SUNPEC 中聯石化

SINO UNION PETROLEUM & CHEMICAL INTERNATIONAL LIMITED

中聯石油化工國際有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 346

ANNUAL REPORT **2007**

Contents

Corporate Information

Executive Directors

Dr. Wang Tao *(Honorary Chairman)* (appointed on 15 June 2006)
Dr. Hui Chi Ming, *G.B.S., PhD, J.P. (Chairman)*
Mr. Cheung Shing *(Deputy Chairman)*
Dr. Chui Say Hoe
Mr. Tsang Kwok Man
Mr. Cui Yeng Xu (appointed on 15 June 2006)
Mr. Chen Hua (resigned on 31 January 2007)

Non-Executive Director

Mr. Chow Charn Ki, Kenneth

Independent Non-Executive Directors

Mr. Chan Wai Dune
Dr. Yu Sun Say, *S.B.S., J.P.*
Mr. Ng Wing Ka

Company Secretary and Qualified Accountant

Mr. Fu Wing Kwok, Ewing

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business

Units 10-12, 19/F
China Merchants Tower
Shun Tak Centre, 168-200 Connaught Road Central,
Sheung Wan
Hong Kong

Authorised Representatives

Mr. Fu Wing Kwok Ewing

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
DBS Bank Hong Kong Limited

Legal Adviser – Hong Kong

Robertsons
57/F, The Center
99 Queen's Road Central
Hong Kong

Auditors

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower
The Landmark, 11 Pedder Street
Central
Hong Kong SAR

Bermuda Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited
2617 Tesbury Centre
28 Queen's Road East
Hong Kong

Stock Code

346

Chairman's Statement

For and on behalf of the Board of Directors (the "Board") of Sino Union Petroleum & Chemical International Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2007.

Performance

The Group recorded a turnover of HK$554,686,000 for the year ended 31 March 2007 (2006: HK$577,729,000) from trading of PU materials. Meanwhile, the profit attributable to shareholders was approximately HK$8,063,000 (2006: HK$15,567,000). Basic earnings per share from continuing and discontinued operations is HK0.63 cents (2006: HK1.30 cents).

Business Review

The competition on the market of PU materials continued to be rigorous, although the economic condition in general has improved. As a result, the Group has still adopted a selective approach in accepting PU trading orders by ensuring that these transactions will meet the minimum profit criteria in order to reduce the risk exposure in the competitive environment.

This year was a transformational milestone for the Group which has undergone a series of business expansion. On 25 May 2007, the Group has successfully acquired 100% shareholding in Madagascar Energy International Limited ("MEIL"). MEIL was vested with the rights to engage in oil & gas exploration for an 8 year period and exploitation and operation for 25 years (for oil) and 35 years (for gas) respectively at Madagascar Oilfield Block 3113, an onshore site with total area of 8,320 kilometers in the Republic of Madagascar. The Group has appointed Netherland, Sewell & Associates, Inc. ("NSAI"), a respectful firm of international independent reserve consultants based in Texas, U.S.A., as its technical advisor of the Group. NSAI has issued a technical report which concluded that oilfield block 3113 has ample reserves of light crude oil. For details, please refer to the Company's circular dated 10 May 2007. MEIL also entered into a service contract ("Service Contract") with BGP Inc. ("BGP") (中國石油東方物理國際公司) on 30 May 2007. Pursuant to the Service Contract, BGP shall provide exploration and oilfield development services for the onshore oilfield block 3113 in Madagascar. The total contract sum of the Service Contract depends on the manpower and time required for completion of the work and it is preliminarily estimated to be approximately US$12 million.

On 3 April 2007, the Group entered into a supply and purchase agreement with Foshan Hua Heng Petroleum and Chemical Limited ("Foshan Hua Heng") and Foshan Electricity Fuel Company (佛山市區電力燃料公司), pursuant to which the Group has agreed to supply 360,000 tons of fuel oil (with model no.180CST) at the prevailing market price to the Foshan Hua Heng for its resale to Foshan Electricity Fuel Company during the contract period of 23 April 2007 to 23 April 2008. Foshan Hua Heng has undertaken and guaranteed that the profit margin of the Group for the sale of 360,000 tons fuel oil shall not be less than RMB25.2 million, and Foshan Hua Heng shall pay at least RMB2.1 million per month to the Group for its profit margin of the monthly sale of 30,000 tons fuel oil to Foshan Hua Heng.

On 21 June 2007, a wholly-owned subsidiary of the Company, entered into an agreement to acquire from an independent third party (the "Vendor") 60% equity interests in Zhuhai Zhonghuan Petroleum Limited ("Zhonghuan") and its subsidiaries (the "Zhonghuan Group") Zhonghuan is owned as to 84% by the Vendor and 16% by 中國石油深圳石油實業有限公司. The Zhonghuan is an investment holding company and it owns the entire equity interests in 茂名中寰實業有限公司 (Maoming Zhonghuan Limited) and 49% equity interests in the joint venture, namely 肇慶中寰石油有限公司 (Zhaoqing Zhonghuan Petroleum Limited), which is owned as to 51% by 中國石油天然氣股份有限公司華南銷售分公司 (Huanang Sales Branch Office of CNPC). The Zhonghuan Group is principally engaged in the trading, transport and storage of petroleum and chemical products. It owns the trading right of petroleum in the People's Republic of China (the "PRC") and has established an extensive distribution network in the PRC. Major assets of Zhaoqing Zhonghuan Petroleum Limited include a land of approximately 42,470 m^2, a building premises of gross floor area of approximately 4,000 m^2, an oil depot of approximately 30,000 m^3 and an oil jetty with capacity of approximately 3,000 tons in ZhaoQing (肇慶), the PRC while Maoming Zhonghuan Limited owns a land of approximately 193,000 m^2 and the ocean use right for a coastline of approximately 500 meters in Maoming (茂名), the PRC. The Zhonghuan Group's oil transportation and storage capability together with its well-established distribution network in the PRC will create synergy to the Group's oil exploration and exploitation business by providing a reliable logistics force and an effective sales channel for the transportation and sale of the Group's petroleum products from Madagascar. Moreover, as Maoming is one of the major cities for oil and chemical refinery industry in the PRC, where tremendous demand for oil transportation and storage services exists, the Directors are optimistic about the future development of the business of the Zhonghuan Group.

Looking Forward

Having gone through all of the above business expansions, the Group has successfully redirect its principle business to oil & gas industry. Going forward, the Board sees the Group's newly diversified oil & gas exploration, exploitation and operation business as the turbo engine to the Group' growth momentum in the future. Capitalising on the soaring global crude oil prices, the Board sees the business development potential of this new business as very promising. The Group is determined to establish a strong foothold in oil & gas industry. The Group will actively seek out suitable oil & gas projects with growth potential in order to further expand our oil & gas business and develop related businesses.

Appreciation

I would like to thank our management team and all our staff for their untiring efforts and significant contribution during the past year. I would also like to take this opportunity to express my sincere gratitude and appreciation to all our fellow shareholders and institutional investors for their continuous support and confidence in our Group.

Dr. Hui Chi Ming
Chairman

Hong Kong, 27 July 2007

Management Discussion and Analysis

Financial Review

For the financial year ended 31 March 2007, the Group recorded a turnover of approximately HK$554,686,000 (2006: HK$577,729,000) from trading of PU materials, which was decreased by 4% comparing to the previous year. Profit attributable to shareholders was HK$8,063,000 (2006: profit of HK$15,567,000), which was decreased by 48% comparing to the previous year, over which the previous profit included an exceptional gain on disposals of subsidiaries. Basic earnings per share from continuing and discontinued operations is HK0.63 cents (2006: HK1.30 cents).

Operational Review

During the year under review, the Group's entire revenue was derived from distribution of PU materials and the principal market of the Group was the PRC, accounted for approximately 100% (2006: 100%) of the Group's turnover.

Distribution of PU materials

During the year under review, revenue from the distribution of PU materials was approximately HK$554,686,000 (2006: HK$577,729,000), representing decrease of approximately 4% compared to previous year. The distribution of PU materials contributed approximately HK$11 million (2006: HK$3.9 million) to the Group's profit from operating activities for the year, representing an increase in 178% compared to previous year. The market of the PU materials became increasingly competitive and the demand of PU materials showed a decreasing trend during the financial year. The Group had scale down the revenue in order to deal with the risks coupling with such a competitive environment.

