shares listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated.

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

2. Summary of Significant Accounting Policies

The consolidated financial statements of Sino Union Petroleum & Chemical International Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and interpretation (Ints) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group's books and records are maintained in Hong Kong Dollar ("HK$"), the currency in which the majority of the Group's transactions is denominated.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgmenets made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material judgements are discussed in Note 4 to the financial statements.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

The adoption of new/revised HKFRSs

In 2006, the Group adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended and restated as required, in accordance with the relevant requirements.

A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

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 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 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33 and 37 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

- HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33 and 37 had no material effect on the Group's policies.

- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All of the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

The adoption of new/revised HKFRSs (cont'd)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to reclassification of the land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined by using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from 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 convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or redeemed (in which case it is released directly to retained earnings).

In prior years, convertible notes were stated at face value. The finance cost was accrued using effective interest rate method. The issuance costs incurred for the arrangement of convertible note were charged to the income statement in the year of issue. Retrospective application is required for adoption of HKAS 32.

Until 31 March 2005, investments in unlisted shares of the Group were classified into other investments which were stated in the balance sheet at fair value and any impairment losses on long term investments was recognised in the income statement in the period in which they arise.

In accordance with the provisions of HKAS 39, the investments in unlisted shares have been classified as available-for-sale financial assets. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1 April 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in share-based reserve. The share-based payment reserve is transferred to share capital and share premium, together with the exercise price when the option holders exercise its rights. In prior year, no amount was recognised when options were granted. If the option holders 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. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 April 2005 shall expense retrospectively in the income statement of the respective periods. The Group has taken the advantages of the transitional provisions under which all of the Company's outstanding share options granted after 7 November 2002 were all vested at the date of granting the share options. As a result the adoption of HKFRS 2 does not have material impact on the Group's financial position for the year ended 31 March 2005 and 2006.

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. Until 31 March 2005, positive goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 5 to 20 years and was subject to impairment testing when there were indications of impairment.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

The adoption of new/revised HKFRSs (cont'd)

In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 April 2005 and the accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31 March 2006 onwards, goodwill is tested annually for impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The adoption of HKFRS 5 has resulted in a change in accounting policy on the recognition of a discontinued operation. Prior to the application of HKFRS 5, the Group would have previously recognised a discontinued operation at the earlier of when the Group enters into a binding sale agreement and the board of directors have approved and announced a formal disposal plan. HKFRS 5 now requires an operation to be classified as discontinued when the criteria to be classified as held for sale have been met or the Group has disposed the operation. Held for sale is when the carrying amount of an operation will be recovered principally through a sale transaction and not through continuing use. The result of this change in accounting policy is that a discontinued operation is recognised at a later point than the previous accounting policy due to the recognition criteria being stricter under HKFRS 5.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2005 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005; and

– HKFRS 3 – prospectively after 1 April 2005.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

The adoption of new/revised HKFRSs (cont'd)

(i) Effect on the consolidated assets and liabilities as at 31 March 2005 and 31 March 2006

	HKAS 17 Leases HK$'000	HKAS 39 Financial Instruments HK$'000	HKFRS 3 Business Combinations HK$'000	Total HK$'000
At 31 March 2005				
Decrease in other investments	–	(7,967)	–	(7,967)
Increase in financial assets at fair value through profit or loss	–	7,967	–	7,967
Decrease in property, plant and equipment	11,587	–	–	11,587
Increase in interest in land use rights	(11,587)	–	–	(11,587)
Decrease in accumulated amortisation	–	–	(1,179)	(1,179)
Decrease in goodwill	–	–	1,179	1,179
Decrease in convertible bond	–	(1,759)	–	(1,759)
Increase in convertible bond interest payable	–	71	–	71
	–	(1,688)	–	(1,688)
At 31 March 2006				
Increase in convertible bond interest payable	–	1,252	–	1,252

(ii) Effect on the balance of equity as at 1 April 2005

	HKAS 39 Financial Instruments HK$'000
Increase in convertible bond reserve	2,017

There is no effect on the balance of equity as at 1 April 2004.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

(iii) Effect on the consolidated income statement for the year ended 31 March 2005 and 2006

Year ended 31 March 2005

	HKAS 39 Financial Instruments HK$'000
Increase in finance costs	329
Increase in basic loss per share	HK 0.03 cents
Decrease in diluted loss per share	N/A

Year ended 31 March 2006

Increase in finance costs	923
Decrease in basic earnings per share	HK 0.08 cents
Decrease in diluted earnings per share	HK 0.14 cents

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRSs 1 & 6 (Admendent)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IRFIC) – Int 8	Scope of HKFRS 2
HK(IRFIC) – Int 9	Reassessment of Embedded Derivatives

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

HKAS 1 (Amendment) – Presentation of Financial Statements – Capital Disclosures introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKAS 1 from annual periods beginning 1 January 2007.

HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as at 31 March 2005 and 2006.

HKAS 39 (Amendment) – The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will comply this amendment from accounting periods beginning on or after 1 January 2007.

HKAS 39 and HKFRS 4 (Amendment) – Financial Guarantee Contracts requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.

HKFRS 7 – Financial Instruments: Disclosures introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32 – Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

A summary of significant accounting policies followed by the Group and the Company 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 modified by the revaluation of certain financial assets at fair value through profit or loss.

(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 2006. 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.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(d) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(e) Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(f) Property, plant and equipment

Valuation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchases price and any directly attributable costs bringing the asset to its present working condition and location for its intended use. Subsequent expenditure relating to a property, plant and equipment that has already recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise.

Depreciation

Depreciation is provided on the reducing balance method so as to write down the cost of property, plant and equipment to their estimated realisable value over their anticipated useful lives at the following annual rates:

Land use rights	:	Over the unexpired terms of the leases
Building	:	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

Gain or loss on disposal

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

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

(g) Leased assets

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at the lower of fair values or the present value of the minimum lease payments. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

(h) Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayment for operating lease and recorded as land use rights, which are amortised on a straight line basis over the period of the right.

(i) 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.

(j) 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.

(k) Investments

Before adoption of the new HKFRSs, the Group classified the investment in securities as non-trading securities and other investments as trading securities except for the investments in subsidiaries and associates.

Non-trading securities

Investments in securities are recognised in 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 recognized to reflect irrecoverable amounts. The annual amortization 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 recognized in each period represents a constant yield on the investment.

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

Trading securities

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

From 1 April 2005 onward, the Group classifies its investment in the following categories depends on the purpose of such investment were acquired. Management determines the classification of its investments at initial recognition and re-evaluate this designation at every reporting date.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

(k) Investments (cont'd)

Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months from the balance sheet date. The Group did not hold any investments in this category as at the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables included loan receivables, convertible notes receivables and trade receivables. The Group did not hold any investments in this category as at the balance sheet date.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group did not hold any investments in this category as at the balance sheet date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date. The Group did not hold any investments in this category as at the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period that arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial assets is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

(l) Convertible bond

Convertible bond that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible bond is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest rate method. The equity component is recognised in the convertible bond reserve until either the bond are converted or redeemed.

If the bond are converted, the convertible bond reserve, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond reserve is released directly to accumulated losses.

(m) Cash and 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.

(n) 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.

(o) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

(o) Foreign currency translation (cont'd)

Group companies

The results and financial positions of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(p) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

(q) 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 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 future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

(r) Related parties transactions

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 (being member or key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

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.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

(t) Retirement benefits schemes (cont'd)

(iv) Share-based payment expenses

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognised the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(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.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

2. Summary of Significant Accounting Policies (cont'd)

(v) Segment reporting (cont'd)

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 property, plant and equipment. 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 acquire 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. Financial Risk Management

Financial risk factors

The Group's activities expense it to a variety of financial risks: market risks (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risks

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations.

Price risk

The Group is exposed to equity securities price risk because investment held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss. The Group is not exposed to commodity prices risk.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The exposures to these credit risks are monitored on an going basis.

(c) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and intended lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(d) Cash flow and fair value interest rate risk

The Group does not have significant interest-bearing assets or liabilities. As a result, the Group's results and operating cash flows are substantially independent of changes in market interest rates.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

3. Financial Risk Management (cont'd)

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Measurement of convertible bond

On issuance of convertible bond, the fair value of the liability component is determined by using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bond reserve, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

(b) Income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determinations is made.

5. 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 year ended 31 March 2006, details of which are set out in Note 25 to the financial statements.

