



STRONG PETROCHEMICAL HOLDINGS LIMITED
海峽石油化工控股有限公司*

(incorporated in the Cayman Islands with limited liability)
Stock code: 852

SHARE OFFER

Sponsor



China Everbright Capital Limited

Bookrunner and Lead Manager



China Everbright Securities (HK) Limited

** For identification purposes only*

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



STRONG PETROCHEMICAL HOLDINGS LIMITED

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(incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares under the Share Offer	:	100,000,000 Shares
Number of Hong Kong Public Offer Shares	:	10,000,000 Shares (subject to reallocation)
Number of International Offer Shares	:	90,000,000 Shares (subject to reallocation)
Offer Price	:	HK\$2.50 per Offer Share (plus brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%), payable in full upon application
Nominal value	:	HK\$0.10 per Share
Stock code	:	852

Sponsor



China Everbright Capital Limited

Bookrunner and Lead Manager



China Everbright Securities (HK) Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Share Offer may be terminated by China Everbright Securities on behalf of the Underwriters at any time prior to 8:00 a.m. on the date when dealing in the Shares first commence on the Stock Exchange (such first date is currently expected to be 12 January 2009) following the occurrence of certain events described in the section headed "Underwriting — Grounds for termination" in this prospectus.

* For identification purposes only

EXPECTED TIMETABLE⁽¹⁾

If there is any change to the following expected timetable, we will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Application lists open⁽²⁾11:45 am on Friday, 2 January 2009

Latest time to lodge **WHITE** and **YELLOW**

Application Forms12:00 noon on Friday, 2 January 2009

Latest time to give **electronic application**

instructions to HKSCC⁽³⁾12:00 noon on Friday 2 January 2009

Application lists close12:00 noon on Friday, 2 January 2009

Announcement of (i) the level of indication of interest

in the International Placing; (ii) the level of applications in the Hong Kong Public Offering; (iii) the basis of allocation of the Hong Kong Public Offer Shares under the Hong Kong Public Offering; and (iv) the number of Offer Shares reallocated, if any, between the Hong Kong Public Offering and the International Placing to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Company at www.strongpetrochem.com and the website of the Stock Exchange at www.hkex.com.hk on or beforeFriday, 9 January 2009

Announcement of results of allocations and Hong Kong identity

card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering to be available through a variety of channels as described in the section headed “How to Apply for the Hong Kong Public Offer Shares — Publication of Results” including the website of the Company at www.strongpetrochem.com, the website of the Stock Exchange at www.hkex.com.hk and the website of Tricor Investor Services Limited at www.tricor.com.hk/ipo/result on or beforeFriday, 9 January 2009

Despatch of Share certificates or deposit of the Shares certificates

into CCASS and refund cheques in respect of wholly or partially unsuccessful applications on or before⁽⁴⁾⁽⁵⁾⁽⁶⁾ Friday, 9 January 2009

Dealings in the Shares on the Stock Exchange

expected to commence 9:30 am on Monday, 12 January 2009

EXPECTED TIMETABLE⁽¹⁾

Applications for the Hong Kong Public Offer Shares may be made for seven days from Tuesday, 23 December 2008 to Friday, 2 January 2009, being longer than the normal market practice of four days. The application monies (including the brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by Standard Chartered Bank (Hong Kong) Limited on our behalf and the refund monies, if any, will be returned to applicants without interest on Friday, 9 January 2009. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Monday, 12 January 2009.

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus.
- (2) If there is a “black” rainstorm warning or tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 2 January 2009, the application lists will not open on that day. Further information is set out in the paragraph headed “Effect of bad weather on the opening of the application lists” under the section headed “How to Apply for the Hong Kong Public Offer Shares” in this prospectus.
- (3) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “Applying by giving Electronic Application Instructions to HKSCC” under the section headed “How to Apply for the Hong Kong Public Offer Shares” in this prospectus.
- (4) Applicants who apply on **WHITE** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offering and have indicated on their Application Forms that they wish to collect any refund cheque(s) and/or Share certificate(s) in person from our Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Friday, 9 January 2009. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporation’s chop. Identification and (where applicable) authorisation documents acceptable to our Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, must be produced at the time of collection.
- (5) Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offering may collect their refund cheque(s), where applicable, in person but may not elect to collect their Share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (4) above.
- (6) Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses (in the case of joint applicant, to the address of the first-named applicant) specified on the relevant Application Forms. Further details are set out in the paragraph headed “Despatch/collection of share certificates and refund of application monies” under the section headed “How to Apply for the Hong Kong Public Offer Shares” in this prospectus. Refund cheques will be issued in respect of wholly or partially unsuccessful applications.

Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Friday, 9 January 2009, but will only become valid certificates of title provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in the section headed “Underwriting” in this prospectus has not been exercised.

For details of the structure of the Share Offer, including the conditions thereof, please refer to the section headed “Structure and Conditions of the Share Offer” in this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in our Shares.

There are risks associated with any investment. We have described some of the particular risks in investing in our Shares in the section headed "Risk Factors". You should read that section carefully before you decide to invest in our Shares.

OVERVIEW

We are principally engaged in the trading of oil products. The oil products we trade can be broadly categorised into (i) crude oil; (ii) petroleum products; and (iii) petrochemical products.

The following table summarises our sales performance by trading product categories during the Track Record Period:

Products	Units	Year ended 31 March						Seven months ended 31 October 2008								
		2006		2007		2008		2007		2008		2008				
		Number of shipment	Sales quantity	Turnover	Number of shipment	Sales quantity	Turnover	Number of shipment	Sales quantity	Turnover	Number of shipment	Sales quantity	Turnover			
			(HK\$' million)		(HK\$' million)		(HK\$' million)		(HK\$' million)		(HK\$' million)		(HK\$' million)			
1. Crude oil	BBL	20	7,634,093	3,418.4	20	7,090,199	3,763.9	13	5,557,849	3,327.1	8	3,762,467	2,058.1	10	4,869,513	4,091.3
2. Petroleum products	BBL	19	3,913,168	1,909.9	15	2,796,843	1,317.5	9	1,400,419	776.4	6	1,026,166	529.6	3	497,740	629.7
3. Petrochemical product	MT	—	—	—	2	8,258	57.3	4	14,897	107.7	3	10,147	73.0	4	11,681	87.6
Total		39	5,328.3	37	5,138.7	26	4,211.2	17	2,660.7	17	4,808.6	17	4,808.6			

In recent years, price movements of oil products have been very volatile. To secure our profitability under the volatile market, we traded with our counterparties prudently and selectively throughout the Track Record Period. Before entering into any agreement with our counterparties, we carefully examined the profitability of each trade. Therefore, the number of shipments traded and corresponding sales quantity of crude oil and petroleum products exhibited a decreasing trend over the Track Record Period. We recorded gross profit/(loss) of approximately HK\$98.0 million, HK\$187.5 million, HK\$108.2 million and HK\$(45.8) million during the Track Record Period, respectively. The substantial increase in our gross profit during the year ended 31 March 2007 was mainly attributable to remarkable growth in gross profit margin attributable to our sales of LSWR. During the year ended 31 March 2008, our gross profit was negatively affected by the slowdown in our LSWR sales due to insufficient supply of LSWR in the same period. During the seven months ended 31 October 2008, we recorded gross loss of approximately HK\$45.8 million mainly due to gross loss of approximately HK\$101.6 million arising from three shipments of crude oil. Given that (i) the floating prices under the buy-side and sell-side agreements of these three shipments of crude oil were not determined with reference to the same pricing period, (ii) floating prices under the sell-side agreements were one or two months behind the buy-side agreements, and (iii) the price of crude oil kept on falling during the pricing period, our final purchase costs under the buy-side agreements were higher than the selling

SUMMARY

prices under the sell-side agreements. Therefore, we recorded gross loss on these three shipments. To hedge our price risk against decreases in selling prices under the sell-side agreements, we entered into derivative financial instruments. Taking into account the gain/(loss) derived from trading in derivative financial instruments, our gross profit during the Track Record Period were approximately HK\$97.0 million, HK\$155.9 million, HK\$104.5 million and HK\$142.9 million, respectively.

Our Hong Kong operating subsidiary, Strong Petrochemical (HK), commenced operations in the year 2000. Through our operating subsidiaries in Hong Kong and Macao, we procure our trading products mainly from Oil Majors and other international oil trading companies which are not related to the Five State-owned Licensed Import Agents. During the Track Record Period, our purchases from (i) Oil Majors, such as Chevron U.S.A. Inc. (Singapore Branch), amounted to approximately 5.4%, 19.9%, 29.4% and 42.8%, respectively, of our total purchase; (ii) other trading companies such as Glencore International AG amounted to approximately 68.4%, 71.4%, 63.7% and 47.6%, respectively, of our total purchase; and (iii) the Five State-owned Licensed Import Agents amounted to approximately 26.2%, 8.7%, 6.9% and 9.6%, respectively, of our total purchases.

Under the relevant PRC regulations, only licensed importers are permitted to import crude oil and petroleum products. Currently, imports of crude oil and petroleum products in the PRC are dominated by the Five State-owned Licensed Import Agents. As announced by MOFCOM in October 2007, the total import quota granted to non-state-owned entities for crude oil and petroleum products in 2008 amounted to approximately 19.2 million tonnes and 10.7 million tonnes respectively, representing approximately 11.7% and 31.5% of the total import of crude oil and petroleum products in 2007. During the Track Record Period, we mainly sold crude oil and petroleum products to the Five State-owned Licensed Import Agents, and our aggregated sales to them accounted for approximately 81.6%, 97.4%, 91.9% and 71.5% respectively, of our turnover.

We operate in a highly competitive environment against a large number of oil companies which can also supply oil products to our customers. To enhance our competitive advantage, we position ourselves as a niche player focusing on satisfying immediate and unplanned purchase demands from the Five State-owned Licensed Import Agents by supplying oil products of different varieties and specifications within a short time frame.

Anticipating that (i) the PRC government will open up its domestic crude oil and petroleum products markets and more non-state-owned licensed import agents will be permitted to import oil products into the PRC; and (ii) international trading activities for oil products will continue to grow, we intend to broaden our customer base through establishing new business relationships with non-state-owned licensed import agents and overseas oil trading companies.

Taking into account the large amount transacted per shipment and the fluctuating market prices of oil products, we developed our trading business with prudent financial and risk management policies during the Track Record Period, with an aim of minimising our financial and operational risks. Under our trading policies, we usually confirm separate agreements with our customers and suppliers within about one month. As a result, we did not need to maintain any inventory during the

SUMMARY

Track Record Period. However, in order to assist the development of our PRC trading business, around 10%-30% of the storage facilities to be constructed under the Nantong Project may be used by us for self-storage of petroleum and/or petrochemical products on or after 2011, by which time we will maintain inventory for petroleum and/or petrochemical products. If we cannot manage inventory risks of the Nantong Project effectively through appropriate inventory management strategies and hedging policies, our operations, financial position and operating results may be adversely affected if the market value of our inventory declines.

The extension of our business operations to petroleum and petrochemical product storage operations in the PRC

In order to capture business opportunities in the PRC arising from (i) deregulation of crude oil and petroleum products markets after the PRC's entry into the World Trade Organisation in December 2001, as more private companies like ourselves can participate in the import of oil products, and at the same time become our potential customers by sourcing oil products from us; and (ii) increasing demand for imported oil products due to rapid industrialisation and economic growth in the PRC, we are planning, as our medium-term business objective, to apply for various relevant business licences for the wholesale and storage of petroleum products from MOFCOM under the 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Market) (please refer to the section headed "Industry Overview and Regulation — Laws and regulations in relation to our business operation — (3) China — 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Markets)" for details). With these business licences, we would enjoy the same legal status as the Five State-owned Licensed Import Agents in selling petroleum products directly to customers in the PRC.

Our tentative timetable in respect of making applications for the relevant business licence for the wholesale and storage of petroleum products is materially as follows:

Type of licence	Expected time of application	Expected time of approval
Petroleum products storage operation	After completion of the Nantong Project in the third quarter of 2009	The fourth quarter in 2009
Petroleum products wholesale operation	After approval of petroleum products storage operation, ie., in the first quarter of 2010	The second quarter in 2010

We will disclose the progress of our applications in our subsequent interim and annual reports until all such licences have been obtained. However, we cannot guarantee that we will be able to obtain the above business licences in accordance with our tentative timetable. In the event that we fail to obtain the above business licences on time, we will need to postpone the wholesale and storage of petroleum products business or will not be able to commence the same in the PRC.

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In addition to the Nantong Project and investment in the Tianjin Company, we intend to acquire assets or businesses that are related to the PRC Storage Business. However, we have not, at this stage, identified any specific investment targets or entered into any legally binding agreement or arrangement with respect to the acquisition mentioned above, and there is no acquisition in progress.

Set out below are the details of the Nantong Project and the Tianjin Project:

(I) Nantong Project

Through Strong Petrochemical (Nantong), we are planning to invest approximately RMB120 million (equivalent to approximately HK\$136.4 million) to construct around 27 storage tanks with a total storage capacity of approximately 134,800 m³ on two parcels of land located at 南通市經濟技術開發區 (Nantong City Economic Technology Development District) with a total site area of approximately 55,095 m². As at the Latest Practicable Date, we paid registered capital of US\$2,999,980 (equivalent to approximately HK\$23.4 million) and incurred capital expenditure of approximately RMB23.5 million in the Nantong Project. Up to the Latest Practicable Date, we have completed the work on piling and tank base setting and have prepared documents for inviting tenders to the purchase of construction materials. We will disclose the updated amounts invested in Nantong Project and the construction progress in our interim and annual reports after the Listing.

Our storage tanks to be constructed under the Nantong Project are qualified for storage of certain types of petroleum and petrochemical products but not crude oil. Under current regulations in the PRC, there are no specific regulations governing the storage of petrochemical products and no petrochemical product storage operation licence is required in the PRC. Please refer to the section headed “Business — The PRC Storage Business” for the details of the PRC Storage Business.

(i) *Self-storage business after 2011*

For the development of our trading business in the PRC, we expect that approximately 10% to 30%, or 13,480m³ to 40,440m³, of the storage facilities to be constructed under the Nantong Project will be used by us for self-storage of petroleum and/or petrochemical products. We will not maintain any of the storage facilities for our own use until the following conditions are fulfilled during or after 2011:

1. having obtained the relevant business licence for the wholesale and storage of petroleum products in accordance with 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Market);
2. having successfully expanded the types of petroleum products and petrochemical products, including benzene and ortho xylene by 2011, and established and maintained business relationships with at least 5 new active customers for each of these new products; and

SUMMARY

3. having achieved the following target annual trading volumes of new petroleum products and petrochemical products:

	Name of products	Target trading volume
1	Mixed xylene (petrochemical product)	30,000 MT
2	Benzene (petrochemical product)	12,000 MT
3	Ortho xylene (petrochemical product)	20,000 MT
4	Gasoil (petroleum product)	1,500,000 BBL

For the year ended 31 March 2008, the total trading volume of petroleum and petrochemical products were 1,400,419 BBL and 14,897 MT, respectively. The table below sets out the total storage capacity and expected self-storage capacity of petroleum and petrochemical products from the storage business, and their respective percentage to our total trading volume of (i) petroleum products; and (ii) petrochemical products for the year ended 31 March 2008:

	Petroleum products	Petrochemical products
Total storage capacity of the Nantong Project (that is, 134,800 m ³ or 848,162 BBL or 117,217 MT) as a percentage of our oil products trading quantity during the year ended 31 March 2008	60.6%	786.8%
30% of the total storage capacity of the Nantong Project expected for self-storage (that is, 40,440 m ³ or 254,448 BBL or 35,167 MT) as a percentage of our oil products trading quantity during the year ended 31 March 2008	18.2%	236.1%

We will disclose average percentages of storage facilities under the Nantong Project used for self-storage of petroleum and/or petrochemical products during each financial year in our subsequent interim and annual reports after the Listing, including any changes to the approximate proportion of the storage facilities used for self-storage as disclosed above.

(ii) *Leasing of storage facilities*

Before 2011, all of the storage facilities of the Nantong Project will be leased to third parties and/or our trading customers. On 16 November 2008, we entered into a legally binding leasing agreement with a state-owned petrochemical company, an Independent Third Party, pursuant to which such company agreed to lease all of our storage tanks for a period of one year commencing from the completion of construction of these storage tanks. The annual rental will be approximately RMB24.3 million, representing 0.57% of our total revenue for the seven months ended 31 October 2008. For details of the terms of the leasing arrangement with the said state-owned petrochemical company, please refer to the section headed “Business — The PRC Storage Business — (i) The Nantong Project — (c) Leasing arrangement with a state-owned petrochemical company”.

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According to a leasing agreement dated 29 June 2007, we obtained the right from an Independent Third Party to use a pier of 40,000 ton berth adjacent to the storage facilities of the Nantong Project for a period of 20 years for the unloading of petroleum and/or petrochemical products under the Nantong Project.

In addition to the wholesale and storage of petroleum products in the PRC, we also plan to apply for relevant business licences for the wholesale and storage of crude oil. However, it is anticipated that it will take us approximately over eight years to comply with all relevant requirements and obtain the requisite business licences for the wholesale and storage of crude oil.

(II) Tianjin Project

We, through Smart Team, hold a 15% equity interest in the Tianjin Company. According to the revised feasibility study report issued by CEDR in November 2007 in respect of the Tianjin Project, the Tianjin Company will build a storage facility with a storage capacity of approximately 950,000 m³ on a parcel of land with an area of 570 Mu (equivalent to approximately 380,000 m²) located in the southern portion of Nangang Road, South District of Nanjiang, Tianjin Port (天津港南疆南區域南港路以南) for the storage of crude oil, petroleum products and petrochemical products. The construction of the storage facility will be carried out in two phases. It is expected that the first phase will involve the building of a storage facility with a total capacity of 420,000 m³ occupying approximately 210,000 m² of that parcel of land, of which storage capacity for crude oil and petroleum products will be 320,000 m³ and 100,000 m³, respectively. The second phase is expected to involve the building of a storage facility with a total capacity of 530,000 m³, of which storage capacity for crude oil, petroleum products and petrochemical products will be 320,000 m³, 100,000 m³ and 110,000 m³, respectively. It is expected that the first phase construction will begin in March 2009 and be completed in May 2010, and the second phase construction to begin in March 2010 and be completed in June 2011. The building of the storage facility will be financed by capital contributions made by shareholders, and possibly bank financing. Subject to the resolution from its board of directors, the registered capital of the Tianjin Company may be increased to finance the building cost. If this is the case, then we will be required to make additional capital contribution to finance the cost. We will disclose the progress of our contribution of registered capital in and the development of Tianjin Company, together with details of shareholders' loan (if any) to the Tianjin Company, in our subsequent interim and annual reports.

The other shareholders of the Tianjin Company include 天津港對外經濟技術合作公司 (Tianjin Port Foreign Economic And Technological Cooperative Company), 中化國際實業公司 (Sinochem International Industry Co) and 中化國際石油(巴哈馬)有限公司 (Sinochem International Oil (Bahamas) Co., Ltd.), which are Independent Third Parties and their associated companies have prior experience in the oil storage business even though the other shareholders of the Tianjin Company themselves do not have the relevant licences.

