THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sino Union Petroleum & Chemical International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

ACQUISITION OF 93% EQUITY INTEREST IN MADAGASCAR ENERGY INTERNATIONAL LIMITED

Financial adviser to the Company

Hercules

Hercules Capital Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

SC

South China Capital Limited

A notice convening a special general meeting of Sino Union Petroleum & Chemical International Limited to be held at Units 10-12, 19th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, on Friday, 25 May 2007 at 11:00 a.m. is set out on pages 172 to 173 of this circular. A form of proxy for use at the special general meeting is also enclosed. Whether or not you are able to attend the special general meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

* *For identification purpose only*

10 May 2007

CONTENTS

In this document, the following expressions have the meanings set out below unless the context requires otherwise:–

"Acquisition"	the acquisition by the Company of the Sale Shares and Shareholder's Loan from the Vendor pursuant to the Agreement
"Agreement"	the conditional sale and purchase agreement dated 3 January 2007 entered into between the Company and the Vendor for the sale and purchase of the Sale Shares and Shareholder's Loan
"Agreements"	the Agreement and the Supplemental Agreement
"Announcement"	the announcement of the Company dated 9 January 2007 in respect of the Acquisition
"BMI"	BMI Appraisals Limited, the valuer for the valuation of MEIL and is independent of the Company and its connected persons
"Board"	the board of directors of the Company
"Company"	Sino Union Petroleum & Chemical International Limited, a company incorporated in Bermuda with limited liability and the shares of which are traded on the Stock Exchange
"Completion"	completion of the Acquisition
"Completion Date"	the date on which Completion takes place
"connected person"	has the meaning ascribed thereto in the Listing Rules
"Consideration Shares"	1,250,000,000 new Shares to be issued to the Vendor, as part of the consideration, upon Completion
"Conversion Shares"	new Shares to be issued upon conversion of the Convertible Note
"Convertible Note"	the convertible note to be issued by the Company in the principal amount of HK$400 million with a conversion price of HK$0.24 per Share
"Director(s)"	the director(s) of the Company

"Dr. Hui"	Dr. Hui Chi Ming, the Chairman and an executive director of the Company
"Enlarged Group"	the Group and MEIL
"Foshan Hua Heng"	Foshan Hua Heng Petroleum and Chemical Limited (佛山市華橫石油化工有限公司), an independent third party not connected to the Company or its connected persons
"Framework Agreement"	the framework agreement dated 21 December 2006 entered into between MEIL and Shaanxi Yanchang regarding the possible investment by Shaanxi Yanchang in MEIL
"Group"	the Company and its subsidiaries
"HK$"	the lawful currency of Hong Kong
"HLB"	HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, the reporting accountants of MEIL
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	The independent committee of the Board, comprising the independent non-executive Directors, namely Mr. Chan Wai Dune, Dr. Yu Sun Say and Mr. Ng Wing Ka, established for the purpose of advising the Independent Shareholders on the terms of the Agreements
"Independent Financial Adviser" or "South China Capital"	South China Capital Limited, being a deemed licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 to the SFO, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	Shareholders other than the Vendor, Wisdom On Holdings Limited, Dr. Hui and their respective associates who are required to abstain from voting at the SGM to approve the Acquisition

"Last Trading Date"	3 January 2007, being the last trading day before the publication of the Company's announcement dated 9 January 2007 regarding the Acquisition
"Latest Practicable Date"	7 May 2007, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion in this document
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Madagascar Oilfield Block 3113"	an onshore site for oil and gas exploration, exploitation and operation in the Republic of Madagascar measuring approximately 8,320 square kilometers
"MEIL"	Madagascar Energy International Limited, a company incorporated in the British Virgin Islands
"MMBL"	millions of barrels
"OMNIS"	Office Des mines Nationales Et Des Industries Strategiques, a government office of the Republic of Madagascar
"PRC"	the People's Republic of China which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Production Sharing Agreement"	the production sharing agreement dated 7 October 2005 entered into between MEIL and OMNIS, pursuant to which MEIL was granted certain oil and gas exploration, exploitation and operation rights and profit sharing right at Madagascar Oilfield Block 3113
"Proposed Share Placement"	the proposed placement of 69,500,000 new Shares by the Company to Foshan Hua Heng, an independent third party, at a price of HK$1.44 per Share pursuant to the subscription agreement dated 3 April 2007 entered into between the Company and Foshan Hua Heng, details of which are set out in the announcement of the Company dated 4 April 2007
"Sale Shares"	930 ordinary shares of US$1.00 each in the share capital of MEIL, representing 93.0% of the total issued share capital of MEIL

"SFO"	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held at 11:00 a.m. on Friday, 25 May 2007 at Units 10-12, 19th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong to approve the Agreements and transactions contemplated therein
"Shaanxi Yanchang"	陝西延長石油(集團)有限責任公司(Shaanxi Yanchang Petroleum (Group) Limited), an independent third party not connected to the Company or its connected persons
"Share(s)"	the share(s) of HK$0.02 each in the capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Shareholder's Loan"	the shareholder's loan, which is interest-free and has no security and fixed repayment term, owed by MEIL to the Vendor as at Completion.
"Supplemental Agreement"	the supplemental agreement dated 24 April 2007 entered into between the Vendor and the Company to amend the terms of the Agreement in respect of, inter alia, the terms of the bond and Convertible Note and the long stop date of the Agreement
"Technical Adviser" or "NSAI"	Netherland, Sewell & Associates, Inc., an independent technical adviser appointed for the purpose of compliance with Chapter 18 of the Listing Rules
"US$"	the lawful currency of the United States of America
"Vendor"	Golden Nova Holdings Limited, a company incorporated in the British Virgin Islands

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)

Executive Directors:
Dr. Wang Tao
Dr. Hui Chi Ming
Dr. Chui Say Hoe
Mr. Tsang Kwok Man
Mr. Cheung Shing
Mr. Cui Yeng Xu

Non-executive Director:
Mr. Chow Charn Ki, Kenneth

Independent non-executive Directors:
Mr. Chan Wai Dune
Dr. Yu Sun Say
Mr. Ng Wing Ka

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Units 10-12, 19th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

10 May 2007

To the Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF 93% EQUITY INTEREST IN MADAGASCAR ENERGY INTERNATIONAL LIMITED

1. INTRODUCTION

As announced by the Company on 9 January 2007, the Company and the Vendor entered into the Agreement, pursuant to which, subject to certain conditions, the Company agreed to acquire and the Vendor agreed to sell the Sale Shares, which represents 93% of the issued share capital of MEIL, and the rights and benefits in the Shareholder's Loan owed by MEIL to the Vendor, at a total consideration of HK$800 million. Subsequently, the Supplemental Agreement was entered into between the Vendor and the Company on 24 April 2007 to amend the terms of the Agreement in respect of, inter alia, the terms of the bond and Convertible Note and the long stop date of the Agreement.

* *For identification purpose only*

The Acquisition constitutes a very substantial acquisition and connected transaction for the Company under the Listing Rules and thus the Agreements are subject to approval of the Independent Shareholders, by way of poll, at the SGM. The purpose of this circular is to provide you with (i) further details relating to the Acquisition; (ii) the letter from South China Capital containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Acquisition; (iii) the recommendation of the Independent Board Committee regarding the Acquisition to the Independent Shareholders; and (iv) the notice of the SGM.

2. THE AGREEMENT

Date: 3 January 2007

Parties:

Purchaser: the Company

Vendor: Golden Nova Holdings Limited, an investment holding company beneficially owned by Dr. Hui, who is the Chairman and an executive director of the Company. Dr. Hui beneficially owned the entire equity interest of Wisdom On Holdings Limited, which was interested in approximately 57% of the issued share capital of the Company as at the Latest Practicable Date.

Subject Matter

Subject to the fulfillment of the conditions set out below, the Company agreed to acquire and the Vendor agreed to sell (i) the Sale Shares, being 930 ordinary shares of US$1.0 each in the share capital of MEIL, representing 93% of the entire issued share capital of MEIL; and (ii) the rights and benefits in the Shareholder's Loan owed by MEIL to the Vendor at a total consideration of HK$800 million. As at 31 December 2006, according to the audited accounts of MEIL, the Shareholder's Loan amounted to approximately HK$3.5 million. According to the unaudited management accounts of MEIL, which have been prepared in accordance with accounting principles generally accepted in Hong Kong, the Shareholder's Loan amounted to approximately HK$4.9 million as at 28 February 2007.

Consideration

The total consideration for the Acquisition is HK$800 million, which shall be settled by the Company in the following manner on Completion Date:

(i) HK$10 million shall be paid in cash, which will be financed by the internal financial resources of the Group;

(ii) HK$90 million shall be satisfied by the issue of a bond, with maturity of two years and fixed interest rate of 5.0% per annum, to the Vendor (according to the Supplemental Agreement, the maturity of the bond has been extended from two years to three years and early repayment of the bond is not subject to any penalty or charges);

(iii) HK$300 million shall be satisfied by the issue of 1,250,000,000 new Shares at HK$0.24 per Consideration Share; and

(iv) HK$400 million shall be satisfied by the issue of the Convertible Note at a conversion price of HK$0.24 per Conversion Share.

The consideration was determined after arm's length negotiation between the Company and the Vendor with reference to the value of nearby oilfields and the estimated value of Madagascar Oilfield Block 3113, the major asset of MEIL, of not less than HK$880.0 million, which was preliminarily estimated by BMI Appraisal Limited, an independent valuer, in December 2006 based on the technical reports produced by the independent technical advisers and other information of Madagascar Oilfield Block 3113 provided by the Company and using the market approach by referring to recent sale and repurchase transactions of other oil fields for estimating the average purchase price per barrel of oil. Based on the valuation report set out in Appendix IV to this circular, the entire equity interest in MEIL was valued at approximately HK$3.9 billion as at 28 February 2007. Therefore, the market value of the Sale Shares, which represent approximately 93% equity interest in MEIL, was estimated to be approximately HK$3.6 billion as at 28 February 2007.

The issue price of HK$0.24 per Consideration Share and the conversion price of HK$0.24 of the Convertible Note represents (i) a discount of approximately 89.4% to the closing price of HK$2.260 per Share as quoted on the Stock Exchange on the Last Practicable Date; (ii) a discount of approximately 20.0% to the closing price of HK$0.300 per Share as quoted on the Stock Exchange on the Last Trading Day; (iii) a discount of approximately 11.4% to the average closing price of approximately HK$0.271 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and (iv) a discount of approximately 7.9% to the average closing price of approximately HK$0.2605 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day. The total market value of the Consideration Shares and Conversion Shares amounted to approximately HK$875.0 million and HK$6,591.7 million based on the closing price of HK$0.30 per Share as quoted on the Stock Exchange on the Last Trading Day and the closing price of HK$2.26 per Share as quoted on the Stock Exchange on the Latest Practicable Date respectively.

The issue price of the Consideration Shares and the exercise price of the Conversion Shares were determined after arm's length negotiation between the Company and the Vendor with reference to the Company's share price performance during the period of negotiation between the Company and the Vendor.

Consideration Shares

The Consideration Shares represent (i) approximately 94.9% of the Company's share capital as at the Latest Practicable Date; (ii) 90.2% of the Company's enlarged share capital immediately after the completion of the Proposed Share Placement;

(iii) 47.4% of the Company's enlarged share capital immediately after the issue of the Consideration Shares and completion of the Proposed Share Placement but before issue of any Conversion Share; and (iv) 29.1% of the Company's enlarged share capital immediately after the issue of the Consideration Shares, completion of the Proposed Share Placement and issue of the Conversion Shares upon full conversion of the Convertible Note.

The issue of the Consideration Shares shall be subject to the Independent Shareholders' approval at the SGM. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares, which will rank pari passu in all respects with the then existing Shares save for any dividend or other distribution declared, made or paid by the Company by reference to a record date falling before the date of issue of the Consideration Shares.

Convertible Note

The principal terms of the Convertible Note are summarized below:

Principal amount:	HK$400 million
Conversion price:	HK$0.24 per Conversion Share, not subject to any adjustment
Interest:	Nil
Maturity date:	the date falling two years after the date of issue of the Convertible Note (according to the Supplemental Agreement, the maturity date of the Convertible Note has been extended from two years to five years and early redemption of the Convertible Note is not subject to any penalty or charges).
Conversion right:	the holder(s) of the Convertible Note has the right to convert the whole or part of the principal amount of the Convertible Note into Shares at any time during the conversion period.
Conversion period:	any time from the date of issue up to the maturity date of the Convertible Note.
Conversion Shares:	the number of Conversion Shares to be issued upon full conversion of the Convertible Note will be 1,666,666,666 Shares, representing (i) approximately 126.6% of the Company's share capital as at the Latest Practicable Date; (ii) 120.2% of the Company's enlarged share capital immediately after the completion of the Proposed Share Placement; (iii) 63.2% of the

	Company's enlarged share capital immediately after the issue of the Consideration Shares and completion of the Proposed Share Placement but before issue of any Conversion Share; and (iv) 38.7% of the Company's enlarged share capital immediately after the issue of the Consideration Shares, completion of the Proposed Share Placement and issue of the Conversion Shares upon full conversion of the Convertible Note.
Transferability:	the Convertible Note may be assigned or transferred in whole or in part to third parties, subject to written approval of the Company and the conditions, approvals, requirements and any other provisions under the Listing Rules and all applicable laws and regulations.
Listing:	No applications will be made for the listing of the Convertible Note on any stock exchange.

The issue of the Convertible Note shall be subject to the Independent Shareholders' approval at the SGM. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares, which will rank pari passu in all respects with the then existing Shares save for any dividend or other distribution declared, made or paid by the Company by reference to a record date falling before the date of issue of the Conversion Shares.

The Company will disclose by way of an announcement all relevant details of the conversion of the Convertible Note in the following manner:

(i) the Company will make a monthly announcement ("Monthly Announcement") on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:

a) whether there is any conversion of the Convertible Note during the relevant month. If there is a conversion, details thereof including the conversion date, number of new Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

b) the amount of outstanding Convertible Note after the conversion, if any;

c) the total number of Shares issued pursuant to other transactions during the relevant month, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

d) the total issued share capital of the Company as at the commencement and the last day of the relevant months.

(ii) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares issued pursuant to the conversion of the Convertible Note reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Note (as the case may be).

Other terms

The Vendor and the Company agreed and accepted that the Production Sharing Agreement and the Framework Agreement signed by MEIL with OMNIS and Shaanxi Yanchang respectively shall continue in effect after the Completion. Please refer to the section headed "Information on MEIL" for further details of the abovementioned agreements.

Conditions Precedent

Completion of the Agreement shall be conditional upon fulfillment of the following conditions:

(i) the Company, being satisfied, at its absolute discretion, with the results of the due diligence conducted by the Company on MEIL;

(ii) the passing of the relevant resolutions at the SGM by the Independent Shareholders for approving the Agreement and transactions contemplated therein;

(iii) the valuation of MEIL's interests in Madagascar Oilfield Block 3113, to be valued by an independent valuer, shall not be less than HK$880 million;

(iv) the listing of and permission to deal in the Consideration Shares and Conversion Shares to be issued pursuant to the conversion of the Convertible Note having been granted by the Stock Exchange.

Pursuant to the Supplemental Agreement, Completion shall take place on the day immediately after the date on which all conditions precedent are satisfied, which shall not be later than 31 May 2007. In the event that any of the above conditions is not fulfilled before 31 May 2007, the Company and the Vendor shall opt for postponement of the completion date or entering into a supplementary agreement. As at the Latest Practicable Date, conditions (i) and (iii) have been fulfilled.

3. INFORMATION ON MEIL

MEIL was incorporated on 23 June 2005 in the British Virgin Islands with limited liability. As at the Latest Practicable Date, MEIL was owned as to 93% by the Vendor and 7% by Deno Group Limited, a wholly-owned subsidiary of the Company. Save for the initial capital contribution of US$930, there was no purchase cost for the Vendor in respect of the 93% interest in MEIL.

On 7 October 2005, MEIL entered into the Production Sharing Agreement with OMNIS (an independent third party not connected to the Company or its connected persons), pursuant to which MEIL was vested with the rights to engage in oil and gas exploration for 8 years, oilfield development for 5 years 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. According to the Production Sharing Agreement, all produced oil is subject to a government royalty of between 8 and 20 percent on oil, depending on daily production rate (please refer to the section headed "Summary of Contractual or License Terms and Production Rights" in the Technical Assessment Report on pages 150 to 151 of this circular for further details).

Depending on the rate of crude oil production of Madagascar Oilfield Block 3113, MEIL will share the remaining profit oil after royalty according to the ratios set out in the table below while OMNIS will be entitled to the remaining profit:

Daily Production of Crude Oil in Madagascar Oilfield Block 3113 (barrels/day)	**% of profit[Note] to be shared by MEIL**
0 – 10,000	73.0%
10,001 – 20,000	70.0%
20,001 – 30,000	67.5%
30,001 – 40,000	65.0%
40,001 – 50,000	60.0%
50,001 – 60,000	55.0%
60,001 – 80,000	52.5%
80,001 – 100,000	47.5%
>100,000	45.0%

Notes:

1. According to the Production Sharing Agreement, profit is defined as the quantity of available crude oil or available associated natural gas from a production zone less the quantity of crude oil and associated natural gas allocated for petroleum cost recovery.

2. MEIL is subject to a direct tax on hydrocarbons equal to 30 percent of MEIL's share of profit oil.

MEIL is responsible for the arrangement of the required capital commitment, human resources and facilities for oil and gas exploration, exploitation and operation at Madagascar Oilfield Block 3113. The extent of capital investment required for the development of Madagascar Oilfield Block 3113 depends on a number of factors, which include the results of fieldwork, the amount of oil and gas reserves discovered and the scale and method of exploration work required. Based on the best estimate that can be made by the Directors at the moment, the total capital investment for Madagascar Oilfield Block 3113 is about US$200 million which include the further finance of approximately HK$460 million required for the Group to exploit its proven reserves and commence recoveries on a commercial scale in 2010 as disclosed in the section of "Working Capital" on page 105 of this circular. The Company intends to finance the capital investment by bank loans, funds to be raised from the equity capital market and internal financial resources of the Company.

According to the Production Sharing Agreement, MEIL has to fulfill minimum exploration work obligations of US$17.5 million over the 8-year exploration period, which will be divided into the following three phases:

First Phase (2 years)	**Second Phase (2.5 years)**	**Third Phase (3.5 years)**
– seismic processing covering 350 square kilometers and financial obligation of US$3.0 million	– drilling of one exploration well with financial obligation of US$4.0 million and, if the results of the first well is positive, seismic processing over a further 300 square kilometers with financial obligation of US$3.5 million	– drilling of two exploration wells and financial obligation of US$7.0 million

According to the joint management meeting held in Beijing by MEIL and OMNIS in March 2007, a financial expenditure budget of approximately US$18.6 million and the work commitment schedule for year 2007 were agreed upon by both parties and approved by OMNIS.

On 26 February 2006, MEIL entered into a subcontracting agreement with CNPC Liaohe Petroleum Exploration Bureau to engage CNPC Liaohe Petroleum Exploration Bureau to provide constructional development and technical services for the oil and gas exploration, exploitation and operation at Madagascar Oilfield Block 3113 but such agreement was terminated subsequently.

On 21 December 2006, MEIL entered into the Framework Agreement, which is not legally-binding, with Shaanxi Yanchang, pursuant to which Shannxi Yanchang conditionally agreed to invest in MEIL and to provide technical, financial and management supports to MEIL for its development of Madagascar Oilfield Block 3113. Shaanxi Yanchang shall also be responsible for managing the exploration, exploitation and operations of Madagascar Oilfield Block 3113. The detailed terms of the proposed investment of Shaanxi Yanchang are subject to further negotiation between MEIL and Shaanxi Yanchang. The Company shall comply with the disclosure requirements of the Listing Rules upon finalization of the terms of the proposed investment and make further announcement as and when appropriate.

Shaanxi Yanchang is the fourth largest petroleum enterprise which has the legal rights to explore and exploit petroleum in China. It is principally engaged in oil and gas exploration, exploitation, refinery, extraction, transportation and trading. Its major products include gasoline, diesel oil, kerosene, naphtha, liquefied petroleum gas and polypropylene. Its annual production and processing capacities for crude oil reached approximately 9.0 million tons and 10.5 million tons per year respectively as at 31 December 2005. It had a turnover and profit before taxation of more than RMB30.0 billion and RMB15.0 billion respectively for the year ended 31 December 2005. Its total assets amounted to approximately RMB46.8 billion as at 31 December 2005.

Up to the Latest Practicable Date, eight exploration wells with average depth of approximately 2,800 meters have been drilled and 2D seismic data with total length of 1,348 kilometers have been collected at Madagascar Oilfield Block 3113. The above research works showed the existence of oil, natural gas and bitumen at Madagascar Oilfield Block 3113. According to the oil and gas reserve assessment performed by the Technical Adviser, based on the best estimate, Madagascar Oilfield Block 3113 had unrisked and risked oil-in-place of approximately 6,892 million barrels and 685 million barrels respectively and unrisked and risked prospective oil-resources of approximately 1,840 million barrels and 183 million barrels respectively as at the assessment date of 3 January 2007 (please refer to section headed "Estimate of Probable Reserves, Possible Reserves, and Resource Volumes – 18.09(6)(d)" in the Technical Assessment Report on pages 147–149 of this circular for further details). It is expected that the production or exploitation of Madagascar Oilfield Block 3113 would commence in Year 2010.

Save for the abovementioned, MEIL has not conducted any material business activities since its incorporation. MEIL does not have any subsidiary or associated companies. It does not have any material assets other than the rights to engage in oil and gas exploration, exploitation and operation at Madagascar Oilfield Block 3113 and the profit sharing right as disclosed above.

As at the Latest Practicable Date, no claims in relation to the exploration rights of Madagascar Oilfield Block 3113 had been made or notified either by third parties against MEIL or vice versa. Further details of Madagascar Oilfield Block 3113 are set out in Appendix V to this circular.

A summary of the audited financial information of MEIL for the period from 23 June 2005 (its incorporation date) to 31 March 2006 and the nine months ended 31 December 2006 is set out below:

	For the period from 1 April 2006 to 31 December 2006 *(HK$'000)*	**For the period from 23 June 2005 to 31 March 2006** *(HK$'000)*
Turnover	–	–
Loss before/after taxation	(927)	(2,492)

	As at 31 December 2006 (HK$'000)	As at 31 March 2006 (HK$'000)
Total assets	690	14
Total liabilities	(4,102)	(2,497)
Net liabilities	(3,412)	(2,483)

As set out on page 108 of this circular, the reporting accountants have issued a modified opinion on the financial statements of MEIL regarding the existence of a material uncertainty for the going concern of MEIL as MEIL had net liabilities of approximately HK$2.5 million and HK$3.4 million as at 31 March 2006 and 31 December 2006 respectively. Since the Group will provide the required operating funding to MEIL after Completion, the Directors consider that the possibility of MEIL having a going concern problem is remote.

4. REASONS FOR THE ACQUISITION

The Group is principally engaged in the sale and distribution of polyurethane materials.

As disclosed in the Company's announcement dated 20 June 2006, in view of the high growth potential and promising prospect of the oil and gas industry, Metro City Group Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Arno Development Limited, an investment holding company beneficially owned by Dr. Hui, to acquire the entire issued share capital of Deno Group Limited, which owns approximately 7% equity interest in MEIL, at a consideration of HK$1.0 in June 2006 so as to diversify the Group's business scope and tap into the oil and gas industry.

Subsequently, MEIL appointed China National Petroleum Corporation BGP and China University of Petroleum to carry out further technical assessments on Madagascar Oilfield Block 3113. Both technical institutes confirmed that Madagascar Oilfield Block 3113 has reserve formation conditions and good prospects for exploration, exploitation and operation. In view of the above and the fact that the entering into of the Production Sharing Agreement and the Framework Agreement will present great business prospects to MEIL, the Directors consider that it will be beneficial to the Company to make further acquisition of the remaining 93% equity interest in MEIL in order to increase its stake in such a potentially lucrative business. The Directors have considered various alternatives for financing the Acquisition. Given that (i) the existing internal financial resources of the Company is insufficient to settle the Consideration for the Acquisition; (ii) the Company may have difficulties in obtaining financing by bank borrowings as the funds required for completing the Acquisition is relatively large in amount when compared to the existing scale of operation of the Company; (iii) the issue of the Convertible Note will enable the Company to tap into the oil and gas exploration and exploitation industry without substantial initial cash outlay and not having to incur additional interest expense; (iv) the issue of the Convertible Note will not cause immediate dilution to the shareholding of the

Company; and (v) the capital base of the Company will be enlarged and strengthened in the event that the Convertible Note is converted, the Directors are of the opinion that the issue of the Convertible Note is a viable and acceptable means of financing for the Acquisition and potential dilution effect on the existing shareholding of the Company is acceptable in view of the potential benefits to be brought to the Group in the long-run.

The Directors expected that the Group would be able to obtain project financing from financial institutions and additional capital from the equity market to fulfill the funding requirement of the capital investment for development of Madagascar Oilfield Block 3113 and no significant adverse impacts on the financial position of the Group would be resulted from the investment in the project. In light of the above, the Directors (including the independent non-executive Directors) consider that the Agreement is on normal commercial terms and the terms of which are fair and reasonable and the entering into of the Agreement is in the interests of the Company and its Shareholders as a whole.

5. FINANCIAL EFFECT OF THE ACQUISITION

Upon completion of the Acquisition, MEIL will become a wholly-owned subsidiary of the Company and its results will be consolidated into the Group's accounts.

Set out below is a summary of the unaudited pro forma financial information of the Enlarged Group before and after Completion, which is extracted from the pro forma balance sheet that has been prepared with the assumption that the Acquisition has been completed on 30 September 2006 and the pro forma income statement that has been prepared by assuming that the Acquisition has been completed on 1 April 2005.

	Before Completion *(HK$'000)*	**After Completion** *(HK$'000)*
Total assets	262,313	1,052,909
Total liabilities	(54,233)	(406,429)
Net assets	208,080	646,480
Net current assets	207,667	197,107
Gearing ratio (total liabilities/total assets)	0.21	0.39
Turnover from continuing operation	577,729	577,729
Net profit/(loss) attributable to Shareholders from continuing operation	605	(24,349)

As set out in the above table, upon Completion,

a) the total assets of the Enlarged Group will increase by approximately 301.4%, mainly attributable to the goodwill arising from the acquisition of MEIL;

b) the total liabilities of the Enlarged Group will increase by 649.4% as a result of the issue of the bond and Convertible Note;

c) the net assets of the Enlarged Group will increase by 210.7%;

d) the net current assets of the Group will decrease by approximately 5.1% after the Acquisition;

e) the gearing ratio of the Group will increase from 0.21 before Completion to 0.39 after Completion because of the increase in liabilities of the Group;

f) there is no immediate impact on the turnover of the Group as MEIL does not have any turnover;

g) the Company shall have net loss attributable to Shareholders of approximately HK$24.3 million as a result of the consolidation of the net loss of MEIL.

6. CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

As disclosed in the Company's announcement dated 11 January 2007, the Vendor has conditionally placed 544,140,000 Shares to independent third parties not connected to the Company and its connected persons subject to the issue of the Consideration Shares by the Company as part of the consideration for the Acquisition.

Assuming no new Shares are issued before Completion, the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Proposed Share Placement; (iii) immediately after completion of the Proposed Share Placement and issue of the Consideration Shares, but before the placing of Shares by the Vendor; (iv) immediately after completion of the Proposed Share Placement, issue of the Consideration Shares and the placing of Shares by the Vendor; and (v) immediately after completion of the Proposed Share Placement, issue of the Consideration Shares, the placing of Shares by the Vendor and exercise of the Convertible Note in full are shown as follows:

	Shareholding structure as at the Latest Practicable Date		Shareholding structure immediately after the completion of the Proposed Share Placement[Note 2]		Shareholding structure immediately after Proposed Share completion of the Proposed Share Placement and issue of the Consideration Shares, but before the placing of Shares by the Vendor		Shareholding structure immediately after completion of the Proposed Share Placement, issue of the Consideration Shares and the placing of Shares by the Vendor		Shareholding Structure immediately after completion of the Proposed Share Placement, issue of the Consideration Shares, the placing of Shares by the Vendor and exercise of the Convertible Note in full	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Wisdom On Holdings Limited *(Note 1)*	750,080,000	57.0	750,080,000	54.1	750,080,000	28.5	750,080,000	28.5	750,080,000	17.4
Vendor *(Note 1)*	–	–	–	–	1,250,000,000	47.4	705,860,000	26.7	2,372,526,666	55.2
Subtotal of shareholdings held by Dr. Hui and his concert parties	750,080,000	57.0	750,080,000	54.1	2,000,080,000	75.9	1,455,940,000	55.2	3,122,606,666	72.6
Public Shareholders	566,620,000	43.0	636,120,000	45.9	636,120,000	24.1	1,180,260,000	44.8	1,180,260,000	27.4
Total	1,316,700,000	100.0	1,386,200,000	100.0	2,636,200,000	100.0	2,636,200,000	100.0	4,302,866,666	100.0

Notes:

1. Wisdom On Holdings Limited and the Vendor are wholly-owned by Dr. Hui.

2. On 3 April 2007, the Company entered into a subscription agreement with Foshan Hua Heng, pursuant to which the Company has conditionally agreed to place 69,500,000 new Shares to Foshan Hua Heng, an independent third party, at a price of HK$1.44 per Share. As at the Latest Practicable Date, the Proposed Share Placement has not been completed yet.

3. As at the Latest Practicable Date, the Company had 51,000,000 outstanding share options. Save as disclosed above, the Company had no outstanding convertible notes, options, warrants or other similar rights to subscribe or purchase Shares in the Company.

As shown in the above table, the Acquisition will not result in a change of control of the Company.

7. FUTURE PROSPECT OF THE ENLARGED GROUP

The Group is principally engaged in the sale and distribution of polyurethane materials in the PRC. The Group will maintain its existing business while expanding its business scope to the industry of exploration and exploitation of oil and gas. In view of the continuous demand but limited supply of oil and gas in the world market and the increasing trend of crude oil price, the Directors are optimistic about the future development of the Group's oil and gas business.

On 3 April 2007, the Group entered into a supply and purchase agreement with Foshan Hua Heng and Foshan Electricity Fuel Company (佛山市區電力燃料公司), both are independent third parties not connected to the Company or its connected persons, 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 3 April 2007, the Company also entered into a subscription agreement with Foshan Hua Heng, pursuant to which the Company has conditionally agreed to place 69,500,000 new Shares to Foshan Hua Heng at a price of HK$1.44 per Share. The net proceeds of the Proposed Share Placement shall be amounted to approximately HK$100 million. As at the Latest Practicable Date, the Proposed Share Placement has not been completed yet.

Looking ahead, the Company will continue to strive for excellence and endeavor to capture suitable business or investment opportunities to further improve the Group's profitability and to achieve higher returns for its Shareholders.

8. FORMATION OF THE OIL DEVELOPMENT AND MANAGEMENT COMMITTEE

The Company has established an oil development and management committee, which comprises Dr. Wang Tao (王濤) as the Chairman, Dr. Hui Chi Ming (許智明) as the Deputy Chairman and Mr. Jiang You Zhuo (蔣有卓) and Dr. Zhang Jian Gui (張建貴) as members of the committee, to monitor and manage the Group's business in relation to the oil industry. The biographical details of the members of the oil development and management committee are set out below:

Dr. Wang Tao

Dr. Wang Tao, aged 75, 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 the 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 Council, the Vice Chairman of China-Arabia Friendship Association and Chairman of China Saudi Friendship Association. He acted as 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. Dr. Wang has extensive management experience in oil exploration, exploitation, operation and management. In recognition of his outstanding contribution towards the development of the World Petroleum Council, Dr. Wang Tao was awarded the "Outstanding Contribution Award" by the World Petroleum Council in 2005. Dr. Wang Tao is currently acting as Honorary Chairman and executive director of the Company.

Dr. Hui Chi Ming

Dr. Hui, aged 43, 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. Dr. Hui serves as a member of the National Committee of the Chinese People's Political Consultative Conference and Honorary Consul of the Republic of Madagascar in Hong Kong, and is currently the Chairman of Banque Industrielle et Commerciale de Madagascar, Vice President of China-Africa Business Council, standing member of All China Federation of Industry & Commerce, Honorable President of Beijing Federation, President of Hong Kong Association of International Investment, President of Hong Kong Guangdong Community Organization and Part-time Professor of China University of Petroleum and Business School of Nanjing University, China. In honor of Dr. Hui's outstanding contributions to humanity, social development and poverty alleviation works in the PRC, the PRC

Government awarded Dr. Hui as China's Top Ten Poverty Alleviation Contributor and the International Minor Planet Nomenclature Committee permanently named the minor planet no. 5390 as "Hui, Chi-Ming Planet". Dr. Hui has extensive investments and business relationships in the Republic of Madagarscar and the PRC, especially in the industry of oil and gas. Dr. Hui is currently acting as Chairman and executive director of the Company.

Mr. Jiang You Zhuo

Mr. Jiang You Zhuo, aged 65, obtained a bachelor degree in geological exploration in Chengdu College of Geology, China. He is a senior geologist with over 40 years of experience in geological research and oilfields exploration and development. He worked for various enterprises in oil and natural gas industries such as 中海油南海東部石油公司(CNOOC Eastern Nanhai Oil Company), 中石油南方勘探開發公司(CNPC Nanfang Exploration Development Company) and 福山天然氣公司(Fushan Natural Gas Company). He also acted as senior consultant on geology to lead the exploitation of the oil and gas exploitation project in Area 6, Republic of the Sudan (中石油蘇丹六區). He is currently the assistant general manager of MEIL.

Dr. Zhang Jian Gui

Dr. Zhang Jian Gui, aged 34, obtained a master degree in exploration geophysics and a doctoral degree in geodesy and information technology in Central South University of Technology. He has over 12 years of experience in comprehensive geological evaluation. He was the in-charge of various oilfield exploration and geological evaluation projects such as Changqing Oilfield, Dagang Oilfield and Sichuan Oilfield. He also led and participated in various geological research conducted by the provincial governments in the PRC. He is currently the assistant general manager of MEIL.

9. MAJOR RISK FACTORS RELATING TO THE EXPLORATION AND EXPLOITATION BUSINESS

(a) Uncertainty about estimated resources

The estimates of capital investment and amount of oil and gas reserves at Madagascar Oilfield Block 3113 are subject to change with the acquisition and interpretation of additional well and seismic data and the subjective nature of prospect risk assessment is highly dependent on the experience of the evaluators, the available data to define each prospect, the available local, regional or analog data describing reservoir and production characteristics and the historical local and regional hydrocarbon discovery success rates. The actual amount of oil and gas to be recovered from Madagascar Oilfield Block 3113 may differ significantly from the estimate of resources or reserves. In view of the extensive experience and expertise of the Technical Advisor and the Study Group (as defined in the Technical Assessment

Report on page 142 of this circular), the Directors are of the opinion that they are satisfied with the qualifications of the Technical Adviser and the Study Group and have no reasons to doubt the reasonableness of the advices or opinions expressed by them.

(b) Volatility of oil prices

The market price of crude oil may fluctuate in response to changes in many factors beyond the control of the Group, including global demand, level of technology in producing recycle energy and general economic and political conditions around the World.

(c) Significant capital investment

The oil and gas operation requires the Group to make significant capital investments. The Directors have planned to use both project financing and capital markets as a source of funds for capital requirements not satisfied by its internal financial resources. On 3 April 2007, the Company entered into a subscription agreement with Foshan Hua Heng, an independent third party, pursuant to which the Company has conditionally agreed to place 69,500,000 new Shares at the price of HK$1.44 per Share to Foshan Hua Heng to raise additional funding of approximately HK$100 million. The Group is also pursuing other financing alternatives to secure the funding source for the development of Madagascar Oilfield Block 3113.

(d) Technical experts

The oil and gas exploration and exploitation operations require a large number of technical experts with highly specialized skills and abilities. To ensure the Group has the required competent expertise to develop the oil and gas business, an oil development and management committee, which comprises the highly qualified professionals in the oil field, was established by the Company. Furthermore, the Group has entered into a non-legally-binding agreement with Shannxi Yanchang, the fourth largest petroleum enterprise which has the legal rights to explore and exploit petroleum in China, pursuant to which Shannxi Yanchang will manage the exploration, exploitation and operations of Madagascar Oilfield Block 3113 for the Group.

(e) Difficulty of access

The Company may encounter difficulty of access to Madagascar Oilfield Block 3113 since the absence of roads connecting to Madagascar Oilfield Block 3113. The Company may need to build a 30-km road to connect Madagascar Oilfield Block 3113 to a branch road, the cost of which has been included in the budget of capital investment mentioned in page 12 of this circular.

10. SGM

The Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06 of the Listing Rules. As Dr. Hui, the beneficial owner of the Vendor, is a connected person of the Company under the Listing Rules, the entering into of the Agreements also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Agreement is subject to approval of the Independent Shareholders, by way of poll, at the SGM. Save for Wisdom On Holdings Limited, a company wholly-owned by Dr. Hui, no Shareholders have a material interest in the Acquisition. Wisdom On Holdings Limited, which controls and is entitled to exercise control over the voting rights in respect of its interest in the Shares, will abstain from voting for the approval of the Acquisition at the SGM.

Set out on pages 172 to 173 of this circular is a notice of the SGM, at which resolutions will be proposed and, if consider appropriate, passed to approve the Agreement and transactions contemplated therein.

11. RECOMMENDATION

Having considered both the reasons and benefits to be generated from the Acquisition as set out on pages 14 to 15 and the potential risks associated with the exploration and exploitation business as set out on pages 19 to 20, the Directors consider that the terms and conditions of the Agreements are fair and reasonable and the entering into of the Agreements is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the resolution to be proposed at the SGM to approve the Agreements.

12. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 22 of this circular and the letter of advice received from the Independent Financial Adviser on pages 23 to 46 of this circular. Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Sino Union Petroleum & Chemical International Limited
Chui Say Hoe
Executive Director

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)

10 May 2007

To the Independent Shareholders

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION
AND CONNECTED TRANSACTION
ACQUISITION OF 93% EQUITY INTEREST IN
MADAGASCAR ENERGY INTERNATIONAL LIMITED**

As the Independent Board Committee, we have been appointed to advise you in connection with the Agreement, details of which are set out in the Letter from the Board contained in this circular to the Shareholders dated 10 May 2007, of which this letter forms part. Terms defined in this circular shall have the same meanings when used herein unless the context otherwise requires.

In formulating our opinion and recommendations on the Acquisition, we have relied upon the advice from the Technical Adviser and the Independent Financial Adviser. As set out in the technical assessment report in Appendix V to this circular, the Technical Adviser has extensive experience in oil and gas exploration advisory and reserve assessment and preparation of technical reports for inclusion in public documents of listed companies. We have no reasons to doubt the reasonableness of the advice or opinion expressed by the Technical Adviser and are satisfied with the qualifications of the Technical Adviser for the purpose of compliance with Chapter 18 of the Listing Rules.

Having considered the terms of the Agreements and the advices of the Technical Adviser and the Independent Financial Adviser in relation thereto as set out on pages 142 to 152 and 23 to 46 of this circular respectively, we are of the opinion that the entering into of the Agreements is in the interest of the Company and the Shareholders as a whole and the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend you to vote in favor of the resolution to be proposed at the SGM to approve the Agreements.

Yours faithfully,
Mr. Chan Wai Dune Dr. Yu Sun Say Mr. Ng Wing Ka
Independent Board Committee

* *For identification purpose only*

Set out below is the text of a letter received from South China Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Acquisition for the purpose of inclusion in this circular.

South China Capital Limited
28/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

10 May 2007

To: The independent board committee and the independent shareholders of Sino Union Petroleum & Chemical International Limited

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
ACQUISITION OF 93% EQUITY INTEREST IN
MADAGASCAR ENERGY INTERNATIONAL LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular dated 10 May 2007 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced that on 3 January 2007, the Company entered into the Agreement with the Vendor, pursuant to which the Company agreed to acquire from the Vendor and the Vendor agreed to dispose of 93% equity interest in MEIL at an aggregate consideration of HK$800 million. Since the Company has already acquired 7% equity interest in MEIL in June 2006, MEIL will become a wholly-owned subsidiary of the Company upon Completion. On 24 April 2007, the Company also entered into the Supplemental Agreement with the Vendor to amend the terms of the Agreement in respect of, inter alia, the terms of the Bond (as will be defined in the paragraph headed "Basis of the Consideration" of this letter) and the Convertible Note, and the long stop date of the Agreement.

Dr. Hui, the beneficial owner of the Vendor, owns the entire share capital of Wisdom On Holdings Limited, the controlling shareholder of the Company, and hence is considered to be a connected person (as defined under the Listing Rules) of the Company. In addition, one of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules also exceeds 100%. Accordingly, the Acquisition constitutes a very substantial acquisition and connected transaction for the Company under Chapter 14 and Chapter 14A of the Listing

Rules and is subject to approval of the Independent Shareholders at the SGM which shall be taken on a vote by way of poll. Save and except for Wisdom On Holdings Limited, a company which is wholly-owned by Dr. Hui, no Shareholder has a material interest in the Acquisition. Wisdom On Holdings Limited, which controls and is entitled to exercise control over the voting rights in respect of its interest in the Shares, is required to abstain from voting at the SGM on the relevant resolution approving the Agreement (including the Supplemental Agreement) and the transactions contemplated therein.

An Independent Board Committee comprising Mr. Chan Wai Dune, Dr. Yu Sun Say and Mr. Ng Wing Ka (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on whether the terms of the Agreement (including the Supplemental Agreement) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole and how the Independent Shareholders should vote in respect of the Agreement (including the Supplemental Agreement) and the transactions contemplated therein. We, South China Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true, complete and accurate in all material respects at the time when they were made and continue to be so as at the date of the despatch of the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful considerations. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our recommendation in compliance with Rule 13.80 of the Listing Rules.

In addition, we have reviewed the independent valuation report (the "Valuation Report") prepared by BMI Appraisals Limited (the "Valuer") in respect of MEIL as set out in Appendix IV to the Circular and have discussed the basis and assumptions for the valuation of MEIL with the Valuer. From the information provided by the Company and the Valuer, we also note that the Valuer is experienced in the valuation of oil and gas related business and we therefore are satisfied with the competence of the Valuer in performing the valuation of MEIL.

We have also reviewed the technical assessment report as prepared by the Technical Adviser in respect of Madagascar Oilfield Block 3113 which is set out in Appendix V to the Circular (the "Technical Report") and searched over the website of the Technical Adviser and enquired into the Company regarding the qualifications of the Technical Adviser. We note that the Technical Adviser is experienced in oil and gas exploration advisory and reserve assessment, and that the Technical Adviser is also experienced in the preparation of technical reports for inclusion in public documents of listed companies in different countries, such as the U.S.A. and Canada. Having this being the case, we are satisfied with the qualifications of the Technical Adviser for the purpose of compliance with Chapter 18 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquires, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or their respective subsidiaries or associates, the Valuation Report and the Technical Report, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for entering into the Agreement (including the Supplemental Agreement)

Business overview of the Group

The Group is principally engaged in the sale and distribution of polyurethane materials, polyurethane foam and polyurethane foam products (collectively, "PU Materials") and was also engaged in the manufacture and sale of petrochemical fuel products in the PRC.

Set out below are the operating results of the Group's two business segments for the six months ended 30 September 2006, and each of the two years ended 31 March 2006 respectively as extracted from the Company's unaudited interim report for the six months ended 30 September 2006 (the "Interim Report") and the Company's audited annual report for the year ended 31 March 2006 (the "2006 Annual Report"):

	For the six months ended 30 September 2006	**For the year ended 31 March 2006**	**For the year ended 31 March 2005**
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)
Turnover			
– PU Materials	295,943	577,729	652,717
– Petrochemical fuel products *(Note)*	–	40,979	231,630
Total	295,943	618,708	884,347
Net profit/(loss) attributable to shareholders			
– PU Materials	4,109	605	4,272
– Petrochemical fuel products *(Note)*	–	14,962	(5,623)
Total	4,109	15,567	(1,351)

Note: The Company recorded a loss of HK$3,676,000 from the manufacture and sale of petrochemical fuel products for the period from 1 April 2005 to 13 July 2005. On 13 July 2005, the Company disposed the petrochemical fuel products business for a consideration of HK$18,638,000. The Company therefore recorded an overall gain of HK$14,962,000 from this business segment for the year ended 31 March 2006.

As demonstrated by the above table, the Group derived an audited total turnover of approximately HK$652.72 million and HK$577.73 million for the years ended 31 March 2005 and 31 March 2006 respectively from the sale and distribution of PU Materials, representing a reduction of approximately 11.5%. The net profit attributable to shareholders from this business segment was also reduced by approximately 85.8% during the said two financial years. According to the 2006 Annual Report, the Directors were of the view that the market of PU Materials had become increasingly competitive and the demand for PU materials had been showing a decreasing trend. As also referred to the Interim Report, since the competition in the market of PU Materials was continuously rigorous during the six months ended 30 September 2006, the Group has been adopting a selective approach in accepting PU Materials trading orders in order to reduce its risk exposure in such a competitive market environment.

In July 2005, the Group disposed the business of manufacture and sale of petrochemical fuel products as the gross profit margin of this business segment was deteriorating.

Based on the market condition of PU Materials as aforementioned, the Directors consider that there is a need for the Group to diversify its current principal area of business in order to further enhance its financial performance and business growth in the future. In this regard, the Directors also believe that the Acquisition could restructure the Group's business model and allow the Group to participate in the upstream areas of the oil and gas industry. Having considered the historical weakening operating results of the Group and the promising development prospect of the world's crude oil and gas industry, the details of which will be set forth in the section headed "Overview of the crude oil and gas industry in the world" of this letter, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Information on MEIL

As extracted from the Board Letter, MEIL was incorporated on 23 June 2005 in the British Virgin Island with limited liability. At present, MEIL is owned as to 93% by the Vendor and 7% by Deno Group Limited, which is a wholly-owned subsidiary of the Company. Since the date of its incorporation, MEIL has not conducted any material business activities save and except for those related to the entering into the Production Sharing Agreement and the Framework Agreement, the details of which is set forth in the paragraphs which follows.

We are aware of that the reporting accountants of the Company have issued a modified opinion on the financial statements of MEIL regarding the existence of a material uncertainty for the going concern of MEIL. However, as referred to the Board Letter, the Directors consider that the possibility of MEIL having a going concern problem is remote since the Group will provide the required operating funding to MEIL upon Completion.

The Production Sharing Agreement

On 7 October 2005, MEIL and OMNIS entered into the Production Sharing Agreement pursuant to which MEIL was vested with the right to engage in (i) oil and gas exploration for 8 years; (ii) oilfield development for 5 years; and (iii) exploitation and operation for 25 years (for oil) and 35 years (for gas) respectively at Madagascar Oilfield Block 3113. MEIL shall share the profit in connection with the oil and gas exploitation on a pre-agreed ratio in the range of 45% to 73% with OMNIS depending on the rate of crude oil production at the said oilfield. Furthermore, under the Production Sharing Agreement, MEIL is also responsible for the arrangement of the required capital commitment, human resources and facilities for the oil and gas exploration, exploitation and operation at Madagascar Oilfield Block 3113. As also referred to the Board Letter, according to one of the members of the oil development and management committee of the Company, the Company may encounter difficulty of access to Madagascar Oilfield Block 3113 due to the absence of roads connecting to Madagascar Oilfield Block 3113. As such, the Company may need to build a 30-km road to connect Madagascar Oilfield Block 3113 to a branch road. The Directors estimated that the total capital investment for Madagascar Oilfield Block 3113 is approximately US$200 million (including but not limited to the building cost of the aforementioned road and the further finance of approximately HK$460 million as required for the Group to exploit its proven reserves and commence recoveries on a commercial scale in 2010, cost on setting up the oil drilling pipelines, and cost on research and environmental assessment). As estimated by the Directors, the funding requirement of the Enlarged Group for the next 24 months will amount to approximately HK$722 million. The Directors also anticipated that the cash inflow during the next 24 months would be mainly generated from (i) revenue of the Enlarged Group's trading business of polyurethane materials and fuel oil; (ii) the guarantee profit pursuant to the supply and purchase agreement which was detailed in the announcement of the Company dated 4 April 2007 regarding the Proposed Share Placement; and (iii) the proceeds from the Proposed Share Placement. Such estimation has been made by the Directors after due and careful enquiry. Given that the exploration and exploitation work of crude oil at Madagascar Oilfield Block 3113 is still in a relatively preliminary stage, we consider such capital investment to be necessary for the Enlarged Group to proceed with the crude oil exploration and exploitation work.

In relation to the foregoing, we have further enquired into the Directors and researched over some publicly available information (e.g. the internet and newspaper articles) and find out that the Republic of Madagascar is a resourceful and popular location for the oil and gas exploration, exploitation and operation. Apart from MEIL, several worldwide oil conglomerates, namely Exxon Mobil, MOS Vuna and Sterling Energy, also possess the rights of oil and gas exploration, exploitation and operation at other oilfields in the Republic of Madagascar. We also note from the Valuation Report that Madagascar Oilfield Block 3113 is located at an onshore site in the Republic of Madagascar, with a total area of 8,320 kilometres. Up to the Latest Practicable Date, eight exploration wells with an average depth of approximately 2,800 metres have been drilled and 2-dimension seismic data with total length of 1,348 kilometres has been collected at Madagascar Oilfield Block 3113.

The Framework Agreement

In addition to the Production Sharing Agreement, MEIL entered into the Framework Agreement, which is not legally binding, with Shaanxi Yanchang on 21 December 2006. Pursuant to the Framework Agreement, Shaanxi Yanchang conditionally agreed to invest in MEIL and to provide technical, financial and management supports to MEIL for its development of Madagascar Oilfield Block 3113. Shaanxi Yanchang shall also be responsible for managing the exploration, exploitation and operation at Madagascar Oilfield Block 3113. As stated in the Board Letter, Shaanxi Yanchang is the fourth largest petroleum enterprise in the PRC and is principally engaged in oil and gas exploration, exploitation, refinery, extraction, transportation and trading. The annual production and processing capacities for crude oil of Shaanxi Yanchang reached approximately 9 million tons and 10.5 million tons respectively as at 31 December 2005. Besides that, Shaanxi Yanchang enjoyed an annual turnover and profit before taxation of more than RMB30 billion and RMB15 billion for the year ended 31 December 2005. Given the scale of business operation and financial performance of Shannxi Yanchang as just mentioned, we are of the view that the Company, together with Shaanxi Yanchang, would be able to carry out the oil and gas exploration, exploitation and operation smoothly at Madagascar Oilfield Block 3113.

Formation of the oil development and management committee

The Directors confirmed that the Company has established an oil development and management committee which comprises Dr. Wang Tao, Dr. Hui, Mr. Jiang You Zhuo and Dr. Zhang Jian Gui (the "Members") to monitor and manage the Group's business in relation to the oil industry. The personal profile of each of the Members is set out in the Board Letter. In order for us to familiarize with the background of the Members, we have successfully interviewed three of the Members, namely Dr. Hui, Mr. Jiang You Zhuo and Dr. Zhang Jian Gui (the "Interviewed Members"). During our interview with the Interviewed Members, we were provided with further background information regarding the personal and career development, and the working experience of the Interviewed Members relating to the oil and gas industry. We are satisfied that all of the Interviewed Members possess extensive and prolonged experience in the oil and gas industry, and that Dr. Hui also has widespread investments and business relationships in the Republic of Madagascar and the PRC. Having this being the case, we are of the opinion that the Company has the basic internal technical knowledge to monitor and supervise the oil and gas exploration, exploitation and operation at Madagascar Oilfield Block 3113. In this relation, we are also advised by the Company that in the event that the Framework Agreement does not proceed, the Company would consider hiring additional qualified professionals to assist the Members to oversee the oil and gas exploration, exploitation and operation work. Therefore, we concur with the Directors that the Company would be capable to manage Madagascar Oilfield Block 3113 internally.

Overview of the crude oil and gas industry in the world

According to the Statistic Review of World Energy Full Report 2006 released by BP Global, the crude oil price has been increasing rapidly since 2003. The average price of the Brent crude oil quoted from Bloomberg in 2006 was US$65.41 per barrel, representing a surge of approximately 70% as compared to 2004. Moreover, the global oil consumption reached approximately 82,459,000 barrels per day in 2005, representing an increase of approximately 1.2% as compared to 2004.

Set out below is a table showing the crude oil consumption by major countries and regions over the world for five years from 2001 to 2005:

	2001	**2002**	**2003**	**2004**	**2005**
		(Thousand barrels daily)			
Total North America	23,571	23,665	24,050	24,877	24,875
of which USA	*19,649*	*19,761*	*20,033*	*20,732*	*20,655*
Total Europe	16,116	16,059	16,151	16,334	16,415
Total Asia Pacific	20,998	21,644	22,359	23,586	23,957
of which China	*4,872*	*5,288*	*5,803*	*6,772*	*6,988*
Others	15,694	15,912	16,095	16,647	17,212
Total World	76,379	77,280	78,655	81,444	82,459

Source: Statistic Review of World Energy Full Report 2006, BP Global

From the above table, we note that North America, Europe and Asia Pacific, being the major consumers of crude oil in the world, recorded a growth on crude oil consumption of approximately 5.53%, 1.86% and 14.09% respectively from 2001 to 2005. During the period from 2001 to 2005, the worldwide consumption of crude oil had also been showing a persistent increasing trend with the PRC as the main driver for such growth. The Directors expect that leveraging on the potential economic expansion in the PRC, the demand for crude oil in the PRC would continue to be strong and this could likely support the worldwide demand for crude oil in the future. Accordingly, the Directors are of the view that the Acquisition, which allows the Group to tap into the world's oil and gas industry, will strengthen the Group's future financial performance and business growth and therefore is in the interests of the Company and the Shareholders as a whole.

Having taken into account (i) the stagnant financial performance of the Group in recent years; (ii) the possible going concern problem of MEIL and the risks which will result from the Acquisition (details of which will be set out in the section headed "Risk factors" of this letter) as balanced by the prospects of the upcoming opportunities of the Group in relation to the entering into the world's oil and gas industry; and (iii) the positive outlook of the world's oil and gas industry, we consider that the Acquisition would be beneficial to the Group's overall future business development. Taken into account also (i) the prospective oil resources of approximately 183 million barrels at Madagascar Oilfield Block 3113 as based on by the Valuer to estimate the value of MEIL (details of which will be set forth in the paragraph headed "Basis of Consideration" of this letter); (ii) Shaanxi Yanchang being an experienced and profitable operator in the oil and gas industry; and (iii) the capability of the Group's internal management team, we concur with the Directors that the Production Sharing Agreement and the Framework Agreement would present optimistic business prospects to MEIL. As a result, it would be advantageous for the Company to further acquire the remaining 93% equity interest in MEIL and thus we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

(2) Principal terms of the Agreement and the Supplemental Agreement

Basis of the Consideration

Pursuant to the Agreement and the Supplemental Agreement, the Company agreed to acquire from the Vendor the Sale Shares, representing 93% of the issued share capital of MEIL, and the rights and benefits in the Shareholder's Loan owed by MEIL to the Vendor as at Completion. The aggregate value of the consideration of the Acquisition is HK$800 million (the "Consideration") which shall be settled by the Company in the following manner upon Completion:

(i) HK$10 million shall be paid in cash, which will be financed by the internal financial resources of the Group;

(ii) HK$90 million shall be satisfied by the issue of a bond, with maturity of three years and fixed interest rate of 5.0% per annum, to the Vendor (the "Bond");

(iii) HK$300 million shall be satisfied by the issue of 1,250,000,000 new Shares at HK$0.24 (the "Issue Price") per Consideration Share; and

(iv) HK$400 million shall be satisfied by the issue of Convertible Note at a conversion price of HK$0.24 (the "Conversion Price") per Conversion Share.

As confirmed by the Directors, the Consideration was determined after arm's length negotiations between the Company and the Vendor primarily with reference to the estimated preliminary value of Madagascar Oilfield Block 3113 of not less than HK$880 million in December 2006.

As mentioned in the section headed "Introduction" of this letter, the Company acquired 7% equity interest in MEIL in June 2006 and the consideration was HK$1. Since the benefit arising from the then acquisition was not certain and it was the first time the Company participated in the oil and gas exploration and operation business in the Republic of Madagascar pursuant to the Production Sharing Agreement, the Directors were satisfied that it is the fair value of the consideration determined at the date of the then acquisition agreement. As for the Acquisition, the Consideration had been determined based on the estimated preliminary value of Madagascar Oilfield Block 3113 and is at a discount of approximately 9%. In light of that the consideration was at discount to the value of Madagascar Oilfield Block 3113 and MEIL would have an optimistic growing potential, we concur with the Directors that the Consideration was fairly and reasonably determined.

Furthermore, based on the Valuation Report, the estimated value of MEIL as at 28 February 2007 was approximately HK$3,900 million. We have reviewed the Valuation Report and enquired into the Valuer on the methodology adopted and the assumptions used in arriving at the aforesaid valuation of MEIL. The Valuer carried out a site visit at Madagascar Oilfield Block 3113 in mid January 2007 and adopted the market approach which provides indication of value by comparing the subject to similar assets which have been sold in the market for valuation of MEIL. In this relation, the Valuer estimated the adjusted weighted average price-to-barrel ratio ("P/BR") as 2.7774 based on the comparable transactions and the Valuer also used the estimated amount of prospective oil resources of approximately 183 million barrels to determine the market value of MEIL. Regarding the use of comparable transactions, we were advised by the Valuer that when using the market approach, "outlier" transactions may occasionally occur and they reflect particularly motivated buyers or sells for the asset, leading to skewed price multiples that cannot be used together with other more appropriate price multiples for the valuation. In the course of choosing the comparable transactions, the Valuer identified nine possible comparable transactions in total, of which three were considered by the Valuer as "outliers" since their adjusted weighted average P/BR did not conform with the generally accepted principle that P/BR should be positively proportional to the oil prices. Besides that, the Valuer could not obtain sufficient information for assessment purpose for two of the other possible comparable transactions. Therefore, the Valuer only applied four comparable transactions for the valuation of MEIL. As for the estimated amount of prospective oil resources at Madagascar Oilfield Block 3113, we understand that such estimate has been arrived at by the Technical Adviser after a prospect risk assessment. The estimate belongs to the "best estimate" under the "Risked" scenario and was recommended by the Technical Adviser to be the most appropriate estimation of the prospective oil resources at Madagascar Oilfield Block 3113. The Valuer then calculated the estimated value of MEIL by multiplying the adjusted weighted average P/BR by the said amount of prospective oil resources at Madagascar Oilfield Block 3113 with a discount of 3% for excess transportation cost. Furthermore, as also advised by the Valuer, there are three generally accepted valuation methodologies, namely the market approach, the income approach and the cost approach. Since the income approach has to make more assumptions than the other two approaches and the cost approach only considers the costs of recreating MEIL and the costs may not represent the market values, the Valuer considered the market approach to be the most appropriate for the valuation of MEIL. During our discussion with the Valuer, we consider the aforementioned principal basis and assumptions used in arriving at the valuation of MEIL to be fair and reasonable and since the Consideration was at a discount of approximately 77.94% to 93% of the estimated value of MEIL, we are of the opinion that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

The Bond

We have enquired into the Directors and the Directors confirmed that the Group did not have any bank borrowings as at the Latest Practicable Date. Having this being the case, we are unable to compare the interest rate of the Bond with the Group's other borrowings and we thus use the best lending rate as quoted from The Hongkong and Shanghai Banking Corporation Limited (the "Best Lending Rate") for comparison purpose. In this regard, we note that the Best Lending Rate was 7.75% as at the Latest Practicable Date while the interest rate of the Bond is 5% per annum. Therefore, we are of the view that the issue of the Bond, which does not impose any immediate cash outflow from the Company, would reduce the cost of borrowings of the Company and hence is in the interests of the Company and the Shareholders as a whole.

The Consideration Shares

According to the terms of the Agreement, part of the Consideration will be satisfied by the issue of 1,250,000,000 new Shares at Completion at the Issue Price of HK$0.24 per Consideration Share, which was determined with reference to the share price performance of the Company during the period of negotiation between the Company and the Vendor.

The Issue Price represents a discount to the closing price of the Shares in the following manner:

	Share Price *(HK$)*	**Discount of the Issue Price to the closing price of the Shares**
As at the Latest Practicable Date	2.260	89.38%
As at the Last Trading Day	0.300	20.00%
Five-day average up to and including the Last Trading Day	0.271	11.44%
Ten-day average up to and including the Last Trading Day	0.261	7.87%

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 2 January 2006 up to and including the Last Trading Day (the "Review Period") and for the period from 10 January 2007 to the Latest Practicable Date are shown as follows:

Month	**Highest closing price** *HK$*	**Lowest closing price** *HK$*	**Average daily closing price** *HK$*
2006			
January	0.210	0.140	0.166
February	0.155	0.138	0.145
March	0.186	0.145	0.158
April	0.175	0.150	0.160
May	0.164	0.140	0.153
June	0.180	0.138	0.166
July	0.305	0.157	0.196
August	0.228	0.196	0.212
September	0.255	0.196	0.219
October	0.236	0.205	0.219
November	0.270	0.205	0.219
December	0.265	0.235	0.254
2007			
January (up to and including the Last Trading Day)	0.300	0.290	0.295
January (from 10 January 2007 onwards) *(Note 1)*	0.650	0.290	0.460
February	0.760	0.495	0.638
March	1.140	0.590	0.727
April *(Note 2)*	2.060	1.400	1.577
May (up to and including the Latest Practicable Date)	2.260	2.000	2.143

Notes:

1. Trading in the Shares was suspended from 4 January 2007 to 9 January 2007 (both days inclusive).

2. Trading in the Shares was suspended on 3 April 2007 and 4 April 2007.

Source: the Stock Exchange web-site (www.hkex.com.hk)

The above table illustrates that the average daily closing prices of the Shares during the Review Period ranged from HK$0.145 to HK$0.295 per Share. During the Review Period, the Issue Price was at a premium over the monthly average daily closing prices of the Shares with the exception of those in December 2006 and January 2007. Upon the release of the Announcement, the closing price of the Shares increased by approximately 653.33% from HK$0.30 per Share as at the Last Trading Day to HK$2.260 per Share as at the Latest Practicable Date. We have enquired into the Directors and the Directors confirmed that they are not aware of any significant occurrences save and except for the release of the Announcement and the possible entering into the Agreement which may trigger the aforementioned fluctuation in the closing price of the Shares. Therefore, the price movement in the Shares after the release of the Announcement and up to the Latest Practicable Date represents, in our opinion, a positive response from the market to the Acquisition and reflects the market's perception of the potential benefits to the Company upon Completion. For this reason, we also consider that it is more reasonable and appropriate to assess the fairness and reasonableness of the Issue Price and the Conversion Price based on the closing price of the Shares on the Last Trading Day.

To further evaluate the fairness and reasonableness of the Issue Price, we have also identified, to the best of our knowledge, all acquisition transaction by companies listed in Hong Kong which involved the issue of shares to satisfy all or part of the consideration from 1 June 2006 to the date of the Agreement (the "Issue Price Comparables"). The table below demonstrates our relevant findings:

Company name	Stock code	Date of announcement	Issue price of the consideration shares *(HK$)*	Premium/ (discount) of the issue price over/to the closing price of the shares as at the last trading day prior to the release of the announcement %
Shenzhen High-Tech Holdings Limited	106	28 December 2006	0.023	(14.81)
China Resources Land Limited	1109	20 November 2006	6.448	(5.04)
China Merchants (Holdings) International Company Limited	144	15 November 2006	23.30	(5.67)

Company name	Stock code	Date of announcement	Issue price of the consideration shares (HK$)	Premium/ (discount) of the issue price over/to the closing price of the shares as at the last trading day prior to the release of the announcement %
Shell Electric MFG. (Holdings) Company Limited	81	26 October 2006	2.40	(5.51)
Chinainfo Holdings Limited	8206	26 October 2006	4.5	12.50
Qualipak International Holdings Limited	1224	28 September 2006	0.28	(8.20)
Pearl Oriental Innovation Limited	632	26 September 2006	3.9	17.82
Innomaxx Biotechnology Group Limited	340	10 August 2006	0.4	(41.18)
Jolimark Holdings Limited	2028	31 July 2006	1.34	(1.47)
Yanion International Holdings Limited	82	13 July 2006	0.63	(30.00)
Everbest Century Holdings Limited	578	4 July 2006	0.32	16.36
Hantec Investment Holdings Limited	111	29 June 2006	0.68	1.49
Kanstar Environmental Paper Products Holdings Limited	8011	13 June 2006	0.282	(19.43)
Inner Mongolia Development (Holdings) Limited	279	9 June 2006	0.2	16.96
Average				**(4.73)**
Maximum				**17.82**
Minimum				**(41.18)**
The Company				**(20.00)**

As shown by the above table, the issue prices of the consideration shares of the 14 Issue Price Comparables which we have found ranged from a discount of approximately 41.18% to a premium of approximately 17.82% to the respective closing prices of their shares as at the last trading day prior to the release of the relevant issue of consideration shares announcements. Out of the 14 Issue Price Comparables, a majority of nine's issue prices of the consideration shares represented discounts to the respective closing prices of their shares as at the last trading days. Accordingly, the Issue Price, which represents a discount of 20% to the closing price of the Shares on the Last Trading Day, falls within the said market range and although it is below average of that of the Issue Price Comparables, we consider the discount to be acceptable.

To conclude, having considered the historical share price performance of the Company and the market analysis as detailed above, we are of the view that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

The Convertible Note

Pursuant to the Agreement and the Supplemental Agreement, the Convertible Note with principal amount of HK$400 million will be issued to satisfy part of the Consideration. The Convertible Note is interest free and of a term of five years.

The Conversion Price per Conversion Share of HK$0.24 represents:

	Share price *(HK$)*	**Discount of the Conversion Price to the closing price of the Shares**
As at the Latest Practicable Date	2.260	89.38%
As at the Last Trading Day	0.300	20.00%
Five-day average up to and including the Last Trading Day	0.271	11.44%
Ten-day average up to and including the Last Trading Day	0.261	7.87%

To assess and compare the terms of the Convertible Note, we have identified, to the best of our knowledge, all acquisition transactions by companies listed in Hong Kong which involved the issue of convertible note to satisfy all or part of the consideration from 1 June 2006 to the date of the Agreement. The table below summarises our relevant findings:

Company	Stock Code	Date of Announcement	Term	Annual interest rate	Premium/ (discount) of conversion price over/to the closing price of the shares as at the last trading day prior to the release of the announcement
			(years)	%	%
Far East Consortium International Limited	35	21 December 2006	5	nil	14.97
Asia Standard Hotel Group Limited	292	19 December 2006	4	nil	10.53
139 Holdings	139	19 October 2006	4	nil	54.93
Qualipak International Holdings Limited	1224	28 September 2006	10	2	(8.20)
Teem Foundation Group Limited	628	18 September 2006	10	5	(39.02)
Wing Shan International Limited	570	22 August 2006	3.5	3	6.25
Yanion International Holdings Limited	82	13 July 2006	3	nil	(30.00)
Everbest Century Holdings Limited	578	4 July 2006	3	1	27.27
K.P.I. Company Limited	605	4 July 2006	2	nil	45.45
Daido Group Limited	544	7 June 2006	5	nil	(3.33)
China HealthCare Holdings Limited	673	28 April 2006	4	2.00	(31.78)

Company	Stock Code	Date of Announcement	Term	Annual interest rate	Premium/ (discount) of conversion price over/to the closing price of the shares as at the last trading day prior to the release of the announcement
			(years)	%	%
CCT Telecom Holdings Limited	138	28 April 2006	3	nil	(2.59)
Yue Da Holdings Limited	629	7 April 2006	3	3.50	(11.11)
Cheung Tai Hong Holdings Limited	199	7 February 2006	4.5	nil	12.82
Average				**1.18**	**3.30**
Maximum				**5.00**	**54.93**
Minimum				**nil**	**(39.02)**
The Company			**5**	**nil**	**(20.00)**

The conversion prices of the 14 convertible note comparables (the "CN Comparables") which we have found ranged from a discount of approximately 39.02% to a premium of approximately 54.93% to the respective closing prices of their shares as at the last trading day prior to the release of the relevant issue of convertible notes announcements. We notice that such range of the CB Comparables are relatively wide which may indicate the market's inconclusiveness in determining the price of convertible notes. Nevertheless, since the Conversion Price, which represents a discount of 20% to the closing price of the Shares on the Last Trading Day, falls within the said market range although is below the average, we consider that it is still acceptable.

In addition, the Convertible Note is interest free for its entire period while the convertible note comparables bear an interest rate ranging from 0% to 5% per annum. We consider that the issue of interest free Convertible Note could lower the financial cost of borrowing for the Company.

We have also reviewed the other terms of the Convertible Note and are not aware of any terms which are exceptional to normal market practice. Having considered as well the market analysis regarding the Conversion Price and the interest rate of the Convertible Note as detailed above, we are of the view that the terms of the Convertible Note is fair and reasonable so far as the Independent Shareholders are concerned.

In relation to other terms of the Agreement (including the Supplemental Agreement), we have also reviewed them and are not aware of any terms which are uncommon to normal market practice. In light of this, we consider that the terms of the Agreement and the Supplemental Agreement (including those on the Consideration, the Bond, the Issue Price, the Conversion Price and other terms of the Convertible Note) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

(3) Potential dilution to the shareholdings of the Independent Shareholders

As at the Latest Practicable Date, 1,316,700,000 Shares were in issue. The 1,250,000,000 Consideration Shares represent (i) approximately 94.9% of existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 47.4% of the issued share capital of the Company after the Proposed Share Placement and as enlarged by the Consideration Shares but before the Placing.

Furthermore, upon the full conversion of the Convertible Note, a total of 1,666,666,666 Shares will be issued, representing (i) approximately 126.6% of the existing issued share capital as at the Latest Practicable Date; and (ii) and approximately 38.7% of the issued share capital of the Company after the Proposed Share Placement and the Placing, and as enlarged by the Consideration Shares and the full conversion of the Convertible Note.

The table below shows the change in the shareholding structure of the Company (i) as at Latest Practicable Date; (ii) immediately after the completion of Proposed Share Placement; (iii) immediately after the issue of Consideration Shares but before the placing of the Shares by the Vendor which was announced on 11 January 2007 (the "Placing"); (iv) immediately after the issue of Consideration Shares and the Placing; and (v) immediately after the issue of Consideration Shares, the Placing and exercise in full of the Convertible Note:

	As at Latest Practicable Date		Immediately after the Proposed Share Placement		Immediately after the issue of Consideration Shares but before the Placing		Immediately after the issue of Consideration Shares and the Placing		Immediately after the issue of Consideration Shares, the Placing and exercise of the Convertible Note in full	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Wisdom On Holdings Limited *(Note 1)*	750,080,000	57.0	750,080,000	54.1	750,080,000	28.5	750,080,000	28.5	750,080,000	17.4
The Vendor *(Note 2)*	–	–	–	–	1,250,000,000	47.4	705,860,000	26.8	2,372,526,666	55.2
Sub-total of shareholdings held by Dr. Hui and his concert parties	750,080,000	57.0	750,080,000	54.1	2,000,080,000	75.9	1,455,940,000	55.3	3,122,606,666	72.6
Existing public Shareholders	566,620,000	43.0	566,620,000	40.9	566,620,000	21.5	566,620,600	21.5	566,620,000	13.1
Placee 1 *(Note 3)*	–	–	69,500,000	5.0	69,500,000	2.6	69,500,000	2.6	69,500,000	1.6
Placee 2 *(Note 4)*	–	–	–	–	–	–	544,140,000	20.6	544,140,000	12.7
Total	1,316,700,000	100.0	1,386,200,000	100.0	2,636,200,000	100.0	2,636,200,000	100.0	4,302,866,666	100.0

Notes:

1. Wisdom On Holdings Limited is wholly-owned by Dr. Hui.

2. The Vendor is wholly-owned by Dr. Hui.

3. On 3 April 2007, the Company entered into a subscription agreement with Foshan Electricity Fuel Company pursuant to which Foshan Electricity Fuel Company (Placee 1) has agreed to subscribe for 69,500,000 Shares in cash. As at the Latest Practicable Date, the Proposed Share Placement was not completed.

4. On 11 January 2007, the Vendor had conditionally placed 544,140,000 existing Shares to independent third parties (Placee 2) who are not connected with the Company. As at the Latest Practicable Date, the Placing was not completed.

The shareholding interests of the existing Independent Shareholders will be reduced from approximately 43.0% to:

(i) approximately 21.5% immediately after the Proposed Share Placement and the issue of the Consideration Shares but before the exercise of the Convertible Note; and

(ii) approximately 13.1% immediately after the Proposed Share Placement, the issue of the Consideration Shares, the Placing, and exercise of the Convertible Note in full.

Moreover, Shareholders should note that the shareholding interests of the existing Independent Shareholders may subject to further dilution in the event that the Company carries out equity fund raising activities, which will be detailed in the paragraph headed "Conclusion" of the section headed "Financial effects of the Acquisition" in this letter.

Although the shareholding interests of the existing Independent Shareholders will be diluted in the above listed extent as a result of the issue of Consideration Shares and the full conversion of the Convertible Note and the possible fund raising activities of the Company, as balanced by (i) the potential benefits that the Acquisition would bring to the Company (the details of which has been set forth in the section headed "Background of and reasons for entering into the Agreement (including the Supplemental Agreement) of this letter); (ii) the terms of the Agreement (including the Supplemental Agreement) being fairly and reasonably set; and (iii) the shareholding interests of the existing Independent Shareholders will be diluted proportionally, we consider that the aforementioned dilution effect are acceptable.

(4) Financial effects of the Acquisition

Effect on net asset value

As extracted from the Interim Report, the unaudited net asset value of the Group was approximately HK$208,080,000 as at 30 September 2006. Furthermore, with reference to the accountants' report on MEIL as set out in Appendix II to the Circular, MEIL recorded an audited net liabilities of approximately HK$(3,411,250) as at 31 December 2006. According to the unaudited pro forma consolidated balance sheet of the Group as at 30 September 2006 as set out in Appendix III to the Circular, the unaudited pro forma net asset value of the Group would be increased by approximately 210.69% to approximately HK$646,480,000 upon Completion since the Group would record approximately HK$799,906,000 as goodwill for the Acquisition and its share capital would also be increased after the issue of the Consideration Shares; while the non-current liabilities of the Group would be increased due to the issue of the Bond and the Convertible Note.

Effect on earnings

Upon Completion, MEIL will become a wholly-owned subsidiary of the Company and the Group would be able to consolidate 100% of its profits/loss into the Group's financial statements. With reference to the accountants' report on MEIL as set out in Appendix II to the Circular, MEIL recorded an audited net loss of approximately HK$(927,424) from 1 April 2006 to 31 December 2006. As stated in the unaudited pro forma consolidated income statement of the Group for the year ended 31 March 2006 as set out in Appendix III to the Circular, assuming the Acquisition has been completed on 1 April 2005, the net loss attributable to the shareholders of the Company from the continuing operation would be amounted to approximately HK$(24,349,000) largely as a result of the finance costs of the interest expenses from the Bond and the Convertible Note. However, the Directors expected that MEIL would be able to generate a significant amount of profits from the oil and gas exploration, exploitation and operation at Madagascar Oilfield Block 3113. In view of the reasons as set forth in the section headed "Background of and reasons for entering into the Agreement (including the Supplemental Agreement) of this letter", we concur with the Directors that the business prospects of MEIL will be positive and hence the Acquisition would likely to have a positive impact on the future earnings of the Group.

Effect on gearing

According to the Board Letter, the gearing level of the Group, which is calculated as total liabilities divided by total assets, was approximately 0.21 times before Completion. The Directors also confirmed that the Company would pay HK$10 million in cash and HK$90 million by the issue of the Bond to satisfy part of the Consideration. Therefore, upon Completion, the total liabilities of the Group would be increased by (i) the issue of the Bond; and (ii) the issue of the Convertible Note. With reference to the Board Letter, the gearing level of the Group would be increased to approximately 0.39 times upon Completion.

Effect on working capital

As mentioned above, the Directors confirmed that the Company would pay HK$10 million in cash for settlement of part of the Consideration. Therefore, the working capital of the Group would be reduced by HK$10 million. In addition, as mentioned in the foregoing, based on the estimation of the Directors, the funding requirement of the Enlarged Group for the next 24 months will amount to approximately HK$722 million and total capital investment for Madagascar Oilfield Block 3113 is approximately US$200 million.

Conclusion

Given the aforementioned financial effects of the Acquisition on the Group, we note that the gearing level and working capital of the Group would be inevitably increased and decreased respectively due to the source of funding of the Consideration. Having taken into account the funding requirement of the Enlarged Group for the next 24 months of approximately HK$722 million and the total capital investment for Madagascar Oilfield Block 3113 of approximately US$200 million, we are of the view that the Group may not be able to satisfy such funding requirement based on its internal resources. In this regard, the Directors confirmed that the Company would consider other sources of financing, including both equity financing and debt financing, as when necessary and appropriate, to raise funds. Accordingly, the shareholding interests of the existing Independent Shareholders in the Company may be further diluted if the Company conducts equity financing or the Group's future gearing level may increase if the Company conducts debt financing. The working capital position of the Group may also increase after the Company conducts those fund raising activities. Nevertheless, we have also discussed with the Company and are given to understand that the Directors expect that the production or exploitation at Madagascar Oilfield Block 3113 would commence in 2010 and the Directors expect that, and we concur, it would take approximately five to six years to recover the Consideration of HK$800 million based on the cashflow forecast of MEIL as prepared by the Company. Having also considered the possible future improved earning position of the Group which would be resulted from the exploration, exploitation and operation of oil and gas at Madagascar Oilfield Block 3113, we are of the opinion that the entering into the Agreement (including the Supplemental Agreement) is in the interests of the Company and the Shareholders as a whole.

(5) Risk factors

The Acquisition will increase the level of risk exposure of the Group. Independent Shareholders may need to be aware of the following risk factors when considering the Acquisition:

(i) Renewal of oil and gas exploration and exploitation rights

According to the Production Sharing Agreement, MEIL was vested with the right to engage in (i) oil and gas exploration for 8 years; (ii) oilfield development for 5 years and; (iii) exploitation and operation for 25 years (for oil) and 35 years (for gas) respectively at Madagascar Oilfield Block 3113. Any problem, delay or failure in extending the oil and gas exploration, exploitation and operation rights may result in delay or prohibition in carrying out the exploration, exploitation and operation of oil and gas at Madagascar Oilfield Block 3113.

(ii) Uncertainty about estimated resources/reserves

The level of capital investment and amount of prospective oil and gas resources at Madagascar Oilfield Block 3113 represent estimates only. Actual expenditure and production may differ materially from these estimates. There are several factors, assumptions and variables involved in estimating resources and production level which are beyond the operator's control and may prove to be incorrect over time.

(iii) Volatility of oil prices

The market price of crude oil may fluctuate in response to changes in many factors beyond the control of the Group, including global demand, level of technology in producing recycle energy and general economic and political conditions around the world.

(iv) Poor infrastructure and transportation facilities

We are aware of that the existing infrastructure and transportation facilities nearby Madagascar Oilfield Block 3113 have not been well developed. Due to this reason, the Valuer has incorporated a 3% discount for excess transportation cost when estimating the fair value of MEIL and according to the Valuer, such discount was reasonably made after comparing the infrastructure and transportation facilities nearby Madagascar Oilfield Block 3113 with other more nature oilfields in other countries. The production cost at Madagascar Oilfield Block 3113 may increase if there is no improvement in this respect.

(v) Regulatory issues and political and economic factors

The operations of Madagascar Oilfield Block 3113 are subject to regulation by the government of the Republic of Madagascar. In particular, the Company may also subject to various environmental protection laws and regulations in the Republic of Madagascar, including those on discharge of waste substances. As a result, the Company may face significant constraints on its ability to implement is business strategies. Furthermore, the operations of Madagascar Oilfield Block 3113 would also be adversely affected should there be any political or economic instability in the Republic of Madagascar.

RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we outline the principal factors and reasons as follows:

– With reference to the Group's overall financial performance as set out in the section headed "Business Overview of the Group" of this letter, the competition in the market of PU Materials was continuously rigorous. Therefore, we consider that it is commercially sensible for the Group to seek for other business opportunities so as to diversify its existing business.

– The future development prospect of MEIL would be encouraging given its involvement at Madagascar Oilfield Block 3113, the entering into the Production Sharing Agreement and the Framework Agreement.

– The Company possesses sufficient basic internal expertise in the field of oil and gas exploration, exploitation and operation and would hire qualified professionals as when necessary.

– The limited supply and the continuous demand of oil and gas in the world market and the increasing trend of the price of crude oil since 2003.

– The terms of the Agreement (including the Supplemental Agreement), comprising the Consideration, the Bond, the Issue Price, the Conversion Price and other terms of the Convertible Note, in comparison to the relevant comparables in the market, are determined on a fair and reasonable basis.

– The dilution effect of the shareholding interests of the existing Independent Shareholders in the Company.

– The financial effects of the Acquisition to the Group, including (i) the probable increase in net asset value, future earnings and gearing level of the Group; (ii) the existing working capital position of the Group and the future funding requirement of the Enlarged Group and the time for recovery of the Consideration.

– The risk factors as outlined above.

After balancing the benefits and shortfalls of the Acquisition as mentioned in the foregoing, we are of the opinion that the Acquisition is on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. In addition, we are also of the view that the terms of the Agreement (including the Supplemental Agreement) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the forthcoming SGM to approve the Agreement (including the Supplemental Agreement) and all transactions contemplated therein and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
South China Capital Limited
Graham Lam
Director

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the three years ended 31 March 2006, as extracted from the audited financial statements of the Company, is set out below.

Results

	For the year ended 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Turnover	618,708	884,347	453,344
Profit before taxation	17,948	3,094	15,390
Taxation	(2,381)	(4,445)	(2,528)
Net profit/(loss) attributable to Shareholders	15,567	(1,351)	12,862
Basic Earnings/(Loss) per Share	HK1.3 cents	(HK0.1 cent)	HK1.2 cents
Diluted Earnings/(Loss) per Share	HK1.1 cents	N/A	HK1.1 cents
Dividend per Share	–	–	–

Assets and Liabilities

	As at 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Total assets	231,842	433,247	259,582
Total liabilities	(55,402)	(270,357)	(97,358)
Net assets/(liabilities)	176,440	162,890	162,224

There was no qualification in the auditors' reports issued by HLB for each of the three years ended 31 March 2006 as set out in the annual reports of the Company for the respective years.

Note: In 2006, the Group adopted the new/revised standards and interpretations of Hong Kong Financial Reporting Standards which are effective for accounting periods commencing on or after 1 January 2006 and thus the 2005 figures have been amended and restated as required in accordance with the relevant requirements. The figures for 2004 have also been restated to conform with the presentation of the financial statements for the year ended 31 March 2005 in accordance with the new/revised standards and interpretations of Hong Kong Financial Reporting Standards adopted in 2005.

2. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2006

Set out below is a summary of the audited consolidated accounts of the Company for the year ended 31 March 2006 as extracted from the 2006 annual report of the Company. References to page number in this appendix are to the page numbers of such annual report of the Company.

CONSOLIDATED BALANCE SHEET
at 31 March 2006 (in HK Dollars)

	Notes	2006 *HK$'000*	2005 *HK$'000* (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	541	141,570
Land use rights	*7*	–	11,587
Goodwill	*8*	–	16,511
		541	169,668
Current assets			
Inventories	*10*	9,121	41,308
Financial assets at fair value through profit or loss	*11*	–	7,967
Trade receivables	*12*	158,684	152,322
Prepayments, deposits and other receivables		57,468	55,736
Cash and bank balances		6,028	6,246
		231,301	263,579
Total assets		231,842	433,247
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*14*	23,940	23,940
Reserves	*15*	152,500	138,950
Total equity		176,440	162,890
LIABILITIES			
Current liabilities			
Trade and bills payables	*16*	15,758	32,699
Tax payable		28,411	47,833
Other payables and accruals		5,916	56,803
Amount due to a holding company	*17*	5,234	12,406
Bank borrowings	*18*	–	93,623
Obligations under finance leases – due within one year	*19*	–	669
		55,319	244,033

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Non-current liabilities			
Convertible bond	20	–	25,054
Obligations under finance leases			
– due after one year	19	–	1,187
Deferred taxation	21	83	83
		83	26,324
Total liabilities		55,402	270,357
Total equity and liabilities		231,842	433,247
Net current assets		175,982	19,546
Total assets less current liabilities		176,523	189,214

BALANCE SHEET
at 31 March 2006 (in HK Dollars)

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
ASSETS			
Non-current assets			
Interests in subsidiaries	9	106,364	139,005
Current assets			
Prepayments, deposits and other receivables		–	73
Amount due by a subsidiary	13	–	17,800
Cash and bank balances		5,549	2
		5,549	17,875
Total Assets		111,913	156,880
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	23,940	23,940
Reserves	15	65,826	102,373
Total equity		89,766	126,313
LIABILITIES			
Current liabilities			
Amount due to a holding company	17	1,252	4,513
Amounts due to subsidiaries	13	19,785	248
Other payables and accruals		1,110	752
		22,147	5,513
Non-current liabilities			
Convertible bond	20	–	25,054
Total liabilities		22,147	30,567
Total equity and liabilities		111,913	156,880
Net current (liabilities)/assets		(16,598)	12,362
Total assets less current liabilities		89,766	151,367

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March 2006 (in HK Dollars)

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	26		
Continuing operation		577,729	652,717
Discontinued operation	25	40,979	231,630
		618,708	884,347
Cost of sales		(592,478)	(845,668)
Gross profit		26,230	38,679
Other revenue	26	7	2,345
Other income	26	810	80
Selling and distribution costs		(1,720)	(945)
Administrative expenses		(22,426)	(31,165)
Profit from operating activities	27	2,901	8,994
Gain on disposal of subsidiaries	24	18,638	112
Finance costs	30	(3,591)	(6,012)
Profit before taxation			
Continuing operation		2,986	8,717
Discontinued operation	25	14,962	(5,623)
		17,948	3,094
Taxation	31		
Continuing operation		(2,381)	(4,445)
Discontinued operation		–	–
		(2,381)	(4,445)

	Notes	2006 *HK$'000*	2005 *HK$'000* (Restated)
Net profit/(loss) attributable to equity holders of the Company			
Continuing operation		605	4,272
Discontinued operation	*25*	14,962	(5,623)
		15,567	(1,351)
Earnings/(loss) per share	*34*		
From continuing and discontinued operation			
Basic		HK1.30 cents	(HK0.11 cents)
Diluted		HK1.14 cents	N/A
From continuing operation			
Basic		HK0.05 cents	HK0.36 cents
Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

at 31 March 2006 (in HK Dollars)

	Share capital	Share premium	Contributed surplus	Convertible bond reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	(Restated)	(Restated)
At 1 April 2004	23,940	53,127	3,156	–	82,001	162,224
Effect on adoption of HKAS 39	–	–	–	2,017	–	2,017
Net loss for the year	–	–	–	–	(1,351)	(1,351)
As restated at 31 March 2005 and 1 April 2005	23,940	53,127	3,156	2,017	80,650	162,890
Redemption of convertible bond	–	–	–	(2,017)	–	(2,017)
Net profit for the year	–	–	–	–	15,567	15,567
At 31 March 2006	23,940	53,127	3,156	–	96,217	176,440

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 March 2006 (in HK Dollars)

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	17,948	3,094
Adjustments for:		
Interest income	(7)	(2)
Depreciation	2,117	6,014
Amortisation of goodwill	–	1,179
Sales tax	–	3,737
Provision for impairment loss on trade receivables	–	3,773
Gain on disposal of property, plant and equipment	(772)	(62)
Gain on disposal of subsidiaries	(18,638)	(112)
Finance costs	3,591	6,012
Operating profit before working capital changes	4,239	23,633
Decrease in inventories	6,072	14,103
Increase in financial assets at fair value through profit or loss	(153)	–
(Increase)/decrease in trade receivables	(7,305)	860
Increase in prepayments, deposits and other receivables	(4,691)	(13,056)
Increase/(decrease) in trade and bills payables	2,114	(42,127)
(Decrease)/increase in amount due to holding company	(8,024)	3,543
(Decrease)/increase in other payables and accruals	(13,679)	16,721
Cash (used in)/generated from operations	(21,427)	3,677
Interest received	7	2
Net cash (outflow)/inflow from operating activities	(21,420)	3,679
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales proceeds from disposal of property plant and equipment	1,856	440
Purchases of property, plant and equipment	(33)	(32,575)
Purchase of a subsidiary, net	–	(34,936)
Proceed from disposal of subsidiaries, net	50,716	(28)
Decrease in pledged bank deposits	–	8,207
Net cash inflow/(outflow) from investing activities	52,539	(58,892)

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of convertible bond	–	26,813
Repayment of bank loans	–	(943)
New finance leases	–	2,120
Capital element of finance lease payments	(1,856)	(606)
Redemption of convertible bond	(26,813)	–
Finance costs paid	(2,668)	(6,012)
Net cash (outflow)/inflow from financing activities	(31,337)	21,372
NET DECREASE IN CASH AND CASH EQUIVALENTS	(218)	(33,841)
Cash and cash equivalents at beginning of year	6,246	40,087
CASH AND CASH EQUIVALENTS AT END OF YEAR	6,028	6,246
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	6,028	6,246

NOTES TO FINANCIAL STATEMENTS

31 March 2006 (in HK Dollars)

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 5 January 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is located at Units 10-12, 19/F., China Merchants Tower, Shun Tak Centre, 168-200 Connuaght Road Central, Sheung Wan, Hong Kong.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The adoption of new/revised HKFRSs

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

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

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

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

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

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

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

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

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

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

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

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

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

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

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31 March 2005, positive goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 5 to 20 years and was subject to impairment testing when there were indications of impairment.

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

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

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

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

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

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

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

– HKFRS 3 – prospectively after 1 April 2005.

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

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

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

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

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

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

Year ended 31 March 2005

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

Year ended 31 March 2006

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

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

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

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

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

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

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

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

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

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

(a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention and modified by the revaluation of certain financial assets at fair value through profit or loss.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 March 2006. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Goodwill

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

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

(d) Subsidiaries

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

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

(e) Impairment of assets

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

(f) Property, plant and equipment

Valuation

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

Depreciation

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

Land use rights	:	Over the unexpired terms of the leases
Building	:	Over the unexpired terms of the leases
Plant and machinery	:	20% – 30% on the reducing balance method
Furniture, fixtures and equipment	:	20% – 30% on the reducing balance method
Motor vehicles	:	30% on the reducing balance method

Gain or loss on disposal

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

(g) Leased assets

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

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

(h) Land use rights

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling prices less any further estimated costs to be incurred to completion and disposal.

(j) Construction in progress

Plant and machinery under construction is stated at specifically identified cost, aggregate cost of development, materials and supplies, wages and other direct expenses, less provision for diminution in value. No depreciation is provided until the completion of the development and when the plant and machinery can be put to effective use.

(k) Investments

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

Non-trading securities

Investments in securities are recognised in a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognized to reflect irrecoverable amounts. The annual amortization of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognized in each period represents a constant yield on the investment.

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

Trading securities

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

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

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

(l) Convertible bond

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

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

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

(m) Cash and cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(n) Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the income statement in the year in which the costs are incurred.

(o) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Group companies

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

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

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

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

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

(p) Provisions

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

(q) Contingent liabilities and contingent assets

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

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

(r) Related parties transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being member or key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(t) Retirement benefits schemes

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

(iii) The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the consolidated income statement or consolidated balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(iv) Share-based payment expenses

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

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

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

(u) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has determined that business segments as the primary reporting format and geographical segment information as secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

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

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

3. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(a) *Market risks*

Foreign exchange risk

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

Price risk

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

(b) *Credit risk*

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

(c) *Liquidity risk*

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

(d) Cash flow and fair value interest rate risk

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

Fair value estimation

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Measurement of convertible bond

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

(b) Income taxes

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

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the polyurethane ("PU") materials segment involves the trading of PU materials, such as isocyanate, polyols and various kinds of PU catalysts.

(b) the petrochemical products segment involves the manufacture and sales of petrochemical fuel products, which was discontinued during the year ended 31 March 2006, details of which are set out in Note 25 to the financial statements.

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

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

(b) Geographical segments

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

The Group

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

6. PROPERTY, PLANT AND EQUIPMENT

The Group	Building	Construction in progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)					(Restated)
Cost:						
At 1 April 2004	–	–	–	1,432	1,034	2,466
Additions	8,621	23,803	4,548	1,295	3,759	42,026
Acquisition of a subsidiary	40,786	–	71,194	664	3,956	116,600
Disposals	–	–	–	–	(1,034)	(1,034)
Disposal of subsidiaries	–	–	–	(240)	–	(240)
Effect on adoption of HKAS 17	(11,704)	–	–	–	–	(11,704)
At 31 March 2005 and 1 April 2005	37,703	23,803	75,742	3,151	7,715	148,114
Additions	–	–	–	33	–	33
Disposals	–	–	–	–	(2,408)	(2,408)
Disposal of subsidiaries	(37,703)	(23,803)	(75,742)	(892)	(5,307)	(143,447)
At 31 March 2006	–	–	–	2,292	–	2,292
Accumulated depreciation:						
At 1 April 2004	–	–	–	667	636	1,303
Charges for the year	1,123	–	2,756	717	1,418	6,014
Written back on disposals	–	–	–	–	(656)	(656)
Effect on adoption of HKAS 17	(117)	–	–	–	–	(117)
At 31 March 2005 and 1 April 2005	1,006	–	2,756	1,384	1,398	6,544
Charges for the year	–	–	1,034	481	602	2,117
Written back on disposals	–	–	–	–	(1,324)	(1,324)
Disposal of subsidiaries	(1,006)	–	(3,790)	(114)	(676)	(5,586)
At 31 March 2006	–	–	–	1,751	–	1,751
Net book value:						
At 31 March 2006	–	–	–	541	–	541
At 31 March 2005	36,697	23,803	72,986	1,767	6,317	141,570

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

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

7. LAND USE RIGHTS

The Group

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

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

8. GOODWILL

The Group

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

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

9. INTERESTS IN SUBSIDIARIES

The Company

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

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

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

Particulars of the subsidiaries of the Company as at 31 March 2006 were as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Market Reach Group Limited	British Virgin Island ("BVI")	Ordinary US$10,000	100	–	Investment holding
Wah Tat Industrial Limited	BVI	Ordinary US$10	–	100	Trading of polyurethane materials
Wah Tat Industrial (Hong Kong) Limited	Hong Kong	Ordinary HK$2 non-voting deferred *(Note)* HK$1,480,000	–	100	Trading of polyurethane materials
Wah Tat Industrial Trading Limited	BVI	Ordinary US$10	–	100	Trading of polyurethane materials
Kurow Agents Limited	BVI	Ordinary US$10	–	100	Provision of transportation services in the PRC
Revolving Maze Trading Limited	BVI	Ordinary US$10	–	100	Provision of marketing and technical support services in the PRC
Harvest Star Investment Limited	BVI	Ordinary US$1	100	–	Investment holding
Prime Rose Investment Limited	BVI	Ordinary US$10	–	100	Trading of polyurethane materials
Minglun Industrial Limited	Hong Kong	Ordinary HK$2	–	100	Provision of administrative services to fellow subsidiaries in Hong Kong
Minglun Industrial (H.K.) Limited	Hong Kong	Ordinary HK$2	–	100	Trading of polyurethane materials
Wah Tat PU Industrial (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	–	100	Trading of polyurethane materials
Glory Hill Group Limited	BVI	Ordinary US$1	100	–	Investment holding
Amistar Enterprises Limited	BVI	Ordinary US$1	100	–	Investment holding
Metro City Group Limited	BVI	Ordinary US$1	100	–	Investment holding
Silverise Group Limited	BVI	Ordinary US$1	–	100	Investment holding
Pilot Wisdom Limited	Hong Kong	Ordinary HK$100	–	100	Investment holding
Panaview Trading Limited	Macau	Ordinary US$1	–	100	Provision of administrative services to fellow subsidiaries

Note:

The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than one half of the balance of such assets after the sum of HK$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the Company in such winding-up).

10. INVENTORIES

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

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

12. TRADE RECEIVABLES

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

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

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

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

13. AMOUNT DUE BY A SUBSIDIARY/AMOUNTS DUE TO SUBSIDIARIES

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

14. SHARE CAPITAL

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

15. RESERVES

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

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

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 30 March 2001, over the nominal value of the shares of the Company issued in exchange therefore.

The contributed surplus of the Company represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange therefore.

(b) The Company had distributable reserves of HK$65,826,000 (2005: HK$102,373,000) at 31 March 2006, which included the Company's contributed surplus in the amount of HK$54,045,000 (2005: HK$54,045,000). Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders of the Company in certain circumstances. In addition, the Company's share premium account, in the amount of HK$53,127,000 (2005: HK$53,127,000) at 31 March 2006, may be distributed in the form of fully paid bonus shares.

16. TRADE AND BILLS PAYABLES

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

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

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

17. AMOUNT DUE TO A HOLDING COMPANY

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

18. BANK BORROWINGS

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

19. OBLIGATIONS UNDER FINANCE LEASES

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

At 31 March 2006, the total future minimum lease payments under the finance leases and their present values, were as follows:

Group

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

20. CONVERTIBLE BOND

Pursuant to the ordinary resolutions passed in a special general meeting of the Company on 24 December 2004, the Company issued a convertible bond in the principal of HK$26,812,800 (the "Convertible Bond") to Wisdom On Holdings Limited (the "Bondholder"), the controlling shareholder of the Company. The Bondholder may at any time after the expiry of the period of six months from the date of issue of the Convertible Bond up to the second anniversary of the issue of the Convertible Bond convert the whole or part of the principal amount of the Convertible Bond into shares of HK$0.02 each in the share capital of the Company, at the conversion price of HK$0.112 per share. The Bondholder may at any time after the period of six months from the date of issue of the Convertible Bond and while the Convertible Bond is still outstanding require the Company to redeem the principal amount outstanding under the Convertible Bond. The Convertible Bond may be assigned or transferred to any third party and interest of 1% per annum will be accrued from the date of issue on a day to day basis on the principal amount of the Convertible Bond outstanding, payable semi-annually in arrears.

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

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

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

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

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

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

21. DEFERRED TAXATION

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

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

The provision for deferred tax of the Group is made principally in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

The Group and the Company did not have any significant unprovided deferred tax liabilities at 31 March 2006 (2005: Nil).

22. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme was adopted on 1 November 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme. In addition, the maximum number of shares in respect of which share options may be granted to any eligible person within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercised as the Directors may at their discretion determine.

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

Name or category of participant	Number of share options At 1 April 2005	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2006	Date of grant of share options* *(dd/mm/yyyy)*	Exercise period of share options *(dd/mm/yyyy)*	Exercise price of share options *HK$*	Price of Company's share at grant date of share options *HK$*
Directors									
Mr. Tsang Kwok Man	11,000,000	–	–	–	11,000,000	8/11/2004	8/11/2004 to 7/11/2014	0.1324	0.13
Employees other than Directors									
In aggregate	62,000,000	–	–	(22,000,000)	40,000,000	8/11/2004	11/11/2004 to 7/11/2014	0.1324	0.13
	73,000,000	–	–	(22,000,000)	51,000,000				

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

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

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

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

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

23. ACQUISITION OF A SUBSIDIARY

	2006	**2005**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	–	116,600
Inventories	–	24,520
Other investments	–	7,967
Trade receivables	–	715
Other receivables	–	13,513
Cash and bank balances	–	7,517
Trade payables	–	(7,918)
Other payables	–	(27,541)
Tax payable	–	(16,044)
Bank borrowings	–	(94,566)
Net assets	–	24,763
Goodwill arising on acquisition	–	17,690
Total purchase price	–	42,453
Satisfied by:		
Cash consideration paid	–	42,453
Analysis of net outflow of cash and cash equivalents in connection with the acquisition of the subsidiary:		
Cash consideration paid	–	(42,453)
Cash and bank balances acquired	–	7,517
	–	(34,936)

The subsidiary acquired during the year ended 31 March 2005 contributed approximately HK$231,630,000 to the Group's turnover and loss after tax of approximately HK$5,711,000 to the Group for the year.

24. DISPOSAL OF SUBSIDIARIES

On 13 July 2005, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in Liaohe Energy Limited ("Liabohe Energy") to individual third party together with its 100% equity interest in Liaoning Xinmin Petrochemical Company Limited ("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 effects of the disposal of subsidiaries are as follows:

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

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

25. DISCONTINUED OPERATION

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

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

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

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

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

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

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

26. TURNOVER AND REVENUE

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

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

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

27. PROFIT FROM OPERATING ACTIVITIES

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

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

and after crediting:

Gain on disposal of property, plant and equipment	772	62
Gain on disposal of subsidiaries	18,638	112
Exchange gain, net	38	18

The cost of inventories sold includes HK$2,618,000 (2005: HK$5,699,000) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

28. DIRECTORS' REMUNERATION

Details of remuneration of the directors of the Company for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

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

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

During the year, bonuses of HK$150,000 were paid or payable to the directors (2005: HK$120,000). No directors waived or agreed to waive any remuneration during the year (2005: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2005: Nil).

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

29. FIVE HIGHEST PAID INDIVIDUALS

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

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

During the year, bonuses of HK$100,000 (2005: HK$120,000) were paid to one of the five highest paid individuals of the Group. No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2005: Nil).

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

30. FINANCE COSTS

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

31. TAXATION

(a) Taxation in the consolidated income statement represents:

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

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits for the year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

The Group – for the year ended 31 March 2006

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

The Group – for the year ended 31 March 2005

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

32. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

33. DIVIDENDS

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

34. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

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

(b) Diluted earnings/(loss) per share

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

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

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

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

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

(ii) Weighted average number of ordinary shares – diluted

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

35. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between 1 and 2 years.

At 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

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

36. COMMITMENTS

Apart from the operating lease commitments detailed in Note 35 to financial statements above, at the balance sheet date, the Group had no other significant commitments. As at 31 March 2005, the Group had capital expenditure contracted for but not provided in the financial statements of approximately HK$8 million in respect of a subsidiary's improvement project for certain plant and machineries.

37. CONTINGENT LIABILITIES

As at 31 March 2006, the Group and the Company had no significant contingent liabilities. As at 31 March 2005, the Company had executed several guarantees, with unlimited amount, in favour of banks in respect of general banking facilities granted to certain subsidiaries and the subsidiaries had utilised approximately HK$1 million of the facilities.

38. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

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

Key management personnel

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

39. SUBSEQUENT EVENTS

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

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

40. COMPARATIVE FIGURES

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

41. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

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

3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

Set out below are the unaudited condensed consolidated financial statements of the Company for the six months ended 30 September 2006 as extracted from the 2006 interim report of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006 (in HK Dollars)

		Six months ended 30 September	
		2006	**2005**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
Turnover	*3*	295,943	300,836
Cost of sales		(280,247)	(284,101)
Gross profit		15,696	16,735
Other revenue		560	748
Selling and distribution costs		(1,803)	(2,405)
Administrative expenses		(8,621)	(9,334)
Profit from disposal of subsidiaries	*12*	–	13,833
Profit from operating activities	*4*	5,832	19,577
Finance costs	*5*	(789)	(5,259)
Profit before tax		5,043	14,318
Tax	*6*	(934)	(1,879)
Profit for the period		4,109	12,439
Net profit attributable to shareholders of the Company		4,109	12,439
Dividends	*7*	–	–
Earnings per share			
– Basic	*8*	0.33 cents	1.04 cents
– Diluted	*8*	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006 (in HK Dollars)

	Notes	As at 30 September 2006 (Unaudited) HK$'000	As at 31 March 2006 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		496	541
Current assets			
Inventories		6,396	9,121
Trade receivables	9	137,623	158,684
Prepayments, deposits and other receivables		54,033	57,468
Cash and bank balances		63,765	6,028
		261,817	231,301
Total assets		262,313	231,842
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	26,334	23,940
Reserves		181,746	152,500
Total equity		208,080	176,440
LIABILITIES			
Current liabilities			
Trade and bills payables	11	20,485	15,758
Tax payable		29,345	28,411
Other payables and accrual		4,320	5,916
Amount due to a holding company		–	5,234
		54,150	55,319
Non-current liabilities			
Deferred taxation		83	83
Total liabilities		54,233	55,402
Total equity and liabilities		262,313	231,842
Net current assets		207,667	175,982
Total assets less current liabilities		208,163	176,523

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2005 (Unaudited)

	Share capital	Share premium	Capital reserve	Contributed surplus	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As 1 April 2005						
At originally stated	23,940	53,127	–	3,156	80,979	161,202
Opening balance adjustments under HKFRSs:						
Adoption of HKAS 39	–	–	–	–	4,279	4,279
Adoption of HKFRS 2	–	–	5,291	–	(5,291)	–
As restated	23,940	53,127	5,291	3,156	79,967	165,481
Increase in fair value of convertible bond	–	–	–	–	(1,577)	(1,577)
Employee share option scheme	–	–	1,328	–	(1,328)	–
Profit for the period	–	–	–	–	15,344	15,344
At 30 September 2005	23,940	53,127	6,619	3,156	92,406	179,248

For the six months ended 30 September 2006 (Unaudited)

	Share capital	Share premium	Capital reserve	Contributed surplus	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2006	23,940	53,127	3,156	–	96,217	176,440
Issue of shares	2,394	25,137	–	–	–	27,531
Net profit for the period	–	–	–	–	4,109	4,109
At 30 September 2006	26,334	78,264	3,156	–	100,326	208,080

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September (in HK Dollars)

		Six months ended 30 September	
		2006	**2005**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
Net cash inflow/(outflow) from operating activities		30,258	(22,842)
Net cash inflow from investing activities		–	49,216
Net cash inflow/(outflow) from financing activities		27,479	(16,417)
Increase in cash and cash equivalents		57,737	9,957
Cash and cash equivalents at beginning of the period		6,028	6,246
Cash and cash equivalents at end of the period		63,765	16,203
Analysis of balances of cash and cash equivalents			
Cash and bank balances		63,765	16,203

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 September 2006 (in HK Dollars)

1. BASIS OF PREPARATION

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

2. ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2006 except in relation to the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations issued by the HKICPA ("HK-Ints") which are generally effective for accounting periods beginning on or after 1 January 2006.

The applicable new HKFRSs adopted in this interim financial report are set out below:

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

– HKAS 19 (Amendment) introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses.

– HKAS 21 (Amendment) changes the net investment definition to include loans between fellow subsidiaries. It permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation and to recognize foreign exchange volatility on such loans funding foreign operations in exchange reserve in the consolidated financial statements.

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

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

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

– HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset): and (b) the arrangement conveys a right to use the asset.

The adoption of these new and revised HKASs did not result also any substantial changes to the accounting policies of the Group.

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

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosure
HK(IRFIC) – Int 8	Scope of HKFRS 2
HK(IRFIC) – Int 9	Reassessment of Embedded Derivatives

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the polyurethane ("PU") materials segment involves the trading of PU materials, such as isocyanate, polyols and various kinds of PU catalysts.

(b) the petrochemical products segment involves the manufacture and sales of petrochemical fuel products, which was discontinued during the period.

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

(a) *Business segments*

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

Group

	Six months ended 30 September					
	PU materials		**Petrochemical products (Discontinued)**		**Consolidated**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	295,943	260,588	–	40,248	295,943	300,836
Segment results	8,896	5,494	–	3,916	8,896	9,410
Interest income					69	37
Profit from disposal of subsidiaries					–	13,833
Unallocated expenses					(3,133)	(3,703)
Profit from operating activities					5,832	19,577
Finance costs					(789)	(5,259)
Profit before tax					5,043	14,318
Tax					(934)	(1,879)
Net profit from ordinary activities attributable to shareholders					4,109	12,439

(b) *Geographical segments*

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

Group

	Six months ended 30 September					
	PRC		**Hong Kong**		**Consolidated**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	295,943	260,588	–	40,248	295,943	300,836
Segment results	8,896	5,494	–	3,916	8,896	9,410

4. PROFIT FROM OPERATING ACTIVITIES

	Six months ended 30 September	
	2006	**2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit from operating activities has been arrived at after charging:		
Depreciation	45	2,100
and after (crediting):		
Interest income	(69)	(37)

5. FINANCE COSTS

	Six months ended 30 September	
	2006	**2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on:		
Trust receipt loans wholly repayable within five years	789	931
Bank loans wholly repayable within five years	–	2,668
Convertible bonds wholly repayable within fie years	–	1,577
Finance leases	–	83
	789	5,259

6. TAX

Current Taxation

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the period. Taxation on assessable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 September	
	2006	**2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current period provision:		
Hong Kong	–	–
Elsewhere	934	1,879
	934	1,879

Deferred Taxation

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (2005: Nil).

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

7. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the six months ended 30 September 2006 (2005: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 September 2006 was based on the Group's net profit from ordinary activities attributable to shareholders for the period of approximately HK$4,109,000 (2005: HK$12,439,000) and the weighted average of 1,227,089,000 (2005: 1,197,000,000) ordinary shares in issue during the period.

The diluted earnings per share for the two periods ended 30 September 2006 and 2005 have not been presented as there were no potential dilutive ordinary shares in existence during either of the periods.

9. TRADE RECEIVABLES

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

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

	As at 30 September 2006	**As at 31 March 2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current to 30 days	75,769	72,344
31 days to 90 days	57,389	68,989
91 days to 180 days	4,465	16,098
181 days to 360 days	–	1,253
	137,623	158,684

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

10. SHARE CAPITAL

	Number of Ordinary Shares	*HK$'000*
Authorised:		
Ordinary shares of HK$0.02 each		
At 1 April 2006 and 30 September 2006	10,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK$0.02 each		
At 1 April 2006	1,197,000,000	23,940
Issue of shares	119,700,000	2,394
At 30 September 2006	1,316,700,000	26,334

11. TRADE AND BILLS PAYABLES

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

	As at 30 September 2006 *HK$'000* (Unaudited)	As at 31 March 2006 *HK$'000* (Audited)
Current to 30 days	17,560	3,211
31 days to 90 days	2,925	9,548
Over 90 days	–	2,999
	20,485	15,758

12. DISPOSAL OF A SUBSIDIARY

During the period ended 30 September 2005, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in Liaohe Energy Limited to individual third party together with its 100% equity interest in Liaoning Xinmin Petrochemical Company Limited, for a cash consideration of HK$51,000,000 with the Group's acquisition cost amounted to HK$42,453,000 on 13 July 2005. The operation of Liaohe Energy Limited and Liaoning Xinmin Petrochemical Company Limited is reported in the financial statements as a discontinuing operation. Summary of the effects of the disposal of subsidiaries are as follows:

	As at 30 September 2006 *HK$'000* (Unaudited)	**As at 31 March 2006** *HK$'000* (Audited)
Net assets disposed of:		
Property, plant and equipment	–	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	–	2,905
Cash and bank balances	–	284
Trade and bills payables	–	(19,055)
Other payables and accruals	–	(36,880)
Tax payable	–	(19,886)
Bank borrowings	–	(95,423)
	–	16,571
Goodwill	–	16,511
Exchange reserve	–	(720)
Gain on disposal of subsidiaries	–	18,638
	–	51,000
Satisfied by:		
Cash consideration	–	51,000
Net cash outflow arising on disposal:		
Cash consideration	–	51,000
Cash and bank balances disposed of	–	(284)
	–	50,716

4. INDEBTEDNESS

Borrowings

As at the close of business on 28 February 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had no outstanding bank borrowings.

Contingencies

As at 28 February 2007, the Enlarged Group had no significant contingent liabilities.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, as at the close of business on 28 February 2007, the Enlarged Group had no debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, borrowings including bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, mortgages, charges, guarantees or other material contingent liabilities.

5. WORKING CAPITAL

Based on the estimate of the Directors, the funding requirement of the Enlarged Group for the next 24 months (the "Relevant Period") will be amounted to approximately HK$722 million, which include the projected cash outflow for the oil exploration related activities of approximately HK$182 million. The Directors anticipated that the cash inflow during the Relevant Period would be mainly generated from revenue of the Enlarged Group's trading business of polyurethane materials and fuel oil. The Directors planned to exploit its proven reserves and commence recoveries on a commercial scale in 2010 and a further finance of approximately HK$460 million is expected to be required for achieving the plan.

After taking into account the financial resources available to the Enlarged Group, including internally generated funds (including the guaranteed profit as mentioned in the section of "Future prospect of the Enlarged Group" on page 17 of this circular) and, banking facilities on hand and the proceeds to be raised from the Proposed Share Placement, the Directors are of the opinion that the Enlarged Group shall have sufficient working capital for its present requirements for at least two years following the issue of this circular.

6. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006 (being the date to which the latest published audited financial statements of the Company were made up).

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

10 May 2007

The Directors
Sino Union Petroleum & Chemical International Limited
Units 10-12, 19th Floor,
China Merchants Tower,
Shun Tak Centre,
168 – 200 Connaught Road Central,
Sheung Wan,
Hong Kong

Dear Sirs,

Introduction

We set out below our report on the financial information relating to Madagascar Energy International Limited ("MEIL"), including the balance sheet of MEIL as at 31 March 2006 and 31 December 2006, the income statement, the cash flow statement and the statement of changes in equity of MEIL for period from 23 June 2005 (date of incorporation) to 31 March 2006 and 1 April 2006 to 31 December 2006 (the "Relevant Periods"), and the notes thereto (the "Financial Information"), for inclusion in the circular of Sino Union Petroleum & Chemical International Limited (the "Company") dated 10 May 2007 (the "Circular") in connection with the conditional sale and purchase agreement dated 3 January 2007 (the "S & P Agreement") entered into between the Company and Golden Nova Holdings Limited ("Golden Nova") pursuant to which the Company would acquire 93% interest in MEIL and the rights and benefits of the Shareholder's Loan from Golden Nova at an aggregate consideration of approximately HK$800,000,000 (the "Consideration"). The Consideration shall be satisfied by the Company (i) paying HK$10 million in cash; (ii) issuing of a HK$90 million bond to Golden Nova; (iii) issuing 1,250,000,000 new shares at HK$0.24 each; and (iv) issuing convertible note in a principal amount of HK$400 million upon completion of the S & P Agreement.

MEIL is a company incorporated in the British Virgin Islands with limited liability on 23 June 2005. The registered office of MEIL is located at the office of ATC Trustees (BVI) Limited, 2nd Floor, Abbott Building, Road Town, Tortola, the British Virgin Islands. The principal activity of MEIL is oil and gas exploration, exploitation and operation. MEIL is owned by Golden Nova and Deno Group Limited, a wholly owned subsidiary of the Company, with equity interest of 93% and 7% respectively.

On 7 October 2005, MEIL entered into a production sharing agreement with Office Des mines Natinales Et Des Industries Strategiques, a government office of the Republic of Madagascar (the "OMNIS"), pursuant to which MEIL was granted certain oil and gas exploration, exploitation and operation rights and profit sharing right at Madagascar Oilfield Block 3113 (the "Production Sharing Agreement"). Depending on the rate of crude oil production, MEIL will share the profit on a pre-agreed ratio in the range of 45% – 73% with OMNIS.

MEIL has adopted 31 March as its financial year-end date. No audited financial statements of MEIL were prepared since its incorporation.

Basis of preparation

The Financial Information has been prepared by the director of MEIL based on the financial statements for the Relevant Periods, on the basis as set out in Note 2 below. The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

Director's responsibility for the Financial Information

The director of MEIL is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of Financial Information that is 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. The director of the Company is responsible for the contents of the Circular in which this report is included.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information 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 director, as well as evaluating the overall presentation of the Financial Information.

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, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of MEIL as at 31 December 2006 and of the results and cash flows of MEIL for the Relevant Periods 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.

Without qualifying our opinion, we draw attention to Note 2 in the Financial Information which indicates that MEIL incurred accumulated losses of HK$2,491,626 and HK$3,419,050 as at 31 March 2006 and 31 December 2006 respectively and net liabilities of HK$2,483,826 and HK$3,411,250 as at 31 March 2006 and 31 December 2006 respectively. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the MEIL's ability to continue as a going concern.

A. FINANCIAL INFORMATION OF MEIL

Balance Sheet

	Notes	As at 31 December 2006 HK$	As at 31 March 2006 HK$
ASSETS			
Non-current assets			
Property, plant and equipment	3	654,344	–
		654,344	–
Current assets			
Deposits paid		18,058	–
Cash and bank balances		17,888	13,518
		35,946	13,518
Total assets		690,290	13,518
EQUITY			
Capital and reserves attributable to the equity holders of MEIL			
Share capital	4	7,800	7,800
Accumulated losses	5	(3,419,050)	(2,491,626)
Total equity		(3,411,250)	(2,483,826)
LIABILITIES			
Current liabilities			
Amount due to the holding company	6	3,505,399	2,497,344
Amount due to a related party	7	596,141	–
		4,101,540	2,497,344
Total liabilities		4,101,540	2,497,344
Total equity and liabilities		690,290	13,518
Net current liabilities		(4,065,594)	(2,483,826)
Total assets less current liabilities		(3,411,250)	(2,483,826)

The accompanying notes form an integral part of the Financial Information.

Income Statement

	Notes	For the period from 1 April 2006 to 31 December 2006 HK$	For the period from 23 June 2005 (date of incorporation) to 31 March 2006 HK$
Turnover	8	–	–
General and administrative expenses		(927,424)	(2,491,626)
Loss from ordinary activities before taxation	9	(927,424)	(2,491,626)
Taxation	10	–	–
Loss for the period		(927,424)	(2,491,626)
Loss per share attributable to the equity holder of MEIL	12	(927)	(2,492)

All of MEIL's operation is classed as continuing.

The accompanying notes form an integral part of the Financial Information.

Statement of Changes in Equity

	Share capital *HK$*	Accumulated losses *HK$*	Total *HK$*
Issue of share upon incorporation	7,800	–	7,800
Loss for the period	–	(2,491,626)	(2,491,626)
As at 31 March 2006 and 1 April 2006	7,800	(2,491,626)	(2,483,826)
Loss for the period	–	(927,424)	(927,424)
As at 31 December 2006	7,800	(3,419,050)	(3,411,250)

The accompanying notes form an integral part of the Financial Information.

Cash Flow Statement

	For the period from 1 April 2006 to 31 December 2006 *HK$*	For the period from 23 June 2005 (date of incorporation) to 31 March 2006 *HK$*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(927,424)	(2,491,626)
Adjustment for:		
Depreciation	105,900	–
Operating cash flows before movements in working capital	(821,524)	(2,491,626)
Increase in deposits paid	(18,058)	–
Increase in amount due to the holding company	1,008,055	2,497,344
Increase in amount due to a related party	596,141	–
Net cash generated from operating activities	764,614	5,718
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(760,244)	–
Net cash used in investing activities	(760,244)	–
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of shares	–	7,800
Net cash generated from financing activities	–	7,800
Increase in cash and cash equivalents during the period	4,370	13,518
Cash and cash equivalents at the beginning of the period	13,518	–
Cash and cash equivalents at the end of the period	17,888	13,518
Analysis of balance of cash and cash equivalents		
Cash and bank balances	17,888	13,518

The accompanying notes form an integral part of the Financial Information.

Notes to Financial Statements

1. General information

MEIL was incorporated in the British Virgin Islands on 23 June 2005 as an exempted company with limited liabilities. The registered office of MEIL is located at the office of ATC Trustees (BVI) Limited, 2nd Floor, Abbott Building, Road Town, Tortola, the British Virgin Islands. The principal activity of MEIL is oil and gas exploration, exploitation and operation.

2. Summary of significant accounting policies

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Company Ordinance and the Listing Rule as applicable to Accountants' Report including in the listing documents of circulars. The accounting policies of MEIL are materially consistent with the Company's accounting policies. The Financial Information is prepared under the historical cost convention except for financial assets and liabilities have been carried at fair value.

At 31 December 2006, MEIL had net current liabilities of HK$4,065,694. Dr. Hui Chi Ming, the director of the holding company and a related party, has confirmed that, it is his intention to provide continuing financial support to MEIL, subject to the condition that the relationship between Dr. Hui Chi Ming and MEIL does not change, so as to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future. The director of MEIL believes that MEIL will continue as going concern. Consequently, the Financial Information has been prepared on a going concern basis.

The presentation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

MEIL has not early applied the following new/revised standards and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2–Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

[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 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

HKAS 1 Amendment will affect the disclosures about qualitative information about MEIL's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of MEIL's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

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

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Property, plant and equipment

Valuation

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

Depreciation

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

Furniture, fixtures and equipment	:	30% on the reducing balance method
Motor vehicles	:	30% on the reducing balance method

Gain or loss on disposal

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

(b) Impairment of assets

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

(c) Cash and cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of MEIL's cash management.

(d) Foreign currency transaction

a. Functional and presentation currency

Items included in the financial statements of MEIL are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The financial statements are presented in HK dollars, which is MEIL's functional and presentation currency.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

(e) 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 differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable and deductible.

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 difference and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences 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 in 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 investments in subsidiaries and associates, except where MEIL is able to control the reversal of the temporary differences and it is probable that the temporary differences 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 is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

(f) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in financial costs in the income statement.

(g) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of MEIL. 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, it 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 MEIL. 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.

(h) Related party transactions

A party is considered to be related to MEIL if:

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

(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 MEIL 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, jointly-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 MEIL, or of any entity that is related party of MEIL.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. **Property, plant and equipment**

	Furniture, fixtures and equipment *HK$*	Motor vehicles *HK$*	Total *HK$*
Cost			
At 23 June 2005 (date of incorporation), 31 March 2006 and 1 April 2006	–	–	–
Additions during the period	304,499	455,745	760,244
At 31 December 2006	304,499	455,745	760,244
Accumulated depreciation			
At 23 June 2005 (date of incorporation), 31 March 2006 and 1 April 2006	–	–	–
Charge for the period	66,484	39,416	105,900
At 31 December 2006	66,484	39,416	105,900
Net book value			
At 31 December 2006	238,015	416,329	654,344
At 31 March 2006	–	–	–

4. **Share capital**

	US$	*HK$*
Authorised:		
50,000 ordinary shares of US$1 each	50,000	390,000
Issued and fully paid:		
1,000 ordinary shares of US$1 each	1,000	7,800

MEIL was incorporated in the British Virgin Islands with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each.

On 23 June 2005, MEIL issued 1 ordinary share of US$1.00 each for cash to Dr. Hui Chi Ming and on 8 March 2006, the ordinary share was transferred to Golden Nova.

On 8 March 2006, MEIL issued 899 ordinary shares respectively of US$1.00 each for cash to Golden Nova.

On 8 March 2006, MEIL issued 100 ordinary shares respectively of US$1.00 each for cash to Deno Group Limited and on 16 June 2006, 30 ordinary shares were transferred to Golden Nova.

5. Accumulated losses

	HK$
As at 23 June 2005 (date of incorporation)	–
Loss for the period	(2,491,626)
As at 31 March 2006 and 1 April 2006	(2,491,626)
Loss for the period	(927,424)
As at 31 December 2006	(3,419,050)

6. Amount due to the holding company

Golden Nova is the holding company of MEIL.

The amount due to Golden Nova is unsecured, interest-free and had no fixed terms of repayment. The director considered that the amount approximates to fair values.

7. Amount due to a related party

The amount due to a related party is unsecured, interest-free and had no fixed terms of repayment. The director considered that the amount approximates to fair values.

8. Turnover and segment information

MEIL did not generate revenue during the Relevant Periods.

As per HKAS 14 " Segment Reporting", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown substantially as MEIL only engage in oil and gas exploration, exploitation and operation. It is therefore not considered appropriate to disclose segment information.

9. Loss from ordinary activities before taxation

MEIL's loss from operating activities is arrived at after charging:

	For the period from 1 April 2006 to 31 December 2006 *HK$*	**For the period from 23 June 2005 (date of incorporation) to 31 March 2006** *HK$*
Depreciation	105,900	–
Auditors' remuneration	–	–
Directors' remuneration	–	–
Staff costs (including Directors' remuneration – Note 11)	63,106	–

10. Taxation

No provision for profits tax has been made as MEIL did not have any assessable profit for the Relevant Periods.

There are no material unprovided deferred tax assets and liabilities as at the balance sheet date.

11. Directors' remuneration

The remuneration of director for the period from 1 April 2005 to 31 December 2006 is set out below:

	Fee	Salary	Other benefits	Employer's contribution to pension scheme	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Golden Nova *(note 1)*	–	–	–	–	–
	–	–	–	–	–

The remuneration of every director for the period from 23 June 2005 (date of incorporation) to 31 March 2006 is set out below:

	Fee	Salary	Other benefits	Employer's contribution to pension scheme	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Golden Nova *(note 1)*	–	–	–	–	–
Dr. Hui Chi Ming *(note 2)*	–	–	–	–	–
	–	–	–	–	–

Notes:

1. Appointed on 8 March 2006.

2. Appointed on 23 June 2005 and resigned on 8 March 2006.

12. Loss per share

(a) Basic loss per share

The calculation of the basic loss per share is based on the following data:

	For the period from 1 April 2006 to 31 December 2006	For the period from 23 June 2005 (date of incorporation) to 31 March 2006
	HK$	*HK$*
Loss attributable to equity holders of MEIL	(927,424)	(2,491,626)
Number of ordinary shares in issue	1,000	1,000
Basic loss per share	(927)	(2,492)

(b) Diluted loss per share

No diluted loss per share is presented for the Relevant Periods as no diluted events occurred during the Relevant Periods.

13. Commitments

(a) Lease commitments

At 31 March 2006 and 31 December 2006, MEIL had commitments for future minimum lease payments under non-cancellable operating lease in respect of land and buildings which fall due as follows:

	As at 31 December 2006 *HK$*	As at 31 March 2006 *HK$*
Within one year	19,805	–

(b) Capital commitments

Pursuant to the Production Sharing Agreement, MEIL was committed to be responsible for the arrangement of the required capital commitment, human resources and facilities for oil and gas exploration, exploitation and operation at Madagascar Oilfield Block 3113. The extent of capital investment required depends on results of fieldwork, the amount of oil and gas reserves discovered and the scale and method of exploration work required. According to the Production Sharing Agreement, MEIL is required to carry out minimum exploration work obligation of US$17.5 million over 8 year exploration period.

14. Material related parties transactions

Saved as disclosed in Note 11, during the period from 23 June 2005 (date of incorporation) to 31 March 2006 and the period from 1 April 2006 to 31 December 2006, MEIL had the following material transactions with related parties:

Name of related parties	Nature of transaction	For the period from 1 April 2006 to 31 December 2006 *HK$*	For the period from 23 June 2005 (date of incorporation) to 31 March 2006 *HK$*
Gahood Holding Company Limited ("Gahood")	Management fee paid	–	1,200,000

Note: MEIL and Gahood are under common control of Dr. Hui Chi Ming.

15. Contingent liabilities

MEIL did not have any significant contingent liabilities as at the balance sheet date.

16. Subsequent events

No significant subsequent events took place subsequent to 31 December 2006.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for MEIL in respect of any period subsequent to 31 December 2006 and no dividends or other distributions have been declared by MEIL in respect of any period subsequent to 31 December 2006.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

10 May 2007

The Directors
Sino Union Petroleum & Chemical International Limited
Units 10-12, 19th Floor,
China Merchants Tower
Shun Tak Centre,
168-200 Connaught Road Central,
Sheung Wan,
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of Sino Union Petroleum & Chemical International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and Madagascar Energy International Limited ("MEIL") (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed acquisition of 93% issued share capital of MEIL (the "Acquisition"), might have affected the financial information presented for inclusion as Appendix I of the circular of the Company dated 10 May 2007 (the "Circular"). The basis of preparation for the Pro Forma Financial Information is set out on page 124 to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with Rules 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owned to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 September 2006 or any future date; or
- the financial results and cash flows of the Enlarged Group for the year ended 31 March 2006 or for any future period.

OPINION

In our opinion:

- the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

(A) PRO-FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

Introduction to the unaudited Pro Forma Financial Information of the Enlarged Group

The following is the unaudited Pro Forma Financial Information of the Enlarged Group as if the Acquisition has been completed on 30 September 2006 for the pro forma consolidated balance sheet and on 1 April 2005 for the pro forma consolidated income statement and pro forma consolidated cash flow statement. The accompanying Pro Forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition of 93% issued share capital of Madagascar Energy International Limited (the "MEIL") at a consideration of approximately HK$800,000,000 (the "Consideration"). The Consideration shall be satisfied by the Company (i) paying HK$10 million in cash; (ii) issuing of a HK$90 million bond to Golden Nova; (iii) issuing 1,250,000,000 new shares at HK$0.24 each; and (iv) issuing convertible note in a principal amount of HK$400 million upon completion of the Acquisition.

The accompanying Pro Forma Financial Information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying Pro Forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position or results of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the Accountants' Report on MEIL as set out in Appendix II, the historical financial information on the Group as set out in Appendix I and other financial information included elsewhere in this circular.

(I) Unaudited pro forma consolidated balance sheet of the Enlarged Group

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group, assuming that the Acquisition has been completed on 30 September 2006. The information is based on the unaudited consolidated financial statements of the Group as at 30 September 2006 and the audited financial statements of MEIL as set out in Appendix I and II to this Circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

	Unaudited Consolidated Balance Sheet of the Group as at 30 September 2006	Audited Balance Sheet of MEIL as at 31 December 2006	Sub-total	Pro forma adjustment	Notes	Unaudited Pro forma Consolidated Balance Sheet of the Enlarged Group as at 30 September 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
ASSETS						
Non-current assets						
Property, plant and equipment	496	654	1,150			1,150
Goodwill	–	–	–	799,906	*1(ii)*	799,906
	496	654	1,150			801,056
Current assets						
Inventories	6,396	–	6,396			6,396
Trade receivables	137,623	–	137,623			137,623
Prepayment, deposits and other receivables	54,033	18	54,051			54,051
Cash and bank balances	63,765	18	63,783	(10,000)	*1(iii)*	53,783
	261,817	36	261,853			251,853
Total assets	262,313	690	263,003			1,052,909
EQUITY						
Capital and reserves						
Share Capital	26,334	8	26,342	24,992	*1(iv)*	51,334
Reserves	181,746	(3,419)	178,327	416,819	*1(v)*	595,146
Equity attributable to equity holder of the parent	208,080	(3,411)	204,669			646,480
Minority interest	–	–	–	–	*1(vi)*	–
Total equity	208,080	(3,411)	204,669			646,480

	Unaudited Consolidated Balance Sheet of the Group as at 30 September 2006	Audited Balance Sheet of MEIL as at 31 December 2006	Sub-total	Pro forma adjustment		Unaudited Pro forma Consolidated Balance Sheet of the Enlarged Group as at 30 September 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
LIABILITIES						
Current liabilities						
Trade and bills payables	20,485	–	20,485			20,485
Tax payable	29,345	–	29,345			29,345
Other payables and accruals	4,320	–	4,320			4,320
Amount due to the holding Company	–	3,505	3,505	(3,505)	*1(ii)*	–
Amount due to a related party	–	596	596			596
	54,150	4,101	58,251			54,746
Non-current liabilities						
Bond	–	–	–	82,496	*2(i)*	82,496
Convertible Note	–	–	–	269,104	*2(ii)*	269,104
Deferred taxation	83	–	83			83
	83	–	83			351,683
Total liabilities	54,233	4,101	58,334			406,429
Total equity and liabilities	262,313	690	263,003			1,052,909
Net current assets/ (liabilities)	207,667	(4,065)	203,602			197,107
Total assets less current liabilities	208,163	(3,411)	204,752			998,163

(II) Unaudited pro forma consolidated income statement of the Enlarged Group

The following is the unaudited pro forma consolidated income statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 April 2005. The unaudited information is based on the audited consolidated financial statements of the Group for the year ended 31 March 2006 and the audited financial information of MEIL for the period from 23 June 2006 (Date of incorporation) to 31 March 2006 as set out in Appendix I and II to this circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated income statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group for the year ended to which it is made up to or for any future period.

	Audited Consolidated Income Statement of the Group for the year ended 31 March 2006	Audited Income Statement of MEIL for the period from 23 June 2005 to 31 March 2006	Sub-total	Pro forma adjustment		Unaudited Pro forma Consolidated Income Statement of the Enlarged Group for the year ended 31 March 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Turnover						
Continuing operation	577,729	–	577,729			577,729
Discontinued operation	40,979	–	40,979			40,979
	618,708	–	618,708			618,708
Cost of sales	(592,478)	–	(592,478)			(592,478)
Gross profit	26,230	–	26,230			26,230
Other revenue	7	–	7			7
Other income	810	–	810			810
Selling and distribution costs	(1,720)	–	(1,720)			(1,720)
Administration expenses	(22,426)	(2,492)	(24,918)			(24,918)
Profit/(loss) from operating activities	2,901	(2,492)	409			409
Gain on disposal of subsidiaries	18,638	–	18,638			18,638
Finance costs	(3,591)	–	(3,591)	(22,462)	*3(i)*	(26,053)

	Audited Consolidated Income Statement of the Group for the year ended 31 March 2006	Audited Income Statement of MEIL for the period from 23 June 2005 to 31 March 2006	Sub-total	Pro forma adjustment	Notes	Unaudited Pro forma Consolidated Income Statement of the Enlarged Group for the year ended 31 March 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Profit before taxation						
Continuing operation	2,986	(2,492)	494			(21,968)
Discontinued operation	14,962	–	14,962			14,962
	17,948	(2,492)	15,456			(7,006)
Taxation						
Continuing operation	(2,381)	–	(2,381)			(2,381)
Discontinued operation	–	–	–			–
	(2,381)	–	(2,381)			(2,381)
Net profit/(loss) attributable to equity holders						
Continuing operation	605	(2,492)	(1,887)			(24,349)
Discontinued operation	14,962	–	14,962			14,962
	15,567	(2,492)	13,075			(9,387)
Attributable to:						
Equity holders of the parent	15,567	(2,492)	13,075			(9,387)
Minority interest	–	–	–		*1(vi)*	–
	15,567	(2,492)	13,075			(9,387)
Earnings/(loss) per share						
From continuing and discontinued operation						
Basic	HK 1.30 cents				*5(i)*	(HK 0.78 cents)
Diluted	HK 1.14 cents				*5(ii)*	N/A
From continuing operation						
Basic	HK 0.05 cents				*5(iii)*	(HK 2.03 cents)
Diluted	N/A				*5(ii)*	N/A

(III) Unaudited pro forma consolidated cash flow statement of the Enlarged Group

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 April 2005. The unaudited information is based on the audited consolidated financial statements of the Group for the year ended 31 March 2006, the audited financial statements of MEIL for the period from 23 June 2006 (date of incorporation) to 31 March 2006 as set out in Appendix I and II to this Circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated cash flow statement of the Enlarged Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended to which it is made up to or for any future period.

	Audited Consolidated Cash Flow Statement of the Group for the year ended 31 March 2006	Audited Cash Flow Statement of MEIL for the period from 23 June 2005 to 31 March 2006	Sub-total	Pro forma Adjustment	Notes	Unaudited Pro forma Consolidated Cash Flow Statement of The Enlarged Group for the year ended 31 March 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before taxation	17,948	(2,492)	15,456	(22,462)	3(*i*)	(7,006)
Adjustments for:						
Interest Income	(7)	–	(7)			(7)
Depreciation	2,117	–	2,117			2,117
Gain on disposal of property, plant and equipment	(772)	–	(772)			(772)
Gain on disposal of subsidiaries	(18,638)	–	(18,638)			(18,638)
Finance costs	3,591	–	3,591	22,462	3(*i*)	26,053
Operating profit/(loss) before working capital changes	4,239	(2,492)	1,747			1,747
Decrease in inventories	6,072	–	6,072			6,072
Increase in financial assets at fair value through profit or loss	(153)	–	(153)			(153)
Increase in trade receivables	(7,305)	–	(7,305)			(7,305)
Increase in prepayments, deposits and other receivables	(4,691)	–	(4,691)			(4,691)
Increase in amount due to the holding company	–	2,498	2,498			2,498
Increase in trade and bills payables	2,114	–	2,114			2,114
Decrease in amount due to holding company	(8,024)	–	(8,024)			(8,024)
Decrease/(increase) in other payables and accruals	(13,679)	–	(13,679)	17,962	6	4,283
Cash (used in)/generated from operations	(21,427)	6	(21,421)			(3,459)
Interest received	7	–	7			7
Interest paid	–	–	–	(4,500)	7	(4,500)
Net cash flows from operating activities	(21,420)	6	(21,414)			(7,952)

	Audited Consolidated Cash Flow Statement of the Group for the year ended 31 March 2006	Audited Cash Flow Statement of MEIL for the period from 23 June 2005 to 31 March 2006	Sub-total	Pro forma Adjustment	Notes	Unaudited Pro forma Consolidated Cash Flow Statement of The Enlarged Group for the year ended 31 March 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Sales proceeds from disposal of property, plant and equipment	1,856	–	1,856			1,856
Purchases of property, plant and equipment	(33)	–	(33)			(33)
Payment of deposits on acquisition of subsidiaries	–	–	–	(10,000)	*1(iii)*	(10,000)
Proceed from disposal of MEIL, net	50,716	–	50,716			50,716
Net cash flows from investing activities	52,539	–	52,539			42,539
CASH FLOWS FROM FINANCING ACTIVITIES						
Capital elements of finance lease payments	(1,856)	–	(1,856)			(1,856)
Redemption of convertible bond	(26,813)	–	(26,813)			(26,813)
Finance costs paid	(2,668)	–	(2,668)			(2,668)
Issue of shares	–	8	8	(8)	4	–
Net cash flows from financing activities	(31,337)	8	(31,329)			(31,337)
Increase in cash and cash equivalents during the period	(218)	14	(204)			3,250
Cash and cash equivalents at the beginning of the period	6,246	–	6,246			6,246
Cash and cash equivalents at the end of the period	6,028	14	6,042			9,496
Analysis of balance of cash and cash equivalents						
Cash and bank balance	6,028	14	6,042			9,496

Notes:

1. Under HKFRS 3 Business Combinations ("HKFRS 3"), the Group will apply the purchase method to account for the acquisition of MEIL. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of MEIL will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of MEIL at the date of completion. Negative goodwill resulting from the business combinations should be recognised immediately in the consolidated income statement.

   The adjustments reflect the following:

   (i) The total consideration is approximately HK$800,000,000 which shall be satisfied by in the following manner:

      (a) HK$10 million in cash; and

      (b) HK$90 million by the issue of a bond to Golden Nova Holdings Limited ("Golden Nova") (the "Bond"); and

      (c) HK$300 million by the issue of 1,250,000,000 new shares at HK$0.24 per share. Upon completion, the share capital and share premium of the Company will increase by approximately HK$25,000,000 and HK$275,000,000 respectively; and

      (d) HK$400 million by the issue of a convertible note at a conversion price of HK$0.24 per conversion share. (the "Convertible Note")

   (ii) Goodwill of approximately HK$799,906,000 arising from the acquisition of MEIL was derived from the consideration of HK$800,000,000 plus the net liabilities of MEIL acquired amounted to approximately HK$3,411,000 and the amount due to Golden Nova of approximately HK$3,505,000 as at 31 December 2006 transferred to the Group at nil cost. As a result, there will be an intragroup balance of approximately HK$3,505,000 between MEIL and the Group which has been eliminated on consolidation in the pro forma balance sheet. For the purpose of preparing the Pro Forma Financial Information of the Enlarged Group, the carrying value of the net liabilities of MEIL as per the Accountants' Report as set out in Appendix I of the Circular is taken to be their fair value.

   (iii) The pro forma adjustment of the cash and bank balances represents the repayment of deposit of approximately HK$10,000,000 as described in note 1 (i)(a) above.

   (iv) The pro forma adjustment of the share capital represents the results of the increase of approximately HK$25,000,000 in share capital with par value of HK$0.02 each described in note 1 (i)(c) above and the elimination of share capital of HK$7,800 of MEIL for consolidation in accordance with HKAS 27.

   (v) The pro forma adjustment of approximately HK$416,819,000 represents (i) the elimination of the pre-acquisition reserve of MEIL of approximately HK$3,419,000 on consolidation, (ii) an increase of approximately HK$275,000,000 in share premium as described in note 1 (i)(c) above, (iii) an increase in equity component of approximately HK$130,896,000 from the Convertible Note as aforementioned in note 1(i)(d), and (iv) increase in reserve account of approximately HK$7,504,000 due to the recognition of the difference between the principal of the bond of HK$90,000,000 and the carrying amount of the bond of approximately HK$82,496,000. The carrying amount of the bond of approximately HK$82,496,000 represents the liability component of the bond carried at amortised cost and is calculated using the effective interest rate method. (Also refer to 2(i)).

(vi) There is no pro forma adjustment made in respect of minority interest as the accumulated losses applicable to the minority shareholder of MEIL exceed the minority interest in MEIL's equity.

Pursuant to HKFRS 3, HKAS 36 Impairment of Assets and HKAS 38 Intangible Assets, there is no amortisation of positive goodwill and positive goodwill will be tested annually for impairment, as well as when there is indication of impairment.

2. (i) As aforementioned in note 1(i), the Company will issue the Bond of approximately HK$90,000,000 upon completion of the Acquisition. The carrying amount of the Bond of approximately HK$82,496,000 represents the carrying value of the Bond carried at amortised cost and is calculated using the effective interest rate method.

(ii) As aforementioned in note 1(i), the Company will issue a Convertible Bond of approximately HK$400,000,000 upon completion of the Acquisition. Following on the adoption of Hong Kong Accounting Standard 32 and 39 issued by the Hong Kong Institute of Certified Public Accountants, an issuer of a compound financial instrument is required to separate the compound financial instrument into its liability and equity components. By using method of discount cash flow, an amount of approximately HK$269,104,000 and HK$130,896,000 are classified as non-current liabilities component and equity component respectively in the Pro Forma Financial Information of the Enlarged Group.

3. (i) The pro forma adjustment of approximately HK$22,462,000 represents a total yearly finance costs to be expensed in the consolidated income statement of the Enlarged Group by assuming that the acquisition was completed on 1 April 2005. The amount comprises of (i) the imputed interest expenses of approximately HK$5,071,000 for the Bond and (ii) the imputed interest expenses of approximately HK$17,391,000 for the Convertible Bond. These interest expenses shall have continuing effect on the financial statements of the Group in the subsequent years.

4. The pro forma adjustment of HK$7,800 represent the elimination of the issue of share of MEIL on consolidation.

5. The calculations of earnings or loss per share are as follows:

(i) The calculation of pro forma basic loss per share from continuing and discontinued operation is based on the Enlarged Group's pro forma net loss attributable to the shareholders of HK$9,387,000 and the weighted average number of ordinary shares of 1,197,000,000 during the year ended 31 March 2006.

(ii) No diluted loss per share has been presented as potential ordinary shares are antidilutive when their conversion to ordinary shares would decrease loss per share.

(iii) The calculation of pro forma basic loss per share from continuing operation is based on the Enlarged Group's pro forma net loss attributable to the shareholders of HK$24,349,000 and the weighted average number of ordinary shares of 1,197,000,000 during the year ended 31 March 2006.

6. The pro forma adjustment of approximately HK$17,962,000 represents increase in accrued interest expenses of approximately HK$571,000 and HK$17,391,000 from Bonds and Convertible Note respectively.

7. The pro forma adjustment of HK$4,500,000 represents repayment of coupon bond interest expenses for the year ended 31 March 2006.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 28 February 2007 of the market value of Madagascar Energy International Limited.

BMI APPRAISALS

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10 May 2007

The Directors
Sino Union Petroleum & Chemical International Limited
Units 10–12, 19th Floor
China Merchants Tower, Shun Tak Centre
168–200 Connaught Road Central
Sheung Wan, Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Sino Union Petroleum & Chemical International Limited (referred to as the "Company") for us to provide our opinion on the market value of the 100 per cent equity interest in Madagascar Energy International Limited (referred to as "MEIL") as at 28 February 2007 (the "date of valuation").

This report describes the backgrounds of the Company and MEIL, geological information of Madagascar Oilfield Block 3113 and the basis of valuation & assumptions. It also explains the valuation methodology utilized and presents our conclusion of value.

PURPOSE OF VALUATION

We understand that the purpose of our valuation is to express an independent opinion on the market value of the 100 per cent equity interest in MEIL as at 28 February 2007 in connection with a very substantial acquisition of the Company.

BASIS OF VALUATION

Our valuation was carried out on the basis of market value. Market value is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

We have adopted "HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises" in preparing this valuation report.

BACKGROUND OF THE COMPANY AND MEIL

The Company is a public company listed on the main board of Hong Kong Stock Exchange with a stock code No. 346. Wisdom On Holdings Limited, is the controlling shareholder of the Company, holding 56.97% of the issued share capital of the Company.

The Company is principally engaged in the distribution of polyurethane materials. The goal of the Company is to establish conglomerate, to produce and distribute high quality polyurethane materials.

The Company recorded a turnover of HK$618,708,000 for the year ended 31 March 2006. Meanwhile, the profit attributable to the shareholders was approximately HK$15,567,000. Earnings per share from continuing and discontinued operation amounted to HK$1.30 cents per share.

MEIL was incorporated on 23 June 2005 in the British Virgin Islands with limited liability. As of 9 January 2007, MEIL is 93% and 7% owned by Golden Nova Holdings Limited and Deno Group Limited respectively. Golden Nova Holdings Limited is an investment holding company beneficially owned by Dr. Hui Chi Ming, who is the chairman and an executive director of the Company. (Dr. Hui Chi Ming beneficially owns the entire issued share capital of Wisdom On Holdings Limited). Deno Group Limited is a wholly-owned subsidiary of the Company.

On 7 October 2005, MEIL entered into a production sharing agreement with Office Des mines Nationales Et Des Industries Strategiques (referred to as "OMNIS"), a government office of the Republic of Madagascar. Under the agreement, MEIL was vested with the rights to engage in oil and 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.

GEOLOGICAL INFORMATION OF MADAGASCAR OILFIELD BLOCK 3113

Madagascar Oilfield Block 3113 is located at an onshore site in the Republic of Madagascar, with a total area of 8,320 kilometres. Depending on the rate of crude oil production of Madagascar Oilfield Block 3113, the Company will share the profits in connection with oil and gas exploitation on a pre-agreed ratio in the range of 45% – 73%. The Company is responsible for the arrangement of the required capital commitment, human resources and facilities for oil and gas exploration, exploitation and operation at Madagascar Oilfield Block 3113.

Up to February 2007, eight exploration wells with an average depth of approximately 2,800 meters have been drilled and 2-dimension seismic data with total length of 1,348 kilometres has been collected at Madagascar Oilfield Block 3113. Research works showed the existence of oil, natural gas and bitumen at Madagascar Oilfield Block 3113. According to the research report conducted by Netherland, Sewell & Associates, Inc., Madagascar Oilfield Block 3113 has an estimated prospective oil resource of 183 million barrels.

SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational data related to MEIL, which was given by the senior management of the Company.

The valuation of MEIL required consideration of all pertinent factors affecting the economic benefits of MEIL and its abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to the following:

- The business nature of MEIL;
- The financial and operational information of MEIL;
- The specific economic environment and competition for the market in which MEIL currently operates or will operate;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of MEIL, including the continuity of income and the projected future results.

SCOPE OF WORKS

In the course of our valuation work for MEIL, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the senior management of the Company:

- Interviewed with the senior management of the Company;
- Obtained all relevant financial and operational information of MEIL;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information related to MEIL, which were provided by the senior management of the Company;
- Prepared a business financial model to derive the indicated value of MEIL; and
- Presented all relevant information on the backgrounds of the Company and MEIL, geological information of Madagascar Oilfield Block 3113, valuation methodology, source of information, scope of works, major assumptions, comments and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Due to the changing environment in which MEIL currently operates or will operate, a number of assumptions had to be established in order to sufficiently support our concluded opinion of value of MEIL. The major assumptions adopted in our valuation were:

- There will be no major changes in the existing political, legal and economic conditions in the jurisdiction where MEIL currently operates or will operate;

- There will be no major changes in the current taxation law in the jurisdiction where MEIL currently operates or will operate, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

- The financial information in respect of MEIL has been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by the senior management of the Company; and

- Exchange rates and interest rates will not differ materially from those presently prevailing.

VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing MEIL. They were the market approach, the cost approach and the income approach.

The market approach provides indications of value by comparing the subject to similar assets that have been sold in the market.

The cost approach provides indications of value by studying the amounts required to recreate the asset for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the asset.

The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the asset than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar asset with a similar risk profile.

Among the three approaches, the *cost approach* was regarded not appropriate in the valuation, as it only considers the costs of recreating MEIL and the costs may not represent the market value. The *income approach* was also considered inadequate in the valuation, as it involves much more assumptions compared to the other two approaches. Therefore, we determined that the *market approach* was the most appropriate approach for the valuation of MEIL.

In other words, we have not adopted the "discounted cash flow method" in our valuation of MEIL. Instead, we used the market approach by referring to recent sale and purchase transactions of other oil fields (referred to as the "Comparable Transactions") in the period from 1 January 2003 to 28 February 2007. We then estimated the weighted-average purchase price to barrel of oil ratio (referred to as "P/BR") based on the Comparable Transactions to determine the market value of MEIL.

The following shows the details of the Comparable Transactions:

Name of Acquirer (Stock Code)	Month/Year of Transaction	Location of the Oil Field (by Country)	Purchase Price (US$ Million)	No. of Barrel of Oil, Million	P/BR	Oil Price (Dubai Fateh) (US$/ Barrel of Oil)	Adjusted P/BR for Oil Price Rises
CNOOC Ltd. (883)	March 2003	Kashagan	7,382.95	13,000	0.5679	24.63	1.3510
CITIC Resources Holdings Ltd. (1205)	August 2004	China	53.00	52	1.0192	36.15	1.6519
CNOOC Ltd. (883)	February 2006	Nigeria	4,536.00	600	7.5600	56.76	7.8037
CITIC Resources Holdings Ltd. (1205)	September 2006	Indonesia	305.57	39.2	7.7951	57.33	7.9664
Weighted – Average							**2.7774**

Note: The oil price as at 28 February 2007 was US$58.59/barrel of oil

We included all applicable similar transactions in the period for our valuation, but excluded those similar transactions made either in Hong Kong or in other countries that do not have sufficient disclosed data for valuation purpose. In addition, we determined to exclude three similar transactions with sufficient disclosed data made in the period in our valuation. The reason for excluding them is that the estimated P/BR of the transactions were considered not comparable to other similar transactions in the period. In other words, they were considered an outliers in our valuation.

During our valuation, we based on the information included in a technical report named "Prospective Oil Resource Assessment of Certain Prospects in Petroleum Block 3113 Located Onshore in the Republic of Madagascar – as of 3 January 2007", prepared by Netherland, Sewell & Associates, Inc., dated 4 April 2007 (referred to as the "Technical Report"). The Technical Report states that MEIL has an estimated prospective oil resource of 183 million barrels. The estimated prospective oil resource of 183 million barrels is the "Risked Best Estimate" stated in the Technical Report. As confirmed with the technical adviser preparing the Technical Report, "Risked Best Estimate" is equivalent to "Proven Reserve" from a quantity perspective. The major difference between "Risked Best Estimate" and "Proven Reserve" is that "Proven Reserve" means that the amount of oil is the discovered accumulation whereas "Risked Best Estimate" means that the amount of oil is the undiscovered accumulation. The estimated value of MEIL was then calculated by multiplying 183 million barrels by the weighted-average adjusted P/BR of 2.7774 (shown in the above table). The weighted-average adjusted P/BR was calculated by considering both the purchase price and the no. of barrel of oil under each comparable transaction.

The adjustment for oil price rises was made in order to take into account the impact of the increases in oil prices over the period from the dates of announcement of each of the Comparable Transactions up to the date of valuation of MEIL.

On the other hand, we did not make any adjustment for differences in the locations of the oil fields involved in the Comparable Transactions and MEIL, as we considered that there would be virtually no limitation on the global merger and acquisition market arising from globalization of economy.

Besides, we did not make any adjustment for differences in the oil quality of the Comparable Transactions and MEIL. Oil quality is generally determined by its API value, the higher the API, the lighter the compound, which in turn the better quality of the oil. The ranges of API for light oil, medium oil and heavy oil are 31" to 45", 22" to 30" and 10" to 21" respectively. According to the Technical Report, the mean value of the oil quality of MEIL is 37.5, which is classified as light oil based on the above scale. Most of the oil quality of the oil fields involved in the Comparable Transactions is not available for comparison. However, even if the oil quality of the comparable oil fields was all light oil, no adjustment would be necessary in our valuation. The following shows the details of the oil quality (API) of the Comparable Transactions and MEIL:

Name of Acquirer (Stock Code)	Year of Transaction	API
CNOOC Ltd. (883)	2003	NA
CITIC Resources Holdings Ltd. (1205)	2004	NA
CNOOC Ltd. (883)	2006	NA
CITIC Resources Holdings Ltd. (1205)	2006	15" to 22" API
MEIL	2007	37.5" API

Note: API is the American Petroleum Institute's scale for specific gravity for liquid hydrocarbons, measured in degrees. The lower the API gravity, the heavier the liquid and, generally, the lower its commercial value.

To adjust the estimated value of MEIL under the market approach to account for a specific risk related to the transaction, a 3% discount for excess transportation cost was taken into account. The determination of the 3% discount was based on our observation during our site visit and information provided by the senior management of the Company that more transportation cost would be incurred to reflect insufficient infrastructure for transportation of oil.

VALUATION COMMENTS

For the purpose of this valuation and in arriving at our opinion of value, we have referred to the information provided by the senior management of the Company, the Technical Report and the information of the Comparable Transactions to estimate the value of MEIL. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

REMARKS

Unless otherwise specified, all money amounts stated herein are in Hong Kong Dollars (HK$) and no allowances have been made for any exchange transfers. The exchange rate adopted is the average rate as at 28 February 2007 being HK$1 = US$0.12798. There has been no significant fluctuation in the exchange rate between that date and the date of this report.

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, MEIL or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of the 100 per cent equity interest in MEIL as at 28 February 2007 was **HK$3,900,000,000 (HONG KONG DOLLARS THREE THOUSAND AND NINE HUNDRED MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Company, MEIL or the value reported.

Yours faithfully
For and on behalf of
BMI APPRAISALS LIMITED

Marco T.C. Sze
B.Eng (Hon), MBA (Acct), CFA
Senior Manager

Dr. Tony Cheng
BSc, MUD, MBA (Finance), MSc (Eng), PhD (Econ), MHKIS, MCIArb, AFA, SIFM, FCIM, MASCE, MIET, MIEEE, MASME, MIIE
Director

Lowell W.W. Lo
BBA (Hons), MSc (NJIT), CPA, AICPA, SIFM
Director

Notes:

1. Mr. Marco Sze holds a Master's Degree of Business Administration in Accountancy from the City University of New York – Baruch College and is a holder of Chartered Financial Analyst. He has about 2 years' experience in valuing similar assets or companies engaged in similar business activities as that of MEIL in Hong Kong, China and the Asia-Pacific Region.

2. Dr. Tony Cheng is a member of the Hong Kong Institute of Surveyors, a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has about 5 years' experience in valuing similar assets or companies engaged in similar business activities as that of MEIL worldwide.

3. Mr. Lowell Lo is a practicing member of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants. He has about 3 years' experience in valuing similar assets or companies engaged in similar business activities as that of MEIL in Hong Kong, Macao, China and various locations in the Asia-Pacific Region.

The following is the text of the technical assessment report prepared for the purpose of incorporation in this circular received from Netherland, Sewell & Associates, Inc. in connection with its technical assessment of Madagascar Oilfield Block 3113 as at 3 January 2007.

REPORT OF THE TECHNICAL ADVISOR,
NETHERLAND, SEWELL & ASSOCIATES, INC.
TO SINO UNION PETROLEUM & CHEMICAL INTERNATIONAL LIMITED
FOR SUBMISSION TO THE STOCK EXCHANGE OF HONG KONG LIMITED
AS OF 3 JANUARY 2007
PREPARED 4 APRIL 2007

The report is prepared by Netherland, Sewell & Associates, Inc. (NSAI) for Sino Union Petroleum & Chemical International Limited (SUNPEC) in accordance with Chapter 18, Section 18.09(6), of the Listing Rules of The Stock Exchange of Hong Kong Limited and constitutes the "Summary Report of the Technical Advisor" regarding SUNPEC's further acquisition of the remaining 93 per cent equity interest in Madagascar Energy International Limited (MEIL), which has 100 percent interest in a Production Sharing Contract (PSC) for oil and gas rights in Petroleum Block 3113 within the Morondava Basin located onshore in the Republic of Madagascar (Madagascar). This report is prepared as of 3 January 2007, the date that SUNPEC entered into the Sale and purchase agreement with Golden Nova Holdings Limited to acquire 93 per cent equity interests in MEIL. This report sets forth a technical assessment of those assets and is organized based on Section 18.09(6) of the Hong Kong Listing Rules. After each subject heading is a number corresponding to the sub-section of the Listing Rules being addressed.

The estimated of prospective resources have been prepared in accordance with the petroleum resource definitions approved in 2000 by the Society of Petroleum Engineers (SPE), World petroleum Council (WPC), and American Association of Petroleum Geologists (AAPG). We have also reviewed the Morondava Basin and Block 3113 assessments conducted by BGP Inc., of the Chinese National Petroleum Company, and the Chinese University of Petroleum (collectively, the Study Group). For this report, we evaluated six prospects identified by the Study Group. Madagascar Oilfield Block 3113 is at a very early stage of hydrocarbon exploration and development where limited data exists to fully delineate the hydrocarbon potential. Therefore, for this report, we evaluated six prospects identified by the Study Group only. There is risk that any of the six identified prospects may prove to be unproductive once drilled. This risk has been taken into account in the estimate of risked prospective resources in this report. There is also a possibility that once additional seismic data is acquired from Block 3113, additional prospects will be identified. This represents upside potential that cannot be quantified with the data currently available.

We conducted a probabilistic assessment for each prospect identified by the Study Group to derive the unrisked gross (100 percent) range of both in-place and recoverable hydrocarbons. In addition, a geologic risk assessment was conducted for each prospect. Risked prospective resources address the probability or chance of success for the discovery of recoverable hydrocarbons, and risk analysis is conducted independently of probabilistic estimations of hydrocarbon volumes without regard to commerciality. Principal risk elements of the petroleum system include (1) trap and seal characteristics; (2) reservoir presence and architecture; (3) source rock capacity, quality, and maturity; and (4) timing, migration, and preservation off hydrocarbons in relation to trap and seal formation. Our views of the primary risk elements for each prospect are quantified herein. Unrisked prospective resources are estimated ranges of in-place and recoverable oil and gas volumes if hydrocarbons are discovered.

It should be understood that the prospective resource volumes discussed and shown herein are defined as those undiscovered resources estimated beyond proved, probable, and possible reserves or contingent resources where geological and geophysical data suggest the potential for discovery of hydrocarbons but where the level of proof is insufficient for classification as reserves or contingent resources. The unrisked prospective resources are those volumes that could reasonably be expected to be recovered upon the successful exploration and development of these prospects. Reserve and resource classifications are described in the definitions included with this report.

Professional Qualifications of Investigators and Reporting Standards Used – 18.09(6)

Name, address, professional qualifications, and relevant experience of the Technical Advisor(s) along with the reporting standards used.

NSAI is a firm of international independent reserve consultants. NSAI has conducted reserve certifications, technical studies and economic evaluations, and advisory work of both onshore and offshore fields throughout the world. We perform a complete range of integrated geophysical, geological, petrophysical, and engineering services for clients that include major and independent petroleum companies, gas transportation companies, financial institutions, and government agencies and companies. We maintain a staff of highly competent technical personnel to ensure excellence in the quality of our work and in the service to our clients.

Our company was established in 1961 and has offices in Dallas and Houston, Texas. Our present organization consists of 55 reservoir engineers, geologists, geophysicists, and petrophysicists; 60 engineering and geologic analysts; and additional support staff. Our staff members work as a team to provide the integrated expertise required for reserve evaluations, complex field studies, and exploration resource assessments. Our professional staff is carefully recruited from the industry's most qualified candidates. The average experience level of our professional staff exceeds 20 years, including 5 to 15 years with a major oil company. Most of our engineers, geoscientists, and petrophysicists obtained their initial training and experience with ARCO, BP, British Gas, Chevron, ConocoPhillips, or ExxonMobil.

Our engineering and geological support analysts have 3 to 15 years experience and generally have degrees in geology, mathematics, statistics, and business. They have diverse skills in job setup, data loading, database management, spreadsheet functions, computer digitizing, computer mapping, well log processing, and report preparation. Analyst support staff complement our geoscience and engineering capabilities by increasing the efficiency of our work processes and providing a direct cost benefit to our clients.

A substantial part of our work involves determination of developed and undeveloped oil and gas reserves and the economic evaluation of these reserves for various clients. Our reserve evaluation reports are used by these clients for (1) corporate financing; (2) joint ventures, investments, mergers, acquisitions, and property sales; (3) establishing depletion, depreciation, and abandonment rates for accounting and auditing purposes and use in annual reports; (4) filings with regulatory agencies such as the United States Securities and Exchange Commission and Department of Energy; and (5) equity offerings on the New York, London, and other stock exchanges.

The staff members of NSAI, as Technical Advisor, directly involved in this evaluation include:

Richard F. Krenek II, P.E.
Daniel T. Walker, P.G.
Jay P. Mitchell, P.G.

Richard Krenek has a B.S. in Chemical Engineering with over 20 years of industry experience, and is a Registered Professional Engineer with license maintained in the State of Texas, USA. Richard is a member of the SPE and a member of the Society of Petroleum Evaluation Engineers (SPEE). The SPEE is an international group of about 600 professionals directly involved in reserve and resource evaluations. Richard holds a chair position in the international organization and participates in international activities of SPEE. Furthermore, he is the current Chairman of the local Dallas chapter where he lectured in late 2006 on the 1997 Petroleum Reserve Definitions approved by the SPE and WPC; the 2000 petroleum Resource Definitions approved by the SPE, WPC and AAPG; and the newly proposed combined reserve and resource definitions sponsored by the SPE, WPC, AAPG, SPEE. He has performed independent reserve and resource evaluations throughout North and South America, Europe, Asia, and Africa.

Daniel Walker has B.S. in Geology with over 25 years of industry experience and is a Licensed Professional Geoscientist with license maintained in the State of Texas, USA. Daniel is a Certified Petroleum Geologist and a member of both the AAPG and the Society of Exploration Geophysicists (SEG). He has performed independent reserve and resource evaluations throughout North and South America, Europe, Asia, Africa, and Australia. Daniel has recently performed exploration risk assessments for other concession blocks within Madagascar.

Jay Mitchell has a B.S. in Geology and an M.S. in Geophysics with over 20 years of industry experience and is a Licensed Professional Geoscientist with license maintained in the State of Texas, USA. He is a Certified Petroleum Geophysicist and a member of both the AAPG and the SEG. He is also a member of several local professional geoscience groups. Jay has performed independent reserve and resource evaluations throughout North and South America, Europe, Asia, Africa, and Australia.

The offices of all three staff members involved in the evaluation are located at the following address:

Netherland, Sewell & Associates, Inc.
4500 Thanksgiving Tower
1601 Elm Street, Suite 4500
Dallas, Texas USA 75201

Telephone: 214-969-5401

In preparing this report, NSAI used the 1997 Petroleum Reserve Definitions approved by the SPE and WPC along with the 2000 Petroleum Resource Definitions approved by the SPE, WPC, and AAPG as classification standards. This report also is in accordance with the 2001 SPE Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information.

Stage of Development and Summary of Past Operations – 18.09(6)(a)

The acreage held, the number of holes drilled , their distribution, and past drilling.

Acreage under contract by SUNPEC includes Petroleum Block 3113 located onshore in Madagascar. The block comprises 8,320 square kilometers (km) and is located in the southwestern part of the country. Numerous surface oil seeps can be observed throughout northern and western Madagascar, including several on or near the SUNPEC Petroleum Block 3113. Between 1953 and 1986, eight exploration wells were drilled by various previous operators. All of those wells had oil and gas shows, but none of the wells were ever completed for production. Following is a list of those wells:

Well name	Abbreviated Name	Date Drilled	Longitude	Latitude	Total Drill Depth (meters)
Ambanasa 1	ABN-1	June 1986	22º31′12″	44º40′20″	4,670.5
Leoposa 2	LW-2	May 1953	22º39′26″	44º21′41″	842.4
Leoposa 1	LW-1	March 1953	22º49′10″	44º23′20″	715.1
Lambosina 1	LD-1	June 1956	22º40′01″	44º37′49″	2,589.0
Vohidolo 2	VHD-2	July 1959	22º50′15″	44º51′54″	3,464.3
Vohidolo 2 sidetrack	VHD-2bis	May 1960	22º51′14″	44º50′25″	3,425.5
Vohidolo 1	VHD-1	December 1958	22º50′30″	44º50′59″	2,733.0
Sakaraha 1	SAK-1	April 1974	22º52′28″	44º31′17″	3,813.5

Each of the exploration wells tested structural highs within the concession block and encountered several shows of oil, gas, and bitumen (tar) and confirmed favorable hydrocarbon system components of mature source rocks, reservoir presence, and trapping geometries. The absence of commercial accumulations to date is primarily attributed to inadequate seal rocks over the structural high areas of the basin to trap migrating hydrocarbons, and also to the fact that some wells were not drilled to sufficient depths to test reservoirs below likely regional seal rocks. Remaining play types and prospects focus on the basin-centered structures where the likelihood of adequate seal rocks is more favorable.

The results of the well log data have been incorporated into a comprehensive regional basin study by the Study Group. The Study Group have integrated well data, available 2-D seismic data, gravity and magnetic data, source rock studies, and analog basin studies to provide a fairly comprehensive analysis of the Morondave Basin history and hydrocarbon potential of Petroleum Block 3113. The Study Group has identified three primary play types on Petroleum Block 3113 that are contained within anticlinal closures faulted anticlinal closures, and combination structure and stratigraphic traps within the central basin areas. The Study Group has identified six prospects from the existing 2-D seismic data and from the integrated basin analysis study. Acquisition, processing, and interpretation of additional seismic data will likely identify additional prospects or more prospective potential.

Summary of the Target Reservoir and its Reservoir Parameters – 18.09(6)(b)

Statement describing the geological characteristics of the occurrence, the type of deposit, its dimensions and the grade of the mineral; the porosity and permeability characteristics of the reservoirs, the thickness of the net pay, the pressure of the fluid or gas within it and the recovery mechanism planned.

The primary prospect drilling objectives are the Permian to Triassic age Middle to Lower Sakamena formations contained within basin-centered folded and faulted anticlines. The upper portions of the Middle Sakamena are comprised of organic-rich lacustrine shales that are identified as both a hydrocarbon source rock and as a potential vertical seal to migrating hydrocarbons. Reservoirs below this regional seal rock are considered to have favorable conditions for trapping hydrocarbons. The reservoirs are composed of quartz sandstones and plagioclase feldspars with variable amounts of clay composed predominantly of kaolinite, illite, and chlorite. The sediments were deposited in lacustrine, fluvial, and braided stream environments and form a thick succession of stacked reservoir units. Sediment burial is accompanied by decreasing porosity with increasing depth, and there is considerable uncertainty that sediments below 3,500 to 4,000 meters will have preserved porosity. However, hydrocarbon migration and entrapment prior to deep burial depth would mitigate the effects of chemical and physical destruction of the pore systems.

We have incorporated the range of porosities with depth relationships observed from well data in our analysis and considered porosity preservation from early hydrocarbon entrapment in our high side estimates. Based on core shows and surface seeps and analog data from other East Africa basins, it is expected that hydrocarbon accumulations will be oil, rather than gas. Reservoir recovery factors were estimated based on expected drive mechanisms and comparison to known fields interpreted to have similar geology and development scenarios. We have estimated that the overall average most likely oil recovery factor for the six identified prospects is approximately 25% of original oil-in-place ("OOIP"). Although this is thought to be a reasonable overall average, recovery factors for the individual prospects may actually range from a low of 15% of OOIP to a high of 40% of OOIP. The impact of pressure maintenance has been included in determining the mean and high estimates of oil recovery factors. Following is a table providing the general estimated unrisked ranges and estimated mean values of the various reservoir properties for the six prospect areas:

Parameter	General Range(1)	Mean Value
Target Reservoir Depth (meters)	2,700 – 5,280	4,180
Prospect Area(2) (square km)	17 – 73	32
Net Reservoir Thickness (meters)	50 – 280	170
Porosity (percent)	2 – 20	6
Permeability (millidarcies)	2 – 125	12
Reservoir Pressure (atm)	232 – 501	378
Oil API Gravity degrees)	16 – 50	37.5

(1) Represents the general low side and high side of the expected range.

(2) These areas represent only the portions of the prospects that lie within the boundaries of the license area.

Estimate of Proved Reserves – 18.09(6)(c)

An estimate of the proven reserves and the anticipated oil and gas recovery factors on a field by field basis together with the anticipated period of working.

SUNPEC's Petroleum Block 3113 in onshore Madagascar is in the exploration stage, and consequently contains no proved reserves at this time.

Estimate of Probable Reserves, Possible Reserves, and Resource Volumes – 18.09(6)(d)

When the concession includes Probable or Possible Reserves or Resources relevant to the long term future of the issuer, this should be stated with a note on the type of evidence available. In isolated areas where no factual geological data has yet been obtained, possible reserves should be described by adjectives, not figures.

SUNPEC's Petroleum Block 3113 is in the exploration phase. Based on internationally recognized reserve and resource definitions developed by the SPE, WPC, and AAPG (and used herein), the potentially recoverable volumes located in Petroleum Block 3113 are classified as prospective resources, which represent those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources estimate equals the product of recovery factor and estimated oil-in-place. In other words, prospective resources estimate is that portion of the estimated oil-in-place that is estimated to be recoverable at the surface through drilling and production operations. Generally, at the point that a field development plan is prepared then approved by all relevant parties, and a market for future hydrocarbon production is secured by contract or other highly certain mechanism, then resource volumes can be upgraded to reserves. The range of unrisked resources can be considered the reasonable range of volumes to be obtained if exploration wells are successful in establishing discovery of productive hydrocarbons.

Exploration for prospective hydrocarbon resources is conducted under conditions of uncertainty. Prospect risk assessment addresses the probability or chance of geologic success (P_g) for discovery of reservoirs that flow hydrocarbons at a measurable rate without regard to commerciality and is applied independently of the Monte Carolo simulation.

The primary risk elements include (1) source, including capacity of charge and maturity of source rock; (2) reservoir presence and quality; (3) trap integrity, including seal and trap definition; and (4) timing of hydrocarbon migration relative to trap presence and migration pathways. The product of the values assessed for each of these four components is the P_g.

We have conducted a prospect risk assessment for each prospect using a four-component methodology after standard industry (Robert M. Otis and Nahum Schneidermann, "A Process for Evaluating Exploration Prospects," *AAPG Bulletin*, Vol. 81, No. 7, July 1997, pp. 1,087-1,109), as described below:

- A P_g value between 50 and 100 percent represents a very low risk prospect, where all elements of the petroleum system are well-documented with encouraging to favorable parameters. This category is associated with infill or delineation drilling of proved discoveries or prospects with well-calibrated seismic data directly adjacent to proved discoveries.

- Prospects with P_g values between 25 and 50 percent are considered low risk, where all risk factors are encouraging to favorable. The category is associated with prospects targeting nearby proved play types near existing production.

- A P_g value between 12.5 and 25 percent represents a moderate risk prospect and contains 2 or 3 encouraging to favorable risk factors and 1 or 2 encouraging to neutral risk factors. This category is associated with prospects targeting new plays in established producing basins or proved plays far from existing production.

- Prospects with P_g values between 6 and 12.5 percent are considered high risk and have 1 or 2 encouraging factors and 2 or 3 neutral to encouraging factors. This category is often associated with prospects testing new plays in producing basins far from existing production or proved plays in an unproved area.

- Very high risk prospects have P_g values between 1 and 6 percent and contain 2 to 3 risk factors that are no better than neutral along with 1 or 2 questionable or unfavorable factors. This category is usually associated with prospects targeting new play types or analogous play types in an unproved area far from existing production.

The P_g values estimated for the prospects are subject to change with the acquisition and interpretation of additional well and seismic data. The subjective nature of prospect risk assessment is highly dependent on the experience of the evaluators; the available data to define each prospect; the available local, regional, or analog data describing reservoir and production characteristics; and the historical local and regional hydrocarbon discovery success rates.

Our estimates of unrisked and risked oil-in-place and our unrisked and risked recoverable prospective resources are summarized in the following tables:

			Gross (100%) Original Oil-in-Place(1)(2) (MMBBL)					
			Unrisked			Risked(3)		
Prospect Number	Play Type	P_g (Percent)	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
1	Dip Closed Anticline	8	170	695	1,460	13	53	112
2	Dip/Fault Closed Anticline	10	321	1,230	2,512	33	125	256
3	Dip/Fault Closed Anticline	10	271	915	1,822	28	93	186
4	Dip/Fault Closed Anticline	10	72	284	578	7	29	59
5	Dip/Fault Closed Anticline	10	251	870	1,739	26	89	177
6	Dip/Fault Closed Anticline	10	950	2,898	5,482	97	296	559
Total			2,034	6,892	13,592	203	685	1,349

Total may not add because of rounding.

(1) These volumes represent only the portions of the prospects that lie within the boundaries of Petroleum Block 3113.

(2) These estimates are the arithmetic sum of multiple probability distributions. Such sums are correct only when summing the mean (best estimate) values. The arithmetic sum of the low estimates may be very conservative, and the arithmetic sum of the high estimates may be very optimistic.

(3) Risked in-place volumes equal unrisked in-place volumes multiplied by the P_g.

(4) Oil-in-place represents the amount of oil that exists in an underground oil reservoir. This term usually means the initial oil-in-place, that amount of oil that existed in an underground reservoir initially, before any production occurred from the reservoir. This cannot be measured exactly, but is estimated using data from seismic surveys and well logs along with experience and judgment of the technical evaluator.

			Gross (100%) Prospective Oil-Resources(1)(2) (MMBBL)					
			Unrisked			Risked(3)		
Prospect Number	Play Type	P_g (Percent)	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate
1	Dip Closed Anticline	8	43	185	395	3	14	30
2	Dip/Fault Closed Anticline	10	83	329	669	8	34	68
3	Dip/Fault Closed Anticline	10	69	245	503	7	25	51
4	Dip/Fault Closed Anticline	10	18	76	160	2	8	16
5	Dip/Fault Closed Anticline	10	63	233	476	6	24	49
6	Dip/Fault Closed Anticline	10	246	770	1,474	25	79	150
Total			522	1,840	3,676	52	183	365

Totals may not add because of rounding.

(1) These volumes represent only the portions of the prospects that lie within the boundaries of Petroleum Block 3113.

(2) These estimates are the arithmetic sum of multiple probability distributions. Such sums are correct only when summing the mean (best estimate) values. The arithmetic sum of the low estimates may be very conservative, and the arithmetic sum of the high estimates may be very optimistic.

(3) Risked resources equal unrisked in-place volumes multiplied by the P_g.

Geologic and Geophysical Data Used in Developing Reserve and Resource Estimates – 18.09(6)(e)

The nature of any geophysical and geological evidence used in making reserve or resource estimates and the name of the organization that did the work.

A detailed geologic and geophysical study of Petroleum Block 3113 dated 8 February 2007 (the G&G Study) was performed by the Study Group. The Study Group appears to have compiled all available geological, geophysical, and well log/test data for Petroleum Block 3113. Data available to the Study Group, and subsequently available for our review, included well logs, mud log and core data, drillstem tests, gravity/magnetic data, a sparse grid of approximately 20 2-D seismic lines totaling approximately 1,350 km, and technical reports prepared by various prior operators of Petroleum Block 3113. The G&G study sets forth six prospects as well as three additional lead areas. NSAI found the G&G Study, along with its conclusions, to provide a quality basis for our evaluation work.

In the NSAI study, we reviewed the available technical data and then conducted probabilistic assessments of unrisked original hydrocarbons-in-place and recoverable prospective hydrocarbon volumes using a spreadsheet-based Monte Carlo simulation model. We reviewed the prospect evaluations conducted by the Study Group and then independently evaluated the probability ranges associated with prospect area, reservoir thickness, reservoir rock and fluid parameters, and recovery factors. Our independent evaluations are based on review of available exploration well data and interpretation of 2-D seismic data sets along with supporting data from discovered or developed fields interpreted to have similar depositional environments, burial depths, and reservoir properties. Our estimates are based on combining probability distributions of reservoir variables input into the Monte Carlo simulation to derive probabilistic estimates of the unrisked in-place and recoverable hydrocarbon volumes.

Summary of Contractual or License Terms and Production Rights – 18.09(6)(f)

A statement on the production policy.

The PSC for Petroleum Block 3113 was issued on 19 October 2005 and contains provisions for an 8-year Exploration Period, a 5-year Development Period, and a subsequent Exploitation Period. The Exploitation Period is 25 years for oil and 30 years for gas, both with potential 5-year extensions. According to the PSC for Petroleum Block 3113, all produced oil is subject to a government royalty of between 8 and 20 percent on oil, depending on daily production rate. Of the volumes remaining after royalty, SUNPEC is entitled to cost oil along with SUNPEC's share of profit oil. The profit oil splits are variable, with SUNPEC retaining between 45 and 73 percent, depending on daily production rate. There is also a Direct Tax on hydrocarbons equal to 30 percent of SUNPEC's share of profit oil. The variable government royalty and variable profit oil split is designed to allow the government to share more fully in the block when production rates are higher and allow the contractor to keep a larger share when oil production rates are lower.

The sliding scale royalty is calculated separately for oil and gas based on the daily producted quantities of each product, as shown in the following tables;

Daily Oil Production Tranche (MBBL per day)	**Royalty Rate (Percent)**
0 – 25	8.0
25 – 50	10.0
50 – 75	12.0
75 – 100	14.0
100 – 130	17.0
>130	20.0

The sliding scale profit oil split is based on the daily produced quantities of oil as shown in the following table:

Daily Gas Production Tranche (MMm^3 per day)	**Royalty Rate (Percent)**
0- 12	5.0
12 – 24	7.5
>24	10.0

Daily Oil Production Tranche (MBBL per day)	**Government Share (Percent)**	**SUNPEC Share (Percent)**
0 – 10	27.0	73.0
10 – 20	30.0	70.0
20 – 30	32.5	67.5
30 – 40	35.0	65.0
40 – 50	40.0	60.0
50 – 60	45.0	55.0
60 – 80	47.5	52.5
80 – 100	52.5	47.5
>100	55.0	45.0

Cost recovery for SUNPEC can be made from up to 65 percent of available hydrocarbons after royalty deduction. Any unrecovered costs can be carried forward with no time limit throughout the duration of the contract.

Anticipated Future Exploration, Development and Production Activity – 18.09(6)(g)

An indication of the progress of actual working.

The terms of the Petroleum Block 3113 PSC require that certain minimum work items be performed on a prescribed schedule throughout the 8-year exploration phase. These work items are specified below:

Exploration Phase	Period Duration in Years	Minimum Work Commitment	Minimum Expenditure (US$MM)	Relinquishment (Percent)
First Phase	2.0	350 km 2-D seismic	3.0	25
Second Phase	2.5	1 exploratory well; contingent on success of the exploratory well, 300 km 2-D seismic or 100 km 3-D	4.0 + 3.5	25
Third Phase	3.5	2 exploratory wells	7.0	

SUNPEC's acreage is in exploration stages. Since existing 2-D seismic data may not identify all the hydrocarbon resource potential in Petroleum Block 3113, early work will likely be acquisition of a combination of 2-D and 3-D seismic surveys. Additional seismic data acquisition may result in (1) changing the size or risk estimate of each individual prospect, (2) removing one or more prospects from the inventory, or (3) adding more prospect areas to the inventory. The new seismic data should also help optimize the location of exploration wells to be drilled in each prospective area. Once one or more exploration wells are drilled in each prospect area, the prospect area will either be deemed unsuccessful or potentially suitable for development and exploitation. If the decision is made to continue to develop the prospect, a detailed development plan will be generated and project economics will be prepared based on the defined development plan. Development wells would than be drilled and facilities would be installed to allow hydrocarbon production.

It is our understanding from discussion with SUNPEC that (1) MEIL and OMNIS (L'Office des Mines Nationales et des Industries Strategiques) held a joint management meeting in Beijing, China, for two days in March 2007 to examine the financial expenditure budget and work commitment schedule for the first exploration phase, (2) the budget and the work commitment schedule were agreed upon by both parties and were approved by OMNIS during the meeting, and (3) MEIL has exceeded both the amount of investment and the amount of work commitment required for the first exploration phase.

THE GROUP

For the year ended 31 March 2004

Results

For the financial year ended 31 March 2004, the Group recorded a turnover of approximately HK$453.3 million (2003: approximately HK$520.9 million), representing a decrease of approximately 13.0% when compared with that of the previous year. The Group's net profit attributable to Shareholders amounted to approximately HK$12.9 million (2003: approximately HK$8.5 million). The basic and diluted earnings per share for the year amounted to HK1.2 cents and HK1.1 cents respectively.

Business Review

Following the Group's restructuring in the prior year, the Group discontinued its business of manufacturing of polyurethane (PU) forms and related products and concentrated on the trading business of PU materials during the financial year ended 31 March 2004. The outbreak of Severe Acute Respiratory Syndrome (SARS) had devastating impact on the Group during the first half of the financial year. Nevertheless, the overall market sentiment during the second half of the financial year improved and there was a tremendous increase in the demand of PU materials. As a result, the Group's turnover picked up rapidly in the second half of the financial year. To reduce the credit risk exposure and to maintain the profit margin, the Group adopted a conservative approach in accepting trading orders. Consequently, the Group's gross profit increased from approximately HK$26.3 million in 2003 to approximately HK$33.5 million in 2004 despite there was a decrease in turnover in the year and the profit margin increased from approximately 5.1% in 2003 to 7.4% in 2004.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group relied principally on its internally generated capital to fund its business.

As at 31 March 2004, the Group's pledged bank deposits and cash and bank balances amounted to approximately HK$8.2 million and HK$40.1 million respectively. The Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets) was approximately 0.38 as at 31 March 2004.

Most of the sale and expenditures of the Group were denominated in Hong Kong dollar. The Group had no significant exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 March 2004, bank deposits of approximately HK$8.2 million were pledged to secure banking facilities of the Group. The Group did not have any material contingent liabilities as at 31 March 2004.

Material Investments, Acquisitions or Disposals

The Group had no significant investments held and there were no material acquisitions and disposals of subsidiaries and associated companies during the course of the year.

As at 31 March 2004, neither the Group had any material capital expenditure commitment nor did it have any future plan for material investments or capital assets.

Segmental Analysis

During the year under review, the Group focused only on the business of distribution of PU materials and all of the Group's revenue was derived from such business.

Human Resources

As at 31 March 2004, the Group had a total number of staff of 25. Total staff cost including directors' remuneration for the year decreased from approximately HK$6.0 million in 2003 to approximately HK$4.3 million in 2004.

Salaries of employees were maintained at a competitive level and the Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, commissions, contributions to Mandatory Provident Fund Scheme and discretionary bonuses.

For the year ended 31 March 2005

Results

For the financial year ended 31 March 2005, the Group recorded a turnover of approximately HK$884.3 million, representing an increase of approximately 95.1% when compared with that of the previous year. The Group's loss attributable to Shareholders amounted to approximately HK$1.0 million (2004: profit of approximately HK$12.9 million). The basic loss per share for the year amounted to HK$0.1 cents.

Business Review

Benefited from the tremendous increase in demand of Polyurethane (PU) materials in the second half of the financial year, the Group's revenue from distribution of PU materials increased by approximately 44.0% from approximately 453.3 million to approximately HK$652.7 million. However, as there was very keen competition in the PU material market during the period, the Group adopted a low-price strategy to keep it competitive among other major players in the market. As a result, the gross profit margin of the Group dropped from approximately 7.4% in 2004 to approximately 4.4% in 2005.

In May 2004, the Group entered into a sale and purchase agreement to acquire the entire equity interest in Liaoning Ximin Petrochemical Company Limited ("Ximin Petrochemical"), which was principally engaged in the manufacture and sale of petrochemical products in Xinmin, Liaoning Province, the PRC. The Group then commenced the operation of manufacture and sales of petrochemical products after the completion of the acquisition in August 2004. However, due to the limitation of the scale of operation of Ximin Petrochemical, the results of the petrochemical business segment was not promising and segment loss of approximately HK$240,000 was recorded during the year.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group relied principally on its internally generated capital and external borrowings to fund its business.

During the year ended 31 March 2005, the Group issued a convertible bond with principal amount of approximately HK$26.8 million. As at 31 March 2005, the Group had outstanding bank borrowings of approximately HK$93.6 million and cash and bank balances of approximately HK$6.2 million. The Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets) was approximately 0.63 as at 31 March 2005.

Most of the sale and expenditures of the Group were denominated in Hong Kong dollar, Renminbi or Hong Kong dollar pegged currencies. The Group had no significant exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 March 2005, fixed assets of approximately HK$104.8 million were pledged and unlimited corporate guarantees were granted by the Company to secure banking facilities of the Group. As at 31 March 2005, facilities utilized by the Group amounted to approximately HK$1.0 million. Save as aforementioned, the Group had no material contingent liabilities as at 31 March 2005.

Material Investments, Acquisitions or Disposals

In May 2004, the Group entered into a sale and purchase agreement to acquire the entire equity interest in Liaoning Xinmin Petrochemical Company Limited, which was principally engaged in the manufacture and sale of petrochemical fuel products in Shenyang, Liaoning Province, the PRC, for a total consideration of approximately HK$42.5 million. The acquisition was completed in August 2004. Save as aforesaid, the Group had no significant investments held and there were no material acquisitions and disposals of subsidiaries and associated companies during the course of the year.

As at 31 March 2005, neither the Group had any material capital expenditure commitment nor did it have any future plan for material investments or capital assets.

Segmental Analysis

Approximately 73.8% of the Group's revenue was generated from the distribution of PU materials while the balance of 26.2% of the revenue was generated from the manufacture and sale of petrochemical products. The manufacture and sale of petrochemical products recorded a segment loss of approximately HK$0.2 million while the distribution of PU materials contributed a segment profit of approximately HK$10.1 million.

Human Resources

As at 31 March 2005, the Group had a total number of staff of 742. Total staff cost including directors' remuneration for the year increased from approximately HK$4.3 million in 2004 to approximately HK$10.4 million in 2005.

Salaries of employees were maintained at a competitive level and the Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, commissions, contributions to Mandatory Provident Fund Scheme and discretionary bonuses.

For the year ended 31 March 2006

Results

For the financial year ended 31 March 2006, the Group recorded a turnover of approximately HK$618.7 million, representing a decrease of approximately 30.0% when compared with that of the previous year. The Group's profit attributable to Shareholders amounted to approximately HK$15.6 million, approximately HK$15.0 million of which was derived from discontinued operation. The basic earnings per share (from both continuing and discontinued operation) for the year amounted to HK1.3 cents.

Business Review

For the year ended 31 March 2006, the Group's manufacturing business of petrochemical products was adversely affected by the soaring crude oil prices and regulated domestic refined oil product prices. The Directors expected that the unfavorable market conditions would persist for a long time and the future prospect for the manufacturing of petrochemical products would be significantly hampered. Therefore, the Group disposed of its loss-making manufacturing business of petrochemical products in July 2005. After the disposal of its manufacturing business of petrochemical products, the Group focused on its business of distribution of PU materials.

During the second half of the financial year under review, the market of PU material trading became increasingly competitive and there was a decreasing demand in PU materials in the PRC, the major target market of the Group. As a result, the Group's revenue from the distribution of PU materials reduced to approximately HK$577.7 million, representing a decrease of approximately 11.5% when compared with that of the previous corresponding period. Furthermore, the net profit attributable to Shareholders from the continuing operation of PU material trading decreased to approximately HK$0.6 million.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group relied principally on its internally generated capital and external borrowings to fund its business.

During the year ended 31 March 2006, a convertible bond with principal amount of approximately HK$26.8 million was redeemed. As at 31 March 2006, the Group did not have any outstanding bank borrowings and its cash and bank balances amounted to approximately HK$6.0 million. The Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets) was approximately 0.24 as at 31 March 2006.

Most of the sale and expenditures of the Group were denominated in Hong Kong dollar, Renminbi or Hong Kong dollar pegged currencies. The Group had no significant exchange exposures and did not use any financial instrument for hedging purposes.

As at 31 March 2006, the Group neither had any contingent liability nor charges on any of its assets.

Material Investments, Acquisitions or Disposals

In July 2005, the Group disposed of its equity interest in Liaohe Energy Limited, which owned 100% equity interest in Liaoning Xinmin Petrochemical Company Limited, for a total consideration of HK$51.0 million. A gain on disposal of approximately HK$18.6 million was recognized by the Group. Save as the above, the Group had no significant investments held and there were no material acquisitions and disposals of subsidiaries and associated companies during the course of the year.

As at 31 March 2006, neither the Group had any material capital expenditure commitment nor did it have any future plan for material investments or capital assets.

Segmental Analysis

Approximately 93.4% of the Group's revenue was generated from the distribution of PU materials while the balance of the revenue was generated from the manufacture and sale of petrochemical products. The manufacture and sale of petrochemical products recorded a segment loss of approximately HK$1.0 million while the distribution of PU materials contributed a segment profit of approximately HK$4.5 million.

Human Resources

After the disposal of the manufacturing operation, the total number of employees of the Group decreased substantially from 742 to 18. Total staff cost including directors' remuneration for the year decreased from approximately HK$10.4 million in 2005 to approximately HK$6.2 million in 2006.

Salaries of employees were maintained at a competitive level and the Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, commissions, contributions to Mandatory Provident Fund Scheme and discretionary bonuses.

For the six months ended 30 September 2006

Results

For the six months ended 30 September 2006, the Group recorded a turnover of approximately HK$295.9 million, representing a slight decrease of approximately 1.6% when compared with that of the previous corresponding period. The Group's profit attributable to Shareholders amounted to approximately HK$4.1 million, all of which were derived from the business of distribution of polyurethane materials. The basic earnings per share for the period under review amounted to HK0.33 cents.

Business Review

During the period under review, the competition in the market of PU materials remained rigorous. The Group has adopted a selective approach in accepting PU trading orders and accepted only those orders that could meet the minimum profit criteria in order to reduce the risk exposure in the competitive environment.

Capital Structure, Liquidity and Financial Resources

The Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund its business development and to generate reasonable returns from available funds. The Group relied principally on its internally generated capital and external borrowings to fund its business.

As at 30 September 2006, the Group did not have any outstanding bank borrowing and its cash and bank balances amounted to approximately HK$63.8 million. The Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets) was approximately 0.21 as at 30 September 2006.

Most of the expenditures of the Group were denominated in Hong Kong dollar, Renminbi or Hong Kong dollar pegged currencies. The Group had no significant exchange exposures and did not use any financial instrument for hedging purposes.

As at 30 September 2006, the Group neither had any contingent liability nor charges on any of its assets.

Material Investments, Acquisitions or Disposals

Metro City Group Limited ("Metro City"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement dated 20 June 2006, pursuant to which Metro City agreed to acquire the entire issued share capital of Deno Group Limited ("Deno"), for a nominal consideration of HK$1.00. The only material asset of Deno is a 7% shareholding interest in MEIL.

Save as aforementioned, during the period under review, no material acquisitions were made by the Group during the period under review.

As at 30 September 2006, neither the Group had any material capital expenditure commitment nor did it have any future plan for material investments or capital assets.

Segmental Analysis

During the six months ended 30 September 2006, the Group focused on the business of distribution of PU materials in the PRC only and all of the Group's turnover were derived from such business. Therefore, no analyses by business segments or geographical segments are presented.

Human Resources

As at 30 September 2006, the Group had a total of 18 employees. Salaries of employees were maintained at a competitive level and the Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, contribution to Mandatory Provident Fund Scheme and discretionary bonuses. The Group did not encounter any problem in recruitment of employees and none of the companies of the Group has experienced any labour disputes during the period under review.

MEIL

For the period from 23 June 2005 (Date of Incorporation) to 31 March 2006

Results

For the period from 23 June 2005 to 31 March 2006, MEIL has not commenced any business and thus no turnover was recorded during the period. MEIL's net loss for the period amounted to approximately HK$2.5 million, which was mainly attributable to the general and administrative expenses.

Business Review

On 7 October 2005, MEIL entered into the Production Sharing Agreement with OMNIS, pursuant to which MEIL was vested with the rights to engage in oil and 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.

Save for the abovementioned, MEIL has not conducted any material business activities during the period.

Capital Structure, Liquidity and Financial Resources

MEIL's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments and to fund its business development. MEIL relied principally on the funds provided by its holding company.

As at 31 March 2006, MEIL's cash and bank balances amounted to approximately HK$14,000 and its gearing ratio, as expressed as the ratio of total liabilities divided by total assets) was approximately 184.7.

Most of the expenditures of the Group were denominated in Hong Kong dollar and United States dollar. MEIL had no significant exchange exposures and did not use any financial instrument for hedging purposes.

MEIL did not have any material contingent liabilities as at 31 March 2006.

Material Investments, Acquisitions or Disposals

As at 31 March 2006, MEIL did not have any subsidiary or associated companies. During the period under review, MEIL had no significant investments held and there were no material acquisitions during the period under review.

According to the Production Sharing Agreement, MEIL has to fulfill minimum exploration work obligations of US$17.5 million over the 8-year exploration period. As at 31 March 2006, no part of the capital commitment has been fulfilled yet.

Human Resources

As at 31 March 2006, MEIL had a total of one employee. During the period under review, no staff costs including directors' remuneration were incurred.

Salaries of employees were maintained at a competitive level and MEIL continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, contribution to Mandatory Provident Fund Scheme and discretionary bonuses.

For the period from 1 April 2006 to 31 December 2006

Results

For the period from 1 April 2006 to 31 December 2006, no turnover was recorded. MEIL's net loss for the period amounted to approximately HK$927,000, which was mainly attributable to the general and administrative expenses.

Business Review

On 21 December 2006, MEIL entered into the non-legally-binding Framework Agreement with Shannxi Yanchang, pursuant to which Shannxi Yanchang conditionally agreed to invest in MEIL and to provide technical, financial and management supports to MEIL for its development of Madagascar Oilfield Block 3113. Shannxi Yanchang shall also be responsible for managing the exploration, exploitation and operations of Madagascar Oilfield Block 31113. The detailed terms of the proposed investment of Shannxi Yanchang are subject to further negotiation between MEIL and Shannxi Yanchang.

Save for the abovementioned, MEIL has not conducted any material business activities during the period.

Capital Structure, Liquidity and Financial Resources

MEIL's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments and to fund its business development. MEIL relied principally on the funds provided by its holding company.

As at 31 December 2006, MEIL's cash and bank balances amounted to approximately HK$18,000 and its gearing ratio, as expressed as the ratio of total liabilities divided by total assets) was approximately 5.9.

Most of the expenditures of the Group were denominated in Hong Kong dollar and United States dollar. MEIL had no significant exchange exposures and did not use any financial instrument for hedging purposes.

MEIL did not have any material contingent liabilities as at 31 December 2006.

Material Investments, Acquisitions or Disposals

As at 31 December 2006, MEIL did not have any subsidiary or associated companies. During the period under review, MEIL had no significant investments held and there were no material acquisitions during the period under review.

According to the Production Sharing Agreement, MEIL has to fulfill minimum exploration work obligations of US$17.5 million over the 8-year exploration period. As at 31 December 2006, no part of the capital commitment has been fulfilled yet.

Human Resources

As at 31 December 2006, MEIL had a total of 4 employees. Total staff cost including directors' remuneration for the period amounted to approximately HK$63,106.

Salaries of employees were maintained at a competitive level and MEIL continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries, contribution to Mandatory Provident Fund Scheme and discretionary bonuses.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. PROCEDURES FOR DEMANDING A POLL

Pursuant to the Bye-laws 66 of the Company, every resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demand:

(a) by the chairman of such meeting; or

(b) by at least three members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A poll which is duly demanded shall be then held in such manner prescribed by the Bye-laws of the Company.

3. SHARE CAPITAL OF THE COMPANY

(a) Share Capital

		HK$'000
Authorized capital:		
10,000,000,000	ordinary shares of HK$0.02 each	200,000
Issued and fully paid or credited as fully paid:		
As at the Latest Practicable Date		
1,316,700,000	ordinary shares of HK$0.02 each	26,334
Upon allotment and issue of the Consideration Shares:		
1,316,700,000	existing Shares	26,334
1,250,000,000	Consideration Shares	25,000
2,566,700,000		51,334

All existing issued Shares rank equally in all respects, including capital, dividends and voting rights. The Shares in issue are listed on the Stock Exchange.

Note:

1. On 3 April 2007, the Company entered into a subscription agreement with Foshan Hua Heng pursuant to which the Company has conditionally agreed to place 69,500,000 new Shares to Foshan Hua Heng at a price of HK$1.44 per Share. As at the Latest Practicable Date, the Proposed Share Placement has not been completed yet.

2. A total of 1,666,666,666 Shares will be issued upon full conversion of the Convertible Note.

(b) Share Options

Pursuant to the Company's share option scheme adopted on 1 November 2002 (the "Scheme"), the maximum number of Shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme. In addition, the maximum number of Shares in respect of which share options may be granted to any eligible person within any 12-month period is limited to 1% of the Shares in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in general meeting.

The following table sets out the details of the outstanding share options as at the Latest Practicable Date:

Exercise Price	Exercise Period (dd/mm/yy)	Outstanding options as at the Latest Practicable Date
HK$0.1324	08/11/04 to 07/11/14	11,000,000
HK$0.1324	11/11/04 to 07/11/14	40,000,000
		51,000,000

As at the Latest Practicable Date, save for the above, the Company did not have any other outstanding options, warrants or other securities convertible into Shares.

4. INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provision of the SFO); or are required to be entered in the register pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, were as follows:

(A) Long positions in the ordinary shares of the Company

Name of Director	Capacity	Number of Shares held	Approximate percentage of shareholding
Dr. Hui[Note]	Interests of controlled corporation	750,080,000	57.0%

Note: These Shares are held by Wisdom On Holdings Limited, which is wholly-owned by Dr. Hui. Accordingly, Dr. Hui is deemed to be interested in 750,080,000 Shares and is taken to have a duty of disclosure under the provisions of Divisions 2 and 3 of Part XV of the SFO. Dr. Hui, the Company's Director, is also a director of Wisdom On Holdings Limited.

(B) Long position in the share options of the Company

Name of Director	Capacity	Date of grant and vesting period (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price per Share (HK$)	Number of outstanding options held	Approximate percentage of shareholding
Tsang Kwok Man	Beneficial owner	08/11/04	08/11/04 to 07/11/14	0.132	11,000,000	0.8%

(C) Long position in the shares of MEIL

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
Dr. Hui	Interests of controlled corporation	930 ordinary shares	93%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which he/she was taken or deemed to have under such provision of the SFO) or are required to be entered in the register pursuant to 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.

Save for the transactions contemplated under the Agreements, in which Dr. Hui has direct interests, none of the Directors had any interest, direct or indirect, in any assets which have been within the two years immediately preceding the Latest Practicable Date acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

On 20 June 2006, Arno Development Limited, a company beneficially owned by Dr. Hui, entered into a sale and purchase agreement with Metro City Group Limited, a wholly-owned subsidiary of the Company, to dispose of the entire equity interest in Deno Group Limited to Metro City Group Limited at a total consideration of HK$1.0. During the period from 23 June 2005 to 31 March 2006, MEIL has paid management fee of approximately HK$1.2 million to Gahood Holdings Limited, a company wholly-owned by Dr. Hui. Save for the interest of Dr. Hui in the above agreements and the Agreements for the Acquisition, no contracts or arrangements subsisted at the Latest Practicable Date in which a Director was materially interested and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group or its associated companies which was not expiring or determinable within one year without payment of compensation other than statutory compensation.

As at the Latest Practicable Date, interests of the Directors in competing businesses required to be disclosed pursuant to Rule 8.10 of the Listing Rules were set out as below:

Name of Director	Name of entity with competing business	Name of competing business	Nature of interest
Dr. Hui	Madagascar Petroleum International Limited	Exploration, exploitation and production of oil	Director and shareholder

Save as disclosed above, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at the Latest Practicable Date, other than the interests and short positions of the Directors and chief executives of the Company as disclosed above, the following persons had the following interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meeting of any member of the Enlarged Group:

Long position in the shares of the Company

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of shareholding
Wisdom On Holdings Limited[Note]	Beneficial owner	750,080,000	57.0%

Note: Wisdom On Holdings Limited is wholly-owned by Dr. Hui.

Save as disclosed above, so far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, no persons other than a director or chief executive of the Company had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or was, directly or indirectly, interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any subsidiary of the Enlarged Group was involved in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any subsidiary of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company and/or member(s) of the Enlarged Group within two years immediately preceding the Latest Practicable Date:

a) a sale and purchase agreement dated 13 July 2005 entered into between the Company and Glorious Chamber Limited, pursuant to which the Company agreed to sell, and Glorious Chamber Limited agreed to purchase, the entire equity interest in Liaohe Energy Limited at a total consideration of HK$51.0 million;

b) a sale and purchase agreement dated 20 June 2006 entered into between Metro City Group Limited, a wholly-owned subsidiary of the Company, and Arno Development Limited, a company beneficially owned by Dr. Hui, pursuant to which Metro City Group Limited agreed to purchase, and Arno Development Limited agreed to sell, the entire equity interest in Deno Group Limited at a total consideration of HK$1.0; and

c) the Production Sharing Agreement dated 7 October 2005 entered into between MEIL and OMNIS, pursuant to which MEIL was vested with the rights to engage in oil and 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;

d) the non-legally binding Framework Agreement dated 21 December 2006 entered into between MEIL and Shaanxi Yanchang, pursuant to which Shannxi Yanchang conditionally agreed to invest in MEIL and to provide technical, financial and management supports to MEIL for its development of Madagascar Oilfield Block 3113. Shannxi Yanchang shall also be responsible for managing the exploration, exploitation and operations of Madagascar Oilfield Block 3113.

e) the Agreements.

As at the Latest Practicable Date, save as disclosed above, no material contracts (not being contracts entered into in the ordinary course of business) were entered into by any member of the Enlarged Group within the two years immediately preceding up to and including the Latest Practicable Date.

8. EXPERT AND CONSENT

a) The following are qualifications of experts who have given opinions, letters or advice which are contained in this circular:

Hercules	a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO
South China Capital	a deemed licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 to the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
BMI	professional property valuer
HLB	Chartered Accountants, Certified Public Accountants
NSAI	professional technical adviser

b) Each of Hercules, South China Capital, BMI, HLB and NSAI has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

c) None of Hercules, South China Capital, BMI, HLB and NSAI has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

d) None of Hercules, South China Capital, BMI, HLB and NSAI had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group within the two years immediately preceding the Latest Practicable Date.

e) None of Hercules, South China Capital, BMI, HLB and NSAI was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting as at the Latest Practicable Date.

9. GENERAL

a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal office in Hong Kong is situated at Units 10-12, 19th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

b) The company secretary and qualified accountant of the Company is Mr. Fu Wing Kwok Ewing, an associate member of the Hong Kong Institute of Certified Public Accountants.

c) The share registrar and transfer office of the Company is Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

d) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong, Units 10-12, 19th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, up to and including the date of the SGM:

a) memorandum and articles of association of the Company;

b) annual reports of the Group for the two years ended 31 March 2006;

c) the letter from South China Capital, the text of which is set out on pages 23 to 46 of this circular;

d) the accountants' report on MEIL prepared by HLB for the period from 23 June 2005 (its incorporation date) to 31 March 2006 and the nine months ended 31 December 2006, the text of which is set out in Appendix II to this circular;

e) the report prepared by HLB on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

f) the valuation report from BMI, the text of which is set out in Appendix IV to this circular;

g) the technical assessment report from NSAI, the text of which is set out in Appendix V to this circular;

h) the written consents referred to in the paragraph headed "Expert and consent" in this Appendix;

i) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix and any contract referred to in this circular; and

j) the Agreements.

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)

NOTICE IS HEREBY GIVEN that a special general meeting (the "SGM") of Sino Union Petroleum & Chemical International Limited (the "Company") will be held at 11:00 a.m. on Friday, 25 May 2007 at Units 10-12, 19th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong for the purpose of transacting the following business:

ORDINARY RESOLUTION

"**THAT**:–

a) the sale and purchase agreement (a copy of which marked "A" has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) made between Golden Nova Holdings Limited (the "Vendor") and the Company dated 3 January 2007 in relation to the acquisition of 93% equity interest in Madagascar Energy International Limited and the supplemental agreement dated 24 April 2007 entered into between the Vendor and the Company to amend certain terms of the Agreement (Collectively the "Agreements") (details of which are set out in the circular of the Company dated 10 May 2007 (the "Circular") to its shareholders and all transactions contemplated therein be and are hereby approved, ratified and confirmed;

b) the Directors be and are hereby authorized to allot and issue 1,250,000,000 new shares of HK$0.02 each in the share capital of the Company ("Consideration Shares") credited as fully paid at an issue price of HK$0.24 per Consideration Share to the Vendor and/or its nominee(s) upon completion of the Agreements ("Completion") and that the Consideration Shares shall, when allotted and issued, rank pari passu in all respects with all other shares of HK$0.02 each in the share capital of the Company in issue at the date of such allotment and issue;

* *For identification purpose only*

c) the convertible note (a copy of which marked "B" has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) (the "Convertible Note") in the principal amount of HK$400 million (details of which are set out in the Circular) be and is hereby approved, and THAT the Directors be and are hereby authorized to (i) issue the Convertible Note to the Vendor and/or its nominee(s) upon Completion; and (ii) allot and issue new shares of HK$0.02 each in the share capital of the Company upon exercise of the conversion right by the holder(s) of the Convertible Note in accordance with the terms of the Convertible Note; and

d) any one or more of the directors of the Company be and is and are hereby authorized on behalf of the Company to sign, seal, execute, perfect and deliver supplemental agreements, deeds or such other documents and do all such acts, matters and things as he or they may in his or their discretion consider necessary or desirable for the purpose of or in connection with effecting and implementing the Agreements and completing the transactions contemplated by the Agreements with such changes including but not limited to change of the date for completion of the transactions as any such director(s) may consider necessary, desirable or expedient."

By order of the Board
Sino Union Petroleum & Chemical International Limited
Chui Say Hoe
Executive Director

Hong Kong, 10 May 2007

Notes:

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and on a poll vote instead of him. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the Company's share registrar, Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the SGM or any adjourned meeting thereof should he so wishes.

3. In case of joint shareholdings, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purposes seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholdings.

4. As at the date hereof, the board of directors of the Company comprises six executive directors, namely Dr. Wang Tao, Dr. Hui Chi Ming, Dr. Chui Say Hoe, Mr. Tsang Kwok Man, Mr. Cheung Shing and Mr. Cui Yeng Xu, one non-executive director, namely Mr. Chow Charn Ki Kenneth, and three independent non-executive directors, namely Mr. Chan Wai Dune, Dr. Yu Sun Say and Mr. Ng Wing Ka.