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

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

5. Segment Information (cont'd)

(a) Business segments

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

The Group

	Continuing Operation		Discontinued Operation			
	PU materials		Petrochemical products		Consolidated	
	2006 HK$'000	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000 (Restated)
Segment revenue:						
Sales to external customers	**577,729**	652,717	**40,979**	231,630	**618,708**	884,347
Total revenue	**577,729**	652,717	**40,979**	231,630	**618,708**	884,347
Segment results	**4,515**	10,061	**(1,008)**	(240)	**3,507**	9,821
Interest income					**7**	2
Unallocated expenses					**(613)**	(829)
Profit from operating activities					**2,901**	8,994
Gain on disposal of subsidiaries	**–**	112	**18,638**	–	**18,638**	112
Profit from operation	**3,909**	9,257	**17,630**	(151)	**21,539**	9,106
Finance costs	**(923)**	(540)	**(2,668)**	(5,472)	**(3,591)**	(6,012)
Profit before tax	**2,986**	8,717	**14,962**	(5,623)	**17,948**	3,094
Tax	**(2,381)**	(4,445)	**–**	–	**(2,381)**	(4,445)
Net profit/(loss) from ordinary activities attributable to equity holders of the Company					**15,567**	(1,351)
Segment assets	**231,842**	231,678	**–**	201,569	**231,842**	433,247
Total assets					**231,842**	433,247
Segment liabilities	**55,402**	88,109	**–**	182,248	**55,402**	270,357
Total liabilities					**55,402**	270,357
Other segment information:						
Depreciation	**1,083**	1,346	**1,034**	4,668	**2,117**	6,014
Other non-cash expenses	**–**	1,179	**–**	–	**–**	1,179
Capital expenditure	**33**	1,674	**–**	40,352	**33**	42,026

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

5. Segment Information (cont'd)

(b) Geographical segments

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

The Group

	PRC		Hong Kong		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**618,708**	842,098	**–**	42,249	**618,708**	884,347
Segment results	**3,507**	9,710	**–**	111	**3,507**	9,821
Other segment information:						
Segment assets	**231,842**	231,527	**–**	201,720	**231,842**	433,247
Capital expenditure	**33**	40,352	**–**	1,674	**33**	42,026

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

6. Property, Plant and Equipment

The Group	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
	(Restated)					(Restated)
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)
Effect on adoption of HKAS 17	(11,704)	–	–	–	–	(11,704)
At 31 March 2005 and 1 April 2005	37,703	23,803	75,742	3,151	7,715	148,114
Additions	–	–	–	33	–	33
Disposals	–	–	–	–	(2,408)	(2,408)
Disposal of subsidiaries	(37,703)	(23,803)	(75,742)	(892)	(5,307)	(143,447)
At 31 March 2006	–	–	–	2,292	–	2,292
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)
Effect on adoption of HKAS 17	(117)	–	–	–	–	(117)
At 31 March 2005 and 1 April 2005	1,006	–	2,756	1,384	1,398	6,544
Charges for the year	–	–	1,034	481	602	2,117
Written back on disposals	–	–	–	–	(1,324)	(1,324)
Disposal of subsidiaries	(1,006)	–	(3,790)	(114)	(676)	(5,586)
At 31 March 2006	–	–	–	1,751	–	1,751
Net book value:						
At 31 March 2006	**–**	**–**	**–**	**541**	**–**	**541**
At 31 March 2005	36,697	23,803	72,986	1,767	6,317	141,570

As at 31 March, 2006, the Group did not have any property, plant and equipment held under finance leases (2005: the net book value of HK$1,685,000).

As at 31 March, 2006, the Group did not have any property, plant and equipment pledged to secure banking facilities (2005: net book value of HK$104,830,000).

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

7. Land Use Rights

The Group

	HK$'000 (Restated)
Cost	
At 1 April 2004	–
Effect on adoption of HKAS 17	11,704
At 31 March 2005 and 1 April 2005, as restated	11,704
Disposal of subsidiaries	(11,704)
At 31 March 2006	–
Amortisation and impairment	
At 1 April 2004	–
Effect on adoption of HKAS 17	117
At 31 March 2005 and 1 April 2005, as restated	117
Disposal of subsidiaries	(117)
At 31 March 2006	–
Carrying value	
At 31 March 2006	**–**
At 31 March 2005	11,587

During the year ended 31 March 2005, the Group's land use rights represent prepaid operating lease payments in respect of land use rights outside Hong Kong under medium-term leases.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

8. Goodwill

The Group

	HK$'000 (Restated)
Cost	
Arising from acquisition of a subsidiary during the year ended 31 March 2005 (Note 23)	17,690
Elimination of accumulated amortisation upon adoption of HKFRS 3	(1,179)
At 1 April 2005, as restated	16,511
Disposal of subsidiary	(16,511)
At 31 March 2006	–
Amortisation and impairment	
Amortised during the year ended 31 March 2005	1,179
Elimination of accumulated amortisation upon adoption of HKFRS 3	(1,179)
At 1 April 2005, as restated and 31 March 2006	–
Carrying value	
At 31 March 2006	**–**
At 31 March 2005	16,511

In prior years, goodwill was amortised on a straight line basis over its estimated useful economic life of 10 years. Following the adoption of HKFRS 3, the Group ceased amortisation of goodwill from 1 April 2005. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 April 2005 has been eliminated against the cost of goodwill as at that date.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

9. Interests in Subsidiaries

The Company

	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**54,245**	54,245
Amounts due from subsidiaries	**82,567**	84,760
	136,812	139,005
Less: Provision for impairment loss on amounts due from subsidiaries	**(30,448)**	–
	106,364	139,005

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

The directors of the Group had reviewed the net asset values of the Company's subsidiaries for the year ended 31 March 2006 and considered provision for impairment in values be made in respect of the amounts due by subsidiaries to their net recoverable values.

Particulars of the subsidiaries of the Company as at 31 March 2006 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 Direct	Percentage of equity attributable to the Company Indirect	Principal activities
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) 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

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

9. Interests in Subsidiaries (cont'd)

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
Harvest Star Investment Limited	BVI	Ordinary US$1	100	–	Investment holding
Prime Rose Investment 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
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
Glory Hill Group Limited	BVI	Ordinary US$1	100	–	Investment holding
Amistar Enterprises Limited	BVI	Ordinary US$1	100	–	Investment holding
Metro City Group Limited	BVI	Ordinary US$1	100	–	Investment holding
Silverise Group Limited	BVI	Ordinary US$1	–	100	Investment holding
Pilot Wisdom Limited	Hong Kong	Ordinary HK$100	–	100	Investment holding
Panaview Trading Limited	Macau	Ordinary US$1	–	100	Provision of administrative services to fellow subsidiaries

Note:

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).

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

10. Inventories

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Raw materials	**–**	15,247
Finished goods	**9,121**	26,061
	9,121	41,308

11. Financial Assets at Fair Value Through Profit or Loss

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Equity securities		
Unlisted outside Hong Kong, at fair value	**–**	7,967

12. Trade Receivables

Trade receivables, which generally have credit terms of 90 days, are recognised and carried at the original invoiced amount less provision for impairment loss.

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

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Current to 30 days	**72,344**	78,795
31 days to 90 days	**68,989**	48,028
91 days to 180 days	**16,098**	20,674
181 days to 360 days	**1,253**	8,598
	158,684	156,095
Less: Provision for impairment loss on trade receivables	**–**	(3,773)
	158,684	152,322

The carrying amount of trade receivables approximate to their fair values.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

13. Amount due by a Subsidiary/Amounts due to Subsidiaries

The amount due by a subsidiary/amounts due to subsidiaries are unsecured, interest-free and has no fixed term of repayments.

14. Share Capital

	2006 HK$'000	2005 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.02 each	**200,000**	200,000
Issued and fully paid:		
1,197,000,000 ordinary shares of HK$0.02 each	**23,940**	23,940

15. Reserves

The Group	**Share premium** HK$'000	**Contributed surplus** HK$'000	**Convertible bond reserve** HK$'000 (Restated)	**Retained profits** HK$'000 (Restated)	**Total** HK$'000 (Restated)
At 1 April 2004	53,127	3,156	–	82,001	138,284
Effect on adoption of HKAS 39	–	–	2,017	–	2,017
Net loss for the year	–	–	–	(1,351)	(1,351)
As restated at 31 March 2005 and 1 April 2005	53,127	3,156	2,017	80,650	138,950
Redemption of convertible bond	–	–	(2,017)	–	(2,017)
Net profit for the year	–	–	–	15,567	15,567
At 31 March 2006	**53,127**	**3,156**	**–**	**96,217**	**152,500**

The Company	**Share premium** HK$'000	**Contributed surplus** HK$'000	**Convertible bond reserve** HK$'000 (Restated)	**Retained profits** HK$'000 (Restated)	**Total** HK$'000 (Restated)
At 1 April 2004	53,127	54,045	–	(2,294)	104,878
Effect on adoption of HKAS 39	–	–	2,017	–	2,017
Net loss for the year	–	–	–	(4,522)	(4,522)
As restated at 31 March 2005 and 1 April 2005	53,127	54,045	2,017	(6,816)	102,373
Redemption of convertible bond	–	–	(2,017)	–	(2,017)
Net loss for the year	–	–	–	(34,530)	(34,530)
At 31 March 2006	**53,127**	**54,045**	**–**	**(41,346)**	**65,826**

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

15. Reserves (cont'd)

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$65,826,000 (2005: HK$102,373,000) at 31 March 2006, which included the Company's contributed surplus in the amount of HK$54,045,000 (2005: 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 (2005: HK$53,127,000) at 31 March 2006, may be distributed in the form of fully paid bonus shares.

16. Trade and Bills Payables

	The Group	
	2006	2005
	HK$'000	HK$'000
Trade payables	**15,758**	31,496
Bills payable	**–**	1,203
	15,758	32,699

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

	The Group	
	2006	2005
	HK$'000	HK$'000
Current to 30 days	**3,211**	1,732
31 days to 90 days	**9,548**	13,616
Over 90 days	**2,999**	17,351
	15,758	32,699

17. Amount due to a Holding Company

The amount due is unsecured, interest-free and has no fixed term of repayment.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

18. Bank Borrowings

	The Group	
	2006	2005
	HK$'000	HK$'000
Bank loans, secured		
– repayable within one year	**–**	93,623

19. Obligations under Finance Leases

During the year ended 31 March 2006, the Group disposed certain of its motor vehicles which were held under finance leases with lease terms of four years.

At 31 March 2006, 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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**–**	766	**–**	669
In the second year	**–**	585	**–**	538
In the third to fifth years, inclusive	**–**	671	**–**	649
Total minimum finance lease payments	**–**	2,022	**–**	1,856
Future finance charges	**–**	(166)		
Present value of lease obligations	**–**	1,856		
Less: Amount due within one year shown under current liabilities	**–**	(669)		
Long term portion	**–**	1,187		

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

20. Convertible Bond

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.

During the year ended 31 March 2006 the Convertible Bond was redeemed by the bondholder.

The Group adopted HKAS 32 for the year ended 31 March 2006. The fair value of the liability component of the bond was determined upon issuance, using the prevailing market interest rate for similar debt without a conversion option and was carried as a current liability. The residual amount was assigned to the conversion option as the equity component that was recognised in shareholders' equity.

The net proceeds received from the issue of the convertible bond had been split between the liability and equity components, as follows:

	The Group and the Company	
	2006	2005
	HK$'000	HK$'000
Face value of convertible bond issued on 24 December 2004	**26,813**	26,813
Equity component	**(2,017)**	(2,017)
Liability component on initial recognition on 24 December 2004	**24,796**	24,796
Interest expenses	**1,252**	329
Interest payable	**(1,252)**	(71)
Transfer from convertible bond reserve upon redemption	**2,017**	–
Redemption of convertible bond	**(26,813)**	–
Amortised cost at 31 March	**–**	25,054

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in convertible bond reserve. The fair value of the liability component and the equity conversion component were determined at issuance of the Convertible Bond.

Interest expense on the bond was calculated using the effective interest method by applying the effective interest rate of 2.5% to the liability component.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

21. Deferred Taxation

The movement of deferred tax liabilities arising from accelerated tax depreciation is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
At 1 April 2005/2004	**83**	83
Deferred tax charged for the year	**–**	–
At 31 March 2006/2005	**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 2006 (2005: Nil).

22. Share Option Scheme

The Company operates 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.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

22. Share Option Scheme (cont'd)

The following table discloses movements in the Company's share options during the year ended 31 March 2006:

Name or category of participant	At 1 April 2005	Number of share options Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2006	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. Tsang Kwok Man	11,000,000	–	–	–	11,000,000	8/11/2004	8/11/2004 to 7/11/2014	0.1324	0.13
Employees other than Directors									
In aggregate	62,000,000	–	–	(22,000,000)	40,000,000	8/11/2004	11/11/2004 to 7/11/2014	0.1324	0.13
	73,000,000	–	–	(22,000,000)	51,000,000				

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

(i) The Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in employee share-based payment reserve. The employee share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 January 2005 were expensed retrospectively in the income statement of the respective periods.

(ii) All share option granted are not expensed as the options were all vested before 1 January 2005 and not subjected to the requirements of HKFRS 2.

(iii) During the year ended 31 March 2006, no share options was granted nor exercised.

(iv) As at 31 March 2006, 51,000,000 share options were exercisable.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

23. Acquisition of a Subsidiary

	2006 HK$'000	2005 HK$'000
Net assets acquired:		
Property, plant and equipment	–	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 ended 31 March 2005 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.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

24. Disposal of Subsidiaries

On 13 July 2005, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in Liaohe Energy Limited ("Liabohe Energy") to individual third party together with its 100% equity interest in Liaoning Xinmin Petrochemical Company Limited ("Liaoning Xinmin"), for a cash consideration of HK$51,000,000. The operation of Liaohe Energy and Liaoning Xinmin is reported in the financial statements as a discontinued operation. Summary of the effects of the disposal of subsidiaries are as follows:

	2006 HK$'000	2005 HK$'000
Net assets disposed of:		
Property, plant and equipment	137,861	240
Land use rights	11,587	–
Inventories	26,115	–
Financial assets at fair value through profit or loss	8,120	–
Trade receivables	943	753
Prepayments, deposits and other receivables	2,905	–
Cash and bank balances	284	28
Trade and bills payables	(19,055)	–
Other payables and accruals	(36,880)	(1,133)
Tax payable	(19,886)	–
Bank borrowings	(95,423)	–
	16,571	(112)
Goodwill	16,511	–
Exchange reserve	(720)	–
Gain on disposal of subsidiaries	18,638	112
	51,000	–
Satisfied by:		
Cash consideration	51,000	–
Net cash inflow/(outflow) arising on disposal:		
Cash consideration	51,000	–
Cash and bank balances disposed of	(284)	(28)
	50,716	(28)

For the period from 1 April 2005 to the respective date of disposal, the above subsidiaries were engaged in manufacture and sales of petrochemical fuel products and contributed approximately HK$41 million to the Group's turnover and approximately a loss of HK$3.7 million to the Group's profit before taxation.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

25. Discontinued Operation

In additions to Note 24 to the financial statements, the profit for the year from the discontinued operation which has been included in the consolidated income statement is analysed as follows:

	2006 HK$'000	2005 HK$'000
Loss on petrochemical products operation	**(3,676)**	(5,623)
Gain on disposal of petrochemical products operation	**18,638**	–
	14,962	(5,623)
Basic earnings/(loss) per share from discontinued operation	**HK$1.25 cents**	(HK0.47 cents)
Diluted earnings/(loss) per share from discontinued operation	**HK$1.03 cents**	N/A

The results of petrochemical products operation for the period from 1 April 2005 to 13 July 2005 which has been included in the consolidated income statement were as follows:

	2006 HK$'000
Turnover	**40,979**
Cost of sales	**(37,759)**
Administrative expenses	**(4,228)**
Loss from operation	**(1,008)**
Finance costs	**(2,668)**
Loss before taxation	**(3,676)**
Taxation	**–**
Loss after taxation	**(3,676)**

The net assets of the discounted operation at 13 July 2005 (date of disposal) have been presented in Note 24 to the financial statements.

The net cash flow of the discounted operation for the period from 1 April 2005 to 13 July 2005 was as follows:

Net operating cash inflow	**1,193**
Net investing cash outflow	**–**
Net financing cash inflow	**(2,668)**
Total net cash outflow	**(1,475)**

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

26. Turnover and 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, other revenue and other income are as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Turnover		
Continuing		
Sale of goods	**577,729**	652,717
Discontinued		
Sale of goods	**40,979**	231,630
	618,708	884,347
Other revenue		
Bank interest income	**7**	2
Others	**–**	2,343
	7	2,345
Other income		
Gain on disposal of property, plant and equipment	**772**	62
Exchange gain	**38**	18
	810	80

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

27. Profit from Operating Activities

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

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Cost of inventories sold	**588,773**	828,488
Auditors' remuneration	**400**	400
Depreciation	**2,117**	6,014
Amortisation of goodwill	**–**	1,179
Provision on impairment loss of trade receivables	**–**	3,773
Minimum lease payments under operating leases		
in respect of rented premises	**1,320**	1,691
Staff costs (including Directors' remuneration – Note 28):		
Salaries and wages	**6,049**	10,270
Mandatory provident fund contributions	**124**	148
and after crediting:		
Gain on disposal of property, plant and equipment	**772**	62
Gain on disposal of subsidiaries	**18,638**	112
Exchange gain, net	**38**	18

The cost of inventories sold includes HK$2,618,000 (2005: HK$5,699,000) 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.

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

28. 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:

Name of director	Fee		Salaries and bonuses		Mandatory provident fund		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Dr. Hui Chi Ming	**–**	–	**–**	–	**–**	–	**–**	–
Mr. Chen Hua	**–**	–	**–**	–	**–**	–	**–**	–
Dr. Chui Say Hoe	**–**	–	**650**	–	**12**	–	**662**	–
Mr. Tsang Kwok Man	**–**	–	**650**	–	**12**	–	**662**	–
Mr. Cheung Shing	**–**	–	**650**	–	**12**	–	**662**	–
Mr. Lew Mon Hung (resigned on 11 April 2005)	**–**	–	**–**	–	**–**	–	**–**	–
Mr. Cheung Wai Yin, Wilson (resigned on 4 February 2005)	**–**	–	**–**	756	**–**	12	**–**	768
Mr. Lu Zhiming (resigned on 2 November 2004)	**–**	–	**–**	280	**–**	–	**–**	280
Dr. Wang Tao (appointed on 15 June 2006)	**–**	–	**–**	–	**–**	–	**–**	–
Mr. Cui Yeng Xu (appointed on 15 June 2006)	**–**	–	**–**	–	**–**	–	**–**	–
Mr. Chow Charn Ki, Kenneth	**120**	17	**–**	–	**–**	–	**120**	17
Mr. Chan Wai Dune	**200**	17	**–**	–	**–**	–	**200**	17
Dr. Yu Sun Say	**120**	–	**–**	–	**–**	–	**120**	–
Mr. Ng Wing Ka	**120**	–	**–**	–	**–**	–	**120**	–
Mr. Wong Hing Tat (resigned on 23 February 2005)	**–**	17	**–**	–	**–**	–	**–**	17
Mr. Kwong Chi Ho (resigned on 23 February 2005)	**–**	17	**–**	–	**–**	–	**–**	17
Mr. Qin Gang (resigned on 2 November 2004)	**–**	–	**–**	–	**–**	–	**–**	–
	560	68	**1,950**	1,036	**36**	12	**2,546**	1,116

Included in the directors' remuneration were fees of HK$560,000 (2005: HK$68,000) paid to independent non-executive directors and non-executive director. No fees were paid to executive directors during the year (2005: Nil).

During the year, bonuses of HK$150,000 were paid or payable to the directors (2005: HK$120,000). No directors waived or agreed to waive any remuneration during the year (2005: 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 (2005: Nil).

During the year, no share options to subscribe for ordinary shares of the Company were granted to directors under the Company's share option scheme (2005: 11,000,000 option was granted).

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

29. Five Highest Paid Individuals

The five highest paid individuals during the year included three (2005: one) director, details of whose remuneration are set out in Note 28 above. The remuneration of the remaining two (2005: four) non-director, highest paid individuals, which each fell within the nil to HK$1,000,000 band, are as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**1,300**	1,894
Mandatory provident fund contributions	**24**	95
	1,324	1,989

During the year, bonuses of HK$100,000 (2005: 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 (2005: Nil).

During the year, no (2005: Nil) share options to subscribe for ordinary shares of the Company were granted to employees under the Company's share option scheme.

30. Finance Costs

	2006	2005
	HK$'000	HK$'000
		(Restated)
Interest on bank loans wholly repayable within five years	**2,668**	5,472
Interest on trust receipt loans wholly repayable within five years	**–**	151
Interest on convertible bond	**923**	329
Finance charges on obligations under finance leases	**–**	60
	3,591	6,012

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

31. Taxation

(a) Taxation in the consolidated income statement represents:

	The Group 2006 HK$'000	The Group 2005 HK$'000
Current year provision:		
Hong Kong	–	–
Overseas	2,381	4,445
Tax charge for the year	2,381	4,445

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits for the year (2005: Nil). 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:

The Group – for the year ended 31 March 2006

	Hong Kong		PRC		Macau		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before taxation	12,181		(3,537)		9,304		17,948	
Tax at applicable income tax rate	2,132	17.5	(1,167)	(33.0)	1,117	12.0	2,082	11.6
Tax effect of expenses and income not deductible or taxable for tax purposes	(1,259)	(10.4)	–	–	374	4.0	(885)	(4.9)
Tax effect of tax losses not recognised	10	0.1	1,167	33.0	7	0.1	1,184	6.6
Tax charge for year	883	7.2	–	–	1,498	16.1	2,381	13.3

The Group – for the year ended 31 March 2005

	Hong Kong		PRC		Macau		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before taxation	(1,812)		(5,712)		10,618		3,094	
Tax at applicable income tax rate	(317)	17.5	(1,885)	(33.0)	1,593	15	(609)	(19.7)
Tax effect of expenses and income not deductible or taxable for tax purposes	2,024	(111.7)	–	–	–	–	2,024	65.4
Tax effect of tax losses not recognised	1,025	(56.5)	1,885	33.0	120	1.1	3,030	97.9
Tax charge for year	2,732	(150.7)	–	–	1,713	16.1	4,445	143.6

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

32. Net Loss from Ordinary Activities Attributable to Equity Holders of the Company

The net loss from ordinary activities attributable to equity holders of the Company dealt with in the financial statements of the Company for the year ended 31 March 2006 was HK$34,530,000 (2005: HK$4,522,000).

33. Dividends

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2006 (2005: Nil).

34. Earnings/(Loss) per Share

(a) Basic earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the net profit attributable to the equity holders of the Company of approximately HK$15,567,000 (2005: loss of approximately HK$1,351,000 as restated) and the number of 1,197,000,000 (2005: 1,197,000,000) ordinary shares in issue. The basic loss per share for 2005 has been adjusted accordingly.

	2006 HK$'000	2005 HK$'000 (Restated)
Earnings/(loss) attributable to equity holders of the Company	**15,567**	(1,351)
Attributable to:		
Continuing operation	**605**	4,272
Discontinued operation (Note 25)	**14,962**	(5,623)
	15,567	(1,351)
	No. of shares '000	No. of shares '000
Number of ordinary shares in issue	**1,197,000**	1,197,000
Basic earnings/(loss) per share		
– for profit/(loss) for the year	**HK1.30 cents**	(HK0.11 cents)
– for profit from continuing operation	**HK0.05 cents**	HK0.36 cents
– for profit/(loss) from discontinued operation	**HK1.25 cents**	(HK0.47 cents)

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

34. Earnings/(Loss) Per Share (cont'd)

(b) Diluted earnings/(loss) per share

Diluted earnings per share is calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bond and share options.

The convertible bond was assumed to have been converted into ordinary shares and the net profit attributable to equity holders is adjusted to eliminate the interest expenses less the tax effect.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

(i) Profit attributable to ordinary equity holders of the Company – diluted

	2006 HK$'000	2005 HK$'000 (Restated)
Profit/(loss) attributable to equity holders	**15,567**	(1,351)
Effective interest on liability component of convertible bond	**923**	329
Profit/(loss) attributable to equity holders	**16,490**	(1,022)

(ii) Weighted average number of ordinary shares – diluted

	2006 No. of shares '000	2005 No. of shares '000 (Restated)
Number of ordinary shares at 31 March	**1,197,000**	1,197,000
Adjustments for – assumed conversion of convertible bond	**239,402**	74,772
– assumed exercise of share options	**14,413**	15,684
Weighted average number of ordinary shares at 31 March	**1,450,815**	1,287,456
Diluted earnings/(loss) per share		
– for profit for the year	**HK1.14 cents**	N/A
– for profit from continuing operation	**N/A**	N/A
– for profit from discontinued operation	**HK1.03 cents**	N/A

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

35. 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 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Within one year	**390**	1,560
In the second to fifth years, inclusive	**–**	390
	390	1,950

36. Commitments

Apart from the operating lease commitments detailed in Note 35 to financial statements above, at the balance sheet date, the Group had no other significant commitments. As at 31 March 2005, 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.

37. Contingent Liabilities

As at 31 March 2006, the Group and the Company had no significant 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 and the subsidiaries had utilised approximately HK$1 million of the facilities.

38. Material Related Party and Connected Transactions

In addition to the transactions and balances disclosed in Note 20 to the financial statements, during the year, the Group had entered into the following significant transaction with the related parties:

Key management personnel

	2006 HK$'000	2005 HK$'000
Salaries and allowance	**2,510**	1,104
Mandatory provident fund	**36**	12
	2,546	1,116

Notes to Financial Statements (cont'd)

31 March 2006 (in HK Dollars)

39. Subsequent Events

On 20 June 2006, the Group entered into an acquisition agreement with a connected party of the Company to acquire 100% equity interest in Deno Group Limited for a nominal consideration of HK$1.00. The only material asset of the Deno Group Limited is a 7% shareholding in Madagascar Energy International Limited ("MEIL"), which holds the oil and gas exploration, exploitation and operation rights at an onshore site measuring approximately 8,320 square kilometres in Republic of Madagascar pursuant to the Production Sharing Agreement.

For further details, please refer to the Company's announcement dated on 20 June 2006.

40. Comparative Figures

Following the adoption of new HKASs and HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified/restated to conform with the current year's presentation and accounting treatment.

41. Authorisation for Issue of Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 28 July 2006.