SUMMARY

As we have no track record in developing and managing petroleum and petrochemical products storage operations, the extension of our operations to petroleum and petrochemical product storage operation in the PRC may involve diversification of our operational and financial focus. There may be uncertainties which affect our business and financial performance in the future. The risk factors relating to the Nantong Project and the Tianjin Project include:

- there may be uncertainties as to whether the Nantong Project can be completed at all, or be completed within the time frame or at the cost level originally anticipated;
- there may be uncertainties as to whether the Nantong Project can meet requirements and pass inspections in respect of certain safety and environmental protection regulations within the time frame originally anticipated;
- there may be uncertainties as to whether we can manage inventory risk of the Nantong Project effectively;
- we may not be able to secure suitable tenants for the storage facilities under the Nantong Project;
- handling of inflammable and toxic petroleum and/or petrochemical products; and
- there may be low or no return on our investment in the Tianjin Company.

Please refer to the section headed “Risk Factors — Risk Factors Relating to the Nantong Project and the Tianjin Project” of this prospectus for further details of the relevant risk factors.

HEDGING

We negotiate separately with our suppliers and customers, who may have different requirement of pricing basis on the buy-side and sell-side agreements. We generally confirm the buy-side and sell-side agreements at different points in time within approximately one month. Our purchase cost and selling price of oil products, in general, are determined after arm’s length negotiations with our suppliers and customers, different price bases including a fixed price per unit or a floating price plus a margin or minus a discount per unit. The floating price is determined with reference to the average closing price of a reference oil product (which may or may not be the same as the underlying oil product of the shipment) over a certain period of future dates. The closing price of the reference oil product is quoted on international commodity exchanges, official announcements and market publications, such as Means of Platts, Singapore (MOPS), Indonesia Crude Oil Prices (ICP).

Due to the commodity nature of oil products, prices of oil products vary from time to time according to the global economy, supply of oil producing countries and demand of oil consuming countries, international political factors, oil products commodities futures market, etc. As such, our operating performance is vulnerable to the nature of our business and operating environment. In particular, when the buy-side agreement and/or sell-side agreement are/is priced based on the floating price basis, we may be subject to price risk from the moment of entering into the agreement to the last day of pricing the shipment since the market price of the reference oil products under the floating price

SUMMARY

basis may move against our favour. In order to minimise our price risk exposure and reduce fluctuations in our operating results, we engage in hedging activities by entering into derivative financial instruments, as and when appropriate, during the course of our trading business. Based on the market price structure (premium or discount between spot price and futures price) of (i) the underlying oil products of the shipment; (ii) the reference oil products under floating basis; and/or (iii) the relevant derivative financial instruments, we shall consider how hedging should be done if required at different stages of our trading process.

Our Directors confirm that our trading in derivative financial instruments is solely for hedging purpose during different stages of our trading process. The following table sets forth the breakdown of fair value changes on derivative financial instruments during the Track Record Period:

	Year ended 31 March						Seven months ended 31 October			
	2006		2007		2008		2007		2008	
	(HK\$'000)	No. of shipment	(HK\$'000)	No. of shipment	(HK\$'000)	No. of shipment	(HK\$'000)	No. of shipment	(HK\$'000)	No. of shipment
Realised/unrealised gain/(loss) arising from derivative financial instruments held on hand as at balance sheet date	3,869	N/A	—	N/A	—	N/A	(3,697)	1	(309)	2
Gain/(loss) from trading in derivative financial instruments for Hedged Shipment (<i>Note 1</i>)	(3,151)	13	(28,942)	16	(6,655)	16	(11,432)	12	191,896	8
Gain/(loss) from trading in derivative financial instruments for Unsuccessful Shipment with Derivative Contracts	(1,733)	8	(2,568)	4	2,988	5	1,824	3	(2,896)	2
Total	(1,015)		(31,510)		(3,667)		(13,305)		188,691	

Note 1: During the Track Record Period, there were nil, two, two and nil Hedged Shipments with derivative financial instruments entered into in the financial year which is different from the financial year for the settlement of the contract value with suppliers and customers.

During the Track Record Period, not all shipments conducted by us were hedged. Certain shipments definitely did not require hedging because (i) the buy-side and sell-side agreements were both priced on a fixed price basis, or with the same pricing formula under a floating price basis, and thus posing no inherent to risk in the shipment; or (ii) the shipments involved petrochemical products where no appropriate derivative financial instrument exists for hedging. However, we might consider hedging for some shipments with buy-side and sell-side agreements being priced with different pricing formulae under the floating price basis or either one agreement being priced on the fixed price basis and the other on floating price basis. However, eventually we did not hedge these shipments because our traders considered the price risks low for such shipments, given the then favourable oil market condition.

SUMMARY

The following table sets forth an analysis of our shipments associated with hedging during the Track Record Period:

	Year ended 31 March						Seven months ended 31 October			
	2006		2007		2008		2007		2008	
	<i>No. of shipment</i>	(%)	<i>No. of shipment</i>	(%)	<i>No. of shipment</i>	(%)	<i>No. of shipment</i>	(%)	<i>No. of shipment</i>	(%)
Shipments without hedging and without considering hedging	23	59.0	22	59.5	12	46.2	7	41.2	9	52.9
Shipments without hedging but hedging had been considered	3	7.7	1	2.7	—	—	—	—	—	—
Shipments with hedging (Note 2)	13	33.3	14	37.8	14	53.8	10	58.8	8	47.1
Total number of shipments	<u>39</u>	<u>100.0</u>	<u>37</u>	<u>100.0</u>	<u>26</u>	<u>100.0</u>	<u>17</u>	<u>100.0</u>	<u>17</u>	<u>100.0</u>
Unsuccessful shipments with Derivative Contracts	8	—	4	—	5	—	3	—	2	—

Note 2: The number of shipments with hedging represents the number of shipments with derivative financial instruments entered into in the same financial years as the settlement of the contract value with suppliers and customers.

In order to evaluate and monitor our hedging activities, we have formulated a risk management policy documenting, amongst others, the scope of risk management, the roles and responsibility and risk tolerance in September 2004. The risk management policy has been developed and improved taking into account the recent recommendations made by HLM in March 2008. For details of which, please refer to the section “Business — Hedging and Risk Management Policy — Risk Management Policy”.

If there is any material change in our hedging and risk management, we will inform the public by way of an announcement and/or in interim and annual reports upon the Listing.

SUMMARY

IMPACT OF THE RECENT GLOBAL FINANCIAL CRISIS ON US

Since September 2008, various leading global investment and financial institutions in the US have declared bankruptcy or sought emergency financial supports, or rescue packages, from the US government. The global financial crisis which allegedly began with the bursting of the housing bubble and the related structured financial product markets in the US and Europe. The global financial crisis, which involves the failure or restructuring of mortgage companies, investment firms, banks and government sponsored enterprises invested heavily in sub-prime mortgage and related structured financial products, is ongoing and has resulted in global credit tightening. Furthermore, the deteriorating situation increases counterparties risk under the global financial crisis and have exacerbated the liquidity and credit crunch. This unexpected liquidity and credit crunch has affected not only the banking and financial sectors, but also the commercial sectors relying on the availability of banking facilities and bank borrowings.

In general, we rely on our bankers to provide credit facilities by way of letters of credit to settle our payment obligations owed to our suppliers. In the event that the available limit of the credit facilities is reduced or any of the credit facilities are withdrawn by our major bankers, and we cannot arrange credit facilities with other financial institutions on a timely basis, we will have to arrange finance ourselves to settle the payment obligations. This will adversely affect our cash-flow, business operation and profitability.

Since the beginning of the global financial crisis, our Directors have closely monitored the global macro-economic environment and our financial position, including credit facilities granted by our bankers. As of the Latest Practicable Date, our total banking facilities and unutilised banking facilities amounted to HK\$1,926.6 million and HK\$1,615.8 million, respectively, and we have not received any notification from our principal bankers that the above banking facilities will be cancelled or suspended in the near future, or will be reduced substantially.

In addition, we consider that our prudent and conservative financial position can support us to weather the recent global financial crisis. As at 31 October 2008, we had no outstanding bank borrowing. In light of the foregoing, our Directors consider that we have sufficient financial resources to support our business operation, and our financial performance in the near future will not be severely jeopardised by the recent global financial crisis and global credit tightening.

Apart from the world-wide liquidity and credit crunch, the recent global financial crisis also negatively affect the demand and market prices of commodities, including oil products. Starting from August 2008, the price of oil products has been poorly battered by the global financial crisis, deleveraging and gloomy economic outlook. West Texas Intermediate Crude Oil futures fell from a peak of US\$147/BBL in mid July 2008 to around US\$46/BBL in mid December 2008.

SUMMARY

With most of the developed countries going into recession and many emerging economies slowing down sharply, it is expected that the Chinese economy will cool down as exports to America and Europe are rapidly softening. As a result of slowing economic growth and slackening industrial production growth, the demand for oil product in China is likely to shrink in 2009. Under such circumstances, the demand of oil products from our customers may be affected. However, we consider that the impact of economy slowdown will be short-lived and would not derail the long-term economic development and demand for oil products in China. In order to sustain our business development during the economic downturn, we will (i) evaluate and pursue our trading opportunities selectively in order to minimise our trading risks; (ii) broaden our customer base by seeking new customers, in particular, overseas customers and non-state-owned import agents in the PRC; and (iii) increase the types of petroleum and petrochemical products to be traded by us.

Furthermore, we consider that the falling oil prices do not materially jeopardise our financial performance nor exacerbate our trading risks because (i) we do not hold any inventory for our trading operation; (ii) we usually confirm separate agreements with our customers and suppliers within about one month; and (iii) we endeavor to set the buy-side and sell-side agreements with reference to the same reference oil products, with an aim to minimising our price risks.

As of the Latest Practicable Date, our trading business operation was operating, and we had not received any notification from our oil trading counterparties that they intended to cancel any confirmed buy-side or sell-side agreements, nor are we aware of any of the oil trading counterparties or derivative trading counterparties were going to bankruptcy proceedings or default on any payment obligations.

During the Track Record Period, we, through Strong Property, invested in an insignificant amount of (i) available-for-sale investment such as corporate debenture; (ii) held-for-trading investments; and (iii) real properties, and such investments respectively amounted to approximately HK\$1.2 million, HK\$7.6 million and HK\$16.9 million as at 31 October 2008. Although the carrying values of such investments had been affected by the recent global financial crisis, we consider that such loss does not adversely affect our business operation and financial position. After the transfer of the entire equity interests in Strong Property to Active Tools on 26 November 2008, save for principal-protected bank structured deposits and the derivative financial instruments traded and held for hedging purpose, we did not hold any investment in form of equity or derivative financial instruments, as at the Latest Practicable Date.

DIVIDEND AND DIVIDEND POLICY

During the Track Record Period, the Controlling Shareholders received returns from us in the form of dividends declared, and no emolument was paid to them.

We declared dividends of approximately of HK\$78 million and HK\$109.2 million, respectively, for the years ended 31 March 2007 and 2008. Pursuant to a resolution passed at a meeting of our Board held on 26 November 2008, we declared the Pre-IPO Dividend of approximately HK\$226.2 million to our then shareholders. The Pre-IPO Dividend was sourced from our internal resources and will be paid to our then shareholders before 31 December 2008.

SUMMARY

The Pre-IPO Dividend, representing approximately 103.6% of the net proceeds from the Share Offer, was declared out of our Group's retained profit of approximately HK\$343.3 million as at 31 October 2008, generated by shareholders' equity and management efforts of the Controlling Shareholders during the Track Record Period. Therefore, our Directors consider the Pre-IPO Dividend represented an investment return to the Controlling Shareholders due to their past contributions to our Group during the Track Record Period.

Although our working capital position will slightly decrease immediately after (i) the full payment of Pre-IPO Dividend; and (ii) receipt of net proceeds from the Share Offer, our Directors confirm that it will not have any material adverse impact to our business operations and financial position. Upon the Share Offer, we will continue to pursue our growth strategies as set out in "Business-Growth Strategies" of this prospectus, which is to be financed by our internal resources and net proceeds from the Share Offer.

In addition to allowing us to raise new share capital from the equity market, our Directors believe that listing of the Shares on the Main Board will also offer the following advantages:

- Access to capital for growth with opportunities to raise funds both at the time of listing and in later stages
- Access to a broader shareholder base, potentially leading to a more liquid market for trading of the Shares
- Employee incentive and commitment resulting from the granting of employee share options to our key staff members
- Enhanced profile and visibility in the market could generate reassurance among our customers and suppliers
- Increased corporate transparency, leading to the potential grant by our bankers of credit lines on more competitive terms
- Greater efficiency from adherence rigorous disclosure standards demanded of listed issuers, leading to improved control, management information and operating systems

You should note that historical dividend distributions are not indicative of our future dividend distribution policy.

As stated in the Appendix II to this prospectus, our unaudited pro forma adjusted net tangible assets per Share as at 31 October 2008 amounted to HK\$1.44 per Share, as if the Share Offer had been taken place on 31 October 2008.

Had it been permissible to include the Pre-IPO Dividend in the calculation as set out in the Appendix II to this prospectus, our unaudited pro forma adjusted net tangible assets per Share would have been reduced to HK\$0.87 per Share based on the Offer Price of HK\$2.5 per Share.

SUMMARY

After completion of the Share Offer, our shareholders will be entitled to receive the dividends we declare. The payment and amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Islands Companies Law, including (where required) the approval of shareholders. In addition, our Controlling Shareholder will be able to influence the passing of the shareholders approval in a general meeting for any payment of dividends.

Subject to the factors above, we currently plan to pay a dividend for the year ended 31 March 2010 of not less than 30% of the distributable profit as of 31 March 2010 to all our equity holders after the Share Offer. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our shareholders by any means which our Directors deem legal, fair and practicable.

USE OF PROCEEDS

The net proceeds from the Share Offer after deducting the relevant listing expenses, are estimated to be HK\$218.3 million. We currently intend to apply such net proceeds as stated below:-

- up to HK\$106.2 million (approximately 48.7% of the net proceeds) will be used to finance the Nantong Project, which involves the construction of storage tanks, pipelines and other relevant infrastructure. Please refer to the section headed “Business — Growth Strategies — Investment and development of PRC Storage Business — Nantong Project” in this prospectus for the details of the Nantong Project;
- up to approximately US\$6.0 million, equivalent to approximately HK\$46.8 million (approximately 21.4% of the net proceeds) will be used as pledged bank deposits. Upon the Listing, we intend to expand our oil trading business by increasing trading volume. To finance the proposed expansion, we need additional banking facilities and financing from our principal bankers for issuance of letters of credit to settle our purchase obligation. Therefore, we intend to place pledged bank deposits of approximately US\$6.0 million to one or more of our principal bankers in order to secure additional letters of credit issued by our principal bankers. As informed by one of the principal bankers, it will issue additional letters of credit of approximately US\$40.0 million upon the placement of the above-mentioned pledged bank deposit;
- up to HK\$43.5 million (approximately 19.9% of the net proceeds) will be injected to the Tianjin Company as our proportional contribution to its registered share capital. According to our 15% interest in the Tianjin Company, we are required to invest a total of approximately RMB94.2 million, of which RMB45.0 million was paid in March 2008. The remaining sum of approximately RMB49.2 million (equivalent to approximately HK\$55.9 million) is to be paid by June 2009 or other time approved by the relevant government authorities. Please refer to “Business — Growth Strategies — Investment and development of PRC Storage Business — Tianjin Project” for the details of the Tianjin Project; and

SUMMARY

- the remaining net proceeds of approximately HK\$21.8 million (approximately 10.0% of the net proceeds) will be used for our working capital requirements and other general corporate purposes.

Any change to the above proposed use of proceeds will be duly published by announcement. To the extent that the net proceeds of the Share Offer are not immediately applied for the above purposes, we intend to deposit the proceeds in interest-bearing bank accounts, such as short-term savings accounts or basic short-term money market funds, with licensed commercial banks and/or authorised financial institutions in Hong Kong. We will also disclose the same in the annual report of our Company.

OFFERING STATISTICS

	Based on an Offer Price of HK\$2.5 for each Share
Market capitalisation of the Shares (<i>Note 1</i>)	HK\$1,000 million
Historical price/earnings multiple (<i>Note 2</i>)	10.8 times
Unaudited pro forma adjusted net tangible assets per Share (<i>Notes 3, 4 and 5</i>)	HK\$1.44

Notes:

1. The calculation of the market capitalisation of the Shares is based on 400,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by us pursuant to the Issuing Mandate and the Repurchase Mandate.
2. The calculation of historical price/earnings multiple is based on the earnings attributable to our equity holders for the financial year ended 31 March 2008 of approximately HK\$92,691,000, the Offer Price of HK\$2.5 per Share and assuming that our Company had been listed since 1 April 2007 and a total of 400,000,000 Shares were issued and outstanding during the entire year.
3. For illustrative purposes only, the unaudited pro forma adjusted net tangible assets per Share prepared in accordance with Rule 4.29 of the Listing Rules is to provide the prospective investors with further information on how the proposed Share Offer might have affected the pro forma adjusted net tangible assets per Share of our Group after completion of the Share Offer. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that this figure is inherently subject to adjustments and may not give a complete picture of the actual financial position of our Group following the completion of the Share Offer or at any future dates.
4. The pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments set forth in appendix II to this prospectus and on the basis of 400,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by us pursuant to the Issuing Mandate and the Repurchase Mandate.

SUMMARY

5. The Pre-IPO Dividend of approximately HK\$226.2 million was declared pursuant to the resolution passed at a meeting held on 26 November 2008 and such amount will be paid to our then Shareholders before 31 December 2008. Had it been permissible to include the Pre-IPO Dividend in the calculation as set out in Appendix II to this prospectus, the unaudited pro forma adjusted net tangible assets per Share would have been reduced to HK\$0.87 per Share based on the Offer Price of HK\$2.5 per Share.

SUMMARY OF OUR COMBINED RESULTS OF OPERATIONS

The following tables set forth the selected financial data from our combined financial information. For more detailed information, please refer to the accountant's report set out in Appendix I to this prospectus.

(1) Combined Income Statements

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					(unaudited)
Revenue	5,328,270	5,138,697	4,211,182	2,660,668	4,808,611
Cost of sales	<u>(5,230,271)</u>	<u>(4,951,248)</u>	<u>(4,103,013)</u>	<u>(2,608,896)</u>	<u>(4,854,377)</u>
Gross profit/(loss)	97,999	187,449	108,169	51,772	(45,766)
Other income	11,585	11,411	19,040	13,838	3,575
Fair value changes on derivative financial instruments	(1,015)	(31,510)	(3,667)	(13,305)	188,691
Fair value changes on held for trading investments	—	—	(2,635)	—	(3,872)
Administrative and other operating expenses	(17,562)	(19,307)	(24,420)	(11,686)	(25,019)
Finance costs	(5,964)	(4,782)	(2,985)	(2,040)	(2,940)
Share of loss of an associate	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(45)</u>
Profit before taxation	85,043	143,261	93,502	38,579	114,624
Taxation	<u>(3,774)</u>	<u>(7,490)</u>	<u>(811)</u>	<u>(664)</u>	<u>(4,074)</u>
Profit for the year/period	<u>81,269</u>	<u>135,771</u>	<u>92,691</u>	<u>37,915</u>	<u>110,550</u>
Dividends	<u>—</u>	<u>78,000</u>	<u>109,200</u>	<u>54,600</u>	<u>—</u>
Earnings per share					
- basic (HK\$)	<u>0.27</u>	<u>0.45</u>	<u>0.31</u>	<u>0.13</u>	<u>0.37</u>

SUMMARY

(2) Combined Balance Sheet

	As at 31 March			As at
	2006	2007	2008	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	21,432	19,703	19,731	22,358
Prepaid lease payments	—	—	21,302	21,019
Available-for-sale investments	1,592	1,592	1,592	1,592
Bank structured deposit	—	—	17,271	16,597
Interest in an associate	—	—	49,789	50,489
	<u>23,024</u>	<u>21,295</u>	<u>109,685</u>	<u>112,055</u>
Current assets				
Prepaid lease payments	—	—	—	434
Trade receivables	382,052	—	63,027	234,238
Other receivables, deposits and prepayments	2,471	5,971	6,003	4,539
Amounts due from brokers and other oil trading company	—	—	—	151,274
Tax recoverable	—	—	4,565	2,289
Held for trading investments	—	—	9,327	7,622
Deposits placed with brokers	17,202	35,084	22,606	29,360
Pledged bank deposits	98,482	23,475	15,677	49,225
Bank balances and cash	122,269	187,036	80,996	52,128
	<u>622,476</u>	<u>251,566</u>	<u>202,201</u>	<u>531,109</u>
Current liabilities				
Trade and bills payables	371,709	—	3,928	158,788
Other payables and accruals	1,454	7,494	10,500	74,935
Derivative financial instruments	—	—	—	310
Amounts due to shareholders	68,361	1,990	—	—
Dividend payable	—	—	53,313	53,313
Taxation	12,336	13,966	9,540	9,570
	<u>453,860</u>	<u>23,450</u>	<u>77,281</u>	<u>296,916</u>
Net current assets	<u>168,616</u>	<u>228,116</u>	<u>124,920</u>	<u>234,193</u>
Total assets less current liabilities	<u>191,640</u>	<u>249,411</u>	<u>234,605</u>	<u>346,248</u>
Equity				
Share capital	78	78	78	78
Reserves	191,562	249,333	234,527	346,170
Total equity	<u>191,640</u>	<u>249,411</u>	<u>234,605</u>	<u>346,248</u>

SUMMARY

RISK FACTORS

There are certain risks involved in our operations. These risks can be categorised into (i) risks relating to the Nantong Project and the Tianjin Project; (ii) risks relating to our Group; (iii) risks relating to the industry; (iv) risks relating to the PRC; (v) risks relating to ownership of the Shares; and (vi) risks relating to the Share Offer. A detailed discussion of the risk factors are set forth in the section headed “Risk Factors” in this prospectus. The following is a list of the risk factors:

(i) RISK FACTORS RELATING TO THE NANTONG PROJECT AND THE TIANJIN PROJECT

- There may be uncertainties as to whether the Nantong Project can be completed at all or be completed within the time frame or at the cost level originally anticipated;
- There may be uncertainties as to whether the Nantong Project can meet requirements and pass inspections in respect of certain safety and environmental protection regulations in the time frame originally anticipated;
- There may be uncertainties as to whether we can manage inventory risk of the Nantong Project effectively;
- We may not be able to secure suitable tenants for the storage facilities under the Nantong Project;
- Handling of inflammable and toxic petroleum and/or petrochemical products; and
- There may be low or no return from our investment in the Tianjin Company.

(ii) RISK FACTORS RELATING TO OUR GROUP

- Heavy reliance on our key management and traders;
- Exposure to the risk of insufficient hedging or inability to hedge;
- Exposure to counterparty risk in the Over-the-counter (“OTC”) derivative market;
- Low profit margins during the Track Record Period;
- Reliance on the sale of the LSWR;
- Reliance on a few major customers in the PRC;
- Large exposure to default risk of our customers;
- Our customers do not have long term commitments to purchase from us;

SUMMARY

- Heavy reliance on the PRC market;
- Heavy reliance on our suppliers and no long term commitments to supply to us;
- The PRC tax authorities may enforce the payment of PRC FEIT under the Old FEIT Law and may challenge the basis on which we calculated our PRC FEIT obligations;
- Exposure to income tax liabilities in Macao and the PRC;
- Possible exposure to uninsured liability;
- Dividend declared and dividend policy immediately prior to the Listing not indicative of future dividends; and
- Effect of the recent global financial crisis.

(iii) RISK FACTORS RELATING TO THE INDUSTRY

- Fluctuation of the prices of crude oil, petroleum products and petrochemical products; and
- Fierce competition.

(iv) RISK FACTORS RELATING TO THE PRC

- Political and economic policies of the PRC government could adversely affect the business and results of operations;
- Changes in economic developments in the PRC or a downturn of the Chinese economy may adversely affect our business;
- The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to us; and
- Our subsidiary in the PRC is subject to restrictions on paying dividends and making other payments to us.

(v) RISK FACTORS RELATING TO OWNERSHIP OF SHARES

- There has been no prior public market for the Shares;
- The Share price may be volatile which could result in substantial losses for investors purchasing Offer Shares in the Share Offer; and
- Future sale of the Shares or major divestment of Shares by any major shareholder could adversely affect the Share price.

SUMMARY

(vi) RISK FACTORS RELATING TO THE SHARE OFFER

- An active trading market for the Shares may not develop, and their trading prices may fluctuate significantly;
- The Offer Price may not be indicative of prices that will prevail in the trading market, and the market price of Shares may be volatile; and
- Accuracy of statistical information obtained from official government sources.

COMPETITIVE STRENGTHS

We believe our principal competitive strengths include the following:

- (i) Experienced management and traders;
- (ii) Established relationships with our key counterparties;
- (iii) Established relationships with and support from key bankers;
- (iv) Prudent financial and risk management policies; and
- (v) Niche trading strategy.

GROWTH STRATEGIES

- (i) Strengthening existing long-term relationships with key customers and seeking new customers;
- (ii) Investment and development of the PRC Storage Business; and
- (iii) Expansion of product types and trading of petroleum products and petrochemical products.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meaning set out below. Certain other terms are explained in the next section headed “Glossary” in this prospectus.

“Active Tools”	Active Tools Group Ltd., a company incorporated in the BVI on 13 November 2007 with limited liability and is owned as to 50% by Mr. Wang through Sino Century and 50% by Mr. Yao, respectively
“Application Forms”	WHITE application form(s) and YELLOW application form(s) or where the context so requires, either of them relating to the Share Offer
“Articles of Association” or “Articles”	the articles of association of our Company, as amended from time to time, a summary of certain provisions of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	our board of Directors
“Business Day”	a day that is not a Saturday, Sunday, a public holiday in Hong Kong or a day on which a tropical cyclone warning signal number 8 or above, or a black rainstorm warning signal is hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m.
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 280,000,000 new Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Further Information about the Company and its subsidiaries” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Charming Energy”	Charming Energy Holdings Ltd., a company incorporated in the BVI on 27 September 2007 with limited liability and an indirect wholly-owned subsidiary of the Company
“chief executive”	the chief executive (as defined in the SFO) of the Company
“China Everbright Capital” or “Sponsor” or “Compliance Adviser”	China Everbright Capital Limited, a licensed corporation under the SFO for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance)
“China Everbright Securities” or “Bookrunner” or “Lead Manager”	China Everbright Securities (HK) Limited, a licensed corporation under the SFO for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 9 regulated activity (asset management)
“Companies Law”	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “our Company” or “Strong Petrochemical Holdings”	Strong Petrochemical Holdings Limited (海峡石油化工控股有限公司*), a company incorporated in the Cayman Islands on 1 February 2008 under the Companies Law as an exempted company with limited liability
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of our Company, means Forever Winner, Sino Century, Jin Yao, Mr. Wang and Mr. Yao
“Covenantors”	means the Controlling Shareholders
“CSRC”	China Securities Regulatory Commission, a regulatory body responsible for the supervision and regulation of the PRC national securities markets

* For identification purposes only

DEFINITIONS

“Deed of Non-competition”	the deed of non-competition entered into by the Controlling Shareholders in favour of our Company dated 28 November 2008, the details of which are set out in the paragraph headed “Non-competition undertakings given by Controlling Shareholders” in the section headed “Relationship with the Controlling Shareholders” of this prospectus
“Deemed-PRC-related-shipment”	the shipments identified by the Directors during the Track Record Period which may be deemed as related to the Old FEIT Law
“Director(s)”	the director(s) of our Company, or any one of them, as the context requires
“EU”	the European Union, which member states are Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom
“FIE”	foreign invested enterprises
“Five State-owned Licensed Import Agents”	the five state-owned oil companies, namely, China International United Petroleum & Chemicals Co., Ltd (UNIPEC) as import window of China & Chemical Corporation (SINOPEC), Sinochem International Oil Company (SINOCHEM), China National United Oil Corporation (PETROCHINA), China National Offshore Oil Corporation (CNOOC) and Zhuhai Zheng Rong Company, and their respective associates which each has a licence to import crude oil and petroleum products in the PRC
“Forever Winner”	Forever Winner International Ltd., a company incorporated in the BVI on 2 January 2008 with limited liability and is owned as to 50% by Jin Yao and 50% by Sino Century, respectively
“GDP”	gross domestic product
“Group”, “our Group”, “we” or “us”	except where the context otherwise requires, references to “Group”, “our Group”, “we” or “us” include one or more of our Company and all of its subsidiaries. In respect of any time before our Company became the holding company of its present subsidiaries, references to the “Group”, “our Group”, “we” and “us” include the businesses in which the predecessors or subsidiaries or our Company were engaged in and which were subsequently assumed by our Company

DEFINITIONS

“Hedged Shipment”	means those shipments which we applied hedging strategies during the negotiation and/or pricing period and successfully concluded the shipment with customer and supplier
“HKFRS”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HLM”	HLM & Co, a certified public accountant and an Independent Third Party, engaged by the Group to review the Group’s internal policy and to prepare the ICR Report and the Update Report
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollar” or “HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong Public Offer Shares”	10,000,000 new Shares (subject to adjustment as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus initially being offered by us for subscription at the Offer Price under the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer by our Company of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offering entered into among our Company, the Sponsor, the Covenantors, the executive Directors, China Everbright Securities and the Hong Kong Underwriters on 22 December 2008
“ICR Report”	the internal control report prepared and issued by HLM on 6 March 2007

DEFINITIONS

“Independent Third Parties”	persons or companies which are independent of and not connected with any of the directors, chief executive, substantial shareholders of the Company or any of its subsidiaries and their respective associates, and “Independent Third Party” means any of them
“Inefficient Hedging Shipment(s)”	shipment(s) with loss in both trading in derivative financial instruments and gross loss after hedging
“International Offer Shares”	the 90,000,000 Offer Shares expected to be initially offered for subscription pursuant to the International Placing, representing 90% of the initial number of the Offer Shares, subject to re-allocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“International Placing”	the conditional placing of the International Offer Shares by the International Placing Underwriters acting on behalf of our Company at the Offer Price to selected professional, institutional and private investors as set out under the section headed “Structure and Conditions of the Share Offer” in this prospectus
“International Placing Agreement”	the conditional placing and underwriting agreement relating to the International Placing which is expected to be entered into by our Company, the Sponsor, the Covenantors, the executive Directors, China Everbright Securities and the International Placing Underwriters on or around 2 January 2009
“International Placing Underwriters”	the underwriters of the International Placing, who are expected to enter into the International Placing Agreement to underwrite the International Placing
“Issuing Mandate”	the general unconditional mandate given to our Directors by the Shareholders relating the issue of new Shares, particulars of which are set forth in the paragraph headed “Resolutions in writing of the sole shareholder of the Company passed on 28 November 2008” in Appendix V to this prospectus
“Jin Yao”	Jin Yao Holdings Ltd., a company incorporated in the BVI on 2 January 2008 with limited liability and is wholly owned by Mr. Yao
“Keen Star”	Keen Star Holdings Limited, a company incorporated in the BVI on 11 December 2007 with limited liability and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Latest Practicable Date”	18 December 2008, being the latest practicable date for the purpose of ascertaining certain information in this prospectus before its publication
“Listing”	the proposed listing of our Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which dealings in our Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macao”	the Macao Special Administrative Region of the People’s Republic of China
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
“MOFCOM”	the Ministry of Commerce, the PRC
“MOP”	Macao Pataca, the lawful currency of Macao
“Mr. Wang”	Mr. Wang Jian Sheng (王健生), the chairman of the Board, an executive Director and one of our Controlling Shareholders
“Mr. Yao”	Mr. Yao Guoliang (姚國梁), our chief executive officer, an executive Director and one of our Controlling Shareholders
“Nantong Project”	the development of storage of petrochemical and petroleum products business in Nantong City, Jiangsu Province, the PRC
“National Government-owned Oil Companies”	National oil companies owned by national governments
“New EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) promulgated by the National People’s Congress on 16 March 2007 with effect from 1 January 2008

DEFINITIONS

“OECD”	the Organisation for Economic Co-operation and Development. Its member states are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States
“Offer Price”	HK\$2.50 per Offer Share
“Offer Share(s)”	the Hong Kong Public Offer Shares and the International Offer Shares
“Oil Majors”	the six largest global energy companies known as (i) ExxonMobil, (ii) British Petroleum, (iii) Royal Dutch Shell, (iv) Total S.A., (v) Chevron Corporation, and (vi) ConocoPhillips
“Old FEIT Law”	the PRC Foreign Enterprise Income Tax Law (外商投資企業和外國企業所得稅法), promulgated by the National People’s Congress on 9 April 1991. It was effective from 1 July 1991 to 31 December 2007
“OPEC”	the Organisation of Petroleum Exporting Countries. Its member states are Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, Qatar, Indonesia, Socialist Peoples Libyan Arab Jamahiriya, United Arab Emirates, Algeria, Nigeria, Ecuador (membership suspended from December 1992-October 2007), and Angola. Gabon were members from 1975 to 1994
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus and except where the context otherwise requires, does not include Hong Kong, Macao, and Taiwan
“PRC EIT”	PRC Enterprise Income Tax, payable under the New EIT Law
“PRC FEIT”	PRC Foreign Enterprise Income Tax, payable under the Old FEIT Law
“PRC Legal Advisor”	King and Wood, the legal adviser to the Company as to PRC laws
“PRC Storage Business”	the establishment and operation of storage facilities for crude oil, petroleum products and/or petrochemical products in the PRC

DEFINITIONS

“Pre-IPO Dividend”	the declared dividend of approximately HK\$226.2 million pursuant to the resolution passed at a meeting of the Board held on 26 November 2008, which will be paid to our then shareholders before 31 December 2008
“Reorganisation”	the corporate reorganisation of the Group in preparation for the Listing, particulars of which are set out in the sub-paragraph headed “Corporate reorganisation” under the paragraph headed “Further information about the Company and its subsidiaries” in Appendix V to this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to our Directors by the Shareholders, particulars of which are set forth in the paragraph headed “Resolutions in writing of the sole shareholder of the Company passed on 28 November 2008” in Appendix V to this prospectus
“R/P ratio”	reserve to production ratio, an indicator describing the number of years of remaining production from current proved reserves at current production rate
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange
“Santron Holdings”	Santron Holdings Limited, a company incorporated in the BVI on 20 October 1999 with limited liability and an indirect wholly-owned subsidiary of the Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the share capital of our Company
“Share Offer”	the Hong Kong Public Offering and the International Placing
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 28 November 2008, the principal terms of which are summarised under the paragraph headed “Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of Shares

DEFINITIONS

“Sino Century”	Sino Century Holdings Limited, a company incorporated in the BVI on 10 May 1993 with limited liability and which is wholly owned by Mr. Wang
“Smart Team”	Smart Team Investments Limited, a company incorporated in Hong Kong on 3 October 2007 with limited liability and an indirect wholly-owned subsidiary of the Company
“State-authorized Import Agents”	the licensed importers authorized by the PRC government to import crude oil and petroleum products into the PRC market
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Strait Petrochemical”	Strait Petrochemical Holdings Limited, a company incorporated in the Cayman Islands on 3 April 2008 under the Companies Law as an exempted company with limited liability and an indirect wholly-owned subsidiary of the Company
“Strong Petrochemical (HK)”	Strong Petrochemical Limited (海峽石油化工有限公司) (formerly known as Santron (Hong Kong) Limited), a company incorporated in Hong Kong on 3 November 1999 with limited liability and an indirect wholly-owned subsidiary of the Company
“Strong Petrochemical (Macao)”	Strong Petrochemical Limited (Macao Commercial Offshore) (海峽石油化工有限公司 (澳門離岸商業服務)), a company incorporated in Macao on 4 February 2004 with limited liability and an indirect wholly-owned subsidiary of the Company
“Strong Petrochemical (Nantong)”	南通潤德石油化工有限公司 (Strong Petrochemical (Nantong) Logistics Co., Ltd.), a WFOE established in the PRC on 29 June 2007 with limited liability and an indirect wholly-owned subsidiary of the Company
“Strong Property”	Strong Property Limited (海峽物業有限公司), a company incorporated in Hong Kong on 18 March 2002 with limited liability and a wholly-owned subsidiary of Active Tools
“subsidiary(ies)”	has the meaning ascribed to it under section 2 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Teamskill Investments”	Teamskill Investments Limited (添能投資有限公司), a company incorporated in the BVI on 30 March 2005 with limited liability and an indirect wholly-owned subsidiary of the Company
“Tianjin Company”	中化天津港石化倉儲有限公司 (Sinochem Tianjin Port Petrochemical Terminal Co., Ltd.), a company incorporated in the PRC on 28 February 2007 with limited liability, and is owned as to 25%, 35%, 25% and 15% by 天津港對外經濟技術合作公司 (Tianjin Port Foreign Economic And Technological Cooperative Company), 中化國際實業公司 (Sinochem International Industry Co), 中化國際石油(巴哈馬)有限公司 (Sinochem International Oil (Bahamas) Co., Ltd.), all of them are Independent Third Parties, and Smart Team, respectively
“Tianjin Project”	the establishment and operation of storage facilities for crude oil, petroleum products and petrochemical products by the Tianjin Company in 天津市南疆港區 (Tianjin Nanjiang Port Zone)
“Track Record Period”	the three financial years from 1 April 2005 to 31 March 2008 and the seven months ended 31 October 2008
“Underwriters”	the Hong Kong Underwriters and the International Placing Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“United States” or “US”	the United States of America
“Unsuccessful Shipment with Derivative Contracts”	means those shipments which we entered into derivative financial instruments during the negotiation period and did not eventually conclude the shipment with customer and supplier
“Update Report”	the update report prepared and issued by HLM on 18 July 2008 updating the internal control of the Group
“US dollar” or “US\$”	United States dollar, the lawful currency of the US
“WFOE”	a wholly-foreign-owned-enterprise established under the laws of the PRC
“Wide Sea”	Wide Sea International Limited, a direct wholly-owned subsidiary of the Company incorporated in the BVI on 2 January 2008 with limited liability

DEFINITIONS

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments, accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless otherwise specified, amounts denominated in RMB, MOP and US\$ have been converted into Hong Kong dollars in this prospectus for the purpose of illustration only at the rates set out below:

HK\$1.00 : MOP1.06

HK\$1.00 : RMB0.88

HK\$7.80 : US\$1.00

No representation is made that any amounts in RMB, MOP, US\$ or HK\$ can be or could have been converted at the relevant dates at the above rates or any other rates or at all.

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions, PRC-incorporated companies or other entities or any descriptions for which no English translation exists are unofficial translations for reference only.

GLOSSARY

This glossary of technical terms contains terms used in this prospectus in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“b/d”	barrel per day, a measurement used to describe the amount of crude oil produced or consumed by an entity in one day
“BBL”	barrel, the common unit used for measurement of crude oil and petroleum products
“CFR”	cost and freight, delivery of goods to the named port of destination (discharge) at the seller’s expense. The buyer is responsible for cargo insurance and other costs and risks
“CIF”	cost, insurance, and freight, cargo insurance and delivery of goods to the named port of destination (discharge) at the seller’s expense. The buyer is responsible for import customs clearance and other costs and risks
“crude oil”	petroleum as it comes from the ground, before refining
“demurrage”	the detention in port of a vessel by the shipowner, as in loading or unloading, beyond the time allowed or agreed upon
“DES”	delivered ex ship, the seller delivers when the goods are placed at the disposal of the buyer on board the ship not cleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing the goods to the named port of destination before discharging
“FOB”	free on board, delivery of goods on board the vessel at the named port of origin (loading), at the seller’s expense. The buyer is responsible for main carriage/freight, cargo insurance and other costs and risks
“fuel oil”	this defines oils that make up the distillation residue. It comprises all residual fuel oils (including those obtained by blending). Its kinematic viscosity is above 10 centistokes, a unit for measuring viscosity, at 80 degree Celsius. The flash point is always above 50 degree Celsius and the density is always more than 900 gram per litre
“gasoil”	on intermediate distillate product used for diesel, heating fuel and sometimes as feedstock
“jet fuel”	this category comprises both gasoline and kerosene type jet fuels meeting specifications for use in aviation turbine power units

GLOSSARY

“low sulphur fuel oil” or “LSFO”	a fraction of long hydrocarbon chains with sulphur content lower than 1% obtained from petroleum distillation. It is burned in a furnace or a boiler for the generation of heat or used in an engine for the generation of power
“low sulphur waxy residue” or “LSWR”	a paraffin-rich cracked low-sulphur fuel oil, which can be used as refinery feedstock or power boiler fuel
“mixed xylene”	a transparent structure of two methyls (CH ₃) attached to a benzene ring (C ₆ H ₆). It is a highly volatile, colourless liquid. Depending on the position of the methyl component, xylene has three isomers, namely ortho, meta and paraxylene. Major use is as a solvent for paint and insecticide and as raw material for paraxylene, orthoxylene, and ethylbenzene
“MT”	metric ton, the common unit used for measurement of petrochemical products
“MTBE”	methyl tertiary butyl ether, an octane booster and oxygenate used for gasoline blending
“Mu”	China Mu, the measurement unit for area of land, 1 Mu approximately equals 666.6 m ²
“naphtha”	a feedstock destined for the petrochemical industry (e.g. ethylene manufacturer or aromatics production). Naphtha comprises material in the 30 degree Celsius and 210 degree Celsius distillation range or part of this range
“petrochemical products”	chemical products made from raw materials of petroleum (hydrocarbon) origin
“petroleum products”	useful materials derived from crude oil (petroleum) as it is processed in oil refineries
“RON”	research octane number. The octane number is a measure of the detonative quality of gasoline, or otherwise expressed its tendency to cause “engine knock”. The higher the octane number, the higher the resistance to engine knock. Octane numbers come in two forms: <i>Research octane number</i> reflects performance under moderate driving conditions, while the tests for <i>motor octane number</i> reflect high speed driving conditions. Tests for both numbers are in fact performed in the laboratory
“unleaded gasoline”	a volatile, flammable liquid mixture of hydrocarbons obtained from petroleum, and used as fuel for internal-combustion engines, as a solvent, etc. without any lead contents

GLOSSARY

“%”	per cent
“m ³ ”	cubic meter
“ft ² ”	square feet
“m ² ”	square meter

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus. In particular, investors should consider the following risks and special considerations associated with an investment in our Group and/or our Company before making any investment decision in relation to the Offer Shares, our Group and/or our Company. The occurrence of any of the events mentioned below could have a material adverse effect on the business, financial condition and future prospects of our Group and cause the market price of the Offer Shares to fall significantly. This prospectus contains certain forward-looking statements regarding our Directors' or our Group's plans, objectives, expectations and intentions which involve risks and uncertainties.

RISK FACTORS RELATING TO THE NANTONG PROJECT AND THE TIANJIN PROJECT

In order to (i) broaden our revenue base; (ii) provide value-added services to our trading customers; (iii) enhance our trading business by maintaining a portion of the storage facilities for our own storage use; and (iv) make applications for the relevant business licences with respect to the wholesale and storage of petroleum products in the PRC under 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Market), we have invested and developed the PRC Storage Business through the implementation of the Nantong Project and our investment in the Tianjin Company since 2007. Please refer to section headed “Business — The PRC Storage Business” for the details of the PRC Storage Business.

As we have no track record in developing and managing petroleum and petrochemical products storage operations, the extension of our business operations to petroleum and petrochemical product storage operations in the PRC may involve diversification of our operational and financial focus. There may be uncertainties affecting our business and financial performance in the future. Risk factors relating to the Nantong Project and the Tianjin Project include:

There may be uncertainties as to whether the Nantong Project can be completed at all or be completed within the time frame or at the cost level originally anticipated

Under the Nantong Project, we plan to invest RMB120 million (equivalent to approximately HK\$136.4 million) for the construction of around 27 storage tanks for petroleum and petrochemical products with a total storage capacity of approximately 134,800 m³ in Nantong City, Jiangsu Province, the PRC. The anticipated completion time is the third quarter of 2009.

We cannot guarantee that the Nantong Project will be completed on time or within our original budget. Our original budget may be exceeded in the case of delays in the progress of the Nantong Project. Further, the Nantong Project may not achieve the intended economic results or commercial viability, which in turn may adversely affect our business, financial condition and operating results.

In addition, we expect that additional costs associated with the development and operation of the Nantong Project will be incurred in areas including (i) staff recruitment and training; (ii) inventory management; (iii) insurance expense for the storage facilities; and (iv) IT system and logistics management. As we have no track record in developing and operating the PRC Storage Business, there may be an adverse effect on our operations and financial performance if we cannot effectively manage the development of the Nantong Project and control additional costs.

RISK FACTORS

There may be uncertainties as to whether the Nantong Project can meet requirements and pass inspections in respect of certain safety and environmental protection regulations in the time frame originally anticipated

The Nantong Project is subject to certain rules and regulations in the PRC. We need to apply for certain licences from relevant government authorities, such as a licence for storage of dangerous chemicals and a permit for oil products storage. Furthermore, storage facilities in Nantong are required to meet requirements and pass inspections in respect of certain safety and environmental protection inspections conducted by relevant government authorities.

Set out below are the requisite documents/licences for the commencement of the storage business in the Nantong Project:

1. 危險化學品經營許可證 (Hazardous Chemicals Operation Licence);
2. 油庫規劃確認文件 (Oil Depot Planning Affirmative Documents);
3. 油庫及其配套設施的產權證明文件 (Ownership Certificates on Oil Depots and Accessory Facilities); and
4. 國土資源、規劃建設、安全監管、公安消防、環境保護、氣象、質檢等部門核發的油庫及其他設施的批准證書及驗收合格文件 (Approving Certificates or Acceptance on Oil Depots and Accessory Facilities issued by Authorities of Land Resources, Planning and Construction, Safety Supervision, Public Security and Fire Fighting, Environmental Protection, Weather, Quality Supervision, etc.).

We cannot guarantee that we will be able to obtain the above licences/certificates in a timely manner. If we fail to remedy any problems that hinder our application and fail to obtain the licences from relevant authorities, the Nantong Project could be delayed, or we will have to abandon the whole Nantong Project and incur loss on the investment made. We may have to sell our interest in Strong Petrochemical (Nantong) or liquidate it accordingly. If we fail to find a buyer who agrees to purchase our interest in Strong Petrochemical (Nantong) by reference to total investment value contributed by us, then we may suffer a loss arising from such sale. We estimate that we will incur a loss of around RMB85 million, being the difference between the total investment amount of Strong Petrochemical (Nantong) and proceeds arising from realisation of building materials and the land owned by Strong Petrochemical (Nantong).

RISK FACTORS

There may be uncertainties as to whether we can manage inventory risk of the Nantong Project effectively

For the development of our trading business in the PRC, we expect that around 10% to 30%, or 13,480 m³ to 40,440 m³, of storage facilities to be constructed under the Nantong Project would be used by us for self-storage of petroleum and/or petrochemical products. However, we will not maintain any of the storage facilities for our own use until the following conditions are fulfilled during or after 2011:

1. having obtained the relevant business licence for the wholesale and storage of petroleum products in accordance with 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Market);
2. having successfully expanded the types of petroleum products and petrochemical products, including benzene and ortho xylene by 2011, and established and maintained business relationships with at least 5 new active customers for each of these new products; and
3. having achieved the following target annual trading volumes of new petroleum products and petrochemical products:

Name of products	Target trading volume
1 Mixed xylene (petrochemical product)	30,000 MT
2 Benzene (petrochemical product)	12,000 MT
3 Ortho xylene (petrochemical product)	20,000 MT
4 Gasoil (petroleum product)	1,500,000 BBL

Market prices of petroleum products and petrochemical products were volatile during the Track Record Period. Fluctuations in prices of petroleum products and petrochemical products were affected by various factors which we could neither control nor predict. If we cannot manage inventory risks of the Nantong Project effectively through appropriate inventory management strategies and hedging policies and the market value of our inventory declines, then our financial position and operating results may be adversely affected.

We may not be able to secure suitable tenants for the storage facilities under the Nantong Project

Before we utilise storage facilities for self-storage of petroleum and/or petrochemical products, it is expected that all storage facilities of the Nantong Project will be leased to third parties and/or our trading customers whenever appropriate. On 16 November 2008, we entered into a legally binding leasing agreement with a state-owned petrochemical company, an Independent Third Party, pursuant to which such company agreed to lease all of our storage tanks for a period of one year commencing from the completion of construction of these storage tanks.

RISK FACTORS

In the event that such state-owned petrochemical company refuses to renew the lease for the storage facilities under the Nantong Project and we fail to find a new tenant in a timely manner, or that the new tenant does not honour its rental payment obligations, our storage facilities may become vacant and our financial position and operating results may be adversely affected.

Handling of inflammable and toxic petroleum and/or petrochemical products

In the Nantong Project, we will have to handle the storage of inflammable petroleum and/or petrochemical products. In the event that a leakage of toxic or inflammable petroleum and/or petrochemical products occurs at the Nantong storage facilities in the future, health or fire hazards may occur.

Should we become liable for any of such accidents, a penalty may be imposed on us and criminal liability under the laws of the PRC being imposed on our employees. In such event, our financial position and operating results may be adversely affected.

There may be low or no return from our investment in the Tianjin Company

We, through Smart Team, hold a 15% equity interest in the Tianjin Company. The current amount of total investment and the amount of registered capital as contained in the certification of incorporation are RMB670 million and RMB300 million respectively. According to a resolution of the board of directors of the Tianjin Company and the revised feasibility study, subject to approvals from the relevant government authorities, total investment from the Tianjin Company will be increased to approximately RMB1.57 billion, 40% of which is expected to be derived from investment from shareholders and the remaining 60% to be financed from bank borrowings by the Tianjin Company. According to our 15% interest in the Tianjin Company, we are thus required to invest a total of approximately RMB94.2 million. In March 2008, we paid RMB45.0 million, representing approximately 13.0% of our net assets as at 31 October 2008. The remaining sum of approximately RMB49.2 million (equivalent to approximately HK\$55.9 million) is to be paid by June 2009 or other time approved by the relevant government authorities. We plan to pay the remaining sum out of the net proceed of the Share Offer and our internal resources. It is expected that construction of the first phase will be completed in May 2010 and the second phase in June 2011.

We cannot assure that the Tianjin Company will be successful or profitable or that the construction of the storage facilities will be completed at all or within the time frame or at the cost level originally anticipated. Since we are only a minority shareholder of the Tianjin Company, the management and operation of the Tianjin Company are not subject to our control. Moreover, should additional capital injection in the Tianjin Company be required, we will have the obligation to inject additional capital proportionally as required or our interest in the Tianjin Company may be diluted.

In addition, we cannot guarantee that the Tianjin Company will distribute dividends or bring other economic benefits to us in the future.

RISK FACTORS

RISK FACTORS RELATING TO OUR GROUP

Heavy reliance on our key management and traders

Our success depends to a significant degree upon the expertise, experience, continuity, network and committed service of our senior management personnel and traders, most of whom have an in-depth understanding of our industry and operations and would be difficult to replace. Our key management and traders, including Mr. Yao, Mr. Yang Qing, Ms. Ng Siu Wai, Mr. Zhuang Jia and Ms. Yao Hong, are key to our success because of their expertise, experience and connection in the oil industry, market development skills and expertise in managing our operations. In addition, the relationship and reputation that our management team and traders have established and maintained with our customers and suppliers contribute to our ability to maintain good relationships with them.

The departure of any of our key management members or traders could be disruptive to our business development and could have a material adverse effect on our business and financial conditions. We cannot guarantee that the services of such personnel will continue to be available to us or that we will be able to replace any such personnel with individuals with similar knowledge, experience or network.

Exposure to the risk of inefficient hedging or inability to hedge

In order to avoid holding inventory and to minimise price risks associated with trading products, we usually try to match the buy-side and sell-side agreements for all shipments within one month. Subject to (i) the pricing basis under the buy-side and sell-side agreements; (ii) the market price trend of the trading products; (iii) availability of appropriate derivative financial instruments; and (iv) judgment of our traders, we may enter into futures contracts, options or swap agreements to hedge the price risk of a shipment. During the Track Record Period, we recorded fair value changes on derivative financial instruments of approximately HK\$(1.0) million, HK\$(31.5) million, HK\$(3.7) million and HK\$188.7 million on trading in derivative financial instruments. Including the gain/(loss) derived from trading in derivative financial instruments, our gross profit during the Track Record Period were approximately HK\$97.0 million, HK\$155.9 million, HK\$104.5 million and HK\$142.9 million, respectively.

During the Track Record Period, gains/(losses) arising from trading in derivative financial instruments for Unsuccessful Shipments with Derivative Contracts amounted to HK\$(1.7) million, HK\$(2.6) million, HK\$3.0 million and HK\$(2.9) million, respectively, and gain/(loss) from trading in derivative financial instruments for Hedged Shipments amounted to HK\$(3.2) million, HK\$(28.9) million, HK\$(6.7) million and HK\$191.9 million, respectively. For further information about our hedging policy, please refer to the section headed “Business — Hedging and risk management policy” in this prospectus.

RISK FACTORS

However, we cannot eliminate all price risks through hedging, and our hedging strategies may be inefficient. The reference oil products quoted under the floating pricing basis may not have appropriate derivative financial instruments available in the derivative market for us to conduct a perfect hedge. Also, there may be no appropriate financial instruments or counterparties in the market for hedging the petrochemical products traded by us. During the Track Record Period, we had 2, 2, 1 and nil Inefficient Hedging Shipments with gross loss after hedging which amounted to HK\$15.8 million, HK\$37.4 million, HK\$12.2 million and nil. Existence of the Inefficient Hedging Shipments reflect the impossibility of finding appropriate financial instruments for hedging, or taking the right action to hedge our position against any price fluctuation or carrying out hedging procedures at the right time. In the future, such circumstances may continue to exist and we may not be able to execute efficiently our hedging strategies to reduce the price risks faced by us, creating an adverse effect on our financial performance and profitability.

Exposure to counterparty risk in the Over-the-counter (“OTC”) derivative market

During our normal and ordinary course of business, we may enter into forward contracts and swap agreements with our counterparties in the OTC derivative market to hedge the price risks associated with our shipments. During the Track Record Period, our counterparties in the OTC derivative market included overseas financial institutions, Oil Majors and international oil trading companies. Out of the 13, 16, 16 and 8 Hedged Shipments during the Track Record Period, 3, 2, 4 and 7 of them involved trading of forward contracts or swap agreements by OTC derivative trading.

As OTC trading is unregulated and a direct trading of derivative financial instruments between two parties without going through an exchange or other intermediary, we are largely subject to counterparty risks, as the validity of the contract depends on the counterparty’s solvency and ability to honor its obligations.

If our counterparties refuse to honor their obligations pursuant to the terms of the OTC derivative contracts, our hedging activities would be jeopardised and the gross profit of Hedged Shipment after hedging would be adversely affected.

Low profit margins during the Track Record Period

During the Track Record Period, we sold 7.6 million BBL, 7.1 million BBL, 5.6 million BBL and 4.9 million BBL of crude oil. During the Track Record Period, our gross profit margins were approximately 1.8%, 3.6%, 2.5% and nil, respectively, and our net profit margins were approximately 1.5%, 2.6%, 2.6% and 2.3%, respectively. The sustainability of our profit margin depends on a number of factors, including the types of products traded by us, selling prices and purchase costs. The selling price and purchase cost for each shipment vary according to a combination of factors including, but not limited to, our bargaining power relative to the supplier and buyer, the pricing basis, the reference energy products under floating price basis, demand and supply in the market and the market price trend. Some of these factors are beyond control of the buyer, the supplier and ourselves. Therefore, the selling price and purchase cost may differ for the same product traded within the same time period. We cannot guarantee that our profit margin will not fluctuate from period to period. If we continue

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to have low profit margins in the future, we cannot ensure that we will achieve or maintain profitability in the future. Please see the section headed “Financial Information” in this prospectus for a detailed discussion and analysis of our financial condition and results of operation during the Track Record Period.

Reliance on the sale of LSWR

During the Track Record Period, 38.1%, 91.9%, 64.0% and 12.4% of revenues arising from our trading of petroleum products were derived from the trading of LSWR, which in turn accounted for 13.7%, 23.6%, 11.8% and 1.6% of our Group’s total revenue.

There can be no assurance that we will be able to secure supply and sale of LSWR from our suppliers or to our customers. In the event that we cannot secure either side of a trade, our financial conditions and results of operations may suffer.

Reliance on a few major customers in the PRC

Since its entry into the World Trade Organisation in December 2001, the PRC has gradually opened up its domestic crude oil and petroleum products markets. Non-state-owned import agents were previously restricted from importing crude oil and petroleum products from overseas. According to 《原油、成品油、化肥國營貿易進口經營管理試行辦法》 (Trial Measures for the Administration of State Trade Import Operations on Crude Oil, Petroleum Products and Chemical Fertilizers) issued in July 2002, both state-owned and non-state-owned import agents are allowed to apply for an import licence to import crude oil and petroleum products in the PRC. However, the Five State-owned Licensed Import Agents have continued to dominate the PRC’s crude oil and petroleum products import market.

During the Track Record Period, we mainly transacted with the Five State-owned Licensed Import Agents, and our aggregated sales to them accounted for approximately 81.6%, 97.4%, 91.9% and 71.5% of our turnover, respectively.

We have been endeavouring to diversify and expand our customer base. However, we expect that purchases by the Five State-owned Licensed Import Agents will continue to account for a relatively large percentage of our sales in the coming years due to their domination of in the PRC market and our long-established business relationships with them.

There can be no assurance that any of the Five State-owned Licensed Import Agents will continue to place orders with us in the future nor that the income generated from them can be maintained or increased in the future. Any unexpected cessation of, or substantial reduction in, the volume of business from any of the Five State-owned Licensed Import Agents could adversely affect our business and financial performance.

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Large exposure to default risk of our customers

During the Track Record Period, most of our customer sales were settled on an open account basis using telegraphic transfer. During the financial year ended 31 March 2008, the average selling price of each shipment reached approximately HK\$162.0 million, representing approximately 174.7% of our net profit during the same period.

There is no assurance that our customers will continue to settle their payment obligations during the payment period or honour their payment obligations at all. In the event that any of our customers fails to meet its payment obligations, we will suffer significant loss or even become bankrupt.

Our customers do not have long term commitments to purchase from us

Our customers do not have long term commitments to purchase from us. Their orders are placed through separate purchase agreements or confirmations of orders for specified products at such prices and quantities as agreed between the customers and ourselves on a case-by-case basis.

Except for a few term agreements which lasted for one year or less, we have not entered into any long-term sell-side agreements with our customers. During the Track Record Period, approximately 84.6%, 89.2%, 92.3% and 94.1% respectively of the sell-side agreements were concluded on a shipment-by-shipment basis according to our customers' demands. There is no assurance that these customers will continue to purchase from us in the future. If any of our major customers terminates its business relationship with us, and we fail to secure new orders on a timely basis, there may be an adverse effect on our business operations, financial performance and profitability.

Heavy reliance on the PRC market

Since the commencement of our business, we have derived a substantial amount of revenues from our sales to the Five State-owned Licensed Import Agents. During the Track Record Period, sales made to the Five State-owned Licensed Import Agents accounted for 81.6%, 97.4%, 91.9% and 71.5% of the Group's total revenue, respectively. To the best knowledge of our Directors, most of our oil products are eventually consumed by oil refineries and other end-users in the PRC. We anticipate that the PRC market will continue to be our major market in the foreseeable future. Any significant change in the economic or political conditions of the PRC market may adversely affect our sales and profitability.

Heavy reliance on our suppliers and no long term commitments to supply to us

During the Track Record Period, active suppliers who traded with us every year accounted for approximately 51.2%, 31.3%, 55.1% and 74.0%, respectively, of our total purchases. During the same period, our five largest suppliers accounted for approximately 74.1%, 77.8%, 75.4% and 89.2%, respectively, of our total purchases.

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Except for a few term contracts which lasted for one year or less, we have not entered into any long-term buy-side agreements with our suppliers. During the Track Record Period, approximately 64.1%, 67.6%, 65.4% and 76.5% of the buy-side agreements were concluded on a shipment-by-shipment basis. If any of our five largest suppliers or active suppliers terminates its business relationship with us, and we are unable to secure on a timely basis a suitable supplier of crude oil, petroleum and petrochemical products, then there may be an adverse effect on our business operations, financial performance and profitability.

The PRC tax authorities may enforce the payment of PRC FEIT under the Old FEIT Law and may challenge the basis on which we calculated our PRC FEIT obligations

Pursuant to the Implementation Rules of the Old FEIT Law 《外商投資企業和外國企業所得稅法實施細則》 issued by the State Administration of Taxation, the PRC dated 30 June 1991, a foreign enterprise is considered having establishments or places of business in the PRC and is deriving income in the PRC from such establishments or places, and it is subject to PRC FEIT at the rate of 33% on the profits attributable to those establishments or places of business. Establishment in the PRC includes business agents. In accordance with Article 4 of the Old FEIT Law, business agents are defined as any of the following:

- (i) an agent who regularly represents principals in arranging purchases and signing of purchase contracts and the purchasing of commodities on commission;
- (ii) an agent who has entered into agency agreements or contracts with principals, stores on a regular basis products or commodities owned by principals, and delivers on behalf of principals such products or commodities to other parties; and
- (iii) an agent who has authority to regularly represent principals in signing of sales contracts and accepting purchase orders.

As advised by Deloitte Touche Tohmatsu, our tax advisers, since the directors of Strong Petrochemical (Macao) travelled frequently to the PRC during the Track Record Period, their business-related activities for Strong Petrochemical (Macao) conducted during their presence in the PRC may create an establishment in the PRC pursuant to item (iii) above. Given most of the negotiation and conclusion of all trading contracts for Strong Petrochemical (Macao) had been handled by staff members based in Macao, and that Strong Petrochemical (Macao) does not have any branch office in the PRC for its operation of the oil products trading business, Strong Petrochemical (Macao) should not be subject to PRC FEIT.

Currently, there are no specific tax circulars or rules to define or comment on the meaning of “regularly”. However, taking into account our tax advisers’ opinion that Strong Petrochemical (Macao) has the potential risk of being deemed to have an establishment in the PRC, in the best interests of our Group and potential investors after the Share Offer, we accepted our tax advisers’

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advice to make a provision on PRC FEIT to cover the potential establishment risk in the PRC. In order to assess the amount of PRC FEIT, our Directors identified the Deemed-PRC-related-shipments of which the probability of profits being subject to PRC FEIT is higher by virtue of the involvement of the directors of Strong Petrochemical (Macao) in these particular shipments and their presence in the PRC during the time of negotiation and conclusion of these shipments.

The gross profits derived from such Deemed-PRC-related-shipments amounted to nil, HK\$1.3 million, nil and nil, respectively, during the Track Record Period. Therefore, we made PRC FEIT provision of approximately nil, HK\$0.4 million, nil and nil, respectively during the Track Record Period, which is based on the gross profits of such Deemed-PRC-related-shipments at a tax rate of 33%.

We cannot foresee whether or when the PRC tax authorities will require us to settle the full amount of PRC FEIT applicable to us. As of the Latest Practicable Date, we were not required by the local tax authorities to settle any PRC FEIT applicable to us. If the PRC tax authorities require us to settle the full amount of PRC FEIT applicable to us or if the amount of PRC FEIT eventually assessed by the PRC tax authorities exceeds the amount we have provided for, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Exposure to income tax liabilities in Macao and the PRC

During the Track Record Period, trading activities carried out by Strong Petrochemical (Macao) attributed to 80.6%, 87.3%, 69.2% and 81.9% of our total turnover in the same period respectively. Under the Macao SAR's Offshore Law, Strong Petrochemical (Macao) is exempted from income tax, industrial tax and stamp duties on (i) insurance policies concerning offshore risks; (ii) contracts established with entities with registered headquarters not in Macao; (iii) bank transactions carried out within the scope of offshore business; and (iv) its incorporation and any increase in its share capital. However, there is no assurance that the tax regime in Macao will continue to grant such preferential treatment to offshore companies in Macao. Should there be any changes in the Macao SAR's Offshore Law or any changes in the current preferential tax treatment, Strong Petrochemical (Macao) may be subject to tax or duties arising from its trading activities conducted in Macao at the applicable rate, in such event our Group's financial condition and profitability may be affected.

On the other hand, under the New EIT Law that were effective on 1 January 2008, enterprises established outside the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and will generally be subject to the uniform enterprise income tax at a rate of 25% on their global income. Under the implementation regulations of the New EIT Law, "de facto management bodies" are defined as those bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. We cannot rule out the future possibility that members of our Group which are not incorporated in the PRC may be recognised as a PRC tax resident enterprise according to the New EIT Law by the PRC taxation authorities.

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However, given the short history of the New EIT Law, it remains unclear as to the detailed qualification requirements for such exemption and whether dividends declared and paid by members of our Group in the PRC to their overseas holding companies will be exempted from enterprise income tax if they are recognised as PRC tax residents. Our financial performance will be adversely affected if such dividends are subject to PRC enterprise income tax.

Under the New EIT Law, dividends payable to foreign investors which are “derived from sources within the PRC” may be subject to taxation at a rate of 10% by way of withholding, unless the jurisdiction of such foreign investors has a tax treaty with the PRC that provides for a different withholding arrangement. The dividends from our PRC subsidiary, Strong Petrochemical (Nantong), may possibly be deemed “derived from sources within the PRC” for the purpose of the New EIT Law. In such case, we may be required to withhold the PRC enterprise income tax on dividends to our foreign investors.

Possible exposure to uninsured liability

We maintain a master insurance coverage for all risks of loss or damages to our trading products (including loss arising from piracy), general average and salvage charges. However, certain types of liabilities (such as liabilities from war and earthquakes) which are beyond our control are generally not insured because they are either uninsurable or the costs involved in insuring against such risks are not commercially justifiable. Should an uninsured liability or a liability in excess of its insured limit occur, we may suffer great losses which could adversely affect our future revenue streams financial performances.

Dividend declared and dividend policy immediately prior to the Listing not indicative of future dividends

For the two years ended 31 March 2008, we declared dividends of HK\$78.0 million and HK\$109.2 million, respectively. Pursuant to a resolution passed at a meeting of our Board held on 26 November 2008, we declared a Pre-IPO Dividend of approximately HK\$226.2 million, which will be paid to our then shareholders before 31 December 2008.

Subject to the availability of our cash and distributable reserves, investment requirements, and cashflow and working capital requirements, our Directors currently intend to declare and recommend dividends which would amount to not less than 30% of the net profit, if any, from ordinary activities for the first full financial year subsequent to the Share Offer.

The historical dividends and the above intention do not amount to any guarantee or representation or indication that we will declare and pay dividends in such manner in the future or declare and pay any dividend at all. Particulars of the dividend policy to be adopted by us following the Listing are set out in the section headed “Financial Information — Dividend, working capital and distributable reserves” to this prospectus. There can be no assurance, and in fact it is not expected, that the amount of dividends declared by us in the future, if any, will be at the level declared and paid by us immediately prior to the Listing.

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Effect of the recent global financial crisis

Since September 2008, various leading global investment and financial institutions in the US have declared bankruptcy or sought emergency financial support, or rescue packages, from the US government. The global financial crisis which allegedly began with the bursting of the housing bubble and related structured financial products market in the US and Europe. The global financial crisis, which involves the failure or restructuring of mortgage companies, and investment firms, banks and government-sponsored enterprises investing heavily in sub-prime mortgages and related structured financial products, is ongoing and has resulted in a global credit tightening. Furthermore, the deteriorating situation increases counterparties' risk under the global financial crisis and have exacerbated the liquidity and credit crunch. This unexpected liquidity and credit crunch has affected not only the banking and financial sectors, but also the commercial sectors which rely on the availability of banking facilities and bank borrowings.

In general, we rely on our bankers to provide credit facilities by way of letters of credit to settle our payment obligations owed to our suppliers. During the Track Record Period, we obtained banking facilities from four bankers. In the event that available limit of the credit facilities is reduced or withdrawn by our major bankers, and we cannot arrange credit facilities with other financial institutions on a timely basis, we will have to arrange our own financing to settle our payment obligations. In addition, in the event of any cancellation of the confirmed buy-side or sell-side agreement from our oil trading counterparties, or default on payment obligations from our oil trading counterparties or derivative trading counterparties, we will be liable to a huge losses equivalent to such particular shipment or related derivative financial instruments, all of which will adversely affect our cash-flow, business operation and profitability.

RISK FACTORS RELATING TO THE INDUSTRY

Fluctuation of the prices of crude oil, petroleum products and petrochemical products

The purchase and selling prices of crude oil, petroleum products and petrochemical products are volatile. For example, the West Texas Intermediate crude oil increased gradually from approximately US\$88/BBL at the end of January 2008 to approximately US\$141/BBL at the end of June 2008. As negatively affected by (i) the falling demand for crude oil as a result of global economy slowdown; and (ii) outflow of money from commodity market, West Texas Intermediate crude oil gradually decreased to approximately US\$46/BBL in mid December 2008. The oil price surged significantly and exhibited a volatile trend recently. We therefore have evaluated and pursued our trading opportunities selectively in order to minimise our trading risks. As such, we have not pursued sufficiently attractive trading opportunities to compensate the decrease in our revenues arising from the fall in the trading of Sakhalin Blend crude oil and LSWR during the year ended 31 March 2008, and our turnover and profits for the same year were affected. Since the world oil price may continue to be volatile in the near future, if our selling price for such products cannot maintain a positive margin, or if market demand for crude oil, petroleum products and petrochemical products dampens as a result of surging international market prices, our profitability and financial condition would be adversely affected.

RISK FACTORS

Fierce competition

We operate in a highly competitive environment, competing with a large number of international and PRC oil companies in supplying oil products to our customers. Our competitors generally fall into the following categories:

(i) **National Government-owned Oil Companies**

National Government-owned Oil Companies generally operate in monopoly positions in their respective countries. Many of the major oil and gas producing countries possess their own national company, each of which responsible for maximising returns from the petroleum interests of the country.

(ii) **Oil Majors**

Oil Majors are the leading global energy companies which typically have large, integrated operations, including exploration, exploitation, production, refinery, trading and marketing of energy products, in many locations around the world.

(iii) **Oil trading companies**

There are a large number of oil trading companies scattered around various countries who frequently buy and sell oil products which exist physically, and which are due to be transported shortly or in transit. Their scale of operation is usually relatively small, compared to National Government-owned Oil Companies and Oil Majors.

We face fierce competition in selling our trading products to our customers. Some of our competitors have greater financial and marketing resources and geographical reach than ourselves. Any future increases in competition could adversely affect our Group's business and profitability. There can be no assurance that our Group will be able to compete successfully in the future in a competitive market environment.

RISK FACTORS RELATING TO THE PRC

Political and economic policies of the PRC government could adversely affect the business and results of operations

Most of our customers are based in the PRC and the assets and operations for the Nantong Project are located in the PRC. As a result, our business operation and financial condition are subject to political, economic and social conditions, laws, regulations and policies of the PRC.

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The PRC economy differs from the economies of most developed countries in a number of respects, including:

- structure;
- level of government involvement;
- level of development;
- level of capital reinvestment;
- control of capital reinvestment;
- control of foreign exchange; and
- allocation of resources.

Before the adoption of reform and open door policies which began in 1978, the PRC was primarily a planned economy. Since then, the PRC Government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. We cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effects on our current or future business, results of operation or financial condition.

Changes in economic developments in the PRC or a downturn of the Chinese economy may adversely affect our business

Most of our customers are based in the PRC. Therefore, our results of operation and financial condition will continue to be affected, to a large extent, by economic developments in the PRC.

The growth of the Chinese economy has been uneven across different geographic regions and economic sectors. We cannot predict the future direction of economic trends or the effects of growth in the gross domestic product that any such measures may have on our Group's business, financial condition or results of operation. In addition, there is no assurance that the economy will continue to grow, or that its growth will be steady or occur in geographic regions or economic sectors of our interest. Since we mainly derive sales from the PRC, we depend heavily on the general economic growth. Therefore, a decline in the PRC economic condition may have material adverse effects on our financial condition and results of operation.

RISK FACTORS

The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to us

The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court or other relevant authorities. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, taxation and trade. However, these laws are relatively new, and because of the limited number of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

Our subsidiary in the PRC is subject to restrictions on paying dividends and making other payments to us

Our Company is a holding company incorporated in the Cayman Islands and does not have any business operations. As a result of the holding company structure, our Company may receive dividend payments from its subsidiaries in Hong Kong, Macao and the PRC. The relevant PRC law and regulations permit foreign investment enterprises to remit profit or dividends to foreign shareholders. However, our Company may be unable to pay dividends if the relevant law and regulations, or the PRC Government may at its discretion, prohibit our subsidiary in the PRC from converting its profits generated from the provision of petrochemical products storage service, denominated in RMB, into foreign currencies. If this were to occur, we might not be able to pay dividends or satisfy other foreign exchange requirements.

RISK FACTORS RELATING TO OWNERSHIP OF SHARES

There has been no prior public market for the Shares

Before the Share Offer, there was no public market for the Shares. Whilst we have applied to have the Shares listed on the Stock Exchange, we cannot assure that an active public market for the Shares will develop. The Offer Price of the Offer Shares that has been determined by agreement amongst our Company, the Sponsor and the Bookrunner (for themselves and for and on behalf of the Underwriters) may not be indicative of prices that will prevail in the trading market.

The Share price may be volatile which could result in substantial losses for investors purchasing Offer Shares in the Share Offer

The market price of the Shares may fluctuate significantly and rapidly as a result of the following factors, amongst others, some of which are beyond our control:

- variations of the results of our operations;
- changes in securities analysts' estimates of the financial performance;

RISK FACTORS

- announcement of significant acquisitions, strategic alliance or joint ventures;
- addition or departure of key personnel;
- fluctuations in stock market prices and volume;
- involvement in litigation; and
- general economic and stock market conditions.

Moreover, in recent years, stock markets in general have experienced increasing price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of companies. These broad market and industry fluctuations may adversely affect the market price of the Shares.

Future sale of the Shares or major divestment of Shares by any major shareholder could adversely affect the Share price

The sale of a significant number of Shares in the public market after the Share Offer, or the perception that these sales may occur, could adversely affect the market price of Shares. Except as otherwise described in the paragraph headed “Undertakings” under the section headed “Underwriting” in this prospectus, there are no restrictions imposed on the substantial shareholders to dispose of their shareholdings. Any major disposal of Shares by any of the major shareholders may cause the market price of the Shares to fall. In addition, these disposals may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise capital.

RISK FACTORS RELATING TO THE SHARE OFFER

An active trading market for the Shares may not develop, and their trading prices may fluctuate significantly

Prior to the Share Offer, no public market for the Shares existed. We have made an application to the Stock Exchange for the listing of, and permission to deal in, the Shares. However, a listing on the Stock Exchange does not ensure that there will be a liquid public market for the Shares after the Share Offer. If any active public market for the Shares does not develop after the Share Offer, the market price and liquidity of the Shares may be adversely affected.

RISK FACTORS

The Offer Price may not be indicative of prices that will prevail in the trading market, and the market price of Shares may be volatile

The Offer Price for the Offer Shares that has been determined by negotiations between our Company and China Everbright Securities (for itself and for and on behalf of the Underwriters) may not be indicative of prices that will prevail in the trading market. Investors may not be able to resell their Shares at or above the Offer Price. The price and trading volume of the Shares may be highly volatile. Factors such as changes in the results of our operations, announcements of events affecting other companies in the crude oil, petroleum products and petrochemical products industry, currency fluctuations and general political, economic and market conditions may cause the market price of the Shares to change substantially. The volatility in the price of the Shares may be caused by factors beyond our control and may be unrelated or disproportionate to our operating results.

Accuracy of statistical information obtained from official government sources

Facts and statistics in relation to the industry in this prospectus are derived from available official government publications. Whilst our Directors have taken reasonable care to ensure that the facts and statistics from official government sources presented are accurately reproduced from their respective sources, they have not been independently verified by us and, therefore, we make no representation as to the accuracy of such facts and statistics from official government sources, which may not be consistent with other information compiled within or outside Hong Kong. Due to the use of different collection methods and other problems, the statistics in this prospectus may be inaccurate or may not be comparable between themselves or to statistics produced for other economies, and therefore should not be unduly relied upon. There can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “expect”, “believe”, “plan”, “intend”, “project”, “anticipate”, “may”, “ought to”, “will”, “would” and “could” or similar words or statements, in particular, in the sections entitled “Business” and “Financial Information” in this prospectus, in relation to future events, the future development of our industry and the future development of the general economy in our key markets and globally.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including, among others, the risk factors described in this prospectus and the following:

- future developments and growth opportunities in the trading of crude oil, petroleum products and petrochemical products industry in the PRC and internationally;
- the industry regulatory environment as well as the industry outlook generally;
- the amount and nature of, and potential for, future development of our business;
- our business strategy and plan of operation;
- our dividend policy; and
- information regarding our embedded value.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as of the date of this prospectus. Any such intention may change in light of future developments.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

INFORMATION ABOUT THE SHARE OFFER

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms. No person is authorised to give any information in connection with the Share Offer or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the Share Offer.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Share Offer. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain all the terms and conditions of the Hong Kong Public Offering.

The Share Offer comprises the Hong Kong Public Offering of initially 10,000,000 Shares and the International Placing of initially 90,000,000 Shares (subject, in each case, to adjustment on the basis described in the section headed "Structure and Conditions of the Share Offer" in this prospectus).

The application for the listing of the Shares is sponsored by the Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms of the Hong Kong Underwriting Agreement. The Share Offer is managed by China Everbright Securities.

The International Placing is expected to be underwritten by the International Placing Underwriters upon signing of the International Placing Agreement. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

RESTRICTIONS ON SALE OF OFFER SHARES

Each person acquiring the Offer Shares will be required to, or by his acquisition of Offer Shares is deemed to, confirm that he is aware of the restrictions on offer of the Offer Shares described in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus or the related Application Forms may not be used for the purpose of, and does not (and is not intended to) constitute an offer or invitation in any other jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitations. The distribution of this prospectus or the related Application Forms and the offering of the Offer Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this prospectus or any of the related Application Forms come should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws. The following information is provided for guidance only. Prospective applicants for Offer Shares should consult their financial advisors and take legal advice as appropriate to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for Offer Shares should inform themselves as to the relevant legal requirements of applying any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Cayman Islands

This prospectus does not constitute an invitation or offer to the public in the Cayman Islands of the Offer Shares, whether by way of sale or subscription. The Underwriters have not offered or sold, and will not offer or sell, directly or indirectly, any Offer Share in the Cayman Islands.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or re-sale directly or indirectly to any resident of China except pursuant to applicable PRC laws and regulations.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer including the Offer Shares (including any Shares which may fall to be issued pursuant to the exercise of any option to be granted under the Share Option Scheme). Except as disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing of, or permission to deal in, its securities on any other stock exchange is being or proposed to be sought in the near future.

HONG KONG STAMP DUTY

All Shares sold pursuant to applications made in the Share Offer are expected to be registered on our share register to be maintained in Hong Kong. Dealings in Shares will be subject to Hong Kong stamp duty. For further details about Hong Kong stamp duty, please seek professional tax advice.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of holding and dealing in our Shares. It is emphasised that none of the Sponsor, the Underwriters, any of their respective directors, or any other person involved in the Share Offer accepts responsibility for any tax effects or liabilities of holders of our Shares resulting from the subscription, purchase, holding or disposal of our Shares.

PROCEDURE FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The procedure for applying for Offer Shares is set out in the section headed “How to Apply for the Hong Kong Public Offer Shares” of this prospectus and on the relevant Applications Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Hong Kong Public Offering and the International Placing, including their respective conditions, are set out in the section headed “Structure and Conditions of the Share Offer” of this prospectus.

ROUNDING

Any discrepancies in any table in this prospectus between total and sum of amounts listed therein are due to rounding.

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Offer Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional advisor for details of those settlement arrangements and how such arrangements will affect their rights and interests.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. WANG Jian Sheng (王健生先生)	Flat A, 8th Floor The Mayfair 1 May Road Mid-Levels Hong Kong	Chinese
Mr. YAO Guoliang (姚國梁先生)	Flat E, 59th Floor Tower 8 89 Pok Fu Lam Road The Belcher's Pok Fu Lam Hong Kong	Chinese
Mr. WONG Wing (黃榮先生)	13 Coronado Avenue Royal Palms, Phase A Yuen Long New Territories Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. ZHU Yao Bin (祝耀濱先生)	304-2205 Hui Zhong Lane Chaoyang District Beijing The PRC	Chinese
Mr. LAU Hon Kee (劉漢基先生)	Flat 4, 31st Floor Choi On House Yue On Court Apleichau Hong Kong	Chinese
Ms. LIN Yan (林燕女士)	Apartment 301, No. 28 Building 259 Huan Long Road Pudong Shanghai The PRC	Canadian

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sponsor	China Everbright Capital Limited 40th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
Bookrunner and Lead Manager	China Everbright Securities (HK) Limited 36th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
Auditors and reporting accountants	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor, One Pacific Place 88 Queensway Hong Kong
Our legal advisers	<i>as to Hong Kong law</i> Sidley Austin Level 39, Two International Finance Centre 8 Finance Street Central Hong Kong <i>as to Cayman Islands law</i> Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KYI-1111 Cayman Islands <i>as to PRC law</i> King and Wood 28-30th Floors Huai Hai Plaza 1045 Huai Hai Road (M) Shanghai China <i>as to Macao law</i> Artur dos Santos Robarts Lawyer & Notary Alameda Dr. Carlos D'Assumpção No. 263, Edif. "China Civil Plaza" 6-andar-A Macao

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to the Sponsor and the Underwriters	<i>as to Hong Kong law</i> DLA Piper Hong Kong 40th Floor, Bank of China Tower 1 Garden Road Central Hong Kong
Legal advisers to the Controlling Shareholders	<i>as to Hong Kong law</i> Hui and Lam Rooms 1505-6 15th Floor, The Center 99 Queen's Road Central Hong Kong
Property valuer	BMI Appraisals Limited Suites 11-18, 31st Floor Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Receiving banker	Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong
Audit committee	Mr. LAU Hon Kee (<i>Committee Chairperson</i>) Mr. ZHU Yao Bin Ms. LIN Yan
Remuneration committee	Ms. LIN Yan (<i>Committee Chairperson</i>) Mr. LAU Hon Kee Mr. WANG Jian Sheng
Compliance adviser	China Everbright Capital Limited 40th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
Hong Kong Underwriters	China Everbright Securities (HK) Limited 36th Floor, Far East Finance Centre 16 Harcourt Road Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Christfund Securities Limited
26th Floor
100 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

Grand Vinco Capital Limited
Unit 4909-4910, 49th Floor
The Center, 99 Queen's Road Central
Hong Kong

KAB Asia Securities Limited
30th Floor, Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

Kingsway Financial Services Group Limited
5th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

International Placing Underwriters

China Everbright Securities (HK) Limited
36th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

Christfund Securities Limited
26th Floor
100 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

Grand Vinco Capital Limited
Unit 4909-4910, 49th Floor
The Center, 99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

KAB Asia Securities Limited
30th Floor, Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

Kingsway Financial Services Group Limited
5th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KYI-1111 Cayman Islands
Head office and principal place of business	Room 1604, 16/F, Far East Finance Centre 16 Harcourt Road Admiralty Hong Kong
Website	www.strongpetrochem.com (information contained in the website does not form part of this prospectus)
Company secretary	Mr. PANG Man Chun Manson, CPA
Qualified accountant	Mr. PANG Man Chun Manson, CPA
Authorised representatives	Mr. WONG Wing 13 Coronado Avenue Royal Palms, Phase A Yuen Long New Territories Hong Kong Mr. PANG Man Chun Manson 3rd Street 36 Section E Fairview Park Yuen Long New Territories
Principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 Grand Cayman KY1-007 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Principal bankers

The Bank of Tokyo-Mitsubishi UFJ Ltd.
Singapore Branch
9 Raffles Place #01-01 Republic Plaza
Singapore 048619

China Construction Bank (Macau) Corporation Ltd.
Nos. 70-76 Avenida de Almeida Ribeiro
Macao

Société Générale
Singapore Branch
80 Robinson Road, #25-00
Singapore 068898

Standard Chartered Bank (Hong Kong) Limited
32nd Floor, Standard Chartered Bank Building
4-4A Des Voeux Road
Central
Hong Kong

INDUSTRY OVERVIEW AND REGULATION

Certain information presented in this section relating to the global and PRC oil industry has been extracted from various official government publications, unless otherwise indicated. Where indicated, certain information presented in this section relating to the global and PRC oil industry has been extracted from Independent Third Parties publications. Such publications are available to the general public and their backgrounds are provided in the body of this section. While the Sponsor, the Underwriters, parties involved in the Share Offer and we have taken reasonable care in the extraction, compilation and reproduction of information and statistics directly or indirectly from official government publications, none of us, the Sponsor, the Underwriters or any parties involved in the Share Offer has independently verified such information or made any representation as to the accuracy of the sources. Such information may not be consistent with other information compiled within or outside the PRC and you should not rely unduly upon it. No publication was commissioned for the purpose of the Share Offer.

Sources of Information

Information disclosed under this section is quoted from various third party sources including the Social Sciences Academic Press, BP (British Petroleum), EIA (Energy Information Administration), IEA (International Energy Agency) and the World Bank. Each of these parties is an Independent Third Party and their reports have not been commissioned by us. Information regarding each of these parties including their background and principal activities is provided below.

- Social Sciences Academic Press was established in 1985. It is a professional publishing institution, specialised in the field of humanities and social sciences, directly under the leadership of the 中國社會科學院 (China Academy of Social Sciences). The Chinese Academy of Social Sciences, established in May 1977, is the highest academic research organisation in the fields of philosophy and social sciences as well as a national center for comprehensive studies in the PRC.
- BP (British Petroleum) is one of the world's largest energy companies and provides fuel for transportation, energy for heat and light, retail services and petrochemical products. BP operates globally, with business activities and customers in more than 100 countries across the six continents. BP publishes a detailed analysis of the world's current and historical energy trends in its yearly Statistical Review of World Energy.
- The EIA (Energy Information Administration), established by the US Congress in 1977, is the statistical agency of the US Department of Energy. EIA's mission is to provide policy-independent data, forecasts, and analyses to promote sound policy making, efficient markets, and public understanding regarding energy and its interaction with the economy and the environment.
- The IEA (International Energy Agency) is a Paris-based inter-governmental organisation founded by the Organisation for Economic Co-operation and Development in 1974. The IEA conducts a broad program of energy research, data compilation, publications and public dissemination of the latest energy policy analysis and makes recommendations on good practices.
- The World Bank is an internationally supported bank that provides loans to developing countries for development programs with the stated goal of reducing poverty.

INDUSTRY OVERVIEW AND REGULATION

(1) Global oil consumption and production

Overview

In general, energy can be broadly categorised into fossil energy and non-fossil energy. Fossil energy is derived from energy-containing materials which were converted over many thousands of years from their original organic forms such as trees and plants which had been buried in the ground. Physical and chemical processes occurred in the Earth's crust to transform organic matter into coal, peat, oil or natural gas.

Consumption by energy

(Million tonnes oil equivalent)	2006						2007					
	Oil	Natural gas	Coal	Nuclear energy	Hydro-electricity	Total	Oil	Natural gas	Coal	Nuclear energy	Hydro-electricity	Total
North America	1,130.2	692.7	605.7	212.0	153.4	2,794.0	1,134.7	728.9	613.3	215.6	146.2	2,838.6
South and Central America	239.9	118.2	20.9	4.8	149.3	533.0	252.0	121.1	22.4	4.4	153.1	552.9
Europe & Eurasia	969.0	1,036.3	532.6	287.2	184.6	3,009.7	949.4	1,040.1	533.7	275.6	188.6	2,987.5
Middle East	281.2	262.2	8.9	—	5.0	557.3	293.5	269.4	6.1	—	5.1	574.1
Africa	132.1	70.1	101.9	2.4	21.7	328.3	138.2	75.2	105.9	3.0	22.2	344.4
Asia Pacific	1,158.5	378.8	1,771.7	128.6	183.1	3,620.7	1,185.1	403.1	1,896.2	123.4	194.0	3,801.8
- China	353.3	50.5	1,215.0	12.4	98.6	1,729.8	368.0	60.6	1,311.4	14.2	109.3	1,863.4
TOTAL WORLD	3,910.9	2,558.3	3,041.7	634.9	697.2	10,843.0	3,952.8	2,637.7	3,177.5	622.0	709.2	11,099.3

Source: BP Statistical Review of World Energy 2008, June 2008

As illustrated above, in 2007, approximately 88% of primary energy consumption in the world came from fossil energy, including oil, natural gas and coal. Amongst the different types of fossil energy, oil was the world's leading energy source, which accounted for approximately 35.6% of the world's primary energy consumption in 2007.

According to the BP Statistical Review of World Energy 2008, the world's primary energy consumption increased by 2.4% in 2007, down from 2.7% in 2006. The Asia-Pacific region accounted for two-thirds of the world's energy consumption growth, rising by an above-average 5%, despite the decline in Japanese consumption of 0.9%. North American consumption rebounded by 1.6% after a weak year in 2006. Chinese consumption growth of 7.7% was the weakest since 2002, although still above the 10-year average. China again accounted for half of the world's energy consumption growth. Indian consumption grew by 6.8%, the third-largest volumetric increment after China and the US. EU energy consumption declined by 2.2%, with Germany registering the world's largest decline in energy consumption.

INDUSTRY OVERVIEW AND REGULATION

Global Oil Consumption

Global oil consumption grew by 1.1% in 2007, or 1 million b/d, slightly below the 10-year average. Consumption in the oil-exporting regions of the Middle East, South and Central America and Africa accounted for two-thirds of the world's growth. The Asia-Pacific region grew by 2.3%, roughly in line with the historical average, even though growth in China and Japan was below historical averages, with strong growth in a number of emerging economies. OECD consumption fell by 0.9%, or nearly 400,000 b/d. The global growth rate for light distillates matched that of middle distillates for the first time since 2002, due to strong demand for petrochemicals.

World Oil Consumption

(Thousand barrels daily)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Change 2007 over 2006	2007 share of total
North America	22,276	22,674	23,286	23,548	23,571	23,665	24,050	24,897	25,023	24,904	25,024	0.4%	28.7%
South & Central America	4,790	4,936	4,968	4,907	5,006	4,974	4,826	4,944	5,147	5,225	5,493	5.0%	6.4%
Europe & Eurasia	19,738	19,826	19,742	19,564	19,743	19,736	19,922	20,111	20,274	20,477	20,100	-2.0%	24.0%
Middle East	4,423	4,492	4,573	4,716	4,829	5,011	5,229	5,507	5,731	5,949	6,203	4.4%	7.4%
Africa	2,307	2,388	2,448	2,458	2,473	2,510	2,567	2,644	2,773	2,824	2,955	4.6%	3.5%
Asia Pacific	20,063	19,623	20,557	21,147	21,281	21,934	22,702	24,008	24,368	24,851	25,444	2.3%	30.0%
- China	4,179	4,228	4,477	4,772	4,872	5,288	5,803	6,772	6,984	7,530	7,855	4.1%	9.3%
TOTAL WORLD	73,598	73,939	75,573	76,340	76,904	77,829	79,296	82,111	83,317	84,230	85,220	1.1%	100.0%

Source: BP Statistical Review of World Energy 2008, June 2008

INDUSTRY OVERVIEW AND REGULATION

Global Oil Production

Global oil production fell by 0.2%, or 126,000 b/d in 2007 — the first decline since 2002. OPEC production dropped by 350,000 b/d due to the cumulative impact of production cuts implemented in November 2006 and February 2007. Amongst the 10 members participating in production cuts, crude oil output fell by 900,000 b/d. Saudi Arabia's output dropped by 440,000 b/d — the largest decline in the world last year. Increased output in Angola and Iraq, and growing supply of condensates/natural gas liquids (NGLs), partially offset that decline. Oil production growth outside OPEC remained weak, rising by 230,000 b/d in 2007. OECD output declines moderated, but nonetheless fell for a fifth consecutive year. Production in both Norway and Mexico declined by more than 200,000 b/d. Former Soviet Union output rose by nearly 500,000 b/d, with Azerbaijan and Russia each growing by more than 200,000 b/d.

World Oil Production

(Thousand barrels daily)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Change 2007 over 2006	2007 share of total
North America	14,267	14,182	13,678	13,904	13,906	14,069	14,193	14,137	13,696	13,732	13,665	-0.5%	16.5%
South & Central America	6,493	6,908	6,699	6,813	6,722	6,619	6,314	6,680	6,899	6,866	6,633	-3.6%	8.5%
Europe & Eurasia	14,235	14,199	14,480	14,950	15,450	16,289	16,973	17,579	17,542	17,600	17,835	1.5%	22.0%
Middle East	21,731	22,964	22,328	23,516	23,006	21,623	23,357	24,818	25,393	25,589	25,176	-1.8%	30.8%
Africa	7,768	7,644	7,583	7,804	7,897	7,994	8,402	9,268	9,846	9,995	10,318	3.2%	12.5%
Asia Pacific	7,737	7,692	7,608	7,928	7,866	7,884	7,791	7,843	7,880	7,877	7,907	0.3%	9.7%
- China	3,211	3,212	3,213	3,252	3,306	3,346	3,401	3,481	3,627	3,684	3,743	1.6%	4.8%
TOTAL WORLD	72,231	73,588	72,377	74,916	74,847	74,478	77,031	80,326	81,255	81,659	81,533	-0.2%	100.0%

Source: BP Statistical Review of World Energy 2008, June 2008

INDUSTRY OVERVIEW AND REGULATION

(2) Oil Demand in China

Overview

China is the world's most populous country and has a rapidly growing economy. According to the World Economic Outlook issued by International Monetary Fund in November 2008, China's real GDP is estimated to grow at 8.5% in 2009, well above the world's GDP growth of approximately 2.2% during the same period. Together with strong economic growth, China's demand for energy is rapidly surging. In 2006, China was the second-largest end user of oil after the United States, and consumed 7.45 million b/d.

Although coal remains China's leading energy source, between 1990 and 2007, market share was lost to oil, natural gas and hydro-power, nuclear power and wind power. In China, oil was the second largest source of energy with a market share increase of approximately 3.1% from 16.6% in 1990 to 19.7% in 2007.

Total consumption of energy in China

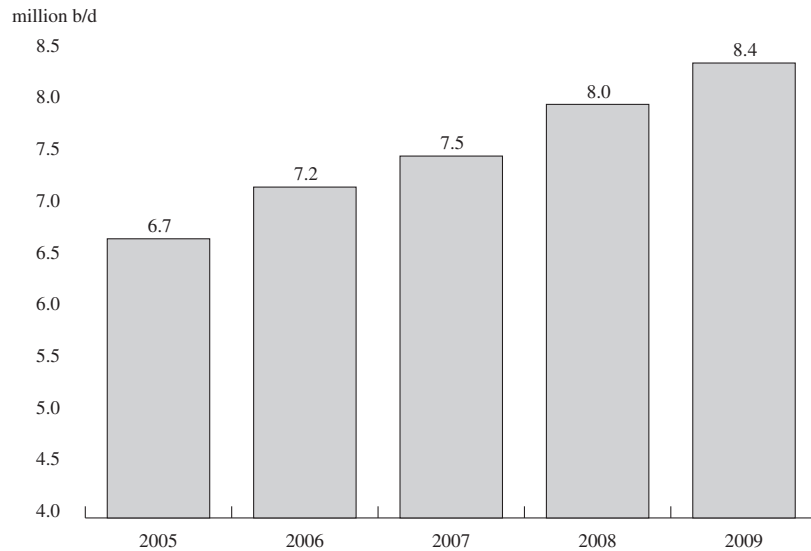
	Coal	Oil	Natural gas	Hydro-power, nuclear power, wind power
	(%)	(%)	(%)	(%)
1990	76.2	16.6	2.1	5.1
1991	76.1	17.1	2.0	4.8
1992	75.7	17.5	1.9	4.9
1993	74.7	18.2	1.9	5.2
1994	75.0	17.4	1.9	5.7
1995	74.6	17.5	1.8	6.1
1996	74.7	18.0	1.8	5.5
1997	71.7	20.4	1.7	6.2
1998	69.6	21.5	2.2	6.7
1999	69.1	22.6	2.1	6.2
2000	67.8	23.2	2.4	6.7
2001	66.7	22.9	2.6	7.9
2002	66.3	23.4	2.6	7.7
2003	68.4	22.2	2.6	6.8
2004	68.0	22.3	2.6	7.1
2005	69.1	21.0	2.8	7.1
2006	69.4	20.4	3.0	7.2
2007	69.5	19.7	3.5	7.3

Source: 《中國統計年鑑2008》(China Statistical Yearbook 2008)

INDUSTRY OVERVIEW AND REGULATION

Growth Drivers to the Oil Demand in China

Annual Oil Product Demand in China



Source: Oil Market Report, 10 October 2008

According to the Oil Market Report issued by IEA on 10 October 2008, China's oil product demand is expected to increase from 6.7 million b/d in 2005 to 8.4 million b/d in 2009, with a CAGR of approximately 5.8%. Currently, China is the second largest oil consumer in the world and the growth in Chinese consumption of oil and petroleum products is expected to be sustained by the following drivers:

- **Accelerated urbanisation process** — According to The Energy Development Report of China 2007 published by Social Sciences Academic Press in March 2007, per capita energy consumption in urban areas is approximately 350% of those in rural areas. In 2005, the urbanisation rate in China was 41%, which was 10% lower than the world's average urbanisation rate. It is estimated that the urbanisation rate in China will further rise to 55-60% in 2020, and it will create huge demand for energy, including oil and petroleum products, during the accelerated urbanisation process.
- **Substantial transportation infrastructure investment from China government** — At present, a considerable amount of road construction and repair is underway. China also has an ambitious plan to construct a 53,125-mile national expressway network to connect all of its major transportation hubs, including railways, airports and ports. The pace and extent of transportation infrastructure improvements in China will influence the pace of growth in its transportation energy use. Inter-connecting cities with major railways, airports and ports will allow goods and people to flow more quickly, making motorised road travel — for both freight transport and personal motor vehicles — more attractive, and it will stimulate transportation energy consumption in China.

INDUSTRY OVERVIEW AND REGULATION

(3) Oil reserves and production in China

Set out below are the world's proved oil reserves statistics, extracted from BP Statistical Review of World Energy 2008:

	Thousand million barrels	Share of total	R/P ratio (note)
North America	69.3	5.6%	13.9
South & Central America	111.2	9.0%	45.9
Europe & Eurasia	143.7	11.6%	22.1
Middle East	755.3	61.0%	82.2
Africa	117.5	9.5%	31.2
Asia Pacific	40.8	3.3%	14.2
- China	15.5	1.3%	11.3
 TOTAL WORLD	 1,237.9	 100.0%	 41.6

Source: BP Statistical Review of World Energy 2008, June 2008

Note: R/P ratio is an indicator describing the number of years of remaining production from current proved reserves at current production rates.

Although China is the third largest country in the world, its proven oil reserve, are relatively small. It only shares 1.3% of the world's proven oil reserve. The R/P ratio of China's proved oil reserves is around 11.3 years, which means that at the existing rate of production, proven reserves in China would yield only 11.3 more years of oil production in the PRC.

Apart from its limited proven oil reserves, the oil production in China is also restricted by its complex geological environment.

China's energy resources are scattered widely across the country, but distribution is uneven. Compared to other countries, China faces severe geological difficulties in tapping energy resources. For example, oil and gas resources are located in areas with complex geological conditions and at great depths, requiring advanced and expensive prospecting and tapping techniques. Affected by such restrictions, oil production in China only increased by approximately 15.1% from 3.25 million b/d in 2000 to 3.74 million b/d in 2007. However, oil consumption in China surged by approximately 64.8% from 4.77 million b/d in 2000 to 7.86 million b/d in 2007, widening the oil demand-supply gap in China since 2000. To satisfy its increasing demand for oil, more oil and petroleum products have been imported by China from overseas over the past decade.

INDUSTRY OVERVIEW AND REGULATION

(4) Suppliers in the international oil market

In general, suppliers in the international oil market generally fall into the following categories:

National Government-owned Oil Companies

National Government-owned Oil Companies generally operate as monopolies in their respective countries. Many major oil and gas producing countries possess their own national company, each of which is responsible for maximising returns from the petroleum interests of the country. National Government-owned Oil Companies include Kuwait Petroleum Corporation (Kuwait), Saudi Aramco (Saudi Arabia), CNOOC (China), PetroChina (China) and Pertamina (Indonesia).

State-owned oil producers in China, such as CNOOC and PetroChina, with export quotas granted by the PRC government, may export crude oil and petroleum products to customers in overseas markets as well as to crude oil trading companies in the spot market.

Oil Majors

Oil Majors are leading global energy companies typically with large and integrated operations, including exploration, exploitation, production, refinery, trading and marketing of energy products, situated in many locations around the world. Oil Majors include (i) ExxonMobil, (ii) British Petroleum, (iii) Royal Dutch Shell, (iv) Total S.A., (v) Chevron Corporation and (vi) ConocoPhillips.

Oil trading companies

There are a large number of oil trading companies scattered around various countries mainly specialising in the frequent trading of oil products on the spot market with their counterparties. Their scale of operation is small relative to National Government-owned Oil Companies and Oil Majors. Oil trading companies may purchase oil products from National Government-owned Oil Companies, Oil Majors and/or other oil trading companies. To the best knowledge of our Directors, each of the National Government-owned Oil Companies, Oil Majors and large oil trading companies has its own list of approved counterparties.

(5) Oil and petroleum products import in China

China became a net importing country of petroleum products in 1993 and a net importer of crude oil in 1996. The net oil and petroleum products imports have increased rapidly since 2000. Net imported crude oil increased by approximately 131.6% from approximately 59.96 million tonnes in 2000 to approximately 138.84 million tonnes in 2006, while net imported petroleum products increased by approximately 145.7% from 9.78 million tonnes in 2000 to 24.03 million tonnes in 2006. Stimulated by its robust economic development and accelerated urbanisation process, demand for oil and petroleum products will continue to grow in China. However, such fast-growing demand is unlikely to be satisfied by domestic production. Therefore, we expect China's net oil and petroleum products imports to continue their increase, and create a favourable business environment for oil import agents and trading companies.

INDUSTRY OVERVIEW AND REGULATION

Set out below is inter-area movements of oil among major countries in 2007.

From	To												Total
	US	Canada	Mexico	S. & Cent. America	Europe	Africa	Austral- asia	China	Japan	Singapore	Other Asia Pacific countries	Rest of World	
US	—	226	231	450	329	30	9	6	88	15	22	33	1,439
Canada	2,426	—	1	†	10	—	—	9	7	3	†	—	2,457
Mexico	1,533	26	—	194	176	—	—	—	—	4	38	4	1,975
S. & Cent. America	2,592	109	60	—	469	41	†	278	9	3	7	3	3,570
Europe	1,038	408	106	156	—	300	3	9	14	8	34	195	2,273
Former Soviet Union	467	42	—	35	6,726	4	†	532	166	4	220	137	8,334
Middle East	2,218	140	16	91	2,957	772	154	1,587	4,032	844	6,806	63	19,680
North Africa	795	182	3	113	1,923	87	—	93	6	3	129	—	3,336
West Africa	1,933	81	3	425	781	77	2	719	45	4	758	—	4,830
East & Southern Africa	—	—	—	†	3	—	—	255	103	19	27	—	407
Australasia	4	—	—	†	†	—	—	29	67	191	252	†	543
China	13	1	1	50	18	3	3	—	26	77	202	5	399
Japan	54	8	14	†	19	1	32	64	—	22	26	1	241
Singapore	15	†	4	6	25	21	192	69	27	—	1,069	11	1,440
Other Asia Pacific countries	235	5	11	99	85	12	408	458	441	1132	—	5	2,892
Unidentified	308	125	—	†	432	—	26	†	—	—	117	†	1,008
TOTAL IMPORTS	13,632	1354	451	1,620	13,953	1,350	830	4,111	5,032	2,329	9,705	457	54,824

* Includes changes in the quantity of oil in transit, movements not otherwise shown, unidentified military use, etc.

† Less than 0.5%.

Source: BP Statistical Review of World Energy 2008, June 2008

According to BP Statistical Review of World Energy 2008, Middle East, West Africa and other Asia Pacific countries constituted major sources of oil products imported by China, which accounted for 38.6%, 17.5% and 11.1% of the total oil products imported by China in 2007, respectively.

Under existing PRC regulatory restrictions, only the State-authorized Import Agents are permitted to import crude oil and petroleum products. Therefore, oil refineries do not generally have direct access to the international crude oil market. Purchase orders for crude oil and petroleum products must generally be placed by oil refineries through the State-authorized Import Agents.

Amongst the State-authorized Import Agents, the Five State-owned Licensed Import Agents dominate the import of crude oil and petroleum products in the PRC.

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To the best knowledge of our Directors, the main policy objective of the Five State-owned Licensed Import Agents is to ensure a regular supply of crude oil and petroleum products to their respective parent group's oil refineries and private oil refineries in the PRC. The Five State-owned Licensed Import Agents regularly procure crude oil and petroleum products from suppliers in the international oil market including:

1. *National Government-owned Oil Companies and Oil Majors*

According to planned procurement schedules, the Five State-owned Licensed Import Agents sign annual/ quarterly crude oil and petroleum supply contracts with National Government-owned Oil Companies and Oil Majors. Procurements from National Government-owned Oil Companies and Oil Majors are major sources of PRC crude oil and petroleum products imports. In general, the average quantity per shipment under these supply contracts are comparatively large compared to purchases from oil trading companies

2. *Oil trading companies*

In addition to the planned and large-batch procurements from National Government-owned Oil Companies and Oil Majors, from time to time, in order to satisfy the following, the Five State-owned Licensed Import Agents would also procure crude oil and petroleum products on a per shipment basis from the international oil market through oil trading companies:

- unplanned demand for crude oil and petroleum products from oil refineries in the PRC; and
- demand for different varieties of crude oil for the purpose of blending. Crude oil blending refers to the process of mixing a number of crude oil feed-stocks which vary in quality, to achieve a finished product of closely defined quality and quantity.

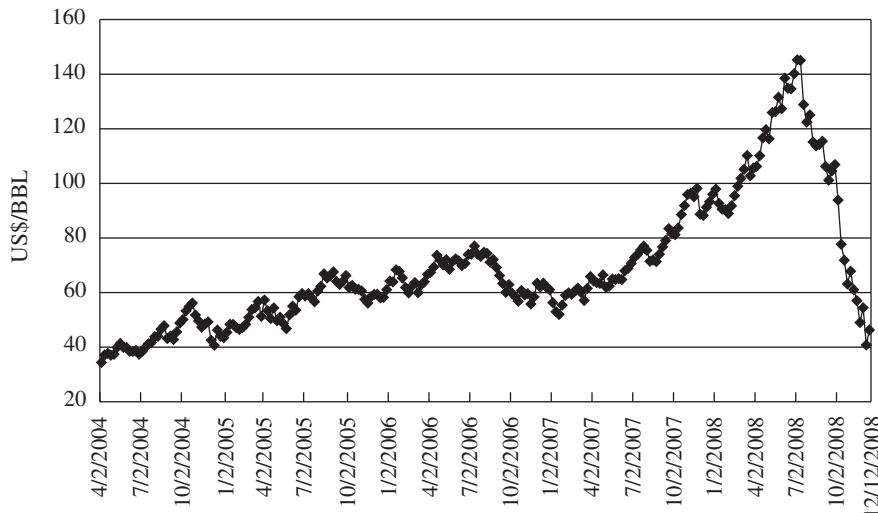
Relative to procurements from the Five State-owned Licensed Import Agents, the average quantity per shipment procured from oil trading companies is small, and oil trading companies are required to deliver the requested crude oil and petroleum products to the Five State-owned Licensed Import Agents within a short time frame.

According to the above, it is common for the Five State-owned Licensed Import Agents to transact with both (i) National Government-owned Oil Companies and Oil Majors; and (ii) oil trading companies for the procurement and sale of oil products.

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(6) Crude oil price movements

Spot price of West Texas Intermediate Crude Oil



Stimulated by (i) increasing demand for crude oil due to strong recovery in the global economy and increases in PRC imports; and (ii) geopolitical concerns over Iran and Iraq, the spot price of West Texas Intermediate crude oil increased gradually from approximately US\$47/BBL in January 2005 to approximately US\$75/BBL in July 2006 — a historical high at that time.

However, in early January 2007, the West Texas Intermediate crude oil dropped to 20-month low of approximately US\$58.14/BBL due to (i) unusually warm weather, particularly in the Atlantic Basin, which reduced oil demand; and (ii) weak sentiment in the commodity market.

West Texas Intermediate crude oil then rose to unprecedented heights in July 2008. On 4 July 2008, West Texas Intermediate crude oil reached approximately US\$145.29/BBL, an increment of approximately 149.8% from US\$58.15/BBL in early January 2007. The significant upward price movement was attributable to various factors, including (i) weak US dollar adding support to dollar-denominated commodity prices; (ii) higher anticipated global inflation rates attracting capital flow to the commodities market; (iii) rising geopolitical tension over Iran and Nigeria; and (iv) OPEC's reluctance to increase oil supply.

As negatively affected by (i) the falling demand for crude oil as a result of global economy slowdown; and (ii) outflow of money from the commodity market, West Texas Intermediate Crude Oil gradually decreased from approximately US\$145.29 per barrel in July 2008 to approximately US\$46/BBL in mid-December 2008.

Our Directors are of the view that underlying oil products traded by us may not have any public markets to yield daily market prices. Therefore, no discussion can be made on the price fluctuation and volatility of those underlying oil products.

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In addition, we usually price an underlying trading oil product on a fixed-price or floating-price basis with reference to another oil product, which may not be the same as the underlying trading oil product. Given that reference oil products are oil-related commodities, exhibiting a high correlation to the price trend of “Spot Price of West Texas Intermediate Crude Oil” as disclosed above, our Directors consider that the current discussion on price fluctuation and volatility by reference to “Spot Price of West Texas Intermediate Crude Oil” — a widely used crude oil index — is sufficient.

(7) Storage facilities for crude oil, petroleum and petrochemical products in the PRC

Overview

China became a net importer of petroleum products in 1993 and of crude oil in 1996. Demands for imported crude oil and oil products have grown steadily in recent years, due to the development of China’s economy, soaring investment growth in the heavy industrial sector and accelerating urbanisation rate. According to China Customs statistics, total values of crude oil and petroleum products imported by China in 2007 amounted to approximately US\$79.8 billion and US\$16.4 billion, representing an annual growth of approximately 20.1% and 5.7%, respectively.

China’s oil imports are expected to see continued growth in order to support China’s ambitious modernisation programme, and most of the imported crude oil is sourced from a limited number of politically and economically unstable countries and regions - mainly the Persian Gulf and the Caspian region. Given the importance of energy supply security, China will spend heavily to boost its infrastructure including storage facilities, transportation, deep-water jetties for crude imports and pipelines as part of its programme to strengthen its oil supply chain.

In addition to its investments in infrastructure for the oil industry, China has started to formulate plans for the strategic oil reserves and construction of some oil reserve facilities, which are important strategic measures for guarding against energy supply disruptions, ensuring sustainable energy supply, and stabilising the oil market.

Under the strategic oil reserves plan, China will establish a four-tiered oil reserve system. The first tier is the national strategic oil reserve mechanism, whose focus is crude oil and main objective is to ensure energy security when oil supply is seriously affected by military or political turbulences in other parts of the world. The other three tiers are (i) reserves of local governments; (ii) commercial reserves of the three major state-owned oil corporations; and (iii) reserves of small and medium oil enterprises, all of which place particular emphasis on petroleum products.

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Development of commercial oil reserves and storage facilities in the PRC

In addition to the above strategic oil reserves plan, development of commercial oil reserves and storage facilities is also stimulated by the following growth drivers:

(a) Expanding refining capacity in China

To meet rising demand for petroleum products and lessen reliance on import petroleum products, China will continue to further expand its refining capacity by constructing new refineries and upgrading existing plants. In 2007, China refined 326.79 million tonnes of crude oil, being an annual increase of 6.4%, according to the China Petroleum and Chemical Industry Association, the industrial association of the country's petroleum and petrochemical sector.

Output of refined oil products, comprising gasoline, diesel and kerosene, is 195 million tonnes, a year-on-year increase of 7.2%. The growth is 2.5% higher than the previous year.

As storage is part of the oil supply chain, the expansion of refining capacity and blending requirements for petroleum products in China will continue to boost demand for storage facilities in China.

(b) Accelerating growth in oil demand and trade volume

Over the past few years, oil demand and trade volume in China has escalated, and oil prices have increased significantly. Commercial storage for crude oil, petroleum and petrochemical products has become a source of value and a lucrative business for many enterprises. Established oil players and new entrants alike seek for opportunities in the bullish, yet volatile, oil market and consider storage not only as an essential segment in the supply chain of the petroleum market but also a value-generating part of their business.

In addition, amongst the attractive aspects of commercial storage is the relatively low cost compared to other segments of the oil supply chain, such as oil refineries and oil rigs.

The development of storage facilities industry in Nantong

The Yangtze River Delta is one of the largest heavy industrial bases in China, and it is also a main logistic hinge for the large inland industrial cities with strong demand for petroleum and petrochemical products. Therefore, many refineries and chemical complex are located along the Yangtze River and coastal region.

Nantong City is located at the estuary of the Yangtze River in the east of Jiangsu province. Bordering on the river and facing the Pacific Ocean, Nantong stands opposite Shanghai across the river, enjoying a golden coast and waterway as well as such well-known titles as "Pearl of the River and Sea" and "the First Window on the Yangtze River".

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Nantong has easy access to its hinterland, whether by road or by waterway, and is an ideal hub port for cargo trans-shipment. After years of development, it has become an important bulk cargo distribution centre for inland industrial cities along the Yangtze River.

Leveraging on the unique geographic location and proximity to refining and petrochemical bases along the Yangtze River, many oil enterprises have constructed commercial storage facilities in Nantong. For example, Sinochem Nantong Terminal Co., Ltd have constructed 58 storage tanks for petroleum and petrochemical, with a storage capacity of approximately 238,000 m³ in the Jianghai Harbor Area of Nantong city.

To satisfy the growing demand for petroleum and petrochemical products at the Yangtze River Delta, many new refineries and chemical complexes are expected to be established at Nantong and other cities along the Yangtze River, which will create sizeable demand for storage facilities in Nantong.

Laws and regulations in relation to our business operation

(1) *Hong Kong*

(i) Business registration

Other than the business registration certificate (granted under the Business Registration Ordinance (Chapter 310 of the laws of Hong Kong)), we are not required to obtain any other licences or permits with any governmental department or regulatory authority in Hong Kong to carry out our trading business in Hong Kong.

(ii) Scope of Charge to Hong Kong Profits Tax

Hong Kong adopts a territorial basis of taxation, which means that only profits arising in or derived from Hong Kong will be subject to Hong Kong Profits Tax. Pursuant to Section 14 of the Inland Revenue Ordinance, a person is chargeable to Hong Kong Profits Tax if the following three conditions are satisfied:

- The person is carrying on a trade, profession or business in Hong Kong;
- The profits are derived from that trade, profession or business (excluding profits arising from the sale of capital assets); and
- The profits arise in or are derived from Hong Kong.

The Hong Kong Profits Tax rate for the Relevant Periods is 17.5%.

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(2) *Macao*

(i) Trading activities

Other than the commercial registration and the certificate of authorisation of offshore services (granted by the Macao Trade and Investment Promotion Institute under Macao's Offshore Law), we are not required to obtain any other licences or permits with any governmental department or regulatory authority in Macao to carry out our trading business in Macao.

(ii) Macao SAR's Offshore Tax

Macao SAR's Offshore Law has been in effect since 1 November 1999. The offshore finance business is regulated and supervised by the Macao Monetary Authority, while the regulation and supervision of the offshore non-finance business is implemented by the Macao Trade and Investment Promotion Institute ("IPIM"). To operate an offshore service business, an investor has to abide by the following rules:

- To use only non-Macao currency in their activities;
- To target only non-Macao residents as customers; and
- To focus only on non-Macao markets.

Being an offshore commercial service institution duly set up with authorisation from the IPIM, Strong Petrochemical (Macao) is not subject to income tax, industrial tax and stamp duties on (a) insurance policies concerning offshore risks; (b) contracts established with entities with registered headquarters not in Macao; (c) bank transactions carried out within the scope of offshore business; and (d) its incorporation and any increase in its share capital. In addition, its managers and specialised technicians (non-Macao residents), who are authorised to reside in Macao, are not subject to salary tax for the first three years of their employment.

(3) *China*

Under the current PRC regulatory restriction, only licensed importers are permitted to import crude oil and petroleum products. To the best knowledge of our Directors, the import of crude oil and petroleum products in the PRC is dominated by the Five State-owned Licensed Import Agents. As announced by MOFCOM in October 2007, the total quota granted to non-state-owned entities to import crude oil and petroleum products in 2008 amounted to approximately 19.2 million tonnes and 10.7 million tonnes, representing only 11.7% and 31.5% of total import of crude oil and petroleum product in 2007, respectively.

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As advised by our PRC Legal Advisor, there is no specific regulation in the PRC governing the storage of petrochemical products and, except for the requirement of a business licence, no petrochemical product storage operation licence is required for the storage of petrochemical products. On the other hand, sales and storage crude oil and petroleum products are subject to the licensing requirement under the Administrative Measure on the Crude Oil Market (原油市場管理辦法) and the Administrative Measures on the Petroleum Products Market (成品油市場管理辦法). Unlike crude oil and petroleum products, no petrochemical product storage operation licence is required for the storage of petrochemical products.

During the Track Record Period, we started to develop the PRC Storage Business through our investment in the Nantong Project and Tianjin Project. In order to capture business opportunities in the PRC arising from (a) deregulation of crude oil and petroleum products markets after the PRC's entry into the World Trade Organisation in December 2001, as more private companies like ourselves are enabled to participate in the import of oil products, and at the same time become our potential customers by sourcing oil products from us; and (b) increasing demand for imported oil products due to rapid industrialisation and economic growth in the PRC, we are planning to apply for the relevant business licences with respect to the storage and sale of imported petroleum products in the PRC since, according to the above administrative measure, only licensed corporations can import petroleum products into the PRC. Obtaining necessary licences will form our medium-term business objective, and we will be subject to the following rules and regulations in the PRC:

《成品油市場管理辦法》(Administrative Measures on the Petroleum Products Market)

(I) *Enterprises applying for the qualification of petroleum products wholesale operation shall fulfill the following conditions:*

(1) Possess long-term and stable petroleum product supply channels through:

- being an oil refining enterprise complying with State industry policies, with an annual processing capacity of crude oil exceeding 1,000,000 tons and annual production capacity of petroleum and diesel complying with State product quality standard of 500,000 tons; or
- being an import enterprise qualified for petroleum product import operation; or
- entering into petroleum product supply agreement with an enterprise qualified for petroleum product wholesale operations and with an annual operation of petroleum product exceeding 200,000 tons. The agreement shall be of a term of over one year and with a scale comparable to that of the operation; or
- entering into petroleum product supply agreement with an import enterprise whose annual import of petroleum product exceeds 100,000 tons. The agreement shall be for a term of over one year and with a scale comparable to that of the operation;

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- (2) Being a corporate legal person in the PRC with registered capital of not less than RMB30 million; and
- (3) Where an applicant is the branch company of a corporate legal person in the PRC, the legal person shall possess qualification of petroleum product wholesale operation; and
- (4) Possess depots for storage of petroleum products with a storage capacity not less than 10,000 m³. Construction of the oil depots shall comply with urban and village planning, oil depots allocation planning, and shall have passed the inspection acceptance by the authorities of state land resources, planning and construction, safety regulation, public security and fire prevention, environment protection, meteorology and quality inspection etc.; and
- (5) Possess facilities for uploading/discharging of petroleum products such as transmission pipelines, special railway lines, highway transportation vehicles, or petroleum product marine terminal of over 10,000 ton berth.

(II) ***Enterprises applying for the qualification of petroleum product storage operation shall fulfill the following conditions:***

- (1) Possess depots for storage of petroleum products with a storage capacity not less than 10,000 m³. Construction of the petroleum depots shall comply with urban and village planning, oil depots allocation planning, and shall have passed the inspection acceptance by the authorities of state land resources, planning and construction, safety regulation, public security and fire prevention, environment protection, meteorology and quality inspection etc.; and
- (2) Be in the capacity of a corporate legal persons in the PRC with registered capital of not less than RMB10 million; and
- (3) Possess facilities for uploading/discharging of petroleum products such as transmission pipelines, special railway lines, highway transportation vehicles, or petroleum product marine terminal of over 10,000 ton berth; and
- (4) Where an applicant is the branch company of a corporate legal person in the PRC, the legal person shall possess the petroleum product storage operation qualification.

The enterprise applying for qualification in respect of the petroleum product wholesale operation and storage operation shall submit its application to the Department of Commerce at the provincial level, who shall make and report its preliminary decision to the MOFCOM in 20 working days after the acceptance of such application. After reviewing the qualifications of the applicant and other application documents, the MOFCOM will make the final decision in 20 working days. If the application is approved, then the written decision and the “Approval Certificate for Petroleum Product Wholesale Operation” or “Approval Certificate for Petroleum Product Storage Operation” will be issued simultaneously. In case the application is denied, a written decision together with statement of reasons will be served on the applicant.

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As our long-term business objective, we intend to apply for the relevant licences to store and sell crude oil in the PRC. According to existing PRC laws and regulations, we will be subject to the followings relevant laws:

《原油市場管理辦法》(Administrative Measures on the Crude Oil Market)

(I) *Enterprises applying for the qualification of crude oil wholesale operation shall fulfill the following conditions:*

- (1) Be in the capacity of a corporate legal person in the PRC with a registered capital of not less than RMB100 million; and
- (2) Possess long-term and stable crude oil supply channels through:
 - being a crude oil mining enterprise having obtained the “Oil Mining Permit” as approved by the State Council and having effective output; or
 - being an import enterprise qualified for crude oil importation with an annual import volume of over 500,000 tons; or
 - entering into a crude oil supply agreement with an enterprise fulfilling the requirements as mentioned in sub-section 1 and 2 of this section; the agreement shall be of a term of over one year and of a scale comparable with that of the operation;
- (3) Possess long-term, stable and lawful crude oil sales channels; and
- (4) Possess depots for storage of crude oil with a storage capacity of not less than 200,000 m³. Construction of the oil depots shall comply with urban and village planning, oil depots allocation planning, and shall have passed the inspection acceptance by the authorities of state land resources, planning and construction, safety regulation, public security and fire prevention, environment protection, meteorology and quality inspection etc.

(II) *Enterprises applying for the qualification of crude oil storage operation shall fulfill the following conditions:*

- (1) Be in the capacity of a corporate legal person in the PRC with registered capital of not less than RMB50 million; and
- (2) Possess depots for storage of crude oil with a storage capacity of not less than 500,000 m³. Construction of the oil depots shall comply with urban and village planning, oil depots allocation planning, and shall have passed the inspection

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acceptance by the authorities of state land resources, planning and construction, safety regulation, public security and fire prevention, environment protection, meteorology and quality inspection etc.; and

- (3) Possess facilities for uploading/discharging of crude oil such as transmission pipelines, special railway lines, or crude oil marine terminal of not less than 50,000 ton berth.

Regulatory approvals, licences and permits for dangerous chemicals

On 26 January 2002, the State Council promulgated the Regulation on Safety Administration of Dangerous Chemicals (危險化學品安全管理條例), which took effect on 15 March 2002. This regulation sets forth general requirements for the production and operation of certain chemicals that are considered to be dangerous under the Dangerous Chemicals Catalogue (危險化學品名表) (including gasoline and crude oil). The Regulation on Safety Administration of Dangerous Chemicals (危險化學品安全管理條例) was further supplemented and elaborated by subsequent regulations and rules. Under PRC law, the production, operation, storage, transportation of chemicals in the Dangerous Chemicals Catalogue (危險化學品名表) require specific regulatory approval, licences and permits.

The Environmental Protection Law (中華人民共和國環境保護法)

The Environmental Protection Law (中華人民共和國環境保護法), promulgated by the NPC Standing Committee on 26 December 1989 and effective as of 26 December 1989, provides that a construction project with possible pollution may be approved by the planning authority only after approval by the environmental protection administration. The pollution-controlling facility must synchronise the principal project in respect of design, building, and use. No construction project may be put into operation unless the pollution-controlling facility passes inspection for acceptance by the competent environmental protection administration. Pollution-emitting enterprises must register in the environmental protection administration and should pay additional emission fees for emissions in excess of the standards applicable under national or local emission criteria. Violation of the aforesaid rules may result in fines determined by the competent environmental protection administration. Enterprises causing serious pollution should be ordered to fulfill remedy within a fixed time limit, and, in case of failed remedy, be ordered to pay additional fines, wind up, or be closed down.

According to the Administrative and Technical Criteria for Storage Enterprise of Refined Oil Product (成品油倉儲企業管理技術規範)(SB/T 10445-2007) (the “Criteria”) promulgated by the MOFCOM, which became effective as of 1 May 2008, the construction of oil depot should satisfy conditions including:

1. Leakage prevention measures shall be adopted on oil tanks and oil transfer pipe lines;
2. positive pressure oil unloading technique is proposed to be used in the unloading of oil;
3. flammable gas alert shall be set up in gasoline storage tanks area, oil pump room, and oil departure area in accordance with relevant PRC requirements;

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4. oil vapor recycling equipment is proposed;
5. fire-dike designed in accordance with relevant design standards shall be installed in the oil storage tanks area;
6. third class pollution discharge pool or oil-water separation device shall be equipped in oil depot;
7. the discharge of oil vapor and waste water shall meet the national standard of pollutants discharge in relation to oil storage and transportation;
8. Oil Containment Boom, oil-absorbing roll, oil-collecting device and other pollution prevention equipment shall be installed on the oil dock. Those devices are required to pass the environment evaluation and shall meet relevant local environmental protection standards.

Pursuant to the Criteria, the oil products storage enterprise shall abide by the following requirements in relation to the environmental protection in its daily operations:

1. the enterprise shall establish the Health, Safety and Environment Management System, which is a structured set of controls for managing business operations in respect of health, safety, and environment. By conducting risk pre-assessment to evaluate the potential operational hazards and subsequent effects, the approach focuses on taking effective preventive measures to minimise potential personal injuries, property loss, and environmental pollution; and
2. Air quality in workplaces at oil storage enterprise shall meet the requirements set forth in relevant PRC standards, and the emission of oil vapor is subject to relevant PRC standards.

The New EIT Law and its implementing rules

The New EIT Law and the Regulations to the Enterprise Income Tax Law of PRC (中華人民共和國企業所得稅法實施條例), promulgated by the State Council on 28 November 2007 and effective as of 1 January 2008, provide that the PRC EIT rate applicable to all enterprises, resident or non-resident, except individual-invested sole-proprietorship and partnership established under PRC laws and regulations, shall be 25%, generally. Resident enterprises, including but not limited to companies, institutes, associations, and other entities established under PRC laws and regulations, should pay PRC EIT in connection with their income from PRC and abroad; non-resident enterprises with branch(es) within PRC, including but not limited to companies and other entities established under laws of foreign countries/regions, should pay PRC EIT in connection with income of such branch(es) from or out of PRC but of substantial connection with such branch(es); non-resident enterprises without any branch in PRC should pay at the PRC EIT rate in connection with their income from PRC, at the tax rate of 20%. High technology enterprises highly encouraged and supported by the State are subject to the PRC EIT rate of 15%. Enterprises established before 16 March 2007 and enjoying preferential tax rates under then effective tax laws and regulations, may transit to the tax rate

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therein, pursuant to applicable regulations by the State Council; those entitled to tax reduction and exemption for a fixed term may enjoy such preferences until such term expires, provided that such term which failed to commence because of nonoccurrence of profit should commence in 2008, pursuant to applicable regulations of the State Council.

The Labour Contract Law of PRC (中華人民共和國勞動合同法) and The PRC Law for Promotion of Employment (中華人民共和國就業促進法)

The Labour Contract Law of PRC (中華人民共和國勞動合同法), promulgated by the NPC Standing Committee on 29 June 2007 and effective as of 1 January 2008, provides that an employer should enter into a written labour contract with an employee upon the commencement of an employment or, at least, within one month thereafter, otherwise the employer should pay the employee twice the salary every month. A labour contract may be of a fixed term, indefinite term, or a term until completion of certain work period. Unless otherwise stated by the employee, an indefinite labour contract should be established between the employer and the employee (a) who has worked for the employer for more than ten consecutive years; (b) who has worked for the employer for more than ten consecutive years and is less than ten years from the statutory retirement age, in case of an employer implementing the labour contract system for the first time or immediately reshuffled from a state-owned enterprises; (c) who has consecutively signed the labour contract of fixed term twice; and (d) with whom the employer signs no written contract within one year after commencement of employment. An employer which should sign a labour contract of indefinite term but failed to do so should pay the employee twice the salary every month from the date when the employer should have done so. No breach-of-contract damages liable to the employee under a labour contract should be valid unless such damages (aa) are stipulated as compensation for expenses on certain technical training in a written agreement under which the employer finances the employee for such training while the employee promises to serve the employer for a particular term; and (bb) are stipulated in the labour contract or a separate confidentiality agreement under which the employee is obliged to keep confidential the trade secrets and intellectual property-related secrets, and to observe the non-competition clause, while the employer should compensate the employee on a monthly basis within such non-competition period.

The PRC Law for Promotion of Employment (中華人民共和國就業促進法), promulgated by the NPC Standing Committee on 30 August 2007 and effective as of 1 January 2008, provides that no employee can be discriminated in employment by reason of ethnic group, race, gender, or religious belief. An employer should neither refuse, nor impose higher conditions on, the employment of any woman, merely because of such gender; and no provision limiting any woman employee in marriage and child-bearing is allowed in the labour contract. The employer should not refuse the employment of anybody just because of such person being an infection pathogen carrier, unless otherwise stated by laws and regulations. Additionally, enterprises should allocate an employee education fund intended for occupational training and further education of employees, violation of which may result in punishment imposed by the labour administration.

Our Group has complied with all the relevant regulatory requirements for our operations in Hong Kong, Macao and the PRC. Our Directors with the advice of the relevant professionals will ensure the ongoing compliance with the relevant laws and regulations in respect of the above.

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REGULATION OF FOREIGN EXCHANGE IN CERTAIN ONSHORE AND OFFSHORE TRANSACTIONS

On 21 October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), which became effective on 1 November 2005. This notice requires PRC residents to register with SAFE certain offshore investment activities. According to our PRC Legal Advisor, since the Controlling Shareholders are not PRC residents, this notice does not apply to any of them.

REGULATION ON THE MERGERS AND ACQUISITIONS OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

On 8 August 2006, six PRC regulatory agencies, including the MOFCOM and the CSRC, promulgated a new regulation with respect to the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors that became effective on 8 September 2006. Article 40 of the regulation requires that an offshore special purpose vehicle formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain an approval from the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. Our PRC Legal Advisor has advised us that approvals of MOFCOM and CSRC stipulated under the regulation are not applicable to the Reorganisation because (a) there is no foreign acquisition of any Chinese companies by us and thus none of the members of our Group falls within the definition of a special purpose vehicle under the regulation; and (b) the regulation does not apply to the proposed Listing. Therefore, we are not required to obtain any CSRC approval the regulation.

The State Council on Further Strengthening Overseas Stock Issuance and Listing Management Notice (國務院關於進一步加強在境外發行股票和上市管理的通知), amongst other things, applies to non-listed Chinese controlled companies registered in foreign jurisdictions as well as Chinese controlled foreign companies seeking overseas listings. As neither our Company nor the Controlling Shareholders are Chinese controlled entities, we are not required to apply for any approval for the proposed Listing pursuant to the notice.

REGULATORY COMPLIANCE

In order to ensure compliance with applicable laws and regulations as described herein and to avoid any subsequent non-compliance issues, we implemented the following measures since 1 September 2008 as an internal guideline to improve compliance and corporate governance in general. These measures include the following:

- The Board has designated Mr. Wong Wing, our executive Director, to be our compliance officer. In performing his duties as compliance officer, Mr. Wong is assisted by our legal advisors in relation to compliance issues. Mr. Wong Wing has gathered his expertise from the accounting and auditