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)

MAJOR AND CONNECTED TRANSACTION

ACQUISITION OF THE ENTIRE EQUITY INTEREST IN BETTER STEP GROUP LIMITED

Financial adviser to Sino Union Petroleum & Chemical International Limited

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 28 March 2008 at 10:00 a.m. is set out on pages 168 to 169 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, Tricor 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*

12 March 2008

CONTENTS

		Page
Definitions		1
Letter from the Board		5
Letter from the Independent Board Committee		19
Letter from South China Capital		20
Appendix I –	**Financial information on the Group**	46
Appendix II –	**Accountants' report on Better Step Group**	99
Appendix III –	**Accountants' report on MPIL**	121
Appendix IV –	**Unaudited pro forma financial information on the Enlarged Group**	140
Appendix V –	**Valuation of Oilfield Block 2104**	147
Appendix VI –	**Management discussion and analysis of Better Step Group**	157
Appendix VII–	**General information**	159
Notice of SGM		168

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 the Shareholder's Loan pursuant to the Agreement
"Agreement"	the conditional sale and purchase agreement dated 3 November 2007, supplemented by a supplemental agreement dated 28 February 2008, entered into between the Company and the Vendor for the sale and purchase of the Sale Shares and the Shareholder's Loan
"Announcement"	the announcement of the Company dated 9 November 2007 in respect of the Acquisition
"associates"	has the meanings ascribed thereto under the Listing Rules
"Better Step"	Better Step Group Limited, a company incorporated in the British Virgin Islands with limited liability and the share capital of which is wholly-owned by Dr. Hui
"Better Step Group"	Better Step and its subsidiaries
"BMI"	BMI Appraisals Limited (which is independent of the Company and its connected persons), being the valuer for the valuation of Better Step
"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
"connected person"	has the meaning ascribed thereto in the Listing Rules
"Consideration Shares"	427,083,333 new Shares to be issued to the Vendor, as part of the consideration, upon Completion
"Convertible Note"	the Convertible Note to be issued by the Company in the principal amount of HK$480 million with a conversion price of HK$1.44 per Share

"Conversion Shares"	new Shares to be issued upon conversion of the Convertible Note
"Director(s)"	the director(s) of the Company
"Dr. Hui"	Dr. Hui Chi Ming, Chairman of the Board, an executive Director and a controlling shareholder of the Company
"Enlarged Group"	the Group and Better Step Group
"Group"	the Company and its subsidiaries
"HK$"	the lawful currency of Hong Kong
"HLB"	HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, being the reporting accountants of Better Step and MPIL
"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 Dr. Yu Sun Say, Mr. Ng Wing Ka and Mr. Edmund Siu, established for the purpose of advising the Independent Shareholders on the terms of the Agreement
"Independent Financial Adviser" or "South China Capital"	South China Capital Limited, being a 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 Dr. Hui and his associates, who are interested in the Acquisition
"Last Trading Day"	2 November 2007, being the last trading day before the publication of the Announcement
"Latest Practicable Date"	10 March 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Madagascar"	the Republic of Madagascar
"MPIL"	Madagascar Petroleum International Limited, a company incorporated in the British Virgin Islands with limited liability in June 2005 and the issued share capital of which is beneficially owned as to 54% by the Vendor, 10% by Dr. Hui and 36% by independent third parties as at the Latest Practicable Date
"NSAI"	Netherland, Sewell & Associates, Inc., a technical adviser appointed by the Company, which is independent of the Company and its connected persons
"Oilfield Block 2104"	an onshore block of land of approximately 20,100 square kilometers in Madagascar for oil and gas exploitation and operation
"OMNIS"	Office des Mines Nationales et des Industries Strategiques, (English translation being: The National Office for Mining and Strategic Industries) a state-owned agency of Madagascar commissioned to manage and oversee the national petroleum and mineral resources 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 MPIL and OMNIS, pursuant to which MPIL was granted certain oil and gas exploration, exploitation and operation rights and profit sharing right at Oilfield Block 2104
"Sale Shares"	100 ordinary shares of US$1.00 each in the share capital of Better Step, representing the entire issued share capital of Better Step
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time

"SGM"	the special general meeting of the Company to be convened and held to approve the Acquisition and the issue of the Consideration Shares, Convertible Note and the Conversion Shares
"Share(s)"	the share(s) of HK$0.02 each in the capital of the Company
"Shareholder's Loan"	a sum representing the total outstanding interest-free loans as at Completion due from MPIL to the Vendor
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	the lawful currency of the United States of America
"Vendor"	Sukapeak Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and whose share capital is wholly-owned by Dr. Hui

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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
Mr. Cheung Shing
Dr. Chui Say Hoe
Dr. Ching Men Ky, Carl
Mr. Tsang Kwok Man
Mr. Cui Yeng Xu

Non-executive Directors:
Dr. Fok Chun Wan, Ian
Mr. Chow Charn Ki, Kenneth

Independent non-executive Directors:
Dr. Yu Sun Say
Mr. Ng Wing Ka
Mr. Edmund Siu

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

12 March 2008

To the Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTEREST IN
BETTER STEP GROUP LIMITED

1. INTRODUCTION

As announced by the Company on 9 November 2007 and 29 February 2008, 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 the entire equity interest in Better Step and the Shareholder's Loan at a total consideration of HK$1.215 billion.

* *For identification purpose only*

The Acquisition in aggregation with the previous connected transaction disclosed in the Company's announcement dated 12 September 2007 constitutes a major and connected transaction for the Company under the Listing Rules and thus the Agreement is 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 on the Acquisition; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Acquisition; and (iv) the notice of the SGM.

2. THE AGREEMENT

Date: 3 November 2007

Parties:

Purchaser: the Company

Vendor: Sukapeak Holdings Limited, an investment holding company beneficially owned by Dr. Hui, who is the Chairman of the Board and the controlling shareholder of the Company. Dr. Hui is beneficially interested in approximately 61.49% of the issued share capital of the Company as at the Latest Practicable Date.

Assets to be acquired

The Shareholder's Loan and the Sale Shares, being 100 ordinary shares of US$1.00 each in the share capital of Better Step, representing the entire issued share capital of Better Step, which holds 54% equity interest in MPIL as at the Latest Practicable Date. As at 30 November 2007, the Shareholder's Loan amounted to approximately HK$482.4 million.

Consideration

The total consideration for the Acquisition is HK$1.215 billion, which shall be settled by the Company in the following manner:

(i) HK$120 million was paid in cash as a refundable deposit upon signing of the Agreement. The deposit together with the accrued interest, which shall be calculated at the annual rate of 6% p.a., should be refunded to the Company if the Acquisition is not completed on or before 30 April 2008;

(ii) HK$615 million shall be satisfied by the issue of 427,083,333 new Shares at HK$1.44 per Consideration Share; and

(iii) HK$480 million shall be satisfied by the issue of the Convertible Note at a conversion price of HK$1.44 per Conversion Share.

The consideration was determined after arm's length negotiations between the Company and the Vendor with reference to (i) the commercial prospect of Oilfield Block 2104; (ii) the consideration of HK$354.96 million for the sale of an effective interest of 14.50% shareholding in MPIL by Dr. Hui's associates to a third party in July 2007; (iii) the estimated value of Oilfield Block 2104, the major asset of MPIL, of not less than HK$2.5 billion, which was preliminarily estimated by BMI, an independent valuer; and (iv) the estimated reserves of Oilfield Block 2104 assessed by China University of Petroleum, an independent professional oil reserve assessor not connected with the Company or its associates. The Company intends to finance the cash consideration with internal financial resources.

The issue price of HK$1.44 per Consideration Share and the conversion price of HK$1.44 of the Convertible Note represents (i) a discount of approximately 0.69% to the closing price of HK$1.450 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (ii) a premium of approximately 7.46% over the closing price of HK$1.340 per Share as quoted on the Stock Exchange on the Last Trading Day; (iii) a premium of approximately 4.20% over the average closing price of approximately HK$1.382 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 premium of approximately 8.76% over the average closing price of approximately HK$1.324 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$1.103 billion based on the closing price of HK$1.450 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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 9.20% of the Company's existing share capital; (ii) approximately 8.43% of the Company's share capital as enlarged by the issue of the Consideration Shares; and (iii) approximately 7.91% of the Company's share capital as enlarged by the issue of the Consideration Shares and Conversion Shares upon full conversion of the Convertible Note.

The Consideration Shares shall be issued under a specific mandate to be approved by the Independent Shareholders 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$480 million
Conversion price:	HK$1.44 per Conversion Share, not subject to any adjustment
Interest:	Nil
Maturity date:	the date falling three years after the date of issue of the Convertible Note
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 333,333,333 Shares, representing (i) approximately 7.18% of the existing share capital of the Company; (ii) approximately 6.17% of the share capital of the Company as enlarged by the issue of the Consideration Shares and 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 Conversion 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 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.

Conditions Precedent

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

(i) the Company having been satisfied with the results of the due diligence on Better Step and MPIL;

(ii) the valuation of 100% of the exploration, development and exploitation rights at Oilfield Block 2104, to be valued by an independent valuer, being not less than HK$2.5 billion;

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

(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.

The Company may at any time waive in writing the condition (i) above either in whole or in part. Completion shall take place on the day immediately after the date on which all conditions precedent are satisfied, which shall not be later than 30 April 2008. In the event that Completion is not taken place on or before 30 April 2008 or such other date as the parties to the Agreement may agree, the Agreement shall lapse and determine and neither party thereto shall have any obligation and liability thereunder and the deposit paid to the Vendor together with the accrued interest shall be refunded to the Company within 3 business days.

3. INFORMATION ON BETTER STEP AND MPIL

Better Step was established by Dr. Hui on 23 May 2007. It has not commenced any significant business operation other than the investment in MPIL, which was acquired from Dr. Hui in June 2007. Save for the interest of 54% shareholding in MPIL, Better Step did not have any material asset as at the date of the Agreement. Save for the initial capital contribution of US$100, there were no purchase costs for the Vendor in respect of the equity interest in Better Step.

To the best knowledge of the Directors, MPIL, an investment holding company incorporated in the British Virgin Islands, was established by Dr. Hui in June 2005. Save for the initial capital contribution of US$540 in MPIL and the shareholder's loan of approximately HK$13.8 million lent to MPIL, there were no purchase costs for the Vendor in respect of the equity interest in MPIL. In October 2005, MPIL entered into the Production Sharing Contract with OMNIS in respect of Oilfield Block 2104, an onshore site with total area of 20,100 kilometer square in Madagascar, for oil and gas exploitation and operation and certain transactions pertaining thereto. Pursuant to the Production Sharing Contract, MPIL is vested with all the relevant rights to engage in oil and gas exploration for 8 years, oilfield development for 5 years, and exploitation and operation for oil for 25 years (with 5 years possible extension) and gas for 35 years (with 10 years possible extension) at Oilfield Block 2104.

Depending on the rate of crude oil production of Oilfield Block 2104, MPIL will share the remaining profit oil after government royalty according to the sharing ratios set out in the table below while OMNIS will be entitled to the remaining profit:

Daily Production of Crude Oil in Oilfield Block 2104 (barrels/day)	**% of profit[Note] to be shared by MPIL**
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. MPIL is subject to a direct tax on hydrocarbons equal to 30 percent of MPIL's share of profit oil.

MPIL is responsible for the arrangement of the required capital commitment, human resources and equipment for the project development of oil and gas in Oilfield Block 2104. The mining title of Oilfield Block 2104 was granted to OMNIS under the Presidential Decree numbered 2005-707 dated 19 October 2005 and the Director General of OMNIS issued a written confirmation on 8 November 2007 to certify that MPIL has been granted with the mining right in Oilfield Block 2104 and the contractor of MPIL is authorized to perform their exploration work in Oilfield Block 2104.

According to the Production Sharing Agreement, MPIL 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)
– 2D seismic processing covering 350 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, 2D seismic processing over a further 300 kilometers or 3D seismic processing over a further 100 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 technical report prepared by NSAI, Oilfield Block 2104 comprises 20,100 square kilometers and is located onshore in the southeastern area of the Majunga Basin in western Madagascar. At present, there is an absence of definitive data from which to identify exploration leads or specific drilling prospects on the Oilfield Block 2104. Therefore, the hydrocarbon resources for Oilfield Block 2104 as defined by the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers are classified as Prospective Resources and subclassified as Play. The Play subclassification represents the earliest stages of evaluation for exploration projects and is defined by PRMS as "A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects".

The resources volumes for the Oilfield Block 2104 subbasin rely on the unconfirmed presence of Play types in proximity to unconfirmed mature hydrocarbon source rocks. The Middle Sakamena source rock is known to be present in the Morondava Basin, and the gravity data indicate the Oilfield Block 2104 subbasin may be deep enough to contain a similar age and quality source rock. This organic shale interval is interpreted as both the source of hydrocarbons for each of the play types and as the primary seal to the underlying Middle Sakamena channel sequences. The interval containing potential source rock is estimated by the Chinese National Petroleum Company and the Chinese University of Petroleum (collectively, the "Study Group") to have a maximum thickness in the center of the subbasin of 1,100 meters and to be mature for oil generation below burial depths of 2,200 meters. Total organic content of the source interval is estimated to range from 1.0 to 1.3 percent. It should be noted that source rock maturity is dependent on the basin heat flow (temperature), duration of heating, and the type and amount of organic content. These factors may vary between the Morondava and Majunga Basins and between subbasins in the Andara Graben. The amounts of organic facies are also likely to vary by subbasin because of variable tectonic and depositional histories with differential oxygenating environments. The organic content and maturity of the source interval may not be fully understood until source rock or hydrocarbon samples are collected from drilling in the Oilfield Block 2104 subbasin.

The Study Group estimates that if the Middle Sakamena source is present, the hydrocarbon generation volumes on Oilfield Block 2104 are 496.8 million tons of oil and 66.24 billion cubic meters of gas with a combined oil and gas resources amount of 556.0 million tons. Based on analogy to known hydrocarbon basins in China, the Study Group estimates 5 to 10 percent of the generated hydrocarbons will have migrated into porous and permeable reservoirs with adequate seals to form hydrocarbon traps. Assuming 10 percent trapping of generated hydrocarbons, the Study Group's estimates of possible but unconfirmed in-place volumes of hydrocarbon accumulations on Oilfield Block 2104 is 496.8 million tons (3.65 billion barrels) of oil and 66.24 billion cubic meters (2.34 trillion cubic feet) of gas. It is stated in the technical report that NSAI understands the Study Group's calculations and does not disagree that they represent a potential outcome of hydrocarbons-in-place, although NSAI believe that the data are currently too sparse for it to either quantitatively estimate hydrocarbons-in-place or to estimate the associated geologic risk.

In May 2007, MPIL entered into an oilfield exploration and development engineering contract with China National Petroleum Corporation BGP, a technical engineering firm specialized in 2D and 3D seismic operations, VSP, data processing & interpretation, non-seismic data acquisition, processing & interpretation and geophysical and geological research & development. The Study Group has also conducted an extensive Majunga Basin assessment and identified play types over portions of Oilfield Block 2104. During 2007, the Group acquired extensive surface gravity and magnetotelllurics (MT) surveys over portions of Oilfield Block 2104 as per the Study Group's recommendations thereby confirming the presence of sedimentary basins. The combination of the regional basin assessment and gravity/MT surveys indicate favorable elements for the presence of a working petroleum system.

The capital investment required for the development of Oilfield Block 2104, which depends on a number of factors including the results of fieldwork, the amount of oil and gas reserves discovered and the scale and method of exploration work required, cannot be ascertained at present stage. As at the Latest Practicable Date, the shareholders of MPIL have not entered into any formal arrangement or definitive legal document in respect of funding requirements for the business operation of MPIL, including the implementation of the Production Sharing Contract. The Board expects that following Completion, should the Group be required to commit any capital to MPIL for the project development of Oilfield Block 2104, the Group will enter into further negotiation with MPIL and other stakeholders of MPIL to seek for the best possible course for MPIL and its shareholders.

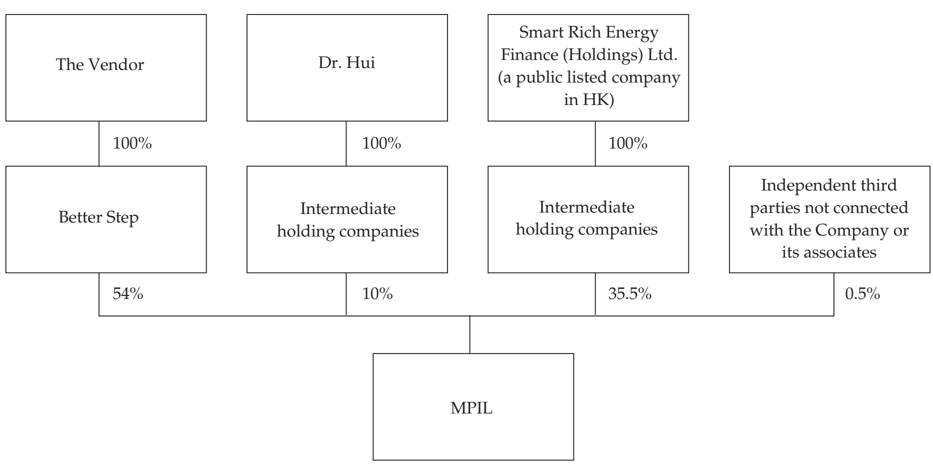
Save for the abovementioned, MPIL has neither conducted any material business activity since its incorporation nor having any material asset other than the rights to engage in oil and gas exploration, exploitation and operations at Oilfield Block 2104 and the profit sharing right as disclosed above.

A summary of the audited consolidated financial information of Better Step Group for the period from 23 May 2007 (its incorporation date) to 30 November 2007 is set out below:

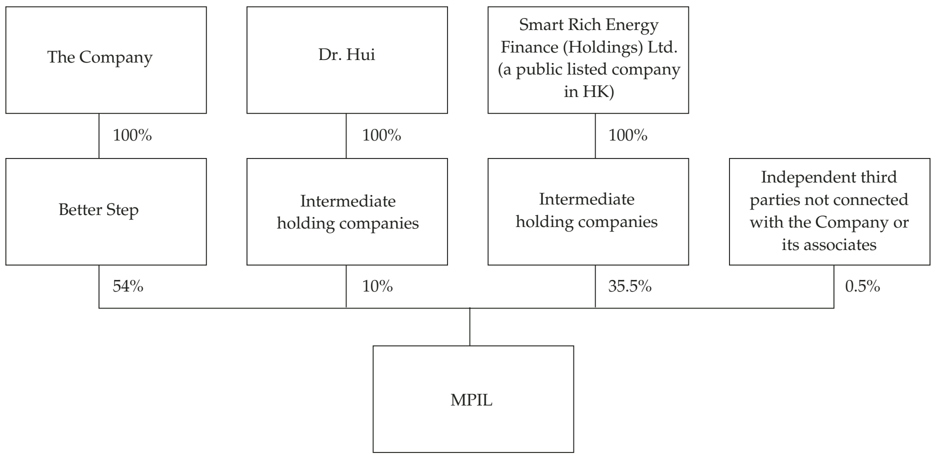
	For the period from 23 May 2007 to 30 November 2007 *(HK$'000)*
Turnover	–
Profit before/after taxation	2,174,294

	As at 30 November 2007 *(HK$'000)*
Total assets	5,001,252
Total liabilities	483,616
Net assets	4,517,636

The shareholding chart of Better Step and MPIL before Completion is shown as follows:



The shareholding chart of Better Step and MPIL after Completion is shown as follows:



4. REASONS FOR THE ACQUISITION

The Group is principally engaged in the sale and distribution of polyurethane materials and petroleum products as well as oil exploration and exploitation in Madagascar.

The Company has completed the acquisition of the oilfield block 3113 in Madagascar. A team of approximately 30 professional staff from the Company was seconded to Madagascar to manage the exploration works, which were conducted by over 300 staff from China National Petroleum Corporation BGP. As at the Latest Practicable Date, line access works were completed for 431 kilometers, seismic surveys for 394.5 kilometers were completed, and data acquisition was completed for 306.6 kilometers in respect of the oilfield block 3113. Given the continuous growth in the worldwide oil and gas consumption and rise in oil price, the Directors are optimistic about the future development of oil exploration and exploitation business. In light of the results of the oil and gas reserve assessment performed by China University of Petroleum on Oilfield Block 2104 and the fact that the oilfield blocks 3101 and 3102 in Madagascar, which are adjacent to Oilfield Block 2104 and operated by British Petroleum Company, Plc., have already successfully conducted the commercial exploitation, the Directors are optimistic about the development of Oilfield Block 2104 and consider that the Acquisition represents a good opportunity for the Group to increase its oil reserve and investment in the oil and gas exploitation and operation in Madagascar. The Directors also expect that the Acquisition will create synergy to the Group's oil exploration and exploitation business in the oilfield block 3113 in Madagascar.

At the time of entering into the Production Sharing Contract, the Company was mainly engaged in the business of sale and distribution of polyurethane materials in the PRC and has not engaged in any oil exploration and exploitation business. Having considered the financial position and business development focus of the Group at that time and the ample resources required for the development of Oilfield Block 2104, Dr. Hui did not refer such business opportunity to the Company and nominated MPIL to enter into the Production Sharing Contract. Given the inability and inappropriateness of the Company to enter into the Production Sharing Contract at that time, Dr. Hui considers that the entering into of such agreement by his private company has no adverse implication to his compliance with Rule 3.08 of the Listing Rules.

Having reviewed and considered (i) the consideration of HK$354.96 million for the sale of an effective interest of 14.50% shareholding in MPIL by Dr. Hui's associates to a third party in July 2007; (ii) the estimated value of Oilfield Block 2104 assessed by an independent valuer; (iii) the technical assessment report on Oilfield Block 2104 prepared by an independent assessor; and (iv) the preliminary assessment on the worldwide petroleum market, the Directors (excluding the independent non-executive Directors whose opinion is set out in the "Letter from the Independent Board Committee" on page 19 of this circular) 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. Dr. Hui has abstained from voting in the board meeting approving the Acquisition.

5. FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, Better Step will become a wholly-owned subsidiary of the Company and its results will be consolidated into the Group's accounts and MPIL will be accounted for as an indirect subsidiary of the Company.

As at 30 September 2007, the audited consolidated total assets and total liabilities of the Group were approximately HK$5,863 million and HK$136 million respectively. As set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group in Appendix IV to this circular, had the Completion been taken place on 30 September 2007, the unaudited pro forma total assets and total liabilities of the Enlarged Group would increase by approximately HK$4,881 million and approximately HK$416 million respectively.

Save for the refundable deposit of HK$120 million already paid upon signing of the Agreement, the consideration for the Acquisition will be satisfied by the issue of Consideration Shares and Convertible Note upon Completion, therefore, no immediate effects on the consolidated cashflow of the Group is expected. Upon the maturity of the Convertible Note, which will be the date falling three years after the date of issue of the Convertible Note, the Group shall have a total cash outflow of HK$480 million in the event that no conversion of the Convertible Note is opted by the holder. If the holder of the Convertible Note opts to convert the Convertible Note in full, there shall be no effects on the cashflow upon maturity.

6. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Subsequent to 31 March 2007, being the date to which the latest published audited accounts of the Company have been made up, the Company acquired from Good Progress Group Limited, a company beneficially owned by Dr. Hui, the entire equity interests in Madagascar Energy International Gas Station Group Ltd. ("Madagascar Energy") and Dolaway Group Limited ("Dolaway") and their respective shareholder's loans for a total consideration of HK$260 million, which was satisfied by the payment of cash of HK$60 million and the issue of 138,888,889 Shares at an issue price of HK$1.44 per Share.

Madagascar Energy has been granted with the license to carry on the business of import, transportation and distribution of petroleum in Madagascar for a period of seven years, commencing from 25 January 2007. As at the Latest Practicable Date, Madagascar Energy has not commenced the aforementioned business yet. Dolaway is an investment holding company and its major asset is the land use right for a site of approximately 6.951 m^2 located at Vilia NY Ambaniandro Prosper Emphyteose, Antananarivo, Madagascar with land use term of 99 years, commencing from 28 October 2005. Details of the acquisition are set out in the Company's circular dated 6 December 2007.

Following the completion of acquisitions of the oilfield block 3113, Madagascar Energy and Dolaway, the Group is principally engaged in the sale and distribution of polyurethane materials and petroleum products, as well as the oil and gas exploration and exploitation in Madagascar.

In consideration of the limited supply and continuous strong demand of oil and gas in the world market and the increasing price of the oil, the Directors are optimistic about the future development of oil exploration and exploitation business. Furthermore, in view of the steady growth of Madagascar's economy and the ever increasing demand on petroleum products in the region, the Directors are also optimistic about the future prospect of the petroleum import, transportation and distribution business in Madagascar.

7. CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming no further Shares are issued before Completion, the shareholding structures of the Company (i) as of the Latest Practicable Date; (ii) immediately after the issue of Consideration Shares but before the issue of any Conversion Share; and (iii) immediately after the issue of Consideration Shares and Conversion Shares upon full conversion of the Convertible Note are shown as follows:

	Shareholding as at the Latest Practicable Date		Shareholding immediately after the issue of Consideration Shares but before the issue of any Conversion Shares		Shareholding immediately after the issue of Consideration Shares and Conversion Shares upon full conversion of the Convertible Note	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Golden Nova Holdings Limited *(Note)*	2,436,316,666	52.49	2,436,316,666	48.06	2,436,316,666	45.10
Wisdom On Holdings Limited *(Note)*	214,440,000	4.62	214,440,000	4.23	214,440,000	3.97
Barta Holdings Limited *(Note)*	64,450,000	1.39	64,450,000	1.27	64,450,000	1.19
Good Progress Group Limited *(Note)*	138,888,889	2.99	138,888,889	2.74	138,888,889	2.57
Vendor *(Note)*	–	–	427,083,333	8.43	760,416,666	14.08
Subtotal of shareholdings held by Dr. Hui and his associates	2,854,095,555	61.49	3,281,178,888	64.73	3,614,512,221	66.91
Public Shareholders	1,787,660,000	38.51	1,787,660,000	35.27	1,787,660,000	33.09
Total	4,641,755,555	100.00	5,068,838,888	100.00	5,402,172,221	100.00

Note: These companies are wholly-owned by Dr. Hui.

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

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

(i) Political Stability in Madagascar

Political stability measures the likelihood of credible threats, including coups, domestic violence, terrorism, etc., to or changes in, the government in power. Such threats impede the ability to govern, and they also undermine peaceful changes of government. The political stability index denotes the idea that the quality of a nation's government can be compromised by threats against it and the point estimate is measured on a scale of -2.5 to 2.5, with the higher scores indicating better governance and lower scores indicating poor governance in the countries observed.

The political stability index of Madagascar in 2000, 2002 and 2004 are 0.05, 0.22 and -0.02 respectively.

(ii) Uncertainty about estimated resources

The estimates of capital investment and amount of oil and gas reserves at Oilfield Block 2104 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 Oilfield Block 2104 may differ materially from the estimate of resources or reserves.

(iii) Volatility in 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) Technical experts

The oil and gas exploration and exploitation operations require a large number of technical experts with highly specialized skills and abilities. An oil development and management committee, which comprises the highly qualified professional in the oil field, has been established by the Company to ensure the Group has the required competent expertise to develop the oil and gas business.

(v) Significant capital investment

The oil and gas operation requires the Group to make significant capital investments, which may have a significant impact on the cashflow of the Group.

9. SGM

The Acquisition in aggregation with the previous connected transaction disclosed in the Company's announcement dated 12 September 2007 constitutes a major transaction 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 Agreement also constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Agreement is subject to approval of the Independent Shareholders, by way of poll, at the SGM, which will be held to consider, and if thought fit, passing the resolution to approve the Agreement and transactions contemplated therein. Dr. Hui and his associates, who are beneficially interested in and entitled to exercise control over the voting right in respect of 2,854,095,555 Shares, representing approximately 61.49% of the shareholding of the Company as at the Latest Practicable Date, will abstain from voting for the approval of the Acquisition at the SGM.

Set out on pages 168 to 169 of this circular is a notice of the SGM, at which a resolution will be proposed and, if consider appropriate, passed to approve the Agreement and transactions contemplated therein.

10. RECOMMENDATION

The Directors consider that the terms and conditions of the Agreement are fair and reasonable and the entering into of the Agreement 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 Agreement and transactions contemplated therein.

11. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 19 of this circular and the letter of advice received from the Independent Financial Adviser on pages 20 to 45 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)

12 March 2008

To the Independent Shareholders

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE ENTIRE EQUITY INTEREST IN
BETTER STEP GROUP 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 12 March 2008, of which this letter forms part. Terms defined in this circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Agreement and the advice of the Independent Financial Adviser in relation thereto as set out on pages 20 to 45 of this circular, we are of the opinion that the entering into of the Agreement is in the interest of the Company and the Shareholders as a whole and the terms of the Agreement 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 Agreement and transactions contemplated therein.

Yours faithfully,
Dr. Yu Sun Say **Mr. Ng Wing Ka** **Mr. Edmund Siu**
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

12 March 2008

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

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

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 12 March 2008 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 3 November 2007 and 28 February 2008, the Company and the Vendor entered into the Agreement pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to dispose of the entire equity interest in Better Step and the Shareholder's Loan for a total consideration of HK$1,215 million (the "Consideration"). The Consideration shall be satisfied as to (i) HK$120 million by way of cash; (ii) HK$615 million by the issue of 427,083,333 Consideration Shares at an issue price of HK$1.44 per Consideration Share (the "Issue Price"); and (iii) HK$480 million by the issue of the Convertible Note at a conversion price of HK$1.44 per Conversion Share (the "Conversion Price"). Save as and except for the 54% equity interest in MPIL, Better Step did not have any material asset as at the date of the Agreement while MPIL was vested with the right to engage in (i) oil and gas exploration for eight years; (ii) oilfield development for five years; and (iii) exploitation and operation for oil for 25 years (with five years possible extension) and gas for 35 years (with 10 years possible extension) respectively at Oilfield Block 2104 (altogether, the "Rights at Oilfield Block 2104").

Pursuant to Rule 14.08 of the Listing Rules, the Acquisition, in aggregation with the previous connected transaction as disclosed in the announcement of the Company dated 12 September 2007, constitutes a major transaction for the Company. In addition, since the Vendor is a company wholly-owned by Dr. Hui, who is the Chairman, an executive Director and the controlling shareholder of the Company, the Agreement also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Agreement is therefore subject to the approval of the Independent Shareholders by way of poll at the SGM whereby Dr. Hui and his associates shall be required to abstain from voting on the relevant resolution in respect of the Agreement and the transactions contemplated therein.

An Independent Board Committee comprising Dr. Yu Sun Say, Mr. Ng Wing Ka and Mr. Edmund Siu (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Agreement (including the terms of the Convertible Note) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the ordinary resolution to approve the Agreement and the transactions contemplated therein at the SGM. 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, 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 Directors, which have been provided to us.

We have not made an independent evaluation or appraisal of the assets and liabilities of neither the Group, Better Step, MPIL nor Oilfield Block 2104 and we have not been furnished with any such evaluation or appraisal, save and except for the valuation report on the Rights at Oilfield Block 2104 prepared by BMI (the "Valuation Report") as contained in Appendix V to the Circular. We are not experts in the valuation of companies and assets in all businesses and therefore have relied solely upon the Valuation Report for the market value of the Rights at Oilfield Block 2104 as at 12 February 2008. Nevertheless, in order for us to form a better understanding on the Acquisition, we have taken various steps for our due diligence purpose, including but not limited to (i) conducting interviews with BMI on 19 February 2008 and 3 March 2008 respectively regarding the methodology, basis and assumptions with regards to the valuation of the Rights at Oilfield Block 2104; and (ii) requesting for and obtaining the supporting documents in relation to the valuation of the Rights at Oilfield Block 2104 as available to BMI and the Company. We have also enquired into the Directors regarding the validity of the Rights at Oilfield Block 2104 of MPIL and the Directors confirmed to us that the Rights at Oilfield Block 2104 of MPIL are legally valid. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our recommendation and are in compliance with Rule 13.80 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 enquiries, 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 with 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, the Vendor, Better Step and MPIL or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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. The Agreement

On 3 November 2007 and 28 February 2008, the Company and the Vendor entered into the Agreement pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to dispose of the entire equity interest in Better Step and the Shareholder's Loan for a total consideration of HK$1,215 million. The Consideration shall be satisfied as to (i) HK$120 million by way of cash (the "Cash Consideration"); (ii) HK$615 million by the issue of 427,083,333 Consideration Shares at the Issue Price of HK$1.44 per Consideration Share; and (iii) HK$480 million by the issue of the Convertible Note at the Conversion Price of HK$1.44 per Conversion Share. As extracted from the Board Letter, as at 30 November 2007, the Shareholder's Loan was amounted to approximately HK$482.4 million.

Pursuant to the Agreement, the Cash Consideration shall be paid in cash as a refundable deposit upon signing of the Agreement. The deposit together with the accrued interest, which is calculated at an annual rate of 6%, should be refunded to the Company in the event that the Acquisition is not completed on or before 30 April

2008. As confirmed by the Directors, it is the intention of the Company to finance the entire Cash Consideration with its internal financial resources.

As referred to in the Board Letter, completion of the Agreement is conditional upon, *inter alia*, the following conditions having been fulfilled:

(i) the Company having been satisfied with the results of the due diligence on Better Step and MPIL;

(ii) the valuation of 100% of the Rights at Oilfield Block 2104, to be valued by an independent valuer, being not less than HK$2.5 billion;

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

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

The Company may at any time waive in writing the condition (i) above either in whole or in part. Completion shall take place on the day immediately after the date on which all conditions precedent are satisfied, which shall not be later than 30 April 2008. In the event that Completion is not taken place on or before 30 April 2008 or such other date as the parties to the Agreement may agree, the Agreement shall lapse and neither party thereto shall have any obligations and liabilities thereunder and the deposit paid to the Vendor together with the accrued interest shall be refunded to the Company within three business days.

The Directors confirmed that the Agreement was negotiated and entered into on an arm's length basis between the parties thereto and that the terms and conditions of the 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.

2. Background of the Acquisition

Business information on the Group

The Group is principally engaged in (i) the trading of petroleum fuel products and polyurethane materials; and (ii) the exploration and exploitation of oil and gas in the Republic of Madagascar ("Madagascar"). In year 2004, when Wisdom On Holdings Limited, a company which is wholly-owned by Dr. Hui, became the controlling shareholder of the Company, the Group adopted a business strategy to diversify its business operation and position itself into the oil and gas industry.

The Group focused on the business of the sale and distribution of polyurethane materials ("PU"), PU foam and PU foam products since its listing on the Main Board of the Stock Exchange in April 2001. During the financial year 2006, the Board foresaw the difficult time that the petrochemical industry would face and thus made the decision to dispose of its petrochemical products manufacturing business in July 2005 (the "Disposal"). After the Disposal, the Board attempted to enter into the oil and gas industry by acquiring 7% equity interest in Madagascar Energy International Limited ("MEIL") in June 2006. MEIL is a company established in Madagascar which is vested with the rights to engage in (i) oil and gas exploration for eight years; and (ii) exploitation and operation for 25 years (for oil) and 35 years (for gas) at the oilfield block 3113 in Madagascar ("3113 Oilfield"). Since the Chairman of the Company, Dr. Hui, is the Consulate of Madagascar, the Board expected that Dr. Hui's extensive networks and experience in Madagascar would be highly beneficial for the Group to develop the new business of oil and gas exploration and exploitation in Madagascar. From the annual report of the Company for the year ended 31 March 2007 (the "2007 Annual Report"), we noted that the Group further acquired the remaining 93% equity interest in MEIL on 25 May 2007, and subsequently engaged BGP Inc. to provide oil exploration and oilfield development services at 3113 Oilfield on 30 May 2007.

Being part of the expansion plan of the Group in the oil and gas industry, the Group further tapped into the fuel oil distribution business by entering into a supply and purchase agreement with Foshan Hua Heng Petroleum and Chemical Limited and Foshan Electricity Fuel Company in April 2007 (the "S&P Agreement"). Pursuant to the S&P Agreement, the Group agreed to supply 360,000 tons of fuel oil at prevailing market price to Foshan Hua Heng Petroleum and Chemical Limited for resale to Foshan Electricity Fuel Company during the contract period from 23 April 2007 to 23 April 2008. In addition, the Company announced on 5 September 2007 that the Group further extended its foothold in Madagascar through its acquisition of (i) the land use right of a site for the establishment of a branch office in Madagascar to monitor the progress of the oil exploration and exploitation business at 3113 Oilfield and to further enlarge the Group's business network in the country; and (ii) the licenses to carry on the business of import, transportation and distribution of petroleum in Madagascar for a period of seven years since 25 January 2007 (subject to renewal upon expiry).

As stated in the 2007 Annual Report and further confirmed by the Directors, the Group, while focusing on the development of the aforementioned new businesses acquired, will continue to actively seek for other potential investment opportunities in the oil and gas industry in Madagascar.

Financial information on the Group

Tabularised below is a summary of the audited consolidated financial information on the Group as extracted from the 2007 Annual Report and the interim report of the Company for the six months ended 30 September 2007 (the "2007 Interim Report"):

Consolidated Income Statement	For the year ended 31 March 2007	2006	Year on year change	For the six months ended 30 September 2007
	HK$'000	*HK$'000*	*%*	*HK$'000*
Turnover	554,686	577,729	(3.99)	829,225
Gross profit	27,442	23,010	19.26	34,847
Net profit attributable to equity holders of the Company	8,063	15,567	(48.20)	4,440,491

Consolidated Balance Sheet	As at 31 March 2007	2006	Year on year change	As at 30 September 2007
	HK$'000	*HK$'000*	*%*	*HK$'000*
Cash and bank balances	90,062	6,028	1,394.06	164,390
Net asset value (net of minority interests) ("NAV")	212,085	176,440	20.20	5,727,102
Gearing ratio (Total liabilities/total assets)	0.27	0.24	14.29	0.02

As depicted by the above table, the Group recorded an audited total turnover of approximately HK$554.69 million for the year ended 31 March 2007, representing a decline of approximately 3.99% as compared to the prior year. Furthermore, the Group's gross profit increased by approximately 19.26% during the year ended 31 March 2007. According to the 2007 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 also showed a downward moving trend. For the six months ended 30 September 2007, the gross profit of the Group had further risen to approximately HK$34.85 million while its audited net profit had jumped drastically to approximately HK$4,440.49 million. As extracted from the 2007 Interim Report and further confirmed by the Directors, out of the said amount of the Group's net profit for the six months ended 30 September 2007, approximately HK$4,429.86 million was arisen from the gain of the Group's acquisitions which took place at the same period of time while the remaining net profit of approximately HK$10.63 million was mainly contributed by its oil and gas exploration and exploitation business in Madagascar.

As at 31 March 2007, the Group had audited consolidated net assets of approximately HK$212.09 million, representing an increase of approximately 20.20%. Moreover, the Group's cash and bank balances also mounted considerably by approximately 1,394.06% from approximately HK$6.03 million as at 31 March 2006 to approximately HK$90.06 million as at 31 March 2007. We noted from the 2007 Interim Report that the cash and bank balances of the Group further enlarged to approximately HK$164.39 million as at 30 September 2007. Besides that, the gearing ratio of the Group, which is calculated as the total liabilities divided by the total assets, was approximately 0.02 times as at 30 September 2007.

Information on Better Step

With reference to the Board Letter, Better Step was established by Dr. Hui on 23 May 2007 and has not commenced any significant business operation nor has any material asset other than its 54% equity interest in MPIL (the details of which are set forth under the paragraph headed "Information on MPIL" of this letter).

A summary of the audited consolidated financial information of Better Step Group as extracted from Appendix II to the Circular for the period from 23 May 2007 (its incorporation date) to 30 November 2007 is set out below:

	For the period from 23 May 2007 to 30 November 2007
	HK$'000
Turnover	Nil
Profit attributable to equity holder of Better Step Group after taxation	2,174,294

	As at 30 November 2007
	HK$'000
Total assets	5,001,252
Total liabilities	(483,616)
Net assets	4,517,636

For the full set of the audited consolidated financial information on Better Step Group, including the opinion of HLB, please refer to Appendix II to the Circular.

Information on MPIL

As referred to in the Board Letter, MPIL is an investment holding company incorporated in the British Virgin Islands and was established by Dr. Hui in June 2005. At present, MPIL is indirectly owned as to approximately 64%, 35.5% and 0.5% by Dr. Hui (of which 54% is through his shareholding in Better Step), Smart Rich Energy Finance (Holdings) Limited (Stock Code: 1051) ("Smart Rich") and an independent third party not connected with the Company or its associates respectively. We also understand from the Directors and the Vendor that since the date of MPIL's incorporation, MPIL has not conducted any material business activity save as and except for those related to the entering into of the Production Sharing Contract for oil and gas exploration and exploitation at Oilfield Block 2104 (the details of which are set forth under the paragraph headed "The Production Sharing Contract and Oilfield Block 2104" of this letter).

A summary of the consolidated financial information on MPIL as extracted from Appendix III to the Circular for the eight months period from 1 April 2007 to 30 November 2007, the year ended 31 March 2007 and the period from 23 June 2005 (its incorporation date) to 31 March 2006 are set out below:

	For the period from 1 April 2007 to 30 November 2007 *(HK$'000)* *(audited)*	For the year ended 31 March 2007 *(HK$'000)* *(audited)*	For the period from 23 June 2005 to 31 March 2006 *(HK$'000)* *(audited)*
Turnover	Nil	Nil	Nil
Loss attributable to equity holder of MPIL after taxation	(7,498)	(3,471)	(1,595)

	As at 30 November 2007 *(HK$'000)* *(audited)*	As at 31 March 2007 *(HK$'000)* *(audited)*	As at 31 March 2006 *(HK$'000)* *(audited)*
Total assets	1,252	693	115
Total liabilities	(13,808)	(5,751)	(1,702)
Net assets	(12,556)	(5,058)	(1,587)

As MPIL has not yet commenced any material business activity, no turnover has been recorded so far since its incorporation. Moreover, we noted from the above table that the loss attributable to the equity holder of MPIL after taxation was increased from approximately HK$1.60 million for the period from 23 June 2005 to 31 March 2006, to approximately HK$3.47 million for the year ended 31 March 2007 and approximately HK$7.50 million for the eight months ended 30 November 2007. With reference to the consolidated financial information on MPIL as contained in Appendix III to the Circular, the losses attributable to the equity holder of MPIL since its incorporation were mainly due to the administrative expenses such as depreciation and staff's cost.

Regarding the assets and liabilities position of MPIL, the total assets of MPIL include, amongst others, the cash balance, furniture and fixtures, motor vehicles, office equipments whereas the total liabilities include, amongst others, the amounts due to related companies.

For the full set of the consolidated financial information on MPIL, including the opinion of HLB, please refer to Appendix III to the Circular.

The Production Sharing Contract and Oilfield Block 2104

From the Board Letter, we noted that Oilfield Block 2104 is an onshore site with total area of approximately 20,100 square kilometres situated at the southeastern area of the Majunga Basin in western Madagascar.

In October 2005, MPIL and OMNIS entered into the Production Sharing Contract pursuant to which MPIL is vested with the right to engage in (i) oil and gas exploration for eight years; (ii) oilfield development for five years; and (iii) exploitation and operation for oil for 25 years (with five years possible extension) and gas for 35 years (with 10 years possible extension) respectively at Oilfield Block 2104.

Furthermore, under the Production Sharing Agreement, MPIL 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 Oilfield Block 2104. According to the Directors and the Vendor, the mining title of Oilfield Block 2104 was granted to OMNIS under the Presidential Decree numbered 2005-707 dated 19 October 2005 and the Director General of OMNIS issued a written confirmation on 8 November 2007 to certify that MPIL is granted with the Rights at Oilfield Block 2104 and the contractor of MPIL is authorized to perform their exploration work at Oilfield Block 2104.

As stipulated in the Production Sharing Agreement, MPIL 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)
– 2D seismic processing covering 350 kilometres 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, 2D seismic processing over a further 300 kilometres or 3D seismic processing over a further 100 kilometres with financial obligation of US$3.5 million	– drilling of two exploration wells and financial obligation of US$7.0 million

In relation to the above development and funding schedule of Oilfield Block 2104, we have enquired into and the Directors confirmed that the total capital investment required for the development of Oilfield Block 2104, which depends on a number of factors including the results of fieldwork, the amount of oil and gas reserves discovered and the scale and method of exploration work required, cannot be ascertained at present stage. In addition, as at the Latest Practicable Date, the shareholders of MPIL or MPIL had not yet entered into any formal arrangement or definitive legal document in respect of the funding requirements for the business operation of MPIL, including the implementation of the Production Sharing Contract. Upon Completion, should the Group be required to commit any capital to MPIL for the development of Oilfield Block 2104, the Directors confirmed that the Group will enter into further negotiation with MPIL and the other stakeholders of MPIL to seek for the best possible terms and conditions which are available to the Company and the Shareholders as a whole. Moreover, we have further enquired into the Directors on whether the Group would have sufficient financial resources to fulfil the minimum exploration work obligations of US$17.5 million over the 8-year exploration period. As advised by the management of the Company, and based on their preliminary financial forecast and the Group's cash and bank balance of approximately HK$240 million as at 29 February 2008, the Directors expected that the Group would have sufficient financial resources to fulfil its financial obligation under the Production Sharing Agreement by means of internal resources and project financing.

From the Board Letter, we also noted that as at the Latest Practicable Date, five exploration wells with depth in the range of 67.5 metres to 2,153 metres had been drilled, and oil and gas were discovered in three wells with depth in the range of 450 metres to 2,153 metres at Oilfield Block 2104. Moreover, Oilfield Block 2104 was classified as a project at the earliest stage of evaluation for exploration which requires more data acquisition and/or evaluation in order to define specific leads or prospects by NSAI, an independent technical adviser appointed by the Company. Due to the uncertainties in the development and funding of MPIL as mentioned above and that the exploration and exploitation of oil and gas at Oilfield Block 2104 is at a preliminary stage, the Directors confirmed to us upon our enquiry that the timeframe for breakeven of MPIL is still unknown as at present. Nevertheless, depending on the rate of oil production of Oilfield Block 2104, MPIL shall share the profit after government royalty of Oilfield Block 2104 in accordance with the sharing ratios in the range of 45% to 73% as outlined under the section headed "Information on Better Step and MPIL" of the Board Letter.

The oil development and management committee

As referred to in the announcement of the Company dated 9 January 2007, the Company had established an oil development and management committee to monitor and manage the Group's business in relation to the oil and gas industry. At present, the committee comprises three members, namely Dr. Wang Tao, Dr. Hui, and Mr. Jiang You Zhuo (the "Members"). The Directors also confirmed that the Members shall be responsible for monitoring the oil and gas exploration, exploitation and operation at Oilfield Block 2104. We have interviewed two of the Members, namely Dr. Hui and Mr. Jiang You Zhuo (the "Interviewed Members"), and during our telephone interview with the Interviewed Members in 2007, we were provided with the background information regarding the personal and career development, and working experience of the Interviewed Members relating to the oil and gas industry. We are satisfied that 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 Madagascar which may facilitate the Group's business developments in Madagascar. In this regard, we concur with the Directors that the Company would have sufficient technical capability to fulfil its obligation under the Profit Sharing Agreement.

3. Reasons for the Acquisition

As referred to in the Board Letter, given the continuous growth in the worldwide oil and gas consumption and the surge of oil price, the Directors are confident on the future development of the oil and gas exploration and exploitation business. In light of also the results of the oil and gas reserve assessment performed by China University of Petroleum on Oilfield Block 2104 and the fact that the oilfield blocks 3103 and 3102 in Madagascar, which are adjacent to Oilfield Block 2104 and operated by British Petroleum Company, Plc., have already successfully conducted the commercial exploitation, the Directors are optimistic about the development prospect of Oilfield Block 2104 and consider that the Acquisition represents a good opportunity for the Group to increase its oil reserve and investment in the oil and gas exploitation, exploration and operation in Madagascar. The Directors also expected that the Acquisition will create synergy to the Group's existing oil and gas exploration and exploitation business at 3113 Oilfield and its potential business of import, transportation and distribution of petroleum in Madagascar.

Overview of the oil industry in the world

Set out below is a table showing the crude oil consumption by major countries and regions over the world from 2001 to 2006 (data for 2007 is not yet available):

	(Thousand barrels daily)					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
North America	23,571	23,665	24,050	24,898	25,023	24,783
Europe	16,116	16,059	16,157	16,349	16,495	16,486
Asia Pacific	21,263	21,898	22,674	23,905	24,294	24,589
of which the PRC	*4,872*	*5,288*	*5,803*	*6,772*	*6,984*	*7,445*
Others	15,878	16,115	16,277	16,746	17,268	17,861
Total World	76,828	77,737	79,158	81,898	83,080	83,719

Source: Statistical review of world energy full report 2007, BP Global

From the above table, we noted that North America, Europe and Asia Pacific, being the major consumers of crude oil in the world, recorded a cumulative growth on crude oil consumption of approximately 5.1%, 2.3% and 15.6% respectively from 2001 to 2006. During the period from 2001 to 2006, the worldwide consumption of crude oil had also been showing a persistent expanding trend with the PRC as one of the main drivers for such growth. The Directors expected that leveraging on the potential economic expansion in the PRC, the demand for crude oil in the PRC would remain strong and thus would provide continuous support to the worldwide demand for crude oil in the future. In addition, according to the Statistical Review of World Energy Full Report 2007, the world crude oil price has been increasing rapidly in recent years. The average price of the Dubai crude oil and Brent crude oil was US$61.50 per barrel and US$65.14 per barrel respectively in 2006, representing an upsurge of approximately 15.28% and 14.78% respectively on a compound annual growth rate basis since 2000. We consider the price of the world crude oil to be a key factor affecting the profitability of a company which engages in the oil and gas industry and given the aforementioned surge of the average world price of crude oil in recent years, we are of the opinion that the future business prospects of MPIL would be promising if the global demand for crude oil continues to be strong and the world price of crude oil stays at the recent high level in the future.

Since the Acquisition is in line with the business strategy of the Group to actively seek for potential investment in the oil and gas industry, we are of the view that there is no reason for us to doubt the commercial rationale of the Acquisition by the Company, and we also consider the Acquisition to be in the ordinary and usual course of business of the Company. Moreover, taking into account the probable promising future business prospects of MPIL leveraging on the possible growing in demand for crude oil worldwide and the surge of the average world price of crude oil, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

4. Basis of the Consideration

With reference to the Board Letter, the Consideration of HK1,215 million was determined after arm's length negotiations between the Company and the Vendor, after taking into consideration of (i) the commercial prospect of Oilfield Block 2104; (ii) the consideration of HK$354.96 million for the sale of an effective interest of 14.5% shareholding in MPIL by Dr. Hui's associates to a third party in July 2007 (details of which were set out in the announcement of Smart Rich dated 26 June 2007); (iii) the estimated value of the Rights at Oilfield Block 2104 of not less than HK$2.5 billion which was preliminarily estimated by BMI; and (iv) the estimated reserves of Oilfield Block 2104 as assessed by China University of Petroleum.

Valuation of the Rights at Oilfield Block 2104

We have reviewed the Valuation Report and enquired into BMI on the methodology adopted and the assumptions used in arriving at the market value of the Rights at Oilfield Block 2104. We noted that BMI did not conduct any site visit to Oilfield Block 2104. We were also advised by BMI that there are three classical appraisal approaches available for determining the value of different assets, namely the income approach, cost approach and market approach. We have enquired into BMI regarding the reasons for the adoption of market approach for the valuation of the Rights at Oilfield Block 2104 and BMI explained to us that, (i) the cost approach ignores the capability of Oilfield Block 2104 in generating revenue and thus is not considered to be applicable; and (ii) the income approach is not applicable either since Oilfield Block 2104 has not yet commenced operation and therefore there is insufficient historical financial and operating data to estimate and forecast the key assumptions (such as management fee, salary and, maintenance cost etc.) for the income approach. Last but not least, BMI considered that there are sufficient representative comparable transactions for the adoption of the market approach, and thus the market approach is preferred to both the cost approach and the income approach for the valuation of the Rights at Oilfield Block 2104.

BMI adopted the market approach which provides indications of value by making reference to comparable transactions as available in the relevant market for valuation of the Rights at Oilfield Block 2104. In addition, BMI were also of the view that the direct comparison method under the market approach is the best valuation method given that it involves less assumptions and uncertainty in the valuation. During the valuation process, BMI calculated the adjusted weighted average price-to-barrel ratio ("P/BR") to be US$10.20 based on five comparable transactions and multiplied it by the estimated amount of oil resources of Oilfield Block 2104. Regarding the use of the comparable transactions, we were advised by BMI that they had considered 17 recent transactions which involved acquisition of oilfields in worldwide and BMI confirmed that the 17 comparable transactions are, as far as they were aware of, exhaustive during the period from 1 January 2006 to 31 January 2008. Among the 17 comparable transactions, BMI had chosen five of them in the valuation. We are concerned about BMI's selection criteria and therefore have enquired into BMI in respect of the same. According to BMI, they had taken into account the major differences between the Acquisition and the comparable transactions, such as the category of oil reserves, the geographical locations and the percentage of ownership of Oilfield Block 2104 and those other oilfields under review. For this reason, BMI were of the opinion that the 5 comparable transactions are representative samples for comparison purpose.

Afterwards, BMI calculated the amount of oil resources in the "risked best estimate" category of Oilfield Block 2104 by converting the "Resources" (as defined in the Valuation Report) of approximately 556 million tons, which were classified as the "unrisked best estimate" category into the "risked best estimate" category by applying an average conversion ratio (details of which are set forth in the Valuation Report) (the "Conversion Method") with reference to 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 NSAI on 3113 Oilfield dated 4 April 2007. We have enquired into BMI during our interviews with them in respect of the Conversion Method and BMI stated that since 3113 Oilfield and Oilfield Block 2104 are on the same earth plate, the geological landscape of 3113 Oilfield and Oilfield Block 2104 would be similar and hence BMI considered the Conversion Method to be appropriate and can provide the best estimate of the amount of oil resources in the "risked best estimate" category of Oilfield Block 2104. Moreover, BMI also confirmed that the Conversion Method is considered to be acceptable and appropriate with reference to an academic paper posted on the news website of CNPC at www.oilnews.com.cn.

Lastly, BMI had also made an adjustment in the valuation of the Rights at Oilfield Block 2104 to reflect the profit sharing ratio between MPIL and OMNIS. BMI applied a discount rate of 41% to the market value of the Rights at Oilfield Block 2104 calculated using the P/BR method, and the discount rate is equal to "one minus the average of the minimum and maximum profit sharing ratio of 45% and 73%", the details of which are outlined under the section headed "Information on Better Step and MPIL" of the Board Letter.

According to BMI, P/BR is commonly used in the valuation of oilfields and BMI carried out the valuation in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises. Having discussed with BMI on the valuation methodology, bases and assumptions in arriving at the valuation of the Rights at Oilfield Block 2104 as outlined above, we concur with BMI that given the inappropriateness of the cost approach and the income approach, the rationale of adopting the market approach as the valuation methodology is fair and reasonable. Furthermore, we also consider the bases and assumptions in arriving at the valuation of the Rights at Oilfield Block 2104 to be explicable. Your attention is also draw to the sections which highlight the valuation assumptions, bases and methodologies in the Valuation Report as set out in Appendix V to the Circular.

According to the Valuation Report, the market value of the Rights at Oilfield Block 2104 was HK$5,000 million (54% of which being approximately HK$2,700 million) as at 12 February 2008. Based on the audited consolidated financial information on Better Step Group as at 30 November 2007, Better Step Group had net assets of approximately HK$4,518 million as at 30 November 2007, of which approximately HK$5,000 million belonged to the cost of the exploration and evaluation assets of Oilfield Block 2104. Thus, Better Step Group had net liabilities of approximately HK$482 million disregarding the said cost (the "Net Liabilities"). Accordingly, we noted that the Consideration represents a discount of approximately 45.21% to the sum of "54% of the aforementioned market value of the Rights at Oilfield Block 2104 (according to the Valuation Report) and the Net Liabilities" of approximately HK$2,218 million (the "Aggregate Value"). In light of that the Consideration represents a discount of approximately 45.21% to the Aggregate Value, we concur with the Directors that the Consideration is in the interests of the Company and the Shareholders as a whole. Nevertheless, Independent Shareholders should note that such level of discount is dependent, among other things, on the market value of the Rights at Oilfield Block 2104 as assessed by the Valuation Report.

5. Principal terms of the Agreement

Pursuant to the Agreement, the Consideration shall be satisfied as to (i) HK$120 million by way of cash; (ii) HK$615 million by the issue of 427,083,333 Consideration Shares at the Issue Price of HK$1.44 per Consideration Share; and (iii) HK$480 million by the issue of the Convertible Note at the Conversion Price of HK$1.44 per Conversion Share. The Convertible Note does not bear any interest and will mature on the third anniversary of the date of its issue.

As advised by the Directors and mentioned in the foregoing, the Cash Consideration shall be satisfied by the internal financial resources of the Group.

As at the Latest Practicable Date, the Consideration Shares represented (i) approximately 9.20% of the existing issued share capital of the Company; and (ii) approximately 8.43% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The Subscription Shares will rank pari passu in all aspects with the Shares in issue as at the date of allotment and issue of the Consideration Shares.

The number of the Conversion Shares to be issued upon full conversion of the Convertible Note will be 333,333,333 Conversion Shares, representing (i) approximately 7.18% of the existing issued share capital of the Company, (ii) approximately 6.58% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; and (iii) approximately 6.17% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Note. The Conversion Shares will rank pari passu in all aspects with the Shares in issue on the date of conversion.

The Issue Price and the Conversion Price

The Issue Price and the Conversion Price represent:

(a) a premium of approximately 7.46% over the closing price of HK$1.340 per Share as quoted on the Stock Exchange as at the Last Trading Day;

(b) a premium of approximately 4.20% over the average closing price of HK$1.382 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

(c) a premium of approximately 8.76% over the average closing price of HK$1.324 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and

(d) a discount of approximately 0.69% to the closing price of HK$1.450 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Directors also confirmed that the Issue Price and the Conversion Price 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.

Review on historical price of the Shares

The following table sets out the highest and lowest closing prices and the average daily closing prices of the Shares as quoted on the Stock Exchange in each month during the period commencing from 9 November 2006 up to and including the Last Trading Day (the "Review Period"):

Month	**Highest closing price** *(HK$)*	**Lowest closing price** *(HK$)*	**Average daily closing price** *(HK$)*
2006			
November	0.27	0.21	0.22
December	0.27	0.24	0.25
2007			
January *(Note 1)*	0.65	0.29	0.46
February	0.76	0.50	0.64
March	1.14	0.59	0.73
April *(Note 2)*	2.06	1.40	1.58
May	2.37	1.90	2.12
June *(Note 3)*	2.25	1.82	2.04
July	2.16	1.73	1.91
August	1.74	0.97	1.38
September *(Note 4)*	1.61	1.21	1.35
October *(Note 5)*	1.48	1.14	1.34
November (up to and including the Last Trading Day)	1.41	1.34	1.38

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

Notes:

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

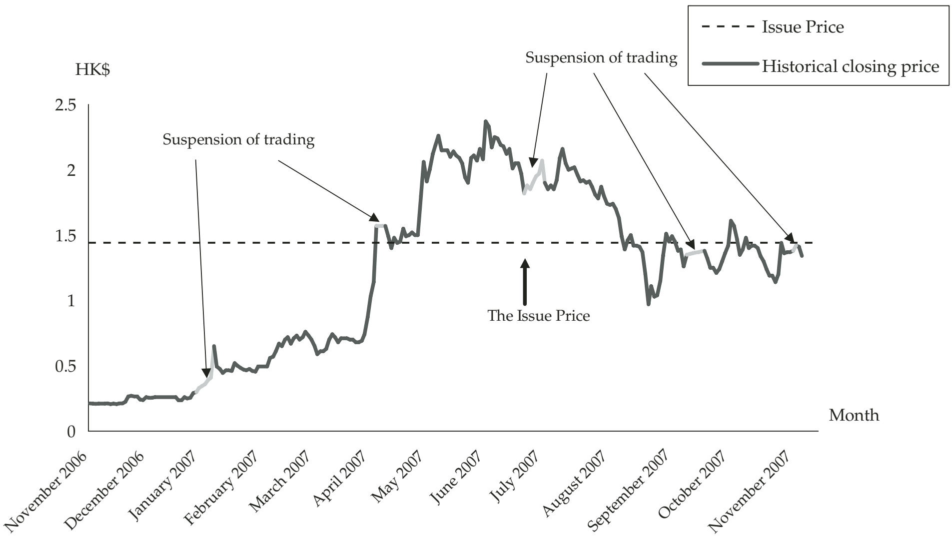
2. Trading in the Shares was suspended on 3 April 2007 and 4 April 2007.

3. Trading in the Shares was suspended from 22 June 2007 to 26 June 2007 (both days inclusive).

4. Trading in the Shares was suspended from 6 September 2007 to 12 September 2007 (both days inclusive).

5. Trading in the Shares was suspended on 30 October 2007.

Set out below is a graph showing the historical closing prices of the Shares as quoted on the Stock Exchange versus the Issue Price during the Review Period:



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

During the Review Period, the average daily closing price of the Shares ranged from HK$0.22 to HK$2.12 per Share. The highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK$2.37 per Share recorded on 30 May 2007 and HK$0.209 per Share recorded on 13 November 2006 respectively during the Review Period. We noted that the highest closing price of the Shares of HK$2.37 represented a premium of approximately 1,033.97% over the lowest closing price of the Shares of HK$0.209. In addition, the Issue Price of HK$1.44 was at premium over the closing price of the Shares during the entire Review Period save as except for the period from April 2007 to July 2007. We have enquired into and the Directors confirmed that they are not aware of the reasons for the sudden upsurge in the price of the Shares throughout the period as just mentioned save as and except for the Company's acquisition of 93% equity interest in MEIL as announced on 4 January 2007 and which was subsequently completed on 25 May 2007. As a result, the Directors considered that such upsurge in the Share price may reflect an optimistic market response towards the Company's expansion into the oil and gas industry.

Comparison with other transactions involving the issue of share

To further evaluate the fairness and reasonableness of the Issue Price, we have identified, to the best of our knowledge and as far as we are aware of, 17 connected transactions involving the issue of shares by companies listed on the Stock Exchange from 1 August 2007 up to the Last Trading Day (the "Consideration Share Comparables"). The Consideration Share Comparables are fair and representative samples even though Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Consideration Share Comparables and hence the Consideration Share Comparables are only used to provide a general reference for the common market practice of companies listed on the Stock Exchange in transactions which involved the issue of share. The table below summarises our relevant findings:

Company	Stock Code	Date of announcement	Premium/(Discount) of the issue price over/to the respective closing price of the shares as at the last trading day prior to the release of the announcement %
Extrawell Pharmaceutical Holdings Limited	858	1 August 2007	(15.69)
G-Prop (Holdings) Limited	286	7 August 2007	(92.17)
Orient Resources Group Company Limited	467	15 August 2007	(8.52)
SRE Group Limited	1207	17 August 2007	10.55
China Timber Resources Group Limited	269	22 August 2007	5.86
Huali Holdings (Group) Limited	3366	24 August 2007	(10.05)
China Elegance (Holdings) Limited	476	29 August 2007	(2.17)
Vantage International (Holdings) Limited	15	30 August 2007	(14.81)
Poly (Hong Kong) Investments Limited	119	31 August 2007	(20.78)
New Universe International Group Limited	8068	31 August 2007	2.70
Kiu Hung International Holdings Limited	381	4 September 2007	(44.88)
Shougang Concord Technology Holdings Limited	521	5 September 2007	(23.60)
Sino Union Petroleum & Chemical International Limited	346	12 September 2007	6.67
Peking Apparel International Group Limited	761	11 October 2007	55.04
United Power Investment Limited	674	17 October 2007	2.12
Zhong Hua International Holdings Limited	1064	26 October 2007	(10.71)
Yunnan Enterprises Holdings Limited	455	30 October 2007	(61.00)
Maximum			55.04
Minimum			(92.17)
Average			(13.03)
The Company	**346**	**9 November 2007**	**7.46**

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

We noted from the above table that the issue prices of the Consideration Share Comparables ranged from a discount of approximately 92.17% to a premium of approximately 55.04% to/over the respective closing prices of their shares as at the last trading days prior to the release of the relevant announcements. Out of the 17 Consideration Share Comparables, the issue prices of 11 of them represented discounts to the closing prices of their shares as at the last trading days prior to the release of the announcements. The Issue Price which represents a premium of approximately 7.46% to the closing price of the Shares as at the Last Trading Day, thus falls within the said market range of the Consideration Share Comparables.

Comparison with other issues of convertible bond/note

To further evaluate the fairness and reasonableness of the terms of the Convertible Note, we have identified, to the best of our knowledge and as far as we are aware of, 13 transactions by companies listed on the Stock Exchange which involved the issue of convertible bond/note from 1 August 2007 up to the Last Trading Day (the "CN Comparables"). The CN Comparables are fair and representative samples even though Shareholders should note that the businesses, operations and prospects of the Company are not the same as the CN Comparables and hence the CN Comparables are only used to provide a general reference for the common market practice of companies listed on the Stock Exchange in transactions which involved the issue of convertible bond/note. The table below summarises our relevant findings:

Company	Stock Code	Date of announcement	Term	Interest	Premium/(Discount) of the conversion price over/to the respective closing price of the Shares as at the last trading day prior to the release of the announcement
			Years	%	%
G-Prop (Holdings) Limited	286	7 August 2007	3	0	(92.17)
Riche Multi-Media Holdings Limited	764	8 August 2007	10	0	29.87
Everbest Energy Holdings Limited	578	27 August 2007	3	0	(24.66)
Henry Group Holdings Limited	859	14 September 2007	5	1.68	0
China Motion Telecom International Limited	989	19 September 2007	5	1.50	(54.49)
China Medical And Bio Science Limited	8120	2 October 2007	3	0	60.98
China Golden Development Holdings Limited	162	5 October 2007	5	2.75	(31.10)
Termbray Industries International (Holdings) Limited	93	15 October 2007	3	0	(21.05)
Shenzhen International Holdings Limited	152	16 October 2007	3	0	1.69
China Power New Energy Development Company Limited	735	23 October 2007	5	0	0
Zhong Hua International Holdings Limited	1064	26 October 2007	2	0	(10.71)
Shun Cheong Holdings Limited	650	31 October 2007	5	1.00	(68.91)
Bestway International Holdings Limited	718	7 November 2007	6	0	(19.64)
Maximum				2.75	60.98
Minimum				0	(92.17)
Average				0.53	(17.71)
The Company	**346**	**9 November 2007**	**3**	**0**	**7.46**

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

(i) The Conversion Price

The conversion prices of the CN Comparables ranged from a discount of approximately 92.17% to a premium of approximately 60.98% to/over the respective closing prices of their shares as at the last trading days prior to the release of the relevant issue of convertible bond/note announcements. Accordingly, the Conversion Price, which represents a premium of 7.46% over the closing price of the Shares as at the Last Trading Day, falls within the said market range of the CN Comparables.

(ii) Annual interest rate

As presented by the above table, the CN Comparables carried an annual interest rate of 0% to 2.75%. The Convertible Note, which does not bear any interest, hence falls within and is at the minimum of the said market range of the CN Comparables. Due to this reason, we are of the view that the interest rate of the Convertible Note is in the interests of the Company and the Shareholders as a whole.

In addition, we have also reviewed the other terms of the Agreement (including the terms of the Convertible Note) and are not aware of any terms which are uncommon to normal market practice. Accordingly, we are of the view that the terms of the Agreement (including the terms of the Convertible Note) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Conclusion

At presented under the section headed "Review on historical price of the Shares" in this letter, the Issue Price and the Conversion Price (i) are at premium over the average closing prices of the Shares most of the time during the Review Period, including the recent trading months; and (ii) fall within the market ranges of the Consideration Share Comparables and the CN Comparables and hence are in line with the normal market practice. In view of the above, we concur with the Directors that the Issue Price and the Conversion Price are fair and reasonable so far as the Independent Shareholders are concerned.

6. Dilution of the shareholding interests of the Independent Shareholders

The table below demonstrates the Company's shareholding structure (i) as at the Latest Practicable Date; (ii) as enlarged by the issue of the Consideration Shares; and (iii) as enlarged by the issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Note:

Name of Shareholders	As at the Latest Practicable Date		Shareholding immediately after the issue of the Consideration Shares but before the issue of any Conversion Share		Shareholding immediately after the issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Note	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Golden Nova Holdings Limited *(Note)*	2,436,316,666	52.49	2,436,316,666	48.06	2,436,316,666	45.10
Wisdom On Holdings Limited *(Note)*	214,440,000	4.62	214,440,000	4.23	214,440,000	3.97
Barta Holdings Limited *(Note)*	64,450,000	1.39	64,450,000	1.27	64,450,000	1.19
Good Progress Group Limited *(Note)*	138,888,889	2.99	138,888,889	2.74	138,888,889	2.57
The Vendor *(Note)*	–	–	427,083,333	8.43	760,416,666	14.08
Subtotal of shareholdings held by Dr. Hui and his associates	2,854,095,555	61.49	3,281,178,888	64.73	3,614,512,221	66.91
Independent Shareholders	1,787,660,000	38.51	1,787,660,000	35.27	1,787,660,000	33.09
Total	4,641,755,555	100.00	5,068,838,888	100.00	5,402,172,221	100.00

Note: These companies are wholly-owned by Dr. Hui

From the above table, we noted that the shareholding interests of the Independent Shareholders would be reduced from approximately 38.51% to:

(i) approximately 35.27% immediately after the issue of the Consideration Shares but before the issue of any Conversion Share; and

(ii) approximately 33.09% immediately after the issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Note.

Although the shareholding interests of the Independent Shareholders would be diluted in the above listed extents as a result of the issue of the Consideration Shares and the Conversion Shares, given also that (i) the Acquisition as concluded is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Agreement (including the Issue Price and the terms of the Convertible Note) were fairly and reasonably set; and (iii) the shareholding interests of the Independent Shareholders will be diluted in proportion to their respective shareholdings in the Company, we are of the view that the aforementioned minimal dilution to the shareholding interests of the Independent Shareholders is justifiable.

7. Possible financial effects of the Acquisition

Effect on NAV

As extracted from the 2007 Interim Report, the audited consolidated NAV of Group were approximately HK$5,727 million as at 30 September 2007. According to the unaudited pro forma financial information on the Group as set out in Appendix IV to the Circular, the unaudited pro forma NAV of the Group would be increased by approximately 37.89% to approximately HK$7,898 million upon Completion.

Effect on earnings

Upon Completion, MPIL will become a 54% non-wholly owned subsidiary of the Company and the Group will consolidate 54% of the financial results of MPIL into the Group's financial statements. As mentioned under the section headed "Information on MPIL" of this letter, MPIL has not commenced any significant business operation and therefore the Acquisition would not have any immediate impact on the earning position of the Group upon Completion.

Effect on gearing

As at 30 September 2007, the gearing level of the Group, which is calculated as the total liabilities divided by the total assets, was approximately 0.02 times. Based on the unaudited pro forma financial information on the Group as set out in Appendix IV to the Circular, the total liabilities and total assets of the Group would become HK$552 million and HK$10,744 million respectively upon Completion and thus the Group's gearing level would be increased to approximately 0.05 times upon Completion.

Effect on working capital

Since the Company would settle the Cash Consideration by its internal financial resources, the Acquisition would lead to a decline in the working capital of the Group by HK$120 million.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon Completion.

8. Risk Factors

The Acquisition will increase the level of risk exposure of the Group. Independent Shareholders should be aware of the following risk factors, which may not be exhaustive, when considering the Acquisition:

(i) Renewal of license

According to the Production Sharing Contract, MPIL is vested with the right to engage in (i) oil and gas exploration for eight years; (ii) oilfield development for five years; and (iii) exploitation and operation for oil for 25 years (with five years possible extension) and gas for 35 years (with 10 years possible extension) respectively at Oilfield Block 2104. 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 Oilfield Block 2104.

(ii) Uncertainty about estimated resources/reserves

As mentioned under the section headed "The Production Sharing Contract and Oilfield Block 2104" of this letter, Oilfield Block 2104 was classified as a project at the earliest stage of evaluation for exploration which requires more data acquisition and/or evaluation in order to define specific leads or prospects by NSAI. The amount of oil and gas resources at Oilfield Block 2104 represents an estimate only which may differ materially from the actual amounts. There are plenty of factors, assumptions and variables involved in estimating resources which are beyond the Company's control and may prove to be incorrect over time.

(iii) Substantial amount of capital commitment

The Directors confirmed that the total capital investment required for the development of Oilfield Block 2104 cannot be ascertained at present stage. Furthermore, the shareholders of MPIL or MPIL had not yet entered into any formal arrangement or definitive legal document in respect of the funding requirements for the business operation of MPIL as at the Latest Practicable Date. Given that the exploration and exploitation of oil and gas would highly likely to require a substantial amount of capital commitment, the Group's liquidity position may be adversely affected by the further development of Oilfield Block 2104 in the event that the Group fails to conduct effective fund raising activities.

(iv) Volatility of oil prices

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

(v) Economy of Madagascar

The economy of Madagascar is still at a development stage and any changes in the political or economic condition in Madagascar will affect its economy adversely, and thereby affecting the business and operation of the Company. Moreover, the demand for fuel products in Madagascar may vary from the existing forecast and expectation of the Company. Independent Shareholders should be reminded to bear these uncertainties in mind.

(vi) Regulatory issues and political factors

The operations of Oilfield Block 2104 are subject to regulation of the government of Madagascar. In particular, the Company may also be subject to various environmental protection laws and regulations in Madagascar, including those on discharge of waste substances. As a result, the Company may face significant constraints in the course of implementing its business strategies.

Your attention is also drawn to the sections which highlight the relevant risk factors in the Board Letter. We are of the view that the Independent Shareholders should bear in mind all the risk factors when considering the Acquisition since they may not have the same risk preference and are of varied risk toleration level.

RECOMMENDATION

Having taken into consideration the above factors and reasons, we are of the opinion that (i) the terms of the Agreement (including the terms of the Convertible Note) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole. We, as the Independent Financial Adviser, have already detailed our analysis (including the potential benefits and shortfalls of the Acquisition) in this letter of advice and we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreement and the transactions as 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 six months ended 30 September 2007 and the three years ended 31 March 2007, as extracted from the interim report and the annual reports of the Company respectively, is set out below.

Results

	For the six months ended 30 September	For the year ended 31 March		
	2007	**2007**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited) (restated)
Turnover	829,225	554,686	618,708	884,347
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost	4,429,858	–	–	–
Profit before taxation	4,445,426	10,872	17,948	3,094
Taxation	(4,935)	(2,809)	(2,381)	(4,445)
Net profit/(loss) attributable to Shareholders	4,440,491	8,063	15,567	(1,351)
Basic earnings/(loss) per Share	HK267.62 cents	HK0.63 cents	HK1.30 cents	(HK0.10 cent)
Diluted earnings per Share	HK256.82 cents	HK0.62 cents	HK1.14 cents	N/A
Dividend per Share	–	–	–	–

Assets and Liabilities

	As at 30 September	As at 31 March		
	2007	**2007**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited) (restated)
Total assets	5,862,832	291,775	231,842	433,247
Total liabilities	(135,730)	(79,690)	(55,402)	(270,357)
Net assets	5,727,102	212,085	176,440	162,890

There was no qualification in the auditors' reports issued by HLB for each of the three years ended 31 March 2007 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.

2. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2007

Set out below is a summary of the audited consolidated accounts of the Company for the year ended 31 March 2007 as extracted from the 2007 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 2007

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

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

BALANCE SHEET
at 31 March 2007

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

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2007

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2007

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

Note:

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

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Profit before taxation			
Continuing operation		10,872	2,986
Discontinued operation		–	14,962
		10,872	17,948
Adjustments for:			
Interest income		(685)	(7)
Depreciation		269	2,117
Impairment loss recognised in respect of goodwill		25	–
Gain on disposal of property, plant and equipment		–	(772)
Gain on disposal of subsidiaries		(571)	(18,638)
Finance costs		–	3,591
Operating profit before working capital changes		9,910	4,239
Decrease in inventories		9,121	6,072
Increase in financial assets at fair value through profit or loss		–	(153)
Decrease/(increase) in trade receivables		21,887	(7,305)
Increase in prepayment, deposits and other receivables		(418)	(4,691)
Increase in trade payables		25,469	2,114
Decrease in amount due to a holding company		(4,111)	(8,024)
Decrease in other payables and accruals		(259)	(13,679)
Cash generated from/(used in) operations		61,599	(21,427)
Interest received		685	7
Net cash inflow/(outflow) from operating activities		62,284	(21,420)

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from investing activities			
Sales proceeds from disposal of property, plant and equipment		–	1,856
Purchases of property, plant and equipment		(390)	(33)
Proceeds from acquisition of subsidiaries, net	*20*	1,203	–
Proceeds from disposal of subsidiaries, net	*21*	(268)	50,716
Net cash inflow from investing activities		545	52,539
Cash flows from financing activities			
Capital element of finance lease payments		–	(1,856)
Redemption of convertible bond		–	(26,813)
Finance costs paid		–	(2,668)
Issue of shares		27,531	–
Net cash inflow/(outflow) from financing activities		27,531	(31,337)
Net increase/(decrease) in cash and cash equivalents		90,360	(218)
Cash and cash equivalents at beginning of year		6,028	6,246
Effect of exchange rate changes on the balance of cash held in foreign currencies		89	–
Cash and cash equivalents at end of year		96,477	6,028
Analysis of balances of cash and cash equivalents			
Bank deposit		6,415	–
Cash and bank balances		90,062	6,028
Cash and cash equivalent at end of year		96,477	6,028

NOTES TO FINANCIAL STATEMENTS

31 March 2007

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 5 January 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The registered office and the principal place of business of the Company are disclosed in the corporate information section of the annual report.

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

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

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(a) Basis of consolidation

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

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

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

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

(b) Business combination

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

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

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

(c) Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

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

Goodwill arising on acquisitions on or after 1 January 2005

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

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

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

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

(d) Impairment of assets

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

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

(e) Revenue recognition

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

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

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

(f) Property, plant and equipment

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

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

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

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

(g) Leasing

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

The Group as lessee

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

(h) Foreign currencies translation

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

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

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

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

(i) Retirement benefits schemes

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

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

(iii) 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 excepted to become exercisable and the number of restricted share awards that become vested. It recognised the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be mode over the remaining vesting periods.

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

(j) Taxation

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

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

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

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

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

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

(k) Inventories

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

(l) Financial instruments

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

Financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

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

Other financial liabilities

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

Equity instruments

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

Derecognition

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

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

(m) Provisions

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

(n) Cash and cash equivalents

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

(o) Accounts and other receivables

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

(p) Land use rights

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

(q) Construction in progress

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

(r) Related party transactions

Parties are considered to be related to the Group if:

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

b. the party is an associate;

c. the party is a jointly-controlled entity;

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

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

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

g. the party is a post-employment benefit plan for the benefit of the employees of the Group, of any entity that is related party of the Group.

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

(s) Contingent liabilities and contingent asset

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

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

(t) Segment reporting

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

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Income taxes

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk management objectives and policies

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

Market risks

(i) Foreign exchange risk

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

(ii) Fair value interest rate risk

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

(iii) Price risk

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

Credit risk

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

Liquidity risk

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

(b) Fair value of financial instruments

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

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

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

6. SEGMENT INFORMATION

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

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

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

(b) the petrochemical products segment involves the manufacture and sales of petrochemical fuel products, which was discontinued during the year ended 31 March 2006 (Note 22).

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

(a) Business segments

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

The Group

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

(b) Geographical segments

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

7. Property, Plant and Equipment

The Group	Building	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*
Cost:						
At 1 April 2005	37,703	23,803	75,742	3,151	7,715	148,114
Additions	–	–	–	33	–	33
Disposals	–	–	–	–	(2,408)	(2,408)
Disposal of subsidiaries *(Note 21)*	(37,703)	(23,803)	(75,742)	(892)	(5,307)	(143,447)
At 31 March 2006 and 1 April 2006	–	–	–	2,292	–	2,292
Additions	–	–	–	390	–	390
Disposal of subsidiaries *(Note 21)*	–	–	–	(472)	–	(472)
At 31 March 2007	–	–	–	2,210	–	2,210
Accumulated depreciation:						
At 1 April 2005	1,006	–	2,756	1,384	1,398	6,544
Charges for the year	–	–	1,034	481	602	2,117
Written back on disposals	–	–	–	–	(1,324)	(1,324)
Disposal of subsidiaries *(Note 21)*	(1,006)	–	(3,790)	(114)	(676)	(5,586)
At 31 March 2006 and 1 April 2006	–	–	–	1,751	–	1,751
Charge for the year	–	–	–	269	–	269
Exchange adjustments	–	–	–	1	–	1
Disposal of subsidiaries *(Note 21)*	–	–	–	(435)	–	(435)
At 31 March 2007	–	–	–	1,586	–	1,586
Net book value:						
At 31 March 2007	–	–	–	624	–	624
At 31 March 2006	–	–	–	541	–	541

8. **Land Use Rights**

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

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

9. **Goodwill**

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

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

	HK$'000
PU materials	–

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

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

10. Interests in Subsidiaries

The Company

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

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

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

Note:

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

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

Particulars of the subsidiaries of the Company at 31 March 2007 were as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Market Reach Group Limited	British Virgin Islands ("BVI")	Ordinary US$10,000	100	–	Investment holding
Wah Tat Industrial Trading Limited	BVI	Ordinary US$10	–	100	Trading of polyurethane materials
Kurow Agents Limited	BVI	Ordinary US$10	–	100	Provision of transportation services in the PRC
Revolving Maze Trading Limited	BVI	Ordinary US$10	–	100	Provision of marketing and technical support services in the PRC
Harvest Star Investment Limited	BVI	Ordinary US$1	100	–	Investment holding
Prime Rose Investment Limited	BVI	Ordinary US$10	–	100	Trading of polyurethane materials
Minglun Industrial Limited	Hong Kong	Ordinary HK$2	–	100	Provision of administrative services to fellow subsidiaries in Hong Kong
Minglun Industrial (H.K.) Limited	Hong Kong	Ordinary HK$2	–	100	Trading of polyurethane materials
Glory Hill Group Limited	BVI	Ordinary US$1	100	–	Investment holding
Amistar Enterprises Limited	BVI	Ordinary US$1	100	–	Investment holding
Metro City Group Limited	BVI	Ordinary US$1	100	–	Investment holding
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
Liaohe Energy Limited	BVI	Ordinary US$1	–	100	Investment holding
Deno Group Limited	BVI	Ordinary US$100	–	100	Investment holding
深圳中聯石油化工有限公司*	The PRC	Registered capital US$100,000,000	–	100	Provision of marketing and technical support services in the PRC
Reachasia Group Limited	BVI	Ordinary US$100	–	100	Investment holding

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

11. INVENTORIES

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

12. TRADE RECEIVABLES

The Group

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

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

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

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

13. AMOUNTS DUE TO SUBSIDIARIES

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

14. SHARE CAPITAL

(a) Shares

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

Note:

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

(b) Share Option Scheme

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

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

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

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

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

	Number of share options								
Name or category of participant	At 1 April 2006	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2007	Date of grant of share options* *(dd/mm/yy)*	Exercise period of share options *(dd/mm/yy)*	Exercise price of share options *HK$*	Price of Company's share at grant date of share options *HK$*
Directors									
Mr. Tsang Kwok Man	11,000,000	–	–	–	11,000,000	8/11/2004	8/11/2004 to 7/11/2014	0.1324	0.13
Employees other than directors									
In aggregate	40,000,000	–	–	–	40,000,000	8/11/2004	11/11/2004 to 7/11/2014	0.1324	0.13
	51,000,000	–	–	–	51,000,000				

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

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

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

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

15. RESERVES

The Group

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

The Company

	Share premium	Contribution surplus	Convertible bond reserve	Accumulated loss	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	53,127	54,045	2,017	(6,816)	102,373
Redemption of convertible bond	–	–	(2,017)	–	(2,017)
Net loss for the year	–	–	–	(34,530)	(34,530)
At 31 March 2006 and 1 April 2006	53,127	54,045	–	(41,346)	65,826
Issue of ordinary shares	25,137	–	–	–	25,137
Net loss for the year	–	–	–	(12,229)	(12,229)
At 31 March 2007	78,264	54,045	–	(53,575)	78,734

Notes:

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

(b) The Company had distributable reserves of HK$78,734,000 (2006: HK$65,826,000) at 31 March 2007, which included the Company's contributed surplus in the amount of HK$54,045,000 (2006: HK$54,045,000). Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders of the Company in certain circumstances. In addition, the Company's share premium account, in the amount of HK$78,264,000 (2006: HK$53,127,000) at 31 March 2007, may be distributed in the form of fully paid bonus shares.

16. TRADE PAYABLES

The Group

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

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

17. AMOUNT DUE TO A HOLDING COMPANY

The Group and the Company

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

18. CONVERTIBLE BOND

The Group and the Company

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

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

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

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

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

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

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

19. DEFERRED TAXATION

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

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

The Group and the Company did not have any significant unprovided deferred tax liabilities at 31 March 2007 (2006: HK$Nil).

20. ACQUISITIONS OF SUBSIDIARIES

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

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

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

Net cash inflow arising on acquisition:

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

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

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

21. DISPOSAL OF SUBSIDIARIES

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

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

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

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

22. DISCONTINUED OPERATION

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

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

23. TURNOVER AND OTHER REVENUE

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

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

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

24. PROFIT FROM OPERATING ACTIVITIES

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

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

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

25. DIRECTORS' REMUNERATION

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

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

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

During the year, there were no bonuses paid or payable to the directors (2006: HK$150,000). No directors waived or agreed to waive any remuneration during the year (2006: HK$Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2006: HK$Nil).

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

26. FIVE HIGHEST PAID INDIVIDUALS

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

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

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

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

27. FINANCE COSTS

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

28. TAXATION

(a) Taxation in the consolidated income statement represents:

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

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits for the year (2006: HK$Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

The Group – for the year ended 31 March 2007

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

The Group – for the year ended 31 March 2006

	Hong Kong		The PRC		Macau		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before taxation								
Continuing operation	(6,318)		–		9,304		2,986	
Discontinued operation	18,499		(3,537)		–		14,962	
	12,181		(3,537)		9,304		17,948	
Tax at applicable income tax rate	2,132	17.5	(1,167)	33.0	1,117	12.0	2,082	11.6
Tax effect of expenses and income not deductible or taxable for tax purposes	(2,142)	(17.6)	–	–	1,257	13.5	(885)	(4.9)
Tax effect of tax losses not recognised	10	0.1	1,167	(33.0)	7	0.1	1,184	6.6
Tax charge for year	–	–	–	–	2,381	25.6	2,381	13.3

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

The net loss from ordinary activities attributable to equity holders of the Company dealt with in the financial statements of the Company for the year ended 31 March 2007 was HK$12,229,000 (2006: HK$34,530,000).

30. DIVIDENDS

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

31. EARNINGS PER SHARE

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

For continuing and discontinued operations

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

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

For continuing operation

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

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

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

For discontinued operation

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

32. OPERATING LEASE ARRANGEMENTS

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

At 31 March 2007, the Group had total future minimum lease payments under non-cancellable operating failing due as follows:

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

33. COMMITMENT

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

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

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

34. CONTINGENT LIABILITIES

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

35. MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel

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

36. SUBSEQUENT EVENTS

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

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

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

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

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

37. COMPARATIVE FIGURES

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

38. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

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

3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

Set out below are the unaudited condensed consolidated financial statements of the Company for the six months ended 30 September 2007 as extracted from the 2007 interim report of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2007

		Six months ended 30 September	
		2007	**2006**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
Turnover	*3*	829,225	295,943
Cost of sales		(794,378)	(280,247)
Gross profit		34,847	15,696
Other revenue		371	560
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost	*13*	4,429,858	–
Selling and distribution costs		(75)	(1,803)
Administrative expenses		(17,389)	(8,621)
Profit from operating activities	*4*	4,447,612	5,832
Finance costs	*5*	(2,186)	(789)
Profit before taxation		4,445,426	5,043
Taxation	*6*	(4,935)	(934)
Profit for the period		4,440,491	4,109
Net profit from ordinary activities attributable to shareholders of the Company		4,440,491	4,109
Dividends	*7*	–	–
Earnings per share			
– Basic, HK cents	*8*	267.62	0.33
– Diluted, HK cents	*8*	256.82	N/A

All of the Group's operations are classed as continuing.

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 September 2007

	Notes	As at 30 September 2007 (Unaudited) HK$'000	As at 31 March 2007 (Audited) HK$'000
ASSETS			
Non-Current Assets			
Property, plant and equipment		1,157	624
Exploration and evaluation assets		5,523,175	–
		5,524,332	624
Current Assets			
Trade receivables	9	118,934	136,797
Prepayments, deposits and other receivables		55,176	57,877
Bank deposit		–	6,415
Cash and bank balances		164,390	90,062
		338,500	291,151
Total Assets		5,862,832	291,775
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	86,058	26,334
Reserves		5,641,044	185,751
Total Equity		5,727,102	212,085
LIABILITIES			
Current Liabilities			
Trade payables	11	42,276	41,212
Tax payable		30,332	31,249
Other payables and accruals		15,071	4,878
Amount due to a holding company		5,841	2,351
Amount due to related companies		3,835	–
Bank overdraft		499	–
		97,854	79,690
Non-Current Liabilities			
Bond		37,876	–
Total Liabilities		135,730	79,690
Total Equity and Liabilities		5,862,832	291,775
Net Current Assets		240,646	211,461
Total Assets Less Current Liabilities		5,764,978	212,085

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006 (Unaudited)

	Attributable to equity holders of the Company								
		Reserves							
	Share capital	Share premium	Contributed surplus	Convertible note reserve	Exchange reserve	Revaluation reserves	Retained profits	Subtotal	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2006	23,940	53,127	3,156	–	–	–	96,217	152,500	176,440
Net profit for the year	–	–	–	–	–	–	4,109	4,109	4,109
Total recognized income and expense for the period	–	–	–	–	–	–	4,109	4,109	4,109
Issue of shares	2,394	25,137	–	–	–	–	–	25,137	27,531
At 30 September 2006	26,334	78,264	3,156	–	–	–	100,326	181,746	208,080

For the six months ended 30 September 2007 (Unaudited)

	Share capital	Share premium	Contributed surplus	Convertible note reserve	Exchange reserve	Revaluation reserves	Retained profits	Subtotal	Total
At 1 April 2007	26,334	78,264	3,156	–	51	–	104,280	185,751	212,085
Net profit for the year	–	–	–	–	–	–	4,440,491	4,440,491	4,440,491
Total recognized income and expense for the period	–	–	–	–	–	–	4,440,491	4,440,491	4,440,491
Equity component of convertible bonds	–	–	–	3,599	–	–	–	3,599	3,599
Exchange difference arising on translation of foreign operations	–	–	–	–	(6)	–	–	(6)	(6)
Conversion of convertible notes	33,334	256,118	–	(3,599)	–	–	–	252,519	285,853
Issue of subscription shares	1,390	98,690	–	–	–	–	–	98,690	100,080
Issue of shares	25,000	275,000	–	–	–	–	–	275,000	300,000
Gain on fair value changes on exploration and evaluation asset	–	–	–	–	–	385,000	–	385,000	385,000
At 30 September 2007	86,058	708,072	3,156	–	45	385,000	4,544,771	5,641,044	5,727,102

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2007

	Six months ended 30 September	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash (outflow)/inflow from operating activities	(23,300)	30,258
Net cash outflow from investing activities	(9,983)	–
Net cash inflow from financing activities	100,697	27,479
Increase in cash and cash equivalents	67,414	57,737
Cash and cash equivalents at beginning of the period	96,477	6,028
Cash and cash equivalents at end of the period	163,891	63,765
Analysis of balances of cash and cash equivalents		
Cash and bank balances	164,390	63,765
Bank overdrafts	(499)	–
	163,891	63,765

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 September 2007

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 (the "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. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention. The principal accounting policies and methods of computations used in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in the Group's annual financial statements for the year ended 31 March 2007, 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 1 January 2007, 1 May 2006, 1 June 2006, 1 November 2007 and 1 March 2007.

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

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of the above new standard and interpretations did not results in substantial changes to the Group's accounting policies, where as the adoption of HKAS 1 (Amendment) and HKFRS 7 requires additional disclosures to be made in the financial statements.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK (IFRIC) – Int 12	Service Concession Arrangements[2]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK (IFRIC) – Int 14	HKAS 19 – The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 January 2008
[3] Effective for annual periods beginning on or after 1 July 2008

The Directors of the Company anticipated that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

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 fuels products segment involves the sales of fuel oil.

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.

	Six months ended 30 September					
	PU materials		Fuels products		Consolidated	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	285,730	295,943	543,495	–	829,225	295,943
Segment results	17,387	8,896	17,460	–	34,847	8,896
Interest income					371	69
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost					4,429,858	–
Unallocated expenses					(17,464)	(3,133)
Profit from operating activities					4,447,612	5,832
Finance costs					(2,186)	(789)
Profit before taxation					4,445,426	5,043
Taxation					(4,935)	(934)
Net profit from ordinary activities attributable to shareholders of the Company					4,440,491	4,109

(b) Geographic Segments

During the period ended 30 September 2007 and 2006, the Group's entire turnover was derived from sales in the PRC and more than 90% of the Group's assets were located at Madagascar and the PRC at 30 September 2007 and 2006 respectively. Therefore, no geographic segmental information on revenue and assets was presented.

4. PROFIT FROM OPERATING ACTIVITIES

	Six months ended 30 September	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit from operating activities has been arrived at after charging:		
Depreciation	134	45
and after crediting:		
Other income		
Interest income	371	69

5. FINANCE COSTS

	Six months ended 30 September	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on:		
Trust receipt loans wholly repayable within five years	–	789
Bond wholly repayable within five years	1,921	–
Convertible bonds wholly repayable within five years	265	–
	2,186	789

6. TAXATION

Current Taxation

Hong Kong Profits Tax is calculated at 17.5% (2006: 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	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current period provision:		
Hong Kong	–	–
Elsewhere	4,935	934
	4,935	934

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 (2006: 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 2007 (2006: Nil).

8. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Earnings attributable to the equity holders of the Company for the purpose of basic earnings per share	4,440,491	4,109
Effect of dilutive potential ordinary shares:		
Interest on convertible note	265	–
Earnings attributable to the equity holders of the Company for the purposes of diluted earnings per share	4,440,756	4,109

	Number of shares Six months ended 30 September	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,659,230	1,227,089
Effect of dilutive potential ordinary shares:		
Convertible Note	22,831	–
Share Options	47,094	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,729,155	1,227,089

No diluted earnings per shares for the six months ended 30 September 2006 have been presented because the conversion of the convertible bond to ordinary shares would increase earnings per share and at no time during the period, the share price of the Company exceeded the exercise price of share option.

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 2007 (Unaudited) *HK$'000*	**As at 31 March 2007** (Audited) *HK$'000*
Current to 30 days	90,427	100,702
31 days to 90 days	18,052	32,725
Over 90 days	10,455	3,370
	118,934	136,797

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 2007 and 30 September 2007	10,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK$0.02 each		
At 1 April 2007	1,316,700,000	26,334
Issue of subscription shares *(Note a)*	69,500,000	1,390
Consideration shares *(Note b)*	1,250,000,000	25,000
Conversion of convertible note *(Note c)*	1,666,666,666	33,334
At end of period	4,302,866,666	86,058

Notes:

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

(b) The Company entered into a sales and purchases agreement to acquire from Golden Nova Holdings Limited ("Golden Nova"), 93% of the issued share capital of Madagascar Energy International Limited (the "MEIL") for a total consideration of HK$800 million. The conditional sales and purchases agreement was completed on 31 May 2007. The consideration for the acquisition was satisfied by (i) HK$10 million in cash (ii) HK$90 million bond; (iii) HK$300 million by issue of 1,250,000,000 new shares at HK$0.24 per share; and (iv) HK$400 million by issue of convertible note (the "Convertible Note") at a conversion price of HK$0.24 per conversion. For further details, please refer to the Company's circular dated 10 May 2007.

(c) On 4 June 2007, Golden Nova, the holder of the Convertible Note as mentioned in Note (b)(iv) above, has converted HK$400 million of the principal of the Convertible Note, representing the whole principal amount of the Convertible Note, at conversion price of HK$0.24 per share. As a result of the conversion, a total of 1,666,666,666 ordinary shares have been allotted and duly issued and the aggregate outstanding principal of the Convertible Note has been reduced to HK$Nil. For further details, please refer to the note 12 of the financial statement and the Company's announcement dated 6 June 2007.

11. TRADE PAYABLES

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

	As at 30 September 2007 (Unaudited) *HK$'000*	**As at 31 March 2007** (Audited) *HK$'000*
Current to 30 days	39,832	41,212
31 days to 90 days	2,444	–
Over 90 days	–	–
	42,276	41,212

12. CONVERTIBLE NOTES

Pursuant to the conditional sales and purchases agreement entered between the Company and Golden Nova in respect of acquisition of 93% equity interest in Madagascar Energy International Limited ("MEIL"), the Company issued a convertible note in the principal of HK$800,000,000 (the "Convertible Note") to Golden Nova. Golden Nova has the right to convert the whole or part of the principal amount of the Convertible Note into shares of HK$0.02 each in the share capital of the Company, at the conversion price of HK$0.24 per share. The noteholder may at any time from the date of issue of the Convertible Note to the maturity date of the Convertible Note to redeem the principal amount outstanding under the Convertible Note. 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.

On 4 June 2007, Golden Nova has converted the Convertible Note into ordinary shares of the Company. For further details, please refer to the note 10 to the financial statements.

The fair value of the liability component of the Convertible Note was determined upon issuance, using the prevailing market interest rate for similar debt without a conversion option and was carried as a current liability. The residual amount was assigned to the conversion option as the equity component that was recognised is shareholders' equity.

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

	The Group and the Company	
	As at 30 September 2007 (Unaudited) *HK$'000*	**As at 31 March 2007** (Audited) *HK$'000*
Proceeds of issue	–	–
Fair value of Convertible Note issued on 31 May 2007	3,887,934	–
Equity component	(3,598,748)	–
Liability component on initial recognition on 31 May 2007	289,186	–
Interest expenses charged	265	–
Conversion of Convertible Note	(289,451)	–
Amortised cost at 30 September/31 March	–	–

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

Interest expense on the Convertible Note was calculated using the effective interest method by applying the effective interest rates of 6.07% to the liability component.

13. ACQUISITION OF A SUBSIDIARY

On 3 January 2007, the Company entered into a sale and purchase agreement to acquire from Golden Nova Holdings Limited 93% of the issued share capital of MEIL for a total consideration of HK$800 million. The consideration for the acquisition was satisfied by (i) HK$10 million in cash (ii) HK$90 million bond; (iii) HK$300 million by issue of 1,250,000,000 new shares at HK$0.24 per share; and (iv) HK$400 million by issue of convertible note (the "Convertible Note") at a conversion price of HK$0.24 per conversion share. The convertible shares were converted into 1,666,666,666 ordinary shares on 4 June 2007. The fair value of the net asset acquired is approximately equaled to its carrying amount.

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

	Acquiree's carrying amount	Fair value adjustment	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	565	–	565
Exploration and evaluation assets	–	5,122,045	5,122,045
Deposits	17	–	17
Cash and bank balances	1,583	–	1,583
Amount due to related companies	(9,210)	–	(9,210)
			5,115,000
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost			(4,429,858)
			685,142
Total consideration satisfied by:			
Cash consideration			10,000
Issue of bond			85,956
Issue of shares			300,000
Issue of Convertible Note			3,887,934
Derivative financial instruments			(3,598,748)
Total consideration			685,142

Net cash outflow arising on acquisition:	*HK'000*
Cash and bank balances acquired	17
Cash consideration	(10,000)
	(9,983)

The subsidiary acquired during the period ended 30 September 2007 attributed approximately HK$989,000 to the Group's loss after taxation.

14. SUBSEQUENT EVENTS

(a) On 29 October 2007, Golden Nova Holdings Limited; Dr. Hui Chi Ming and Nomura International (Hong Kong) Limited entered into the Placing Agreement pursuant to which Nomura International has agreed to place, on a fully underwritten basis, 200,000,000 existing Shares at a price of HK$1.20 per Share on behalf of the Vendor. For further details, please refer to the Company's announcement dated 30 October 2007.

(b) On 3 November 2007, the Company entered into a conditional sale and purchase agreement to acquire the entire equity interest in Better Step Group Limited from the Sukapeak Holdings Limited at a total consideration of HK$1,215 million. The consideration will be satisfied by (i) HK$120 million in cash, payable upon signing of the agreement; (ii) HK$615 million by the issue of 427,083,333 new Shares at HK$1.44 per Consideration Share; and (iii) HK$480 million by the issue of the convertible note at a conversion price of HK$1.44 per conversion share. For further details, please refer to the Company's announcement dated 9 November 2007.

4. INDEBTEDNESS

Borrowings

As at the close of business on 31 December 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 31 December 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 31 December 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

The Directors, after due and careful consideration, are of the opinion that, taking into account the internal resources and credit facilities available to the Enlarged Group, the Enlarged Group shall have sufficient working capital for its present requirements for at least twelve months 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 2007 (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.

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

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

12 March 2008

The Directors
Sino Union Petroleum & Chemical International Limited
Unit 10–12, 19/F
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 regarding Better Step Group Limited ("Better Step") and its subsidiary (collectively referred to as "Better Step Group"), for the period from 23 May 2007 (date of incorporation) to 30 November 2007 (the "Relevant Period") (the "Financial Information"), for inclusion in the circular of Sino Union Petroleum & Chemical International Limited (the "Company") dated 12 March 2008 (the "Circular") in connection with the conditional sale and purchase agreement dated 3 November 2007 (the "Acquisition Agreement") entered into between the Company and Sukapeak Holdings Limited ("Sukapeak") pursuant to which the Company would acquire 100% equity interest in Better Step from Sukapeak at an aggregate consideration of HK$1,215,000,000 (the "Consideration") (collectively refer as the "Acquisition"). The Consideration for the Acquisition shall be satisfied by (1) paying a refundable deposit in a sum of HK$120,000,000 to Sukapeak upon signing of the Acquisition Agreement; (2) procuring the Company to issue the consideration shares at an issue price of HK$1.44 per consideration share (the "Consideration Shares"), credited as fully paid for the Consideration in a sum of HK$615,000,000; (3) procuring the Company to issue convertible note in principal amounts of HK$480,000,000 to Sukapeak (the "Convertible Note") at a conversion price of HK$1.44 per conversion share.

On 28 February 2008, a supplemental agreement was entered into between the Company and Sukapeak to assign the shareholder's loan of MPIL from Sukapeak to the Company at nil consideration.

Better Step is a company incorporated in the British Virgin Islands with limited liability on 23 May 2007 and the share of which is wholly-owned by Sukapeak. Sukapeak is an investment holding company beneficially owned by Dr. Hui Chi Ming ("Dr. Hui"). Dr. Hui is also the chairman of the board of directors, an executive director and a controlling shareholder of the Company. The principal activity of Better Step is investment holding which holds 54% of interest in Madagascar Petroleum International Limited ("MPIL").

MPIL is a company incorporated in the British Virgin Islands with limited liability in 23 June 2005.

The principal activity of MPIL is investment holding. In October 2005, MPIL entered into the production sharing contract with Office Des mines Nationales Et Des Industries Strategiques ("OMNIS") in respect of Oilfield Block 2104, an onshore site with total area of 20,100 kilometer square in Madagascar, for oil and gas exploitation and operation and certain transactions pertaining thereto (the "Production Sharing Contract"). Pursuant to the Production Sharing Contract, MPIL is vested with all the relevant rights to engage in oil and gas exploration for 8 years, oilfield development for 5 years, and exploitation and operation for oil for 25 years (with 5 years possible extension) and gas for 35 years (with 10 years possible extension) at Oilfield Block 2104.

Better Step Group adopts 31 March as its financial year end date. No audited financial statements of Better Step Group have been prepared since its incorporation date.

BASIS OF PREPARATION

The Financial Information has been prepared by the director of Better Step based on the financial statements for the Relevant Period, 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") and accounting principles generally accepted in Hong Kong.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The director of Better Step 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. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the 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' judgement, 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 true and fair views of the state of affairs of Better Step Group and Better Step as at 30 November 2007 and of the results and cash flows of Better Step Group for the Relevant Period in accordance with Hong Kong Financial Reporting Standards.

Material uncertainties relating to the going concern basis of Better Step Group

Without qualifying our opinion, we draw attention to Note 2(a) in the Financial Information which indicates that Better Step Group incurred net current liabilities of HK$483,106,000 as at 30 November 2007. 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 Better Step Group's ability to continue as a going concern.

A. FINANCIAL INFORMATION OF BETTER STEP GROUP

Consolidated Balance Sheet

	Notes	At 30 November 2007 HK$'000
ASSETS		
Non-current assets		
Property, plant and equipment	5	742
Exploration and evaluation assets	6	5,000,000
		5,000,742
Current assets		
Prepayments and deposits		24
Bank balances		486
		510
Total assets		5,001,252
EQUITY		
Capital and reserves attributable to the equity holder of Better Step		
Share capital	8	1
Retained profits		2,223,411
		2,223,412
Minority interests		2,294,224
Total equity		4,517,636
LIABILITY		
Current liabilities		
Shareholder's loan	9	482,429
Amount due to a minority shareholder	10	1,170
Accruals		17
		483,616
Total equity and liabilities		5,001,252
Net current liabilities		(483,106)
Total assets less current liabilities		4,517,636

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

Balance Sheet

	Notes	At 30 November 2007 HK$'000
ASSET		
Non-current asset		
Investment in a subsidiary	7	469,800
Total asset		469,800
EQUITY		
Capital and reserves attributable to the equity holder of Better Step		
Share capital	*8*	1
Accumulated loss		(9)
Total equity		(8)
LIABILITY		
Current liability		
Shareholder's loan	*9*	469,808
Total liability		469,808
Total equity and liability		469,800
Net current liability		(469,800)
Total asset less current liability		(8)

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

Consolidated Income Statement

	Notes	For the period from 23 May 2007 (date of incorporation) to 30 November 2007 HK$'000
Turnover	*12*	–
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost	*11*	2,281,079
Administrative expenses		(6,785)
Finance Cost		–
Impairment loss recognised in respect of exploration and evaluation assets	*6*	(100,000)
Profit from operating activities	*13*	2,174,294
Taxation	*14*	–
Profit for the period		2,174,294
Attributable to:		
Equity holder of Better Step		2,223,411
Minority interests		(49,117)
		2,174,294
Earnings per share		
Basic and diluted	*16*	21,743

All of Better Step Group's operation is classed as continuing.

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

Consolidated Statement of Changes in Equity

	Attributable to the equity holder of Better Step				
	Share capital	**Retained profits**	**Sub-total**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 23 May 2007	1	–	1	–	1
Profit for the period	–	2,223,411	2,223,411	2,294,224	4,517,635
At 30 November 2007	**1**	**2,223,411**	**2,223,412**	**2,294,224**	**4,517,636**

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

Consolidated Cash Flow Statement

	For the period from 23 May 2007 (date of incorporation) to 30 November 2007
	HK$'000
Cash flows from operating activities	
Profit before taxation	2,174,294
Adjustment for:	
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost	(2,281,079)
Depreciation	174
Impairment loss recognised in respect of exploration and evaluation assets	100,000
Operating loss before movements in working capital	(6,611)
Increase in prepayments and deposits	(1)
Increase in shareholder's loan	475,859
Increase in amount due to a minority shareholder	1,170
Net cash generated from operating activities	470,417
Cash flows from investing activities	
Acquisition of a subsidiary	(469,800)
Acquisition of property, plant and equipment	(265)
Net cash used in investing activities	(470,065)
Cash flows from financing activities	
Issue of shares	1
Net cash generated from financing activities	1
Increase in cash and cash equivalents	353
Cash and cash equivalents at the beginning of the period	133
Cash and cash equivalents at the end of the period	486
Analysis of the balances of cash and cash equivalents	
Bank balances	486

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

Notes to Financial Information

1. GENERAL INFORMATION

The registered office of Better Step is at P.O. Box 957, Offshore Incorporations, Centre, Road Town, Tortola, the British Virgin Islands. Better Step was incorporated in the British Virgin Islands as an exempted company with limited liability on 23 May 2007. Better Step is principally engaged in investment holding.

The financial statements are presented in Hong Kong dollars, which is the functional currency of Better Step Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the HKICPA, and accounting principles generally accepted in Hong Kong ("HKFRSs") (which also include Hong Kong Accounting Standards and Interpretations) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports including in the listing documents of circulars. The accounting policies of Better Step Group are materially consistent with the Company's accounting policies. The measurement basis used in the preparation of the Financial Information is historical cost convention except for financial assets and financial liabilities have been carried at fair value.

The presentation of the Financial Information in conformity with HKFRSs requires management to make judgements, 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 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 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.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23(Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 12	Service Concession Arrangements[2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 January 2008
[3] Effective for annual periods beginning on or after 1 July 2008

The director of Better Step Group expects that the adoption of the above new standards and interpretations will not have any significant impact on Better Step Group's financial statements in the period of initial application.

The accounting policies set out below have been applied consistently to the Relevant Period presented in this Financial Information.

(a) Basis of preparation

At 30 November 207, Better Step Group had net current liabilities of HK$483,106,000. Sukapeak, the shareholder of Better Step Group, has confirmed that, it is its intention to provide continuing financial support to Better Step Group, subject to the condition that the relationship between Sukapeak and Better Step Group 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 Better Step Group believes that Better Step Group will continue as going concern upon the success of Better Step Group's future operations and its ability to generate adequate cash flows. Consequently, the Financial Information has been prepared on a going concern basis.

(b) Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from Better Step Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of Better Step Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(c) Business combinations

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

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

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

(d) Goodwill

Goodwill arising on acquisitions on or after 1 January 2005

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

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(e) Property, plant and equipment

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

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

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

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

(f) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

(g) 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 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 that are never taxable and deductible. Better Step Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised 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 liabilities 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 differences, 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 from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where Better Step Group is able to control the reversal of 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 period when the liability is settled or the asset realised. Deferred tax is charged or credited to income statement except when it relates to items charged or credited directly or equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(h) Financial instruments

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

Financial assets

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

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as prepayment and deposits that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Better Step Group's past experience of collecting payments.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of prepayment and deposits, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When prepayment and deposits are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the asset of Better Step Group after deducting all of its liabilities. Better Step Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including shareholder's loan, amount due to a minority shareholder and accruals are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Better Step Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement. Financial liabilities are derecognised from Better Step Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the income statement.

(i) Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses.

Exploration and evaluation assets include the expenditures incurred in the search for oil resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

When the technical feasibility and commercial viability of extracting oil resource become demonstrable, any previously recognised exploration and evaluation assets are reclassified as intangible assets or property, plant and equipment. These assets are assessed for impairment, and any impairment loss recognised, before reclassification.

(j) Cash and cash equivalents

Cash and cash equivalents comprises of cash in hand which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of Better Step Group's cash management.

(k) Related party transactions

Parties are considered to be related to Better Step Group if:

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

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of Better Step Group or its parent;

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

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

(g) the party is a post-employment benefit plan for the benefit of the employees of Better Step Group, of any entity that is related party of Better Step Group.

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

(l) Contingent liabilities

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 Better Step Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(m) Provisions

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

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	At 30 November 2007 *HK$'000*
Financial assets	
Loan and receivables (including bank balances)	510
Financial liabilities	
Amortised cost	483,616

(b) Financial risk management objectives and policies

The main risks arising from Better Step Group's financial instruments are market risk (including currency risk, fair value interest rate risk, foreign exchange risk and other price risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

(i) Currency risk

Better Step Group is not exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar.

(ii) Fair value interest rate risk

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

(iii) Price risk

Better Step Group is not exposed to significant price risk. The management monitors the price movements and takes appropriate actions when it is required.

Credit risk

Better Step Group is not exposed to credit risk in the event of the counterparties' failure to perform their obligations at Relevant Period in relation to the recognised financial asset is the carrying amount of those assets as stated in the balance sheet.

Liquidity risk

Better Step Group's liquidity risk management includes diversifying the funding sources. Funds raising from loan from shareholder during the Relevant Period are the general source of funds to finance the operation of Better Step Group. Better Step Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following tables detail Better Step Group's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which Better Step Group can be required to pay. The table includes both interest and principal cash flows.

At 30 November 2007

	Weighted average effective interest rate	Within 1 year	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivate financial liabilities						
Shareholder's loan	–	482,429	–	–	482,429	482,429
Amount due to a minority shareholder	–	1,170	–	–	1,170	1,170
		483,599	–	–	483,599	483,599

(c) Capital risk management

Better Step Group's objectives when managing capital are to safeguard Better Step Group's ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Better Step Group may adjust the return capital to the shareholder, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, Better Step Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including shareholder's loan and amount due to a minority shareholder as shown in the balance sheet) less cash and bank balances. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

Better Step Group's strategy is to maintain a reasonable gearing ratio. The gearing ratio at 30 November 2007 was as follows:

	At 30 November 2007
	HK$'000
Total borrowings	483,599
Less: Cash and bank balances	(486)
Net debt	483,113
Total equity	4,517,636
Total capital	(4,034,523)
Gearing ratio	(12%)

(d) Fair value of financial instruments

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

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

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

The director consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate to their fair values.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies set out in Note 2 to financial information, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, 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 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 underlying 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. Better Step does not have significant estimation made in each class of balance sheet items at the balance sheet date.

Fair value of exploration and evaluation assets

As described in note 6, the director use their judgement in selecting an appropriate valuation technique for exploration and evaluation assets. Valuation techniques commonly used by market practitioners are applied. Better Step Group's exploration and evaluation assets with carrying amount of HK$5,000 million are valued using a market approach analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of the exploration and evaluation assets also includes some assumptions not supported by observable market prices or rates.

5. PROPERTY, PLANT AND EQUIPMENT

Better Step Group

	Furniture and fixtures	Motor vehicles	Office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 23 May 2007	324	469	79	872
Additions	3	260	2	265
At 30 November 2007	327	729	81	1,137
Accumulated depreciation:				
At 23 May 2007	65	141	15	221
Charged for the period	44	119	11	174
At 30 November 2007	109	260	26	395
Net book value:				
At 30 November 2007	**218**	**469**	**55**	**742**

As at 30 November 2007, Better Step Group did not have any property, plant and equipment held under finance leases or pledged to secure banking facilities.

6. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets represent the rights to engage in oil and gas exploration for 8 years, oilfield development for 5 years, and exploitation and operation for oil for 25 years and gas for 35 years at Oilfield Block 2104 in Madagascar.

	HK$'000
Fair value as at 11 June 2007	5,100,000
Less: Impairment loss recongised in respect of exploration and evaluation assets	(100,000)
Fair value as at 30 November 2007	5,000,000

The fair value of the exploration and evaluation assets at 30 November 2007 has been arrived at on the basis of a valuation carried out on that date by Messrs. BMI Appraisals Limited ("BMI"), an independent qualified professional valuer not connected with Better Step Group and the Company. BMI has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

7. INVESTMENT IN A SUBSIDIARY

Better Step

	At 30 November 2007 HK$'000
Unlisted shares, at cost	469,800

Particulars of the subsidiary of Better Step as at 30 November 2007 was as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid-up share capital	Percentage of equity attributable to Betty Step		Principal activities
			Direct	*Indirect*	
Madagascar Petroleum International Limited ("MPIL")	British Virgin Islands ("BVI")	Ordinary US$1,000	54	–	Investment holding

8. SHARE CAPITAL

	Number of shares	**Share capital**	
		US$	*HK$'000*
Authorised:			
Ordinary shares	50,000	50,000	390
Issued and fully paid:			
At 30 November 2007	100	100	1

9. SHAREHOLDER'S LOAN

Sukapeak is the shareholder of Better Step Group.

The shareholder's loan is unsecured, interest free and repayable on demand.

10. AMOUNT DUE TO A MINORITY SHAREHOLDER

Smart Rich Energy Finance (Holdings) Limited is the minority shareholder of MPIL which held approximately 35.5% of MPIL.

The amount due to a minority shareholder is unsecured, interest free and repayable on demand.

11. ACQUISITION OF A SUBSIDIARY

On 11 June 2007, Better Step acquired 54% of the issued share capital of MPIL for consideration of HK$469,800,000. The amount of negative goodwill arising as a result of the acquisition was HK$2,281,079,000. The fair value of the net asset acquired is approximately equal to its carrying amount.

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

	Acquiree's carrying amount	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
54% of interest in a subsidiary	–	2,750,879	2,750,879
Excess of acquirer's interest in fair value of exploration and evaluation asset			(2,281,079)
			469,800
Total consideration satisfied by:			
Cash			469,800

Net cash outflow arising on acquisition:

	HK$'000
Cash consideration paid	(469,800)

12. TURNOVER AND SEGMENT INFORMATION

Better Step Group did not generate revenue during the Relevant Period.

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 Better Step Group only engage in investment holding. It is therefore not considered appropriate to disclose segment information.

13. PROFITS FROM OPERATING ACTIVITIES

Better Step Group's profits from operating activities are arrived at after charging:

	For the period from 23 May 2007 (date of incorporation) to 30 November 2007
	HK$'000
Depreciation	174
Auditors' remuneration	–
Staff cost (excluding directors' remuneration - note 17)	124

14. TAXATION

No provision for profits tax has been made as Better Step Group does not have any assessable profit subject to taxation for the Relevant Period.

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

15. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the period ended 30 November 2007.

16. EARNINGS PER SHARE

(a) Basic earnings per share

	At 30 November 2007
	HK$'000
Profit for the period	2,174,294
Number of ordinary shares	100
Basic earnings per share	21,743

(b) Diluted earnings per share

No diluted earnings per share is presented for the Relevant Period as no diluted events occurred during the Relevant Period.

17. EMPLOYEE BENEFITS

(i) Director's remuneration

	Fee	**Salaries, allowance and bonus**	**Total**
	HK$	*HK$*	*HK$*
Sukapeak Holdings Limited (appointed on 11 June 2007)	–	–	–

(ii) Five highest paid individuals

No directors were included in the five highest paid individuals during the Relevant Period, details of whose remuneration are set out in note (i) above. The remuneration of the five non-directors, highest paid individuals, which each fell within the HK$Nil to HK$1,000,000 band, are as follows:

Better Step Group	**For the period from 23 May 2007 (date of incorporation) to 30 November 2007**
	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	124

During the Relevant Period, there was no bonuses were paid to any of the five highest paid individuals of Better Step Group. No emoluments were paid by Better Step Group to any of the five highest paid individuals as an inducement to join, or upon joining Better Step Group, or as a compensation for loss of office.

18. MATERIAL RELATED TRANSACTIONS

Saved as disclosed in Note 17, during the Relevant Period, Better Step Group had the following material transactions with related company:

Name of related party	Nature of transactions	For the period from 23 May 2007 (date of incorporation) to 30 November 2007 *HK$'000*
Gahood Holding Company Limited ("Gahood")	Management fee	1,000

Note: Better Step Group and Gahood are under common control of Dr. Hui.

19. CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

Pursuant to the Production Sharing Agreement, Better Step Group 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 2104. 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, MPIL is required to carry out minimum exploration work obligation of US$17.5 million over 8 year exploration period.

Better Step Group did not have any significant contingent liabilities as at the balance sheet date.

20. SUBSEQUENT EVENTS

No significant events took place subsequent to 30 November 2007.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Better Step Group in respect of any period subsequent to 30 November 2007.

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 purchase of incorporation in this circular, received from the independent reporting accountants, HLB, Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants.

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

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

12 March 2008

The Directors
Sino Union Petroleum & Chemical International Limited
Unit 10–12, 19/F
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 regarding Madagascar Petroleum International Limited ("MPIL"), for the period from 23 June 2005 (date of incorporation) to 31 March 2006, the year ended 31 March 2007 and the period from 1 April 2007 to 30 November 2007 (the "Relevant Periods") (the "Financial Information"), for inclusion in the circular of Sino Union Petroleum & Chemical International Limited (the "Company") dated 12 March 2008 (the "Circular") in connection with the conditional sale and purchase agreement dated 3 November 2007 (the "Acquisition Agreement") entered into between the Company and Sukapeak Holdings Limited ("Sukapeak") pursuant to which the Company would acquire 100% equity interest in Better Step Group Limited ("Better Step") from Sukapeak at an aggregate consideration of HK$1,215,000,000 (the "Consideration") (collectively refer as the "Acquisition"). The Consideration for the Acquisition shall be satisfied by (1) paying a refundable deposit in a sum of HK$120,000,000 to Sukapeak upon signing of the Acquisition Agreement; (2) procuring the Company to issue the consideration shares at an issue price of HK$1.44 per consideration share (the "Consideration Shares"), credited as fully paid for the Consideration in a sum of HK$615,000,000; (3) procuring the Company to issue convertible note in principal amounts of HK$480,000,000 to Sukapeak (the "Convertible Note") at a conversion price of HK$1.44 per conversion share.

On 28 February 2008, a supplemental agreement was entered into between the Company and Sukapeak to assign the shareholder's loan of MPIL from Sukapeak to the Company at nil consideration.

MPIL is a company incorporated in the British Virgin Islands with limited liability in June 2005. Better Step held 54% of equity interest in MPIL.

Better Step is a company incorporated in the British Virgin Islands with limited liability on 23 June 2007 and the shares of which is wholly-owned by Sukapeak. Sukapeak is beneficially owned by Dr. Hui Chi Ming ("Dr. Hui"). Dr. Hui is also the chairman of the board of directors, an executive director and a controlling shareholder of the Company. The principal activity of Better Step is investment holding which holds 54% of interest in Madagascar Petroleum International Limited ("MPIL").

The principal activity of MPIL is investment holding. In October 2005, MPIL entered into the production sharing contract with Office Des mines Nationales Et Des Industries Strategiques ("OMNIS") in respect of Oilfield Block 2104, an onshore site with total area of 20,100 kilometer square in Madagascar, for oil and gas exploitation and operation and certain transactions pertaining thereto (the "Production Sharing Contract"). Pursuant to the Production Sharing Contract, MPIL is vested with all the relevant rights to engage in oil and gas exploration for 8 years, oilfield development for 5 years, and exploitation and operation for oil for 25 years (with 5 years possible extension) and gas for 35 years (with 10 years possible extension) at Oilfield Block 2104.

MPIL adopts 31 March as its financial year end date. No audited financial statements of MPIL have been prepared since its incorporation date.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of MPIL 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") and accounting principles generally accepted in Hong Kong.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of MPIL are 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. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the 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 directors of the Company are 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' judgement, 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 directors, 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 true and fair views of the state of affairs of MPIL as at 30 November 2007, 31 March 2007 and 31 March 2006 and of the results and cash flows of MPIL for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards.

Material uncertainties relating to the going concern basis of MPIL

Without qualifying our opinion, we draw attention to Note 2(a) in the Financial Information which indicates that MPIL incurred accumulated loss of HK$12,564,000, HK$5,066,000 and HK$1,595,000 as at 30 November 2007, 31 March 2007 and 31 March 2006 respectively and net liabilities of HK$12,556,000, HK$5,058,000 and HK$1,587,000 as at 30 November 2007, 31 March 2007 and 31 March 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 MPIL's ability to continue as a going concern.

A. FINANCIAL INFORMATION OF MPIL

Balance Sheet

	Notes	At 30 November 2007 HK$'000	At 31 March 2007 HK$'000	At 31 March 2006 HK$'000
ASSETS				
Non-current assets				
Property, plant and equipment	5	742	650	–
Exploration and evaluation assets	6	–	–	–
		742	650	–
Current assets				
Prepayments and deposits		24	23	74
Cash and bank balances		486	20	41
		510	43	115
Total assets		1,252	693	115
EQUITY				
Capital and reserves attributable to the equity holder of MPIL				
Share capital	7	8	8	8
Accumulated loss		(12,564)	(5,066)	(1,595)
Total equity		(12,556)	(5,058)	(1,587)
LIABILITY				
Current liabilities				
Amounts due to a related company	8	–	5,687	1,693
Shareholders' loans	9	13,791	–	–
Accruals		17	59	9
Bank overdraft		–	5	–
Total liabilities		13,808	5,751	1,702
Total equity and liabilities		1,252	693	115
Net current liabilities		(13,298)	(5,708)	(1,587)
Total assets less current liabilities		(12,556)	(5,058)	(1,587)

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

Income Statement

	Notes	Eight months ended For the period from 1 April 2007 to 30 November 2007 HK$'000	Eight months ended For the period from 1 April 2006 to 30 November 2006 HK$'000 (Unaudited)	For the year ended 31 March 2007 HK$'000	For the period from 23 June 2005 (date of incorporation) to 31 March 2006 HK$'000
Turnover	10	–	–	–	–
Administrative expenses		(7,498)	(2,334)	(3,471)	(1,595)
Finance costs		–	–	–	–
Loss from operating activities	11	(7,498)	(2,334)	(3,471)	(1,595)
Taxation	12	–	–	–	–
Loss for the period/year	11	(7,498)	(2,334)	(3,471)	(1,595)
Attributable to:					
Equity holder of MPIL		(7,498)	(2,334)	(3,471)	(1,595)
Loss per share attributable to the equity holder of MPIL	14	(7)	(2)	(3)	(2)

All of MPIL'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$'000	Accumulated loss HK$'000	Total HK$'000
At 23 June 2005	8	–	8
Loss for the period	–	(1,595)	(1,595)
At 31 March 2006 and 1 April 2006	8	(1,595)	(1,587)
Loss for the year	–	(3,471)	(3,471)
At 31 March 2007 and 1 April 2007	8	(5,066)	(5,058)
Loss for the period	–	(7,498)	(7,498)
At 30 November 2007	8	(12,564)	(12,556)

Unaudited Statement of Changes in Equity
For the eight months ended 30 November 2006

	Share capital HK$'000	Accumulated loss HK$'000	Total HK$'000
At 1 April 2006	8	(1,595)	(1,587)
Loss for the period	–	(2,334)	(2,334)
At 30 November 2006	8	(3,929)	(3,921)

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

Cash Flow Statement

	Eight months ended For the period from 1 April 2007 to 30 November 2007 HK$'000	Eight months ended For the period from 1 April 2006 to 30 November 2006 HK$'000 (Unaudited)	For the year ended 31 March 2007 HK$'000	For the period from 23 June 2005 (date of incorporation) to 31 March 2006 HK$'000
Cash flows from operating activities				
Loss before taxation	(7,498)	(2,334)	(3,471)	(1,595)
Adjustment for:				
Depreciation	174	–	221	–
Operating loss before movements in working capital	(7,324)	(2,334)	(3,250)	(1,595)
(Increase)/decrease in prepayments and deposits	(2)	51	51	(74)
Increase in amounts due to a related company	–	3,130	3,994	1,693
Increase in shareholders' loans	8,105	–	–	–
(Decrease)/increase in accruals	(42)	–	50	9
Net cash generated from operating activities	737	847	845	33
Cash flows from investing activities				
Purchase of property, plant and equipment	(266)	(871)	(871)	–
Net cash used in investing activities	(266)	(871)	(871)	–
Cash flows from financing activities				
Issue of shares	–	–	–	8
Net cash generated from financing activities	–	–	–	8
Net increase/(decrease) in cash and cash equivalents	471	(24)	(26)	41
Cash and cash equivalents at the beginning of the period/year	15	41	41	–
Cash and cash equivalents at the end of the period/year	486	17	15	41
Analysis of the balances of cash and cash equivalents				
Cash and bank balances	486	17	20	41
Bank overdraft	–	–	(5)	–
	486	17	15	41

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

Notes to Financial Information

1. GENERAL INFORMATION

The registered office of MPIL is at ATC Trustee (BVI) Limited, 2nd Floor, Abbott Building, Road Town, Tortola, the British Virgin Islands. MPIL was incorporated in the British Virgin Islands as an exempted company with limited liability on 23 June 2005. MPIL is principally engaged in investment holding.

The financial statements are presented in Hong Kong dollars, which is the functional currency of MPIL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the HKICPA, and accounting principles generally accepted in Hong Kong ("HKFRSs") (which also include Hong Kong Accounting Standards and Interpretations) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports including in the listing documents of circulars. The accounting policies of MPIL are materially consistent with the Company's accounting policies. The measurement basis used in the preparation of the Financial Information is historical cost convention except for financial assets and financial liabilities have been carried at fair value.

The presentation of the Financial Information in conformity with HKFRSs requires management to make judgements, 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 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 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.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23(Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 12	Service Concession Arrangements[2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 January 2008
3 Effective for annual periods beginning on or after 1 July 2008

The directors of MPIL expects that the adoption of the above new standards and interpretations will not have any significant impact on MPIL's financial statements in the period of initial application.

The accounting policies set out below have been applied consistently to the Relevant Periods presented in this Financial Information.

(a) Basis of preparation

At 30 November 2007, MPIL had net liabilities of HK$12,556,000. Sukapeak, the shareholder of MPIL, has confirmed that, it is its intention to provide continuing financial support to MPIL, subject to the condition that the relationship between Sukapeak and MPIL 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 directors of MPIL believe that MPIL will continue as going concern. Consequently, the Financial Information has been prepared on a going concern basis.

(b) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

(c) 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 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 that are never taxable and deductible. MPIL's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised 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 liabilities 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 differences, 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 from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where MPIL is able to control the reversal of 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 period when the liability is settled or the asset realised. Deferred tax is charged or credited to income statement except when it relates to items charged or credited directly or equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(d) Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses.

Exploration and evaluation assets include the expenditures incurred in the search for oil resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

When the technical feasibility and commercial viability of extracting oil resource become demonstrable, any previously recognised exploration and evaluation assets are reclassified as intangible assets or property, plant and equipment. These assets are assessed for impairment, and any impairment loss recognised, before reclassification.

(e) Cash and cash equivalents

Cash and cash equivalents comprises of cash in hand which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of MPIL's cash management.

(f) Financial instruments

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

Financial assets

MPIL's financial assets are classified into one of the four categories, including loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, loan receivables, other receivables, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as prepayment and deposits that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Better Step Group's past experience of collecting payments.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of prepayment and deposits, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When prepayment and deposits are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Other financial liabilities

Other financial liabilities (including bank and other borrowings, trade payables and other payables) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and MPIL has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If MPIL retains substantially all the risks and rewards of ownership of a transferred financial asset, MPIL continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(g) Related party transactions

Parties are considered to be related to MPIL if:

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

(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 MPIL or its parent;

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

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

(g) the party is a post-employment benefit plan for the benefit of the employees of MPIL, of any entity that is related party of MPIL.

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

(h) Contingent liabilities

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 MPIL. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(i) Impairment losses (other than goodwill)

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

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

(j) Provisions

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

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	At		
	30 November 2007	**31 March 2007**	**31 March 2006**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loan and receivables (including bank balances)	510	43	115
Financial liabilities			
Amortised cost	13,808	5,751	1,702

(b) Financial risk management objectives and policies

The main risks arising from MPIL's financial instruments are market risk (including currency risk, fair value interest rate risk, foreign exchange risk and other price risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

(i) Currency risk

MPIL is not exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar.

(ii) Fair value interest rate risk

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

(iii) Price risk

MPIL is not exposed to significant price risk. The management monitors the price movements and takes appropriate actions when it is required.

Credit risk

MPIL is not exposed to credit risk in the event of the counterparties' failure to perform their obligations at Relevant Periods in relation to the recognised financial asset is the carrying amount of those assets as stated in the balance sheet.

Liquidity risk

MPIL's liquidity risk management includes diversifying the funding sources. Funds raising from amounts due to related companies during the Relevant Periods are the general source of funds to finance the operation of MPIL. MPIL regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following tables detail MPIL's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which MPIL can be required to pay. The table includes both interest and principal cash flows.

At 31 March 2006

	Weighted average effective interest rate	Within 1 year	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivate financial liabilities						
Accruals	–	9	–	–	9	9
Amount due to related companies	–	1,693	–	–	1,693	1,693
		1,702	–	–	1,702	1,702

At 31 March 2007

	Weighted average effective interest rate	Within 1 year	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivate financial liabilities						
Accruals	–	59	–	–	59	59
Amount due to related companies	–	5,687	–	–	5,687	5,687
Bank overdraft	–	5	–	–	5	5
		5,751	–	–	5,751	5,751

At 30 November 2007

	Weighted average effective interest rate	Within 1 year	2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivate financial liabilities						
Accruals	–	17	–	–	17	17
Amount due to related companies	–	13,791	–	–	13,791	13,791
		13,808	–	–	13,808	13,808

(c) Capital risk management

MPIL's objectives when managing capital are to safeguard MPIL's ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, MPIL may adjust the return capital to the shareholder, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, MPIL monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including amounts due to related companies and bank overdraft as shown in the balance sheet) less cash and bank balances. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

MPIL's strategy is to maintain a reasonable gearing ratio. The gearing ratio was as follows:

	At 30 November 2007	At 31 March 2007	At 31 March 2006
	HK$'000	*HK$'000*	*HK$'000*
Total borrowings	13,791	5,692	1,693
Less: Cash and bank balances	(486)	(20)	(41)
Net debt	13,305	5,672	1,652
Total equity	(12,556)	(5,058)	(1,587)
Total capital	749	614	65
Gearing ratio	1,776%	924%	2,542%

(d) Fair value of financial instruments

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

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

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

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies set out in Note 2 to financial information, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, 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 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 underlying 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. MPIL does not have significant estimation made in each class of balance sheet items at the balance sheet date.

5. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Office equipment *HK$'000*	Total *HK$'000*
Cost:				
At 23 June 2005	–	–	–	–
Additions	–	–	–	–
At 31 March 2006 and 1 April 2006	–	–	–	–
Additions	324	469	78	871
At 31 March 2007 and 1 April 2007	324	469	78	871
Additions	3	260	3	266
At 30 November 2007	327	729	81	1,137
Accumulated depreciation:				
At 23 June 2005	–	–	–	–
Charged for the period	–	–	–	–
At 31 March 2006 and 1 April 2006	–	–	–	–
Charged for the year	65	141	15	221
At 31 March 2007 and 1 April 2007	65	141	15	221
Charged for the period	44	119	11	174
At 30 November 2007	109	260	26	395
Net book value:				
At 30 November 2007	218	469	55	742
At 31 March 2007	259	328	63	650
At 31 March 2006	–	–	–	–

As at 30 November 2007, 31 March 2007 and 31 March 2006, MPIL did not have any property, plant and equipment held under finance leases or pledged to secure banking facilities.

6. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets represented the rights to engage in oil and gas exploration for 8 years, oilfield development for 5 years, and exploitation and operation for oil for 25 years and gas for 35 years at Oilfield Block 2104 in Madagascar at no purchase cost.

7. SHARE CAPITAL

	Number of shares *'000*	Share capital *US$'000*	*HK$'000*
Authorised:			
Ordinary shares	50	50	390
Issued and fully paid:			
At 23 June 2005, 31 March 2006, 31 March 2007 and 30 November 2007	1	1	8

8. AMOUNT DUE TO A RELATED COMPANY

The amount was due to Sukapeak.

Sukapeak was a related company under common control of Dr. Hui as at 31 March 2006 and 31 March 2007.

The amount due was unsecured, interest free and repayable on demand. The directors considered that the amount approximates to fair values.

9. SHAREHOLDERS' LOANS

The shareholders' loans represented the loan from Sukapeak and Smart Rich Energy Finance (Holdings) Limited ("Smart Rich").

On 11 June 2007, MPIL was acquired by Better Step which is wholly owned by Sukapeak. Thus, Sukapeak was one of the shareholders of MPIL.

Smart Rich is the minority shareholder of MPIL which held approximately 35.5% of MPIL.

The shareholders' loans were unsecured, interest free and repayable on demand. The directors considered that the amounts approximate to fair values.

10. TURNOVER AND SEGMENT INFORMATION

MPIL 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 MPIL only engage in investment holding. It is therefore not considered appropriate to disclose segment information.

11. LOSS FROM OPERATING ACTIVITIES

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

	Eight months ended			
	For the period from 1 April 2007 to 30 November 2007	**For the period from 1 April 2006 to 30 November 2006**	**For the year ended 31 March 2007**	**For the period from 23 June 2005 (date of incorporation) to 31 March 2006**
	HK$'000	*HK$'000* (Unaudited)	*HK$'000*	*HK$'000*
Depreciation	174	–	221	–
Auditors' remuneration	–	–	9	9
Directors' remuneration	–	–	–	–
Staff costs (including Directors' remuneration – *Note 14*)	128	35	42	–

12. TAXATION

No provision for profits tax has been made as MPIL does not have any assessable profit subject to taxation for the Relevant Periods.

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

13. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the Relevant Periods.

14. LOSS PER SHARE

(a) Basic loss per share

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

	Eight months ended			
	For the period from 1 April 2007 to 30 November 2007	**For the period from 1 April 2006 to 30 November 2006**	**For the year ended 31 March 2007**	**For the period from 23 June 2005 (date of incorporation) to 31 March 2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)		
Loss for the period/year	(7,498)	(2,334)	(3,471)	(1,595)
Number of ordinary shares in issue	1,000	1,000	1,000	1,000
Basic loss per share	(7)	(2)	(3)	(2)

(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.

15. EMPLOYEE BENEFITS EXPENSES

(i) Directors' emolument for the Relevant Periods:

	Eight months ended For the period from 1 April 2007 to 30 November 2007	For the period from 1 April 2006 to 30 November 2006	For the year ended 31 March 2007	For the period from 23 June 2005 (date of incorporation) to 31 March 2006
	HK$'000	*HK$'000* (Unaudited)	*HK$'000*	*HK$'000*
Fee, salary, other benefits, employer's contribution to pension scheme				
Dr. Hui *(note 1)*	–	–	–	–
Brighton Glory *(note 2)*	–	–	–	–
Mr. Pun Tak Hung *(note 3)*	–	–	–	–
Mr. Wong Kam Fu *(note 3)*	–	–	–	–

Notes:

1. Appointed on 23 June 2005 and resigned on 23 January 2006.

2. Appointed on 23 January 2006.

3. Appointed on 24 March 2006.

(ii) Five highest paid individuals

No directors were included in the five highest paid individuals during the Relevant Periods, details of whose remuneration are set out in note (i) above. The remuneration of the five non-directors, highest paid individuals, which each fell within the HK$Nil to HK$1,000,000 band, are as follows:

MPIL

	Eight months ended For the period from 1 April 2007 to 30 November 2007	For the period from 1 April 2006 to 30 November 2006	For the year ended 31 March 2007	For the period from 23 June 2005 (date of incorporation) to 31 March 2006
	HK$'000	*HK$'000* (Unaudited)	*HK$'000*	*HK$'000*
Fee, salary, other benefits, employer's contribution to pension scheme	128	35	42	–

During the Relevant Periods, there was no bonuses were paid to any of the five highest paid individuals of MPIL. No emoluments were paid by MPIL to any of the five highest paid individuals as an inducement to join, or upon joining MPIL, or as a compensation for loss of office.

16. MATERIAL RELATED TRANSACTIONS

Saved as disclosed in Note 15, during the Relevant Periods, MPIL had the following material transactions with related company:

Name of related companies	Nature of transaction	Eight months ended For the period from 1 April 2007 to 30 November 2007 *HK$'000*	For the period from 1 April 2006 to 30 November 2006 *HK$'000* (Unaudited)	For the year ended 31 March 2007 *HK$'000*	For the period from 23 June 2005 (date of incorporation) to 31 March 2006 *HK$'000*
Gahood Holding Company Limited ("Gahood")	Management fee	1,600	1,600	2,400	777

Note: MPIL and Gahood are under common control of Dr. Hui.

17. CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

Pursuant to the Production Sharing Agreement, MPIL 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 2104. 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, MPIL is required to carry out minimum exploration work obligation of US$17.5 million over 8 year exploration period.

MPIL did not have any significant contingent liabilities as at the balance sheet dates.

18. SUBSEQUENT EVENTS

No significant events took place subsequent to 30 November 2007.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for MPIL in respect of any period subsequent to 30 November 2007 and no dividends or other distributions have been declared by MPIL in respect of any period subsequent to 30 November 2007.

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, in respect of the unaudited pro forma financial information of the Enlarged Group.

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

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

12 March 2008

The Directors
Sino Union Petroleum & Chemical International Limited
Unit 10–12, 19/F
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 of Sino Union Petroleum & Chemical International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and Better Step Group Limited ("Better Step") and its subsidiary, Madagascar Petroleum International Limited ("MPIL") (collectively referred to as "Better Step Group") (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 100% issued share capital of Better Step (the "Acquisition"), might have affected the financial information presented for inclusion in Appendix I of the circular of the Company dated 12 March 2008 (the "Circular"). The basis of preparation for the unaudited pro forma financial information on the Enlarged Group (the "Unaudited Pro Forma Financial Information on the Enlarged Group") is set out on pages 140 to 146 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 Unaudited Pro Forma Financial Information on the Enlarged Group 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 Unaudited Pro Forma Financial Information on the Enlarged Group 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 Unaudited Pro Forma Financial Information on the Enlarged Group 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 Unaudited Pro Forma Financial Information on the Enlarged Group 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 Unaudited Pro Forma Financial Information on the Enlarged Group 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 Unaudited Pro Forma Financial Information on the Enlarged Group as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information on the Enlarged Group is for illustrative purposes only, based on the judgements 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 Enlarge Group as at 30 September 2007 or any future date.

OPINION

In our opinion:

- the Unaudited Pro Forma Financial Information on the Enlarged Group has been properly compiled by the directors of the Company on the basis stated;
- such a basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information on the Enlarged Group 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

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

(A) Introduction

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effect of the Acquisition.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared in accordance with the Rules 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition took place on 30 September 2007.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 September 2007 as set out in Appendix I to the Circular, the audited balance sheet of Better Step Group as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties. Accordingly, the unaudited pro forma consolidated balance sheet of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 September 2007, nor purport to predict the future financial position of the Enlarged Group.

The unaudited pro forma statement of assets and liabilities on the Enlarged Group should be read in conjunction with the historical information of the Group as set out in the consolidated financial statements of the Group for the period ended 30 September 2007 as set out in Appendix I to the Circular and other financial information included elsewhere in the Circular.

The Unaudited Pro Forma Financial Information on the Enlarged Group has been prepared by the directors of the Company for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Enlarged Group following completion of the Acquisition.

(B) Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group

	Unaudited Consolidated Balance Sheet of the Group as at 30 September 2007	Audited Consolidated Balance Sheet of Better Step Group as at 30 November 2007	Sub-total	Pro forma adjustments		Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group as at 30 September 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
ASSETS						
Non-Current Assets						
Property, plant and equipment	1,157	742	1,899			1,899
Exploration and evaluation assets	5,523,175	5,000,000	10,523,175			10,523,175
	5,524,332	5,000,742	10,525,074			10,525,074
Current Assets						
Trade receivables	118,934	–	118,934			118,934
Prepayments, deposits and other receivables	55,176	24	55,200			55,200
Cash and bank balances	164,390	486	164,876	(120,000)	*1(i)*	44,876
	338,500	510	339,010			219,010
Total Assets	5,862,832	5,001,252	10,864,084			10,744,084
EQUITY						
Capital and reserves attributable to the Company's equity holders						
Share capital	86,058	1	86,059	8,541	*1(ii)&2*	94,600
Reserves	5,641,044	2,223,411	7,864,455	(61,505)	3	7,802,950
	5,727,102	2,223,412	7,950,514			7,897,550
Minority interests	–	2,294,224	2,294,224			2,294,224
Total equity	5,727,102	4,517,636	10,244,738			10,191,774

	Unaudited Consolidated Balance Sheet of the Group as at 30 September 2007	Audited Consolidated Balance Sheet of Better Step Group as at 30 November 2007	Sub-total	Pro forma adjustments		Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group as at 30 September 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
LIABILITIES						
Current Liabilities						
Trade payables	42,276	–	42,276			42,276
Tax payable	30,332	–	30,332			30,332
Other payables and accruals	15,071	17	15,088			15,088
Amount due to a holding company	5,841	–	5,841			5,841
Amounts due to related companies	3,835	–	3,835			3,835
Shareholder's loan	–	482,429	482,429	(482,429)	*4*	–
Amounts due to a related company	–	–	–	12,629	*4*	12,629
Amount due to a minority shareholder	–	1,170	1,170			1,170
Bank overdraft	499	–	499			499
	97,854	483,616	581,470			111,670
Non-Current Liabilities						
Bond	37,876	–	37,876			37,876
Convertible note	–	–	–	386,381	*1(iii)*	386,381
Deferred tax liabilities	–	–	–	16,383	*5*	16,383
	37,876	–	37,876			440,640
Total Liabilities	135,730	483,616	619,346			552,310
Total Equity and Liabilities	5,862,832	5,001,252	10,864,084			10,744,084
Net Current Assets/ (Liabilities)	240,646	(483,106)	(242,460)			107,340
Total Assets less Current Liabilities	5,764,978	4,517,636	10,282,614			10,632,414

Notes to the Unaudited Pro Forma Financial Information

Pursuant to the sale and purchase agreement dated 3 November 2007 entered into among the Company as a purchaser, Sukapeak Holdings Limited ("Sukapeak") as vendor relating to the conditional sale and purchase of 100% issued share capital of Better Step (the "Share Acquisition Agreement").

Assuming the Acquisition was completed on 30 September 2007, the Group would apply the purchase method to account for the Acquisition of the 100% equity interest in Better Step. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of Better Step Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of acquisition. 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 Better Step Group at the date of completion of the Acquisition. Negative goodwill resulting from the business combinations should be recognised immediately in the consolidated income statement.

The adjustments reflect the following:

1. The consideration to be satisfied by the Company is approximately HK$1,215,000,000. The consideration is to be satisfied by:

	HK$'000
Cash consideration *(Note 1(i))*	120,000
Consideration shares (the "Consideration Shares") *(Note 1(ii))*	615,000
Convertible note (the "Convertible Note") *(Note 1(iii))*	480,000
	1,215,000

(i) The cash consideration shall be funded by the Company's internal resources.

(ii) Assuming the issue price of HK$1.44 was the fair value of the Company as at 30 September 2007, the amount of HK$615 million, net of issuance costs, would be satisfied by procuring the Company to allot and issue the Consideration Shares. Upon completion of the Acquisition, the share capital and share premium of the Company would increase by approximately HK$8,542,000 and HK$606,458,000 respectively.

(iii) In accordance with Hong Kong Accounting Standards 32 "Financial Instrument; Disclosure and Presentation", Convertible Note should be separated as liability portion and equity portion. In preparing the Unaudited Pro Forma Financial Information on the Enlarged Group, the fair value of the Convertible Note of HK$480 million has taken to be its fair value as if it was issued on 30 September 2007. The adjustment of approximately HK$386,381,000 represented the liability portion of the Convertible Note based on the calculation of the discounted cash flow method.

2. The pro forma adjustment of HK$8,541,000 represents the sum of the following:

(i) Assuming the issuance of 427,083,333 Consideration Shares at par value of HK$0.02 by the Company, the share capital of the Company would increase by approximately HK$8,542,000 as described in Note 1(ii).

(ii) The adjustment of HK$780 represented the elimination of the share capital of Better Step upon the consolidation of the Unaudited Pro Forma Financial Information on the Enlarged Group.

3. The pro forma adjustment of HK$61,505,000 represented the net effect of elimination of the pre-acquisition reserves, share premium arising from the issuance of the Consideration Shares and the equity component of the Convertible Note. Details are set out as follows:

	HK$'000
Elimination of pre-acquisition reserves of Better Step Group	(2,223,411)
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost for acquisition of Better Step Group *(Note 3(i))*	1,478,212
Share premium *(Note 1(ii))*	606,458
Equity component of the Convertible Note *(Note 3(ii))*	77,236
	(61,505)

(i) The negative goodwill arising from the Acquisition was calculated on the basis of the excess of the consideration paid over the net fair value of the identifiable assets, liabilities and contingent liabilities of Better Step Group. Details are set out as follows:

	HK$'000
Consideration *(Note 1)*	1,215,000
Less: Net assets of Better Step Group at fair value	(2,223,412)
Amount due to a related company	(469,800)
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost for acquisition of Better Step Group	(1,478,212)

(ii) The equity component of the Convertible Note was approximately HK$77,236,000. Please also refer to note 1(iii) for the details of the Convertible Note.

4. A Supplemental Agreement was entered into between the Company and Sukapeak to assign the shareholder's loan of MPIL from Sukapeak to the Company.

The Directors consider that the existence of a loan to third parties may impede the future financing capabilities of MPIL. In order to facilitate the future financing plan of MPIL, Sukapeak agreed to assign the shareholder's loan of MPIL to the Company at nil consideration, which was determined after arm's length negotiation between Sukapeak and the Company. The Directors consider that the terms of the assignment are fair and reasonable and such arrangement is in the interests of the Company and the shareholders as a whole.

As at 30 November 2007, the shareholder's loan amounted to approximately HK$482.4 million.

Assuming the completion of the acquisition, Sukapeak no longer was the shareholder of Better Step Group, so the shareholder's loan was re-classified as amounts due to a related company.

5. The pro forma adjustment represented deferred tax liabilities of HK$16,383,000 arising from Convertible Note.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI, an independent valuer, in connection with its valuation as at 12 February 2008 of the market value of the exploration, development and exploitation rights of Oilfield Block 2104.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

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Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
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12 March 2008

The Directors
Sino Union Petroleum & Chemical International Limited
Units 10-12, 19th Floor
China Merchants Tower, Shun Tak Centre
No. 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 exploration, development and exploitation rights (referred to as the "Exploitation Rights") of Oilfield Block 2104 within the Majunga Basin located onshore in the Republic of Madagascar (referred to as "Madagascar") held by Madagascar Petroleum International Limited (referred to as "MPIL"), which in turn is 54% owned by Better Step Group Limited (referred to as "Better Step") as at 12 February 2008 (the "date of valuation").

This report describes the backgrounds of the Company and MPIL, the background information of Oilfield Block 2104, a brief industry overview 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 Exploitation Rights of Oilfield Block 2104 as at 12 February 2008 in connection with a major and connected transaction 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 MPIL

The Company is a public company listed on the main board of Hong Kong Stock Exchange with stock code No. 346. Wisdom On Holdings Limited, a shareholder of the Company, holds 4.62% of the issued share capital of the Company. Golden Nova Holdings Limited, the controlling shareholder of the Company, holds 52.49% of the issued share capital of the Company. Barta Holdings Limited, a shareholder of the Company, holds 1.39% of the issued share capital of the Company. Good Progress Group Limited, a shareholder of the Company, holds 2.99% of the issued share capital of the Company. Dr. Fok Chun Wan, Ian and Mr. Ching Man Ky, Carl hold 2.32% and 1.39% of the issued share capital of the Company respectively. Wisdom On Holdings Limited, Golden Nova Holdings Limited, Barta Holdings Limited and Good Progress Group Limited, are 100% wholly-owned by Dr. Hui Chi Ming.

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. To enhance the profitability, the Company has been seeking new principle business to oil and gas industry. Subsequent to the year ended 31 March 2007, the Company has successfully acquired a new wholly-owned subsidiary which is engaged in oil & gas exploration, exploitation and operation businesses at Madagascar Oilfield Block 3113, an onshore site with total area of 8,320 square kilometres (km^2).

MPIL, a company incorporated in the British Virgin Islands with limited liability in June 2005, was established by Dr. Hui in June 2005. In October 2005, MPIL entered into the production sharing agreement with Office Des mines Nationales Et Des Industries Strategiques (referred to as "OMNIS"), a state-owned agency of Madagascar commissioned to manage and oversee the national petroleum and mineral resources of Madagascar. Under the agreement, MPIL is vested with all the relevant rights to engage in oil and gas exploration for 8 years, oilfield development for 5 years and exploitation and operation for oil for 25 years and gas for 35 years at Oilfield Block 2104.

BACKGROUND INFORMATION OF OILFIELD BLOCK 2104

Oilfield Block 2104 is located onshore western Madagascar with a total area of 20,100 square kilometres. Depending on the rate of crude oil production of Oilfield Block 2104, MPIL will share the remaining profit oil after government royalty according to the sharing ratios in the range of 45% to 73% as set out in the production sharing contract. MPIL is responsible to the arrangement of the required capital commitment, human resources and equipment for the project development of oil and gas in Oilfield Block 2104.

According to the research report named "Summary Report of the Technical Advisor" (referred to as the "Technical Report 2104") conducted by Netherland, Sewell & Associates, Inc., the possible but unconfirmed in-place hydrocarbon generation volumes on Oilfield Block 2104 are estimated by the Chinese National Petroleum Company and the Chinese University of Petroleum (referred to as the "Study Group") to be 496.8 million tons of oil and 66.24 billion cubic meters of gas with a combined oil and gas resources (referred to the "Resources") amount of 556.0 million tons if the Middle Sakamena source is present.

BRIEF INDUSTRY OVERVIEW

World oilfield chemicals market is gaining importance as a result of constantly increasing demand for oil & natural gas over the period, which resulted in expediting exploration and production activities all over the world. Oil and natural gas resources across the globe are not evenly distributed, with the depth and geological characteristics of the reserves differing greatly. Therefore, the growth in the demand for oilfield chemicals rests on the oil and natural gas exploration, drilling, and production activity, but not essentially in proportion to the increase in these activities.

Growth in this sector could be attributed to declining oil and gas reserves, leading to an upsurge in exploration, development, and drilling activities in offshore, deepwater, and developing regions. The growth in drilling activity resulted in explicitly increasing the number of drilling rigs across all regions. The level of exploration and production activity in major energy producing zones, and the depth and drilling conditions drive the oilfield chemicals industry.

Historically, estimates of world oil reserves have generally trended upward, details of which are showed in Figure 2. As of 1 January 2007, proved world oil reserves, as reported by Oil & Gas Journal, were estimated at 1,317 billion barrels, 24 billion barrels (about 2%) higher than the estimate for 2006. In addition to growth in remaining oil reserves, production from conventional crude oil and condensate reserves, natural gas plant liquids, Canadian oil sands, and Venezuelan ultra-heavy oil during 2006 were estimated to be 30 billion barrels. Taken together, the reserve increases and production imply that 54 billion barrels of reserve discoveries and growth occurred during 2006, presenting an increase of about 4%.

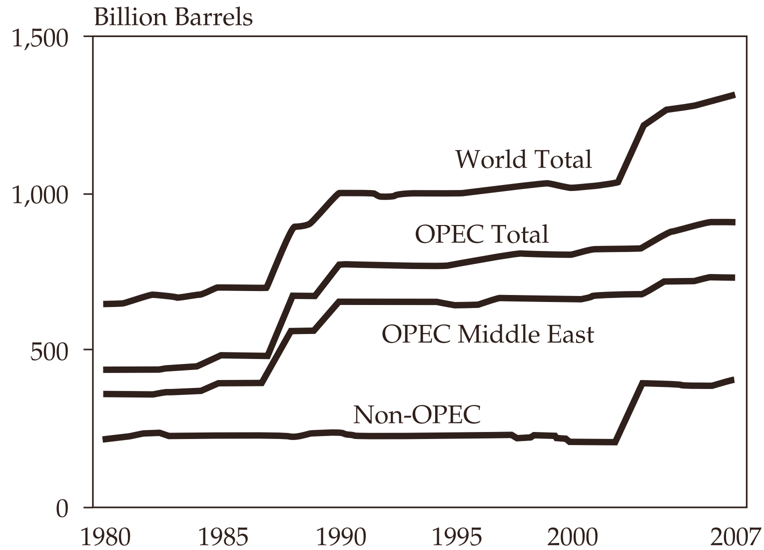

Figure 2. World Crude Oil Reserves, 1980-2007

Among the top 20 oil reserve holders in 2007, 11 are OPEC member countries that, together, account for 65% of the world's total reserves. The world oil reserves by country as of 1 January 2007 have been listed out as follows:

Country	**Oil Reserve** *(Billion Barrels)*
Saudi Arabia	262.3
Canada	179.2
Iran	136.3
Iraq	115.0
Kuwait	101.5
United Arab Emirates	97.8
Venezuela	80.0
Russia	60.0
Libya	41.5
Nigeria	36.2
Kazakhstan	30.0
United States	21.8
China	16.0
Qatar	15.2
Mexico	12.4
Algeria	12.3
Brazil	11.8
Angola	8.0
Norway	7.8
Azerbaijan	7.0
Rest of World	65.5

According to the International Energy Outlook 2007 issued by Energy Information Administration, world consumption of petroleum and other liquid fuels is expected to grow from 83MMB oil equivalent per day in 2004 to 97MMB in 2015 and 118MMB in 2030. The demand for liquids increases strongly in the projections, despite world oil prices that remain above US$49 per barrel throughout the period. Much of the overall increase in liquids consumption is projected for the nations of non-OECD Asia, where strong economic growth is expected.

SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational data related to Oilfield Block 2104, which were given by the senior management of the Company.

The valuation of the Exploitation Rights required consideration of all pertinent factors affecting the economic benefits of the Exploitation Rights 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 Oilfield Block 2104;
- The financial and operational information of Oilfield Block 2104;
- The specific economic environment and competition for the market in which Oilfield Block 2104 is currently exposed to;
- Market-derived investment returns of entities engaged in similar lines of business;
- Market research on the similar oilfield transactions as Oilfield Block 2104;
- The technical report issued by Netherland, Sewell & Associates, Inc.; and
- The financial and business risks of Oilfield Block 2104, including the continuity of income and the projected future results.

SCOPE OF WORKS

In the course of our valuation work for the Exploitation Rights, 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 Oilfield Block 2104;
- 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 Oilfield Block 2104 which were provided by the senior management of the Company;

- Prepared a business financial model to derive the indicated value of the Exploitation Rights; and

- Presented all relevant information on the backgrounds of the Company and Oilfield Block 2104, geological information of Oilfield Block 2104, a brief industry overview, 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 Oilfield Block 2104 is currently exposed to or will be exposed to, a number of assumptions had to be established in order to sufficiently support our concluded opinion of value of the Exploitation Rights. 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 Oilfield Block 2104 is currently exposed to or will be exposed to;

- There will be no major changes in the current taxation law in the jurisdiction where Oilfield Block 2104 is currently exposed to or will be exposed to, 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 Oilfield Block 2104 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 the Exploitation Rights. They are *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 the Exploitation Rights and the costs may not represent the market value. *The income approach* was also considered inadequate in the valuation. As Oilfield Block 2104 is not under operation as at the date of valuation, there is insufficient historical financial data. If the income approach was adopted, a lot of assumptions would have to be made (e.g. Annual revenue, operating expenses). Any inappropriate assumption would greatly affect the accuracy of the valuation. Therefore, we determined that *the market approach* was the most appropriate approach for the valuation of the Exploitation Rights.

We used the market approach by referring to recent sale and purchase transactions of other oil fields over the world (referred to as the "Comparable Transactions") in the period from 1 January 2006 to 31 January 2008. 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 the Exploitation Rights. When calculating the weighted-average P/BR, we have considered two weighting methods: weighted by the considerations and by the oil reserves respectively. The weighted-average P/BR is the average of the figures calculated by the two weighting methods.

The following shows the details of the Comparable Transactions:

Time of Transaction	Acquirer	Stock Code	Location of the Oil Field	Consideration *(US$ Million)*	Oil Reserve *(MMB)*	P/BR
January 2006	CNOOC Limited	883 HK	Nigeria	2,692	270	9.97
March 2006	Vermilion Energy Trust	VET-U CN	France	163.08	15.5	10.52
July 2006	CITIC Resources Holdings Limited	1205 HK	Indonesia	97.4	4.16	23.42
January 2007	Genesis Energy Holdings Ltd.	702 HK	The U.S.	6.6	0.7534	8.76
August 2007	Abu Dhabi National Energy Company,	TAQA UH	Canada	540	59	9.15
				Weighted-Average		**10.20**

Note: The Oil Reserve of each transaction has been adjusted by the percentage of the acquired interest and profit sharing ratio.

We have considered 17 recent acquisition transactions related to other oil fields, of which we further analyzed the natures, the presentation methods of the reserves, and other facts that may affect the comparability. To the best of our knowledge, we considered the seventeen market transactions were exhaustive. We have considered the major difference between the Oilfield Block 2104 and the comparable transactions including the category of oil reserves, the geographical locations and the percentage of ownership of Oilfield Block 2104 and those other oil fields during the valuation. Some transactions that were regarded not made at the arm's length were excluded. For those transactions that the presentation methods of the oil reserves do not match with the presentation of the Technical Report 2104 we referred to, the oil reserves were adjusted to ensure the comparability. For other transactions that the presentation methods of their oil reserves could not be adjusted to comply with the Technical Report 2104 due to the limitation of information, they were abandoned in our valuation. Finally, we decided to choose 5 out of the 17 transactions as the Comparable Transactions. The five Comparable Transactions were selected according to their availability of information for our valuation, i.e. the sum of proved and probable reserves. We considered the reserves of the five selected companies were comparable to that of Oilfield Block 2104 after the conversion mentioned in the following paragraphs.

Among the five selected market transactions, only the transactions carried out by CNOOC Limited and CITIC Resources Holdings Limited respectively had disclosed their profit sharing ratio. Therefore, the oil reserves of the two transactions were adjusted by the percentage of the acquired interest and profit sharing ratio. The oil reserves of the others were adjusted by the percentage of the acquired interest.

According to the Technical Report 2104, the Resources account for 556.0 million tons. Since only the estimated, unrisked, possible but unconfirmed in-place hydrocarbon generation volumes are available, we have converted them to the risked best estimate of the Resources with reference to 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 3113"), whose oilfield is also located in Madagascar. We estimated the gross risked best estimate prospective oil resources based on the following table:

			Gross (100%) Original Oil-in-Place (MMBBL)					
			Unrisked			**Risked**		
Prospect Number	**Play Type**	**Pg** (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
			2,034	**6,892**	**13,592**	**203**	**685**	**1,349**

			Gross (100%) Prospective Oil-Resources (MMBBL)					
			Unrisked			Risked		
Prospect Number	Play Type	Pg (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
			522	**1,840**	**3,676**	**52**	**183**	**365**

According to the above tables, the average conversion ratio from gross unrisked best estimate original oil-in-place to gross risked best estimate prospective oil resources is 38 to 1. The risked best estimate prospective oil resource was calculated by dividing 556.0 million tons by 38 to be 14.63 million tons. As confirmed with the technical adviser preparing Technical Report 3113, the risked best estimate prospective oil resources are equivalent to the sum of proved and probable reserves.

The estimated value of the Exploitation Rights before profit sharing ratio adjustment was then calculated by multiplying 107.53 million barrels by the weighted-average adjusted P/BR of 10.20 (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.

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 Oilfield Block 2104, as we considered that there would be virtually no limitation on the global merger and acquisition market arising from globalization of economy.

As MPIL will share the remaining profit of oil after government royalty according to the sharing ratios in the range of 45% to 73% as set out in the production sharing contract, the average sharing ratio of MPIL is 59%. Therefore, a discount of 41% was adopted to estimate the market value of the Exploitation Rights.

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 2104 and the information of the Comparable Transactions to estimate the value of the Exploitation Rights. 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 12 February 2008 being US$1=HK$7.7987. 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, or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of the Exploitation Rights of Oilfield Block 2104 as at 12 February 2008 was **HK$5,000,000,000 (HONG KONG DOLLARS FIVE THOUSAND MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Company, Oilfield Block 2104 or the value reported.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED
Dr. Tony Cheng
BSc, MUD, MBA(Finance), MSc(Eng), PhD(Econ), MHKIS, MCIArb, AFA, SCIFM, FCIM, MASCE, MIET, MIEEE, MASME, MIIE
Director

Note:

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 Oilfield Block 2104 worldwide.

FOR THE PERIOD FROM 23 MAY 2007 (DATE OF INCORPORATION) TO 30 NOVEMBER 2007

Results

For the period from 23 May 2007 to 30 November 2007, Better Step Group had not generated any revenue. The consolidated net profit for the period attributable to shareholders of Better Step amounted to approximately HK$2.2 billion which was mainly derived from excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost. The basic earnings per share for the period amounted to approximately HK$22 million.

Business Review

Save for the entering into of the Production Sharing Contract with OMNIS in respect of Oilfield Block 2104, Better Step Group has not commenced any significant business operation since its incorporation.

Capital Structure, Liquidity and Financial Resources

Better Step 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 external borrowings to fund its business during the period under review.

As at 30 November 2007, the total borrowings of Better Step Group amounted to approximately HK$484 million while the cash and bank balances of Better Step Group amounted to approximately HK$0.5 million. The borrowings were unsecured, interest free and repayable on demand, and were due to shareholders of Better Step. Better Step Group's gearing ratio, as expressed as the ratio of total liabilities divided by total assets was approximately 0.10 as at 30 November 2007.

Most of the expenditures of Better Step Group were denominated in US dollar. Better Step Group had no significant exchange exposures and did not use any financial instrument for hedging purposes.

As at 30 November 2007, Better Step Group had neither any contingent liability nor charges on any of its assets.

Material Investments, Acquisitions or Disposals

Save for the rights to engage in oil and gas exploration, development, exploitation and operation at Oilfield Block 2104, and the acquisition of MPIL from Dr. Hui by Better Step in June 2007, Better Step Group had no significant investments held and there were no material acquisitions and disposals of subsidiaries and associated companies during the period.

As at 30 November 2007, Better Step Group had capital commitment of US$17.5 million regarding to the minimum fulfillment of exploration work in accordance to the Production Sharing Agreement. Save as disclosed above, neither Better Step Group had any material capital expenditure commitment nor did it have any future plan for material investments or capital assets.

Segmental Analysis

Better Step Group was solely engaged in the oil and gas exploration and exploitation in Madagascar during the period under review.

Human Resources

The total number of employees of Better Step Group was nine as at 30 November 2007 and the total staff cost for the period was approximately HK$0.1 million.

Salaries of employees were maintained at a competitive level and Better Step Group continued to review remuneration packages of employees with reference to the general market condition and individual performance. Remuneration packages comprised salaries 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, which 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 demanded:

(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

Authorized capital:		*HK$'000*
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		
4,641,755,555	ordinary shares of HK$0.02 each	92,835
Upon allotment and issue of the Consideration Shares:		
4,641,755,555	existing issued Shares	92,835
427,083,333	Consideration Shares	8,542
5,068,838,888		101,377

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: A total of 333,333,333 Shares will be issued upon full conversion of the Convertible Note.

(b) Share Options

The following table sets out the details of the outstanding share options which have been granted pursuant to the Company's share option scheme adopted on 1 November 2002 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 option, warrant or other securities convertible into Shares.

4. INTERESTS OF DIRECTORS

(a) Interest in the shares, underlying shares and debentures of the Company and its associated companies

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 or any associated corporations (within the meaning of Part XV of the SFO) which (i) were 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 they were taken or deemed to have under such provision of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

(i) 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	2,854,095,555	61.49%
Fok Chun Wan Ian	Beneficial owner	107,550,000	2.32%
Ching Men Ky, Carl	Beneficial owner	64,530,000	1.39%

Note: These Shares were held by companies wholly-owned by Dr. Hui.

(ii) Long positions 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	0.1324	11,000,000	0.24%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (i) was 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 they were taken or deemed to have under such provision of the SFO); or (ii) was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) was required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

(b) Interest in assets

In May 2007, the Company completed the acquisition from Golden Nova Holdings Limited, a company wholly-owned by Dr. Hui, of 93% equity interests in Madagascar Energy International Limited and the rights and benefits in the shareholder's loan owed by Madagascar Energy International Limited to Golden Nova Holdings Limited at a total consideration of HK$800 million.

In January 2008, the Company completed the acquisition from Good Progress Group Limited, a company wholly-owned by Dr. Hui, of the entire equity interests in Madagascar Energy International Gas Station Group Ltd. and Dolaway Group Limited and their respective shareholder's loan for a total consideration of HK$200 million and HK$60 million respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which has been, since 31 March 2007, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

(c) Interest in contracts

Save for the Agreement, as at the Latest Practicable Date, there were no contracts or arrangements in which any Director was materially interested and which was significant in relation to the business of the Group.

(d) Interest in competing business

As at the Latest Practicable Date, interest of the Directors in competing businesses required to be disclosed pursuant to Rule 8.10 of the Listing Rules was set out as follows:

Name of Director	Name of entity with competing business	Nature of competing business	Nature of interest
Dr. Hui	Madagascar Petroleum International Gas Station Group Limited	Petroleum import, transportation and distribution in Madagascar	Director and shareholder

Save as disclosed above, none of the Directors and 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.

(e) Directors' service contracts

As at the Latest Practicable Date, there were no existing or proposed service contracts between the Directors and any member of the Company which are not expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation.

5. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors and the chief executive of the Company, 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 provisions of Divisions 2 and 3 of Part XV of the SFO or who were 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 Group:

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of shareholding
Golden Nova Holdings Limited *(Note)*	Beneficial owner	2,436,316,666	52.49%

Note: Dr. Hui is the beneficial owner and director of the company.

Save as disclosed above, as at the Latest Practicable Date, there were no other interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Directors 2 and 3 of Part XV of the SFO or who were, 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 Group.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and there were no litigations or claims of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

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 Group within two years immediately preceding the Latest Practicable Date:

(a) 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;

(b) a non-legally binding framework agreement dated 21 December 2006 entered into between Madagascar Energy International Limited and Shaanxi Yanchang Petroleum (Group) Limited ("Shannxi Yanchang"), pursuant to which Shannxi Yanchang conditionally agreed to invest in Madagascar Energy International Limited and to provide technical, financial and management supports to Madagascar Energy International Limited for its development of the oilfield block 3113 in Madagascar. Shannxi Yanchang shall also be responsible for managing the exploration, exploitation and operations of oilfield block 3113 in Madagascar;

(c) a sale and purchase agreement dated 3 January 2007 entered into between the Company and Golden Nova Holdings Limited ("Golden Nova"), a company beneficially owned by Dr. Hui, pursuant to which the Company agreed to acquire and Golden Nova agreed to sell, 93% of the issued share capital of Madagascar Energy International Limited and the rights and benefits in the shareholder's loan owed by Madagascar Energy International Limited to Golden Nova at a total consideration of HK$800 million (the "MEIL Agreement");

(d) a supplemental agreement dated 24 April 2007 entered into between the Company and Golden Nova, pursuant to which the parties agreed to amend the payment terms of the consideration and the long stop date of the MEIL Agreement;

(e) an option deed dated 8 June 2007 entered into between the Company and Dr. Hui, pursuant to which the Company was granted with the call option for a consideration of HK$1 by Dr. Hui for an exclusive right to acquire equity interests in Madagascar Energy International Gas Station Group Ltd. and Madagascar Petroleum International Gas Station Group Ltd.;

(f) a sale and purchase agreement dated 21 June 2007 entered into between Reachasia Group Limited, a wholly-owned subsidiary of the Company, and Mr. Sun Jin Pin, pursuant to which Reachasia Group Limited agreed to acquire and Mr. Sun Jin Pin agreed to sell, 60% equity interests in 珠海中寰石油有限公司 (Zhuhai Zhonghuan Petroleum Limited) at a total consideration of HK$156 million (the "Zhonghuan Acquisition");

(g) a termination agreement dated 13 August 2007 entered into between Reachasia Group Limited and Mr. Sun Jin Pin, pursuant to which the Zhonghuan Acquisition would be terminated after the receipt of the deposit from Mr. Sun Jin Pin by the Company and both parties would be released and discharged from their respective obligations since then;

(h) a sale and purchase agreement dated 5 September 2007 entered into between the Company and Good Progress Group Limited, a company beneficially owned by Dr. Hui, pursuant to which the Company agreed to acquire and Good Progress Group Limited agreed to sell, the entire equity interests in Madagascar Energy International Gas Station Group Ltd. and Dolaway Group Limited and their respective shareholder's loans at a total consideration of HK$260 million;

(i) a placing agreement dated 29 October 2007 entered between the Company and Nomura International (Hong Kong) Limited, the placing agent, pursuant to which the placing agent agreed to place 200,000,000 existing Shares to independent investors at a placing price of HK$1.2 per Share;

(j) a subscription agreement dated 29 October 2007 entered into between the Company and Golden Nova, the controlling shareholder of the Company whose entire share capital is held by Dr. Hui, pursuant to which Golden Nova conditionally agreed to subscribe for 200,000,000 new Shares at a subscription price of HK$1.2 per Share; and

(k) the Agreement.

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 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:

South China Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 to the SFO
BMI	professional property valuer
HLB	Chartered Accountants, Certified Public Accountants
NSAI	professional technical adviser

(b) Each of 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) As at the Latest Practicable Date, none of South China Capital, BMI, HLB and NSAI had 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 South China Capital, BMI, HLB and NSAI had any interest, direct or indirect, in any asset which has been, since 31 March 2007, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

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 branch share registrar and transfer office of the Company is Tricor Tengis Limited, which is situated 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 2007;

(c) the letter from South China Capital, the text of which is set out on pages 20 to 45 of this circular;

(d) the accountants' report on Better Step Group prepared by HLB for the period from 23 May 2007 (its incorporation date) to 30 November 2007, the text of which is set out in Appendix II to this circular;

(e) the accountants' report on MPIL prepared by HLB for the period from 23 June 2005 (its incorporation date) to 31 March 2006, the year ended 31 March 2007 and the period from 1 April 2007 to 30 November 2007, the text of which is set out in Appendix III to this circular;

(f) the report prepared by HLB on the unaudited pro forma statements of assets and liabilities of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(g) the valuation report from BMI, the text of which is set out in Appendix V to this circular;

(h) the technical report prepared by NSAI and referred to in this circular;

(i) the written consents referred to in the paragraph headed "Expert and consent" in this Appendix;

(j) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(k) the circular of the Company dated 10 May 2007 and 6 December 2007; and

(l) the Agreement.

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 10:00 a.m. on Friday, 28 March 2008 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 Sukapeak Holdings Limited (the "Vendor") and the Company dated 3 November 2007 (the "Agreement") in relation to the acquisition of the entire equity interest in, and the shareholder's loan due to the Vendor by, Better Step Group Limited, details of which are set out in the circular of the Company dated 12 March 2008 (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 427,083,333 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$1.44 per Consideration Share to the Vendor and/or its nominee(s) upon completion of the Agreement ("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$480 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 Agreement and completing the transactions contemplated by the Agreement 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, 12 March 2008

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 branch share registrar, Tricor 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 seven executive directors, namely Dr. Wang Tao, Dr. Hui Chi Ming, Mr. Cheung Shing, Dr. Chui Say Hoe, Dr. Ching Men Ky Carl, Mr. Tsang Kwok Man and Mr. Cui Yeng Xu, two non-executive directors, namely Dr. Fok Chun Wan Ian and Mr. Chow Charn Ki Kenneth and three independent non-executive directors, namely Dr. Yu Sun Say, Mr. Ng Wing Ka and Mr. Edmund Siu.