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 March 2007 (2006: HK$Nil).

Liquidity and Financial Resources

At 31 March 2007, the Group did not have any outstanding bank borrowings (2006: HK$Nil) and had cash and bank balances approximately HK$90,062,000 (2006: HK$6,028,000).

With the available resources and the proceeds from the allotment and issue of shares of the Company ordinary shares subsequent to the balance sheet date, the Group has adequate working capital to finance its business operations.

At 31 March 2007, the current ratio (current assets divided by current liabilities) was 3.65 times (2006: 4.18 times) and the gearing ratio, calculated on the basis of bank borrowing, convertible bond and finance lease payables divided by shareholders' equity, was undefined due to the fact that the Group did not have any bank borrowings, convertible bond and finance lease payables at 31 March 2007 (2006: undefined).

Charge on Assets

At 31 March 2007, none of the Group's asset was pledged.

Exposure to Fluctuation in Exchange Rates and Related Hedges

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

At 31 March 2007 the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

Capital Commitment and Contingent Liabilities

Details of capital commitment of the Group at 31 March 2007 are set out in Note 33 to financial statement.

At 31 March 2007, the Group did not have any contingent liabilities.

Business Review and Future Prospects

The Group has dedicated its effort to improve its profitability by seeking new principle business to oil & gas industry. Subsequent to the year ended 31 March 2007, the Company has successfully acquired a new wholly-owned subsidiary which is engaged in oil & gas exploration, exploitation and operation businesses at Madagascar Oilfield Block 3113, an onshore site with total area of 8,320 kilometres.

In order to remain ahead of competition, the Group will continue to develop the new businesses acquired, actively seek for potential investment and determined to establish strong foothold in oil & gas industry.

Material Acquisitions and Disposals

The Company entered into a sales and purchases agreement to acquire 93% of the equity interest in MEIL for a total consideration of HK$800 million. The principal activities of MEIL are oil & gas exploration, exploitation and operation. For further details, please refer to the Company's circular dated 10 May 2007.

Subsequent to the balance sheet date, the Group entered into an agreement to acquire 60% equity interests in Zhuhai Zhonghuan Petroleum Limited for a consideration of HK$156 million. Zhuhai Zhonghuan Petroleum Limited is an investment holding company and it owns the entire interest in Maoming Zhonghuan Limited and 49% equity interests in Zhaoqing Zhonghuan Petroleum Limited. The acquired group is principally engaged in the trading, transport and storage of petroleum and chemical products. For further details, please refer to the Company's announcement dated 27 June 2007.

Employees and Remuneration Policies

At 31 March 2007, the Group's total number of staff was 26 (2006: 18). Salaries of employees are maintained at a competitive level. The Group has not encountered any problem with the recruitment of its employees. None of the companies in the Group has experienced any labour disputes during the year and the Directors of the Company consider that the Group has maintained an excellent employment relationship. The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salaries, commissions and bonuses based on individual performance.

Directors' and Senior Management's Biographies

Directors

Executive Directors

Dr. WANG Tao, aged 76 is a professor at Nanjing University and China University of Petroleum and a Foreign Academician of the Russian Academy of Natural Sciences. He has over 40 years of experience in geological research and oilfields exploration and development. He has been acting as a vice-chairman of the World Petroleum Congress since 1994 and now serves as the head of the National Committee for the PRC under the World Petroleum Congress, the vice-chairman of the China-Arabia Friendship Association and chairman of the China Saudi Friendship Association. He acted as the chief geologist in the research institute of the Ministry of Petroleum Industry in China, managing director of China National Petroleum Corporation and minister at the Ministry of Petroleum Industry in China and subsequently took part in the exploration and development of oilfields, such as Daqing Oilfield, Shengli Oilfield, Liao River Oilfield and Xinjiang Oilfield. In recognition of his outstanding contribution towards the development of the World Petroleum Congress, he was awarded the "Outstanding Contribution Award" by the World Petroleum Congress on 25 September 2005.

Dr. HUI Chi Ming, *G.B.S., PhD, J.P.,* aged 43 was appointed as the Chairman and an executive Director on 2 November 2004. Dr. Hui is the founder of Gahood group of companies and Join Wisdom group of companies which are principally engaged in property development, and golf club, resort and hotel development and management in the PRC. Dr. Hui graduated from Shenzhen University with a professional diploma in Administrative Management in 1989 and was a visiting scholar of the John F. Kennedy Government School of Harvard University in the United States of America from 2002 to 2003. Dr. Hui has received Doctorates in Philosophy and Sciences from the Open International University for Complementary Medicines and Medicina Alternativa Institute in 2000 and a Doctor Honoris Causa in Economics and IFES Doctoris Honoris Causa from Institute of Far Eastern Studies, The Russian Academy of Sciences in 2002. The Russian Academy of Sciences also conferred the Honorary Doctorate and "Lo Mo" Medal to Dr. Hui in 2005. Dr. Hui serves as a member of the National Committee of the Chinese People's Political Consultative Conference, and is currently the vice president of China Society for Promotion of the Guangcai Program, standing member of All China Federation of Industry & Commence, honourable president of Beijing Federation, president of Hong Kong Association of International Investment and president of Hong Kong Guangdong Community Organisation.

Dr. Hui is also a keen supporter of community service and charity organisations. He has been awarded the 推動人類和平進步獎 (Humanity & Peace Promotion Award) by the United Nations and accredited as 全國十大扶貧狀元 (Top Ten Poverty Alleviation Contributor) by the government of the PRC. In honor of Dr. Hui's contributions to humanity, the International Minor Planet Nomenclature Committee permanently named the minor planet no. 5390 as "Hui, Chi-Ming Planet".

Mr. CHEUNG Shing, aged 54 was appointed as an executive Director on 23 February 2005. He has been the deputy executive officer of the Company since February 2004. He has been the chairman of 河南省盛華石油化工有限公司 during the period between 1998 and 2003 and the chairman of Liaoning Xinmin Petrochemical Company Limited during the period between May 2004 and September 2004. Mr. Cheung is now a petrochemical management economist (石油化工管理經濟師).

Dr. CHUI Say Hoe, aged 58 was appointed as an executive Director on 2 November 2004. He has been the executive director and general manager of Sun Hoe Company Limited, a company engaged in medicine distribution and trading business, since 1978 up to present. Before joining Sun Hoe Company Limited, Mr. Chui worked in a commercial bank in Hong Kong for about 5 years. Mr. Chui has more than 20 years of experience in commerce and general business management. Mr. Chui obtained a Diploma from Technologie, Universite de Paris XIII, Paris, France in 1990. He was granted Honorary Doctorate of Management from Morrison University, Nevada, U.S.A. on 8 January 2005. He is now a member of Post-Release Supervision Board, HKSAR, and adjudicator of the Registration of Persons Tribunal.

Mr. TSANG Kwok Man, aged 62 was appointed as an executive Director on 23 February 2005. He has been the deputy general manager of the Company since November 2004. He is also the finance manager of Gahood Holding Co. Ltd. and Join Wisdom Group International Ltd. Since September 2004. Mr. Tsang has about 28 years of experiences in the banking industry and was the manager in commercial and corporate banking for the last few years of his career in the banking industry.

Mr. CUI Yeng Xu, aged 44 obtained a bachelor's degree from the Faculty of Chinese in Liaoning University. He has worked for various Chinese enterprises and several government departments and has over 20 years of experience in the management of enterprises and government departments.

Directors (cont'd)

Non-Executive Director

Mr. CHOW Charn Ki, Kenneth, aged 53 LL.B. (Honours) (London), LL.M. (London) in 1976, was appointed as a non-executive Director on 2 November 2004. Mr. Chow is a professional in the legal field. He was a Honorary Lecturer in law of University of Hong Kong, a member of the Basic Law Consultative Committee of the Special Administrative Region of Hong Kong, an Advisor to All China Law Association (Institute for Research on Hong Kong Law), a Convenor to Research Group on Trans-1997 Hong Kong Laws. Mr. Chow is a member of the National Committee of the Chinese People's Political Consultative Conference.

Independent Non-Executive Directors

Dr. YU Sun Say, *S.B.S., J.P.,* aged 68 was appointed as an independent non-executive Director on 7 January 2005. He is the chairman of H.K.I. Group of Companies. Dr. Yu is also now the President of The Chinese Manufacturers' Association of Hong Kong, the standing committee member of The Chinese General Chamber of Commerce, the council member of the Hong Kong Trade Development Council and the honorary chairman of The Mirror Post Cultural Enterprises Co. Ltd. Dr. Yu is also a standing committee member of the National Committee of the Chinese People's Political Consultative Conference. Dr. Yu holds a honorary doctoral degree in Economics from Charles Darwin University of Australia.

Mr. CHAN Wai Dune, aged 54 was appointed as an independent non-executive Director and a member of the audit committee of the Company. Mr. Chan has over 25 years of experience in the finance sector, particularly in auditing and taxation areas. He is a certified public accountant and is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is currently a member of CPPCC of Guangzhou Municipal Committee and a member of the Executive Council of the China Overseas Friendship Association. He was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region. Mr. Chan is currently principally employed as the Managing Director of CCIF CPA Limited.

Mr. NG Wing Ka, aged 37 was appointed as an independent non-executive Director on 7 January 2005 in Hong Kong and is the partner of George Tung, Jimmy Ng & Valent Tse, Solicitors. He is now the legal adviser as to Hong Kong laws of the Foreign Economics and Trade Committee of the People's Government of Chongqing City (重慶市對外經濟貿易委員會) and 中豪律師事務所 in Chongqing City, the PRC. Mr. Ng is also the general committee member of The Chinese Manufacturers' Association of Hong Kong and Hong Kong Chinese Importers' & Exporter's Association and a member of the Chinese People's Political Consultative Conference of Chongqing City, the PRC. Mr. Ng graduated with a Bachelor of Laws degree and a Postgraduate Certified in Laws Degree from The University of Hong Kong.

Senior Management

The Directors are closely involved in and are directly responsible for all activities of the Group. The board of directors considers that only the above-mentioned six executive Directors are regarded as members of the Group's senior management.

Report of the Directors

The directors have pleasure in submitting their report together with the audited financial statements of the Company and of the Group for the year ended 31 March 2007.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in Note 10 to financial statements.

Segment Information

As analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2007 is set out in Note 6 to financial statements.

Results and Appropriations

The results of the Group for the year ended 31 March 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 21 to 24.

The directors do not recommend the payment of any dividend in respect of the year (2006: HK$Nil).

Summary of Financial Information

The following is a summary of the published consolidated results and assets and liabilities of the Group for the last five years, as extracted from the audited financial statements:

Results

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**554,686**	577,729	884,347	453,344	520,857
Profit before taxation	**10,872**	2,986	3,094	15,390	10,728
Taxation	**(2,809)**	(2,381)	(4,445)	(2,528)	(2,179)
Profit for the year from					
Continuing operation	**8,063**	605	(1,351)	12,862	8,549
Discontinued operation	**–**	14,962	–	–	–
Profit for the year attributable to equity holders of the Company	**8,063**	15,567	(1,351)	12,862	8,549

Summary of Financial Information (cont'd)

Assets and Liabilities

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-Current assets	**624**	541	169,668	1,163	1,504
Current assets	**291,151**	231,301	263,579	258,419	240,344
Total assets	**291,775**	231,842	433,247	259,582	241,848
Current liabilities	**(79,690)**	(55,319)	(244,033)	(97,126)	(131,488)
Non-current liabilities	**–**	(83)	(26,324)	(232)	(418)
Total liabilities	**(79,690)**	(55,402)	(270,357)	(97,358)	(131,906)
Total equity	**212,085**	176,440	162,890	162,224	109,942

This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 7 to financial statements.

Share Capital and Share Options

Details of movements in the Company's share capital during the year and details of the Company's share option scheme are set out in Note 14(b) to financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 15 to financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

Distributable Reserves

At 31 March 2007, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK$78,734,000. This amount included the Company's contributed surplus in the amount of HK$54,045,000 at 31 March 2007, which may only be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK$78,264,000 at 31 March 2007, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

(1) The aggregate amount of sales attributable to the Group's five largest customers represented 30.33% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 6.27%.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 100% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 23.62%.

As far as the directors are aware, neither the directors, their associates nor shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers during the year.

Material Related Party Transactions

Details of the related party transactions of the Group are set out in Note 35 to financial statements.

Pension Schemes and Costs

Details of the Group's pension schemes and costs charged to the consolidated income statement for the year are set out in Notes 3(i) to financial statements, respectively.

At 31 March 2007, the Group did not have any significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

Report of the Directors (cont'd)

Directors

The directors of the Company during the year and at the date of this report were as follows:

Executive Directors

Dr. Wang Tao *(Honorary Chairman)* (appointed on 15 June 2006)
Dr. Hui Chi Ming, *G.B.S., PhD, J.P. (Chairman)*
Mr. Cheung Shing *(Deputy Chairman)*
Dr. Chui Say Hoe
Mr. Tsang Kwok Man
Mr. Cui Yeng Xu (appointed on 15 June 2006)
Mr. Chen Hua (resigned on 31 January 2007)

Non-Executive Director

Mr. Chow Charn Kin, Kenneth

Independent Non-Executive Directors

Mr. Chan Wai Dune
Dr. Yu Sun Say
Mr. Ng Wing Ka

In accordance with the Company's bye-laws, Mr. Cheung Shing, Dr. Chui Say Hoe and Mr. Tsang Kwok Man will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

Directors' Biographies

Biographical details of the directors of the Company are set out on pages 7 to 8 of the annual report.

Directors' Service Contracts

Each of the executive directors has entered into a service contract with the Company for, which can be terminated by either party giving three months' notice in writing to the other party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

Save as disclosed in Note 35 to financial statements, no director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' Interests in Share Capital

At 31 March 2007, the interests and short positions of the directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") were as follows:

Ordinary share of the Company

Name of director	Nature of interest	Number of ordinary shares held	Percentage of issued shares
Dr. Hui Chi Ming (Note)	Corporate	750,080,000	56.97%

Note: These shares are beneficially owned by Wisdom On Holdings Limited ("Wisdom On"), the entire issued share capital of which is wholly-owned by Dr. Hui Chi Ming.

Share options of the Company

Name of director	Number of share options held	Percentage of issued shares
Mr. Tsang Kwok Man	11,000,000	0.84%

Save as disclosed above, none of the directors or chief executives of the Company or their respective associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SFO.

Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Share Option Scheme

The Company operates a share option scheme (the "Scheme"), further details of which are set out in Note 14(b) to financial statements.

Substantial Shareholders

At 31 March 2007, the interests of persons, other than a director or chief executive of the Company, in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

Ordinary share of the Company

Name of shareholder	Number of ordinary shares held	Percentage of issued shares
Wisdom On Holdings Limited (Note)	750,080,000	56.97%

Note: The entire issued share capital of Wisdom On Holdings Limited is wholly-owned by Dr. Hui Chi Ming.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company at 31 March 2007.

Subsequent Events

Details of the significant subsequent events of the Group are set out in Note 36 to financial statements.

Compliance with the Code of Best Practice

In the opinion of the current directors, the Company which was in force prior to 1 January 2005 complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules during the year ended 31 March 2007, except that the independent non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its Code of Ethics and Securities Transactions by directors of the Company.

Having made specific enquiry of all directors of the Company, they have complied with the required standards set out in the Model Code for the year ended 31 March 2007.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 16 to 19.

Sufficiency of Public Float

At the date of this Annual Report, based on information that is publicly available to the Company, the Directors of acknowledge that more than 25% of the issued capital of the Company are held by the public.

Auditors

Messrs. HLB Hodgson Impey Cheng retire and being eligible, offer themselves for re-appointment.

On Behalf of the Board

Dr. Chui Say Hoe
Executive Director

Hong Kong, 27 July 2007

Corporate Governance Report

The Company has adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (the "Code on Corporate Governance Practices") during the year under review.

In the opinion of the directors, the Company has complied throughout the period under review with the code provisions set out in the Code on Corporate Governance Practices with the following deviations:

1. Code Provision A.4.1

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

All non-executive directors of the Company, were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code Provision A.4.1.

Board of Directors

The Board serving the important function of guiding the management, currently comprises:-

(a) six executive directors, namely Dr. Wang Tao, Dr. Hui Chi Ming, Mr. Cheung Shing, Dr. Chui Say Hoe, Mr. Tsang Kwok Man and Mr. Cui Yeng Xu;

(b) one non-executive director Mr. Chow Charn Ki, Kenneth;

(c) three independent non-executive directors ("INED") required under Rule 3.10 (1) of the Listing Rules, namely Mr. Chan Wai Dune, Dr. Yu Sun Say and Mr. Ng Wing Ka which represent approximately 30% of the Board. One INED has appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company and each of the INEDs has made annual confirmation that he complied with the independence criteria set out in Rule 3.3 of the Listing Rules. The Directors consider that all the three INEDs are independent under these independence criteria and are capable to effectively exercise independent judgment.

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of "Biographies of Directors", in this annual report and that the INEDs are expressly identified in all of the Company's publication such as circulars, announcements or relevant corporate communications in which the names of Directors of the Company are disclosed.

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decision. During the year under review, the Board has reviewed, inter alia, the performance of the Group and formulated business strategy of the Group; reviewed and approved the interim and annual results of the Group for the year ended 31 March 2006; reviewed the operations of the Group and reviewed internal controls taken by the Group.

Board of Directors (cont'd)

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or video conference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has conflict of interest.

In the said Board meetings, sufficient notices for regular board meetings and reasonable days for non-regular Board meetings were given to all directors so as to ensure that each of the them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the Board meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company.

In considering the nomination of a new director, the Board will take into account the qualification, in particular as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable new director.

Details of the attendance of the Board for the year ended 31 March 2007 and up to the date of this report were as follows:

Directors	**Attendance**
Dr. Wang Tao *(Honorary Chairman)* (appointed on 15 June 2006)	0/8
Dr. Hui Chi Ming, *G.B.S., PhD, J.P. (Chairman)*	5/8
Mr. Cheung Shing *(Deputy Chairman)*	7/8
Dr. Chui Say Hoe	8/8
Mr. Tsang Kwok Man	8/8
Mr. Cui Yeng Xu (appointed on 15 June 2006)	1/8
Mr. Chen Hua (resigned on 31 January 2007)	2/8
Mr. Chan Wai Dune	4/8
Dr. Yu Sun Say	2/8
Mr. Ng Wing Ka	2/8
Mr. Chow Charn Ki, Kenneth	2/8

Independent Non-executive Director

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of independent non-executive Directors ("INEDs") and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Board comprises three INEDs including one with financial management expertises.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, the directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 March 2007.

Auditors' Remuneration

Auditors' remuneration for the year amounted to a total of HK$1,006,000, of which HK$400,000 was incurred for audit service and HK$606,000 for non-audit services.

Accountability and Audit

The financial statements of the Company for the year ended have been reviewed by the Audit Committee and audited by the external auditors, HLB Hodgson Impey Cheng. The Directors acknowledge their responsibility for preparing the financial statements of the Group which give a true and fair view. The Directors' responsibilities and auditors' responsibilities for the accounts are set out in the Independent Auditors' Report on page 20.

Board Committee

Audit Committee

The Company has an Audit Committee which comprises three independent non-executive directors, namely Mr. Chan Wai Dune, Dr. Yu Sun Say and Mr. Ng Wing Ka. The terms of reference which describes the authority and duties of the Audit Committee was prepared and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of the Audit Committee:

(a) Reviewing and providing supervision over the Group's financial reporting process and internal control;

(b) Reviewing any changes in accounting policies and practices adopted by the Group;

(c) Reviewing the audited financial statements and the annual report of the Company for the year ended 31 March 2007.

There were 3 meetings during the year ended 31 March 2007. Mr. Chan Wai Dune has attended all meetings while Mr. Yu Sun Say and Mr. Ng Wing Ka have attended 2 meetings.

Remuneration Committee

The Remuneration Committee established for the purpose of making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The term of reference which describes the authority and duties of the Remuneration Committee was prepared and adopted.

The Remuneration Committee comprises two independent non-executive directors, namely Dr. Yu Sun Say and Mr. Chan Wai Dune, and an executive director, Dr. Chui Say Hoe.

No remuneration Committee Meeting was held during the year.

Nomination Committee

The Nomination Committee was responsible for reviewing the structure, size and composition of the board as well as identifying individuals suitable and qualified to become board members. The term of reference which describes the authority and duties of the Nomination Committee was prepared and adopted.

The Nomination Committee comprises two independent non-executive directors, namely Dr. Yu Sun Say and Mr. Ng Wing Ka, and an executive director, Dr. Chui Say Hoe.

No Nomination Committee Meeting was held during the year.

Finance Committee

The Company has set up a Finance Committee consisting of two independent non-executive directors, namely Mr. Chan Wai Dune and Mr. Ng Wing Ka, and an executive director, Mr. Tsang Kwok Man.

The term of reference which describes the authority and duties of the Finance Committee was prepared and adopted. The Finance Committee was established for the purpose of reviewing and approval banking facilities and financial instruments to be granted or issued by the Company for the Group's needs, the financial assistance of the Company and the provision of financing to third parties.

No Finance Committee Meeting was held during the year.

Internal Control

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group through the Audit Committee. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures.

The Board has established the on-going process for safeguard of assets. The key control procedures of the Group's internal control system are as follows:

– Segregation of duties and functions of the respective operational departments of the Group

– Monitoring the strategic plan and performance

– Designing an effective accounting and information system

The Board has conducted an annual review of the effectiveness of its internal control system covering all material controls, including financial, operational and compliance as well as risk management. Moreover, the Board has also engaged Messrs. M.C. Ng & Co. to conduct the review and make recommendations to strengthen the internal control system. Based on the assessments, the Board considered that the internal control system and procedures of the Group were effective and adequate.

Communication with Shareholders

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its annual and interim reports. Constantly being updated in a timely manner, the Company maintains its website at www.sunpec.com on which press releases, announcements and financial and other information relating to the Company and its business are disclosed.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman is pleased to answer shareholder's questions.

Separate resolutions are proposed at general meetings on each substantially separate issue.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election.

Independent Auditors' Report

HLB 國衛會計師事務所 Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong SAR

TO THE SHAREHOLDERS OF
SINO UNION PETROLEUM & CHEMICAL INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sino Union Petroleum & Chemical International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 62, which comprise the consolidated and company balance sheets at 31 March 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Company Act 1981, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2007 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 27 July 2007

Consolidated Balance Sheet

at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	7	**624**	541
Current Assets			
Inventories	11	**–**	9,121
Trade receivables	12	**136,797**	158,684
Prepayments, deposits and other receivables		**57,877**	57,468
Bank deposit		**6,415**	–
Cash and bank balances		**90,062**	6,028
		291,151	231,301
Total Assets		**291,775**	231,842
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14(a)	**26,334**	23,940
Reserves		**185,751**	152,500
Total Equity		**212,085**	176,440
LIABILITIES			
Current Liabilities			
Trade payables	16	**41,212**	15,758
Tax payable		**31,249**	28,411
Other payables and accruals		**4,878**	5,916
Amount due to a holding company	17	**2,351**	5,234
		79,690	55,319

Consolidated Balance Sheet (cont'd)

at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-Current Liabilities			
Deferred taxation	19	–	83
		–	83
Total Liabilities		79,690	55,402
Total Equity and Liabilities		291,775	231,842
Net Current Assets		211,461	175,982
Total Assets Less Current Liabilities		212,085	176,523

Approved by the board of directors on 27 July 2007 and signed on its behalf by:

Dr. Chui Say Hoe
Director

Mr. Tsang Kwok Man
Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet

at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Non-Current Assets			
Interests in subsidiaries	10	**118,875**	106,364
Current Assets			
Bank deposit		**6,415**	–
Cash and bank balances		**18**	5,549
		6,433	5,549
Total Assets		**125,308**	111,913
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14(a)	**26,334**	23,940
Reserves	15	**78,734**	65,826
Total Equity		**105,068**	89,766
LIABILITIES			
Current Liabilities			
Amount due to a holding company	17	**–**	1,252
Amounts due to subsidiaries	13	**19,785**	19,785
Other payables and accruals		**455**	1,110
		20,240	22,147
Total Liabilities		**20,240**	22,147
Total Equity and Liabilities		**125,308**	111,913
Net Current Liabilities		**(13,807)**	(16,598)
Total Assets Less Current Liabilities		**105,068**	89,766

Approved by the board of directors on 27 July 2007 and signed on its behalf by:

Dr. Chui Say Hoe
Director

Mr. Tsang Kwok Man
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Income Statement

for the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Continuing operation			
Turnover	23	**554,686**	577,729
Cost of sales		**(527,244)**	(554,719)
Gross profit		**27,442**	23,010
Other revenue	23	**685**	7
Other income	24	**967**	810
Selling and distribution costs		**(1,437)**	(1,720)
Administrative expenses		**(16,785)**	(18,198)
Profit from operating activities	24	**10,872**	3,909
Finance costs	27	**–**	(923)
Profit before taxation		**10,872**	2,986
Taxation	28	**(2,809)**	(2,381)
Profit for the year from continuing operation		**8,063**	605
Discontinued operation			
Profit for the year from discontinued operation		**–**	14,962
Profit for the year		**8,063**	15,567
Attributable to equity holders of the Company		**8,063**	15,567
Earnings per share			
From continuing and discontinued operations	31		
Basic		**HK0.63 cents**	HK1.30 cents
Diluted		**HK0.62 cents**	HK1.14 cents
From continuing operation			
Basic		**HK0.63 cents**	HK0.05 cents
Diluted		**HK0.62 cents**	N/A

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2007

	Attributable to equity holders of the Company							
		Reserves						
	Share capital	**Share premium**	**Contributed surplus**	**Convertible reserve**	**Exchange reserve**	**Retained profits**	**Subtotal**	**Total**
	HK$'000	HK$'000	HK$'000 note (ii)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005	23,940	53,127	3,156	2,017	–	80,650	138,950	162,890
Redemption of convertible bond	–	–	–	(2,017)		–	(2,017)	(2,017)
Net profit for the year	–	–	–	–	–	15,567	15,567	15,567
At 31 March 2006 and 1 April 2006	23,940	53,127	3,156	–	–	96,217	152,500	176,440
Issue of shares (Note i)	2,394	25,137	–	–	–	–	25,137	27,531
Exchange difference arising on translation of foreign operations	–	–	–	–	51	–	51	51
Net profit for the year	–	–	–	–	–	8,063	8,063	8,063
At 31 March 2007	**26,334**	**78,264**	**3,156**	**–**	**51**	**104,280**	**185,751**	**212,085**

Note:

(i) During the year ended 31 March 2007, the Company placed 119,700,000 ordinary shares of HK$0.02 each to a placing price of HK$0.23. Further details are set out as Note 14(a) to financial statements.

(ii) The contribution 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 accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Profit before taxation			
Continuing operation		**10,872**	2,986
Discontinued operation		**–**	14,962
		10,872	17,948
Adjustments for:			
Interest income		**(685)**	(7)
Depreciation		**269**	2,117
Impairment loss recognised in respect of goodwill		**25**	–
Gain on disposal of property, plant and equipment		**–**	(772)
Gain on disposal of subsidiaries		**(571)**	(18,638)
Finance costs		**–**	3,591
Operating profit before working capital changes		**9,910**	4,239
Decrease in inventories		**9,121**	6,072
Increase in financial assets at fair value through profit or loss		**–**	(153)
Decrease/(increase) in trade receivables		**21,887**	(7,305)
Increase in prepayment, deposits and other receivables		**(418)**	(4,691)
Increase in trade payables		**25,469**	2,114
Decrease in amount due to a holding company		**(4,111)**	(8,024)
Decrease in other payables and accruals		**(259)**	(13,679)
Cash generated from/(used in) operations		**61,599**	(21,427)
Interest received		**685**	7
Net cash inflow/(outflow) from operating activities		**62,284**	(21,420)
Cash flows from investing activities			
Sales proceeds from disposal of property, plant and equipment		**–**	1,856
Purchases of property, plant and equipment		**(390)**	(33)
Proceeds from acquisition of subsidiaries, net	20	**1,203**	–
Proceeds from disposal of subsidiaries, net	21	**(268)**	50,716
Net cash inflow from investing activities		**545**	52,539
Cash flows from financing activities			
Capital element of finance lease payments		**–**	(1,856)
Redemption of convertible bond		**–**	(26,813)
Finance costs paid		**–**	(2,668)
Issue of shares		**27,531**	–
Net cash inflow/(outflow) from financing activities		**27,531**	(31,337)
Net increase/(decrease) in cash and cash equivalents		**90,360**	(218)
Cash and cash equivalents at beginning of year		**6,028**	6,246
Effect of exchange rate changes on the balance of cash held in foreign currencies		**89**	–
Cash and cash equivalents at end of year		**96,477**	6,028
Analysis of balances of cash and cash equivalents			
Bank deposit		**6,415**	–
Cash and bank balances		**90,062**	6,028
Cash and cash equivalent at end of year		**96,477**	6,028

The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements

31 March 2007

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 and its shares are listed on The Stock Exchange of Hong Kong Limited. The registered office and the principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

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

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

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The new HKFRSs adopted by the Group in the financial statements are set out as follows:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKFRS 6	Exploration for and Evaluation of Mineral Resources
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

The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (cont'd)

The Company and Group have not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The Group is not yet in a position to determine whether these standards and interpretations will have significant impact on how the results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing cost[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – Int 11	HKFRS 2-Group and Treasury Share Transactions[6]
HK(IFRIC) – Int 12	Service Concession Arrangements[7]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008

3. Summary of Significant Accounting Policies

The measurement basis used in preparation of the financial statements is historical cost convention except for certain financial assets and liabilities are measured at fair value.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

(b) Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or the relevant jointly controlled entity at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of subsidiaries, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill (net of cumulative amortisation at 31 December 2005) is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity (which is accounted for using proportionate consolidation) for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary or a jointly controlled entity is presented separately in the consolidated balance sheet.

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

(c) Goodwill (cont'd)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(d) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is provided on the reducing balance method so as to write down the cost of property, plant and equipment to their 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

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

(f) Property, plant and equipment (cont'd)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

(g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

(h) Foreign currencies translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

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

(i) 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) *T*he 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.

(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 excepted 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 mode 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.

(j) 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.

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

(j) Taxation (cont'd)

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.

(k) 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.

(l) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade basis. Regular way purchases or sale of financial assets that required delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

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

(l) Financial instruments (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, loan receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increased in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the asset of the Group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including accounts payables, other payables and accruals are subsequently measured at amortised cost, using the effective interest rate method.

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

(l) Financial instruments (cont'd)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the income statement.

(m) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(n) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises of cash in hand and demand deposits, and 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.

(o) Accounts and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(p) 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.

(q) 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.

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

(r) Related party transactions

Parties are considered to be related to the Group if:

a. the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; (iii) has joint control over the Group;

b. the party is an associate;

c. the party is a jointly-controlled entity;

d. the party is a member of the key management personnel of the Group or its parent;

e. the party is a close member of the family of any individual referred to in (a) or (d);

f. the party is an entity that is controlled, joint-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

g. the party is a post-employment benefit plan for the benefit of the employees of the Group, of any entity that is 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) Contingent liabilities and contingent asset

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

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

(t) 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.

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

(t) 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 fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

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

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

4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies which are described in Note 3 to financial statement, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Income taxes

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. Financial Risk Management Objectives and Policies

(a) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, prepayments, deposits and other receivables, cash and cash equivalents, trade payables, other payables and accruals and amount due to a holding company. The directors consider that the carrying amounts of financial assets and liabilities in the consolidated financial statements approximate to their fair value. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

(i) 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.

(ii) 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.

5. Financial Risk Management Objectives and Policies (cont'd)

(a) Financial risk management objectives and policies (cont'd)

Market risks (cont'd)

(iii) Price risk

The Group is exposed to unlisted equity securities price risk because investments held by the Group are classified on the combined balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

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.

Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and excepted 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.

(b) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

i) the fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

ii) the fair value of other financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and

6. 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 (Note 22).

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.

6. 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	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Segment revenue:						
Sales to external customers	554,686	577,729	–	40,979	554,686	618,708
Total revenue	554,686	577,729	–	40,979	554,686	618,708
Segment results	22,407	4,515	–	(1,008)	22,407	3,507
Interest income					685	7
Unallocated expenses					(12,791)	(613)
Profit from operating activities					10,301	2,901
Gain on disposal of subsidiaries	571	–	–	18,638	571	18,638
Profit from operation	10,872	3,909	–	17,630	10,872	21,539
Finance costs	–	(923)	–	(2,668)	–	(3,591)
Profit before taxation	10,872	2,986	–	14,962	10,872	17,948
Taxation	(2,809)	(2,381)	–	–	(2,809)	(2,381)
Net profit attributable to shareholders equity holders of the Company					8,063	15,567
Balance Sheet						
Segment assets	291,775	231,842	–	–	291,775	231,842
Total assets					291,775	231,842
Segment liabilities	79,690	55,402	–	–	79,690	55,402
Total liabilities					79,690	55,402
Other segment information:						
Depreciation	269	1,083	–	1,034	269	2,117
Capital expenditure	390	33	–	–	390	33

6. Segment Information (cont'd)

(b) Geographical segments

During the year ended 31 March 2007 and 2006, the Group's entire turnover was derived from sales in the PRC and more than 90% of the Group's assets were located at the PRC at 31 March 2007 and 2006. Therefore, no geographical segmental information on revenue and assets was presented.

7. Property, Plant and Equipment

The Group	Building HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 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 (Note 21)	(37,703)	(23,803)	(75,742)	(892)	(5,307)	(143,447)
At 31 March 2006 and 1 April 2006	–	–	–	2,292	–	2,292
Additions	–	–	–	390	–	390
Disposal of subsidiaries (Note 21)	–	–	–	(472)	–	(472)
At 31 March 2007	–	–	–	2,210	–	2,210
Accumulated depreciation:						
At 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 (Note 21)	(1,006)	–	(3,790)	(114)	(676)	(5,586)
At 31 March 2006 and 1 April 2006	–	–	–	1,751	–	1,751
Charge for the year	–	–	–	269	–	269
Exchange adjustments	–	–	–	1	–	1
Disposal of subsidiaries (Note 21)	–	–	–	(435)	–	(435)
At 31 March 2007	–	–	–	1,586	–	1,586
Net book value:						
At 31 March 2007	**–**	**–**	**–**	**624**	**–**	**624**
At 31 March 2006	–	–	–	541	–	541

8. Land Use Rights

The Group	HK$'000
Cost	
At 1 April 2005	11,704
Disposal of subsidiaries (Note 21)	(11,704)
At 31 March 2006, 1 April 2006 and 31 March 2007	–
Amortisation and impairment	
At 1 April 2005	117
Disposal of subsidiaries (Note 21)	(117)
At 31 March 2006, 1 April 2006 and 31 March 2007	–
Carrying value	
At 31 March 2007	–
At 31 March 2006	–

The Group's land use rights represented prepaid operating lease payments in respect of land use rights outside Hong Kong under medium-term leases.

9. Goodwill

The Group	HK$'000
Cost	
At 1 April 2005	16,511
Disposal of subsidiaries (Note 21)	(16,511)
At 31 March 2006, 1 April 2006	–
Acquisition of subsidiaries (Note 20)	25
At 31 March 2007	25
Amortisation and impairment	
At 1 April 2005	1,179
Elimination of accumulated amortisation upon adoption of HKFRS 3	(1,179)
At 31 March 2006, 1 April 2006	–
Impairment loss recognised during the year	25
At 31 March 2007	25
Carrying value	
At 31 March 2007	**–**
At 31 March 2006	–

As explained in Note 6 to the financial statements, the Group uses business segments as its primary segment for reporting segment information. For the purpose of impairment testing, goodwill with indefinite useful lives have been allocated to one individual cash generating units (CGUs) determined based on the related segment. The carrying amounts of goodwill (net of impairment losses) at 31 March 2007 allocated to this unit is as follow:

	HK$'000
PU materials	–

During the year ended 31 March 2007, management of the Group determines that impairment loss of HK$25,000 in respect of its CGUs containing goodwill.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on the financial budgets approved by the management covering a five-year period. Cash flows beyond five-year period is extrapolated using a zero growth rate for an indefinite period. Management of the Group reassessed the value of the goodwill and considered full impairment loss of HK$25,000 approximately should be made.

10. Interests in Subsidiaries

The Company

	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**54,245**	54,245
Amounts due from subsidiaries	**100,163**	82,567
	154,408	136,812
Less: Provision for impairment loss on amounts due from subsidiaries (Note)	**(35,533)**	(30,448)
	118,875	106,364

The amounts due from subsidiaries are unsecured, interest-free and had no fixed term of repayment.

The directors consider the fair value of the amounts due from/to subsidiaries at the balance sheet date approximates to the corresponding carrying amounts.

Note:

The directors had reviewed the net asset values of the Company's subsidiaries for the year ended 31 March 2007 and considered a provision for impairment of approximately HK$5,085,000 (2006: HK$30,448,000) should be made in respect of amounts due from subsidiaries.

	2007 HK$'000	2006 HK$'000
At 1 April	**30,448**	–
Provision for impairment loss recognised during the year	**5,085**	30,448
At 31 March	**35,533**	30,448

Particulars of the subsidiaries of the Company at 31 March 2007 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	Indirect	Principal activities
Market Reach Group Limited	British Virgin Islands ("BVI")	Ordinary US$10,000	100	–	Investment holding
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

10. 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	Percentage of equity attributable to the Company Indirect	Principal activities
Revolving Maze Trading Limited	BVI	Ordinary US$10	–	100	Provision of marketing and technical support services in the PRC
Harvest Star Investment Limited	BVI	Ordinary US$1	100	–	Investment holding
Prime Rose 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
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
Sliverise 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
Liaohe Energy Limited	BVI	Ordinary US$1	–	100	Investment holding
Deno Group Limited	BVI	Ordinary US$100	–	100	Investment holding
深圳中聯石油化工有限公司*	The PRC	Registered capital US$100,000,000	–	100	Provision of marketing and technical support services in the PRC
Reachasia Group Limited	BVI	Ordinary US$100	–	100	Investment holding

* 深圳中聯石油化工有限公司 is a wholly foreign owned enterprise established in the PRC.

11. Inventories

	The Group	
	2007	2006
	HK$'000	HK$'000
Finished goods	**–**	9,121

12. Trade Receivables

The Group

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 invoiced date, is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Current to 30 days	**100,702**	72,344
31 days to 90 days	**32,725**	68,989
Over 90 days	**3,370**	17,351
	136,797	158,684

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

13. Amounts Due to Subsidiaries

The amounts due to subsidiaries are unsecured, interest-free and have no fixed term of repayments.

14. Share Capital

(a) Shares

	Number of shares		Share capital	
	2007	2006	**2007**	2006
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.02 each	**10,000,000**	10,000,000	**200,000**	200,000
Issued and fully paid:				
At beginning of year	**1,197,000**	1,197,000	**23,940**	23,940
Issue of ordinary shares (Note i)	**119,700**	–	**2,394**	–
At end of year	**1,316,700**	1,197,000	**26,334**	23,940

Note:

(i) During the year ended 31 March 2007, the Company placed 119,700,000 ordinary shares of HK$0.02 each at a placing price of HK$0.23 per share with High Rich International Investment Company Limited for the purpose of increasing general working capital of the Group. The new shares rank pari passu with the existing shares in all respects.

(b) 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 included 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 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 future 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 on 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 exercise as the Directors may at their discretion determine.

14. Share Capital (cont'd)

(b) Share Option Scheme (cont'd)

The following table discloses movements in the Company's share options during the year ended 31 March 2007:

Name or category of participant	At 1 April 2006	Number of share options Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2007	Date of grant of share options* (dd/mm/yy)	Exercise period of share options (dd/mm/yy)	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	40,000,000	–	–	–	40,000,000	8/11/2004	11/11/2004 to 7/11/2014	0.1324	0.13
	51,000,000	–	–	–	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 exercise 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 subject to the requirements of HKFRS 2.

(iii) During the year ended 31 March 2007, no share options were granted nor exercised.

15. Reserves

The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 25 of the financial statements.

The Company

	Share premium HK$'000	Contribution surplus HK$'000	Convertible bond reserve HK$'000	Accumulated loss HK$'000	Total HK$'000
At 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 and 1 April 2006	53,127	54,045	–	(41,346)	65,826
Issue of ordinary shares	25,137	–	–	–	25,137
Net loss for the year	–	–	–	(12,229)	(12,229)
At 31 March 2007	**78,264**	**54,045**	**–**	**(53,575)**	**78,734**

Notes:

(a) The contributed surplus of the Company represents the difference between the 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$78,734,000 (2006: HK$65,826,000) at 31 March 2007, which included the Company's contributed surplus in the amount of HK$54,045,000 (2006: 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$78,264,000 (2006: HK$53,127,000) at 31 March 2007, may be distributed in the form of fully paid bonus shares.

16. Trade Payables

The Group

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

	The Group	
	2007	2006
	HK$'000	HK$'000
Current to 30 days	**41,212**	3,211
31 days to 90 days	**–**	9,548
Over 90 days	**–**	2,999
	41,212	15,758

17. Amount Due to a Holding Company

The Group and the Company

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

18. Convertible Bond

The Group and the Company

Pursuant to the ordinary resolutions 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, payables semi-annually in arrears.

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

18. Convertible Bond (cont'd)

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 is 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	
	2007	2006
	HK$'000	HK$'000
Face value of convertible bond issued on 24 December 2004	–	26,813
Equity component	–	(2,017)
Liability component on initial recognition on 24 December 2004	–	24,796
Interest expenses	–	1,252
Interest payable	–	(1,252)
Transfer from convertible reserve upon redemption	–	2,017
Redemption of convertible bond	–	(26,813)
Amortised cost at 31 March	–	–

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 rates of 2.5% to the liability component.

19. Deferred Taxation

	The Group	
	2007	2006
	HK$'000	HK$'000
At 1 April 2006/2005	**83**	83
Disposal of subsidiaries (Note 21)	**(83)**	–
At 31 March 2007/2006	**–**	83

The provision for deferred tax of the Group was 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 2007 (2006: HK$Nil).

20. Acquisitions of Subsidiaries

On 1 April 2006 and 20 June 2006, the Group acquired 100% of the issued share capital of Liaohe Energy Limited (the "Liaohe Energy") together with its 100% equity interest in 深圳中聯石油化有限公司 (collectively referred to as "Liaohe Group") and 100% of the issued share capital of Deno Group Limited respectively for considerations of HK$1 for both acquisitions. The amount of goodwill arising as a result of the acquisition was HK$25,000 in aggregate. The fair value of the net asset acquired is approximately equal to its carrying amount.

The net assets acquired in the transaction and the goodwill arising is as follows:

	Acquiree's carrying amount HK$'000
Net assets acquired:	
Cash and bank balances	1,203
Other payables	(1,228)
	(25)
Goodwill	25
	–
Total consideration	–
Satisfied by:	
Cash consideration	HK$1

Net cash inflow arising on acquisition:

	HK$'000
Cash and bank balances disposed of	1,203

The subsidiaries acquired during the year ended 31 March 2007 contributed approximately HK$368,000 to the Group's profit after taxation.

The goodwill is attributable to the profitability from acquisition of Liaohe Group and Deno Group Limited.

21. Disposal of Subsidiaries

On 30 March 2007, the Group entered into sale and purchase agreements to dispose of its 100% equity interest in Wah Tat Industrial Limited, Wah Tat Industrial (Hong Kong) Limited and Wah Tat PU Industrial (Hong Kong) Limited to independent third party for cash consideration of HK$1, HK$1,480,002 and HK$10,000 respectively.

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 ("Lianoning 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 aggregate effects of the disposal of subsidiaries are as follows:

	2007 **HK$'000**	2006 HK$'000
Net assets disposed of:		
Property, plant and equipment	**37**	137,861
Land use rights	**–**	11,587
Inventories	**–**	26,115
Financial assets at fair value through profit or loss	**–**	8,120
Trade receivables	**–**	943
Prepayments, deposits and other receivables	**1,492**	2,905
Cash and bank balances	**268**	284
Trade and bills payables	**(15)**	(19,055)
Other payables and accruals	**(780)**	(36,880)
Tax payable	**–**	(19,886)
Bank borrowings	**–**	(95,423)
Deterred taxation	**(83)**	–
	919	16,571
Goodwill	**–**	16,511
Exchange reserve	**–**	(720)
Gain on disposal of subsidiaries	**571**	18,638
	1,490	51,000
Satisfied by:		
Cash consideration	**1,490**	51,000
Net cash (outflow)/inflow arising on disposal:		
Cash consideration	**–**	51,000
Cash and bank balances disposed of	**(268)**	(284)
	(268)	50,716

22. Discontinued Operation

The profit from the discontinued operation which has been included in the consolidated income statement is analysed as follows:

	2007 HK$'000	2006 HK$'000
Profit for the year from discontinued operation		
Revenue	–	40,979
Expenses	–	(44,655)
Profit before taxation	–	(3,676)
Income tax expenses	–	–
	–	(3,676)
Gain on disposal of petrochemical products operation	–	18,638
Profit for the year from discontinued operation	–	14,962
Cash flow from discontinued operation		
Net operating cash inflow	–	1,193
Net financing cash outflow	–	(2,668)
Total net cash outflow	–	(1,475)

23. Turnover and Other Revenue

Turnover represents the net invoiced value of good sold, after allowances for returns and trade discounts. All significant intercompany transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue are as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Turnover		
Continuing operation		
Sale of goods	**554,686**	577,729
Discontinued operation		
Sale of goods	**–**	40,979
	554,686	618,708
Other revenue		
Bank interest income	**685**	7

24. Profit from Operating Activities

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

	The Group	
	2007	2006
	HK$'000	HK$'000
Cost of inventories sold		
Continuing operation	**527,244**	554,719
Discontinued operation	**–**	37,759
Auditors' remuneration	**400**	400
Depreciation	**269**	2,117
Impairment loss recognised in respect of goodwill	**25**	–
Minimum lease payments under operating leases in respect of rented premises	**1,774**	1,320
Staff costs (including Directors' remuneration – Note 25)		
Salaries and wages	**5,597**	6,049
Mandatory provident fund contributions	**70**	124
and after crediting:		
Other income		
Continuing operation		
Gain on disposal of property, plant and equipment	**–**	772
Gain on disposal of subsidiaries	**571**	–
Exchange gain, net	**396**	38
	967	810
Discontinued operation		
Gain on disposal of subsidiaries	**–**	18,638
	967	19,448

The cost of inventories sold do not include any staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses (2006: HK$2,618,000).

25. Directors' Remuneration

The board of directors of the Company is currently composed of six executive directors, one non-executive director and three independent non-executive directors. Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

Name of directors	Fee		Salaries and bonuses		Mandatory provident fund		Total	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Executive directors								
Dr. Wang Tao (appointed on 15 June 2006)	–	–	180	–	–	–	180	–
Dr. Hui Chi Ming	–	–	–	–	–	–	–	–
Mr. Cheung Shing	–	–	650	650	12	12	662	662
Dr. Chui Say Hoe	–	–	600	650	12	12	612	662
Mr. Tsang Kwok Man	–	–	650	650	12	12	662	662
Mr. Cui Yeng Xu (appointed on 15 June 2006)	–	–	450	–	–	–	450	–
Mr. Chen Hua (resigned on 31 January 2007)	–	–	–	–	–	–	–	–
Non-executive director								
Mr. Chow Cham Ki, Kenneth	120	120	–	–	–	–	120	120
Independent non-executive directors								
Mr. Chan Wai Dune	200	200	–	–	–	–	200	200
Dr. Yu Sun Say	120	120	–	–	–	–	120	120
Mr. Ng Wing Ka	120	120	–	–	–	–	120	120
	560	560	2,530	1,950	36	36	3,126	2,546

Included in the directors' remuneration were fees of HK$560,000 (2006: HK$560,000) paid to independent non-executive directors and non-executive director. No fees were paid to executive directors during the year (2006: HK$Nil).

During the year, there were no bonuses paid or payable to the directors (2006: HK$150,000). No directors waived or agreed to waive any remuneration during the year (2006: HK$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 compensation for loss of office (2006: HK$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 (2006: HK$Nil).

26. Five Highest Paid Individuals

The five highest paid individuals during the year included three (2006: three) directors, details of whose remuneration are set out in Note 25 above. The remuneration of the remaining two (2006: two) non-directors, highest paid individuals, which each fell within the HK$Nil to HK$1,000,000 band, are as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**1,235**	1,300
Mandatory provident fund contributions	**24**	24
	1,259	1,324

During the year, there was no bonuses were paid any of the five highest paid individuals of the Group (2006: HK$100,000). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2006: HK$Nil).

During the year, no share options to subscribe for ordinary shares of the Company were granted to employees under the Company's share option scheme (2006: HK$Nil).

27. Finance Costs

	2007	2006
	HK$'000	HK$'000
Continuing operation		
Imputed interest expenses on convertible bond	**–**	923
Discontinued operation		
Interest on bank loans wholly repayable within five years (Note 22)	**–**	2,668
	–	3,591

28. Taxation

(a) Taxation in the consolidated income statement represents:

	The Group 2007 HK$'000	2006 HK$'000
Current year provision:		
Overseas	**2,809**	2,381

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits for the year (2006: HK$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 expenses and accounting profit at applicable tax rates:

The Group – for the year ended 31 March 2007

	Hong Kong HK$'000	%	The PRC HK$'000	%	Macau HK$'000	%	Total HK$'000	%
Profit/(loss) before taxation	**(12,435)**		**(460)**		**23,767**		**10,872**	
Tax at applicable income tax rate	**(2,176)**	**17.5**	**(152)**	**33.0**	**2,852**	**12.0**	**524**	**4.8**
Tax effect of expenses and income not deductible or taxable for tax purposes	**(133)**	**1.1**	**(86)**	**18.7**	**(66)**	**(0.3)**	**(285)**	**(2.6)**
Tax effect of unrecognised temporary difference	**(9)**	**0.1**	**–**	**–**	**–**	**–**	**(9)**	**(0.1)**
Tax effect of tax losses not recognised	**2,318**	**(18.7)**	**238**	**(51.7)**	**23**	**0.1**	**2,579**	**23.7**
Tax charge for year	**–**	**–**	**–**	**–**	**2,809**	**11.8**	**2,809**	**25.8**

The Group – for the year ended 31 March 2006

	Hong Kong HK$'000	%	The PRC HK$'000	%	Macau HK$'000	%	Total HK$'000	%
Profit/(loss) before taxation								
Continuing operation	(6,318)		–		9,304		2,986	
Discontinued operation	18,499		(3,537)		–		14,962	
	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	(2,142)	(17.6)	–	–	1,257	13.5	(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	–	–	–	–	2,381	25.6	2,381	13.3

29. 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 2007 was HK$12,229,000 (2006: HK$34,530,000).

30. Dividends

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2007 (2006: HK$Nil).

31. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

For continuing and discontinued operations

	2007	2006
	HK$'000	HK$'000
Earnings		
Earnings attributable to the equity holders of the Company for the purposes of basic earnings per share	**8,063**	15,567
Effect of dilutive potential ordinary shares:		
Interest on convertible bond	**–**	923
Earnings attributable to the equity holders of the Company for the purposes of diluted earnings per share	**8,063**	16,490

	Number of shares	
	2007	2006
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,271,772**	1,197,000
Effect of dilutive potential ordinary shares:		
Convertible bond	**–**	239,402
Share options	**28,150**	14,413
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,299,922**	1,450,815

31. Earnings Per Share (cont'd)

For continuing operation

	2007 HK$'000	2006 HK$'000
Earnings		
Earnings attributable to the equity holders of the Company for the purposes of basic earnings per share	**8,063**	15,567
Less: Profit for the year from discontinued operation	**–**	(14,962)
Earnings attributable to the equity holders of the Company for the purposes of basic earnings per share	**8,063**	605

No diluted earnings per shares for continuing operation for the year ended 31 March 2006 have been presented because the conversion of the convertible bond to ordinary shares would increase earnings per share.

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

For discontinued operation

There is no basic earnings per share (2006: HK1.25 cents per share) and no diluted earnings per share (2006: HK1.03 cents per share) for the discontinued operation. It was because there was no profit for the year from the discontinued operation during the year ended 31 March 2007 (2006: HK$14,962,000).

32. 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 2007, the Group had total future minimum lease payments under non-cancellable operating failing due as follows:

	The Group	
	2007 HK$'000	2006 HK$'000
Within one year	**2,048**	390
In the second to fifth years, inclusive	**530**	–
	2,578	390

33. Commitment

The Company had entered into a conditional sale and purchase agreement ("Proposed Acquisition") in relation to the acquisition of the 93% equity interest of MEIL from Golden Nova Holdings Limited ("Golden Nova") at a total consideration of HK$800 million. The Proposed Acquisition will be financed by the Group's internal resources and the issues of bond, convertible note and the Company's new shares. Please refer to Note 36 to financial statement for further details.

Capital commitment for the Proposed Acquisition at the balance sheet date is as follows:

	The Group and the Company	
	2007	2006
	HK$'000	HK$'000
Contracted but not provided for	**800,000**	–

34. Contingent Liabilities

At 31 March 2007, the Group and the Company had no significant contingent liabilities (2006: HK$Nil).

35. Material Related Party Transactions

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in Notes 25 and 26 to financial statements, are as follows:

Key management personnel

	2007	2006
	HK$'000	HK$'000
Salaries and allowance	**3,090**	2,510
Mandatory provident fund	**36**	36
	3,126	2,546

36. Subsequent Events

(a) On 3 April 2007, the Company entered into a subscription agreement with an independent third party, pursuant to which the independent third party has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 69,500,000 shares in cash HK$1.44 per share. For further details, please refer to the Company's announcement dated 4 April 2007.

(b) The Company entered into a sales and purchases agreement to acquire from Golden Nova 93% of the issued share capital of MEIL for a total consideration of HK$800 million. The conditional sales and purchases agreement was completed on 25 May 2007. The consideration for the acquisition was satisfied by (i) HK$10 million in cash (ii) HK$90 million bond; (iii) HK$300 million by issue of 1,250,000,000 new shares at HK$0.24 per share; and (iv) HK$400 million by issue of convertible note (the "Convertible Note") at a conversion price of HK$0.24 per conversion. For further details, please refer to the Company's circular dated 10 May 2007.

36. Subsequent Events (cont'd)

(c) On 4 June 2007, Golden Nova, the holder of the Convertible Note as mentioned in Note (b)(iv) above, has converted HK$400 million of the principal of the Convertible Note, representing the whole principal amount of the Convertible Note, at conversion price of HK$0.24 per share. As a result of the conversion, a total of 1,666,666,666 ordinary shares have been allotted and duly issued and the aggregate outstanding principal of the Convertible Note has been reduced to HK$Nil. For further details, please refer to the Company's announcement dated 6 June 2007.

(d) On 8 June 2007, the Company was granted by Dr. Hui Chi Ming with a Call Option for an exclusive right to acquire equity interests in Madagascar Energy International Gas Station Group Ltd and Madagascar Petroleum International Gas Station Group Ltd., both are licensed for carrying on import, transportation and distribution of petroleum in Madagascar, by entering into the Option Deed for a consideration of HK$1. For further details, please refer to the Company's announcement dated 8 June 2007.

(e) On 21 June 2007, the Group entered into an agreement to acquire from an independent third party 60% equity interests in the Zhuhai Zhonghuan Petroleum Limited for a consideration of HK$156 million. Zhuhai Zhonghuan Petroleum Limited is an investment holding company and it owns the entire interest in Maoming Zhonghuan Limited and 49% equity interests in Zhaoqing Zhonghuan Petroleum Limited. The Zhonghuan Group is principally engaged in the trading, transport and storage of petroleum and chemical products. For further details, please refer to the Company's announcement dated 27 June 2007.

37. Comparative Figures

Comparative figures have been reclassified to conform to the current year's presentation.

38. Authorisation for Issue of Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 July 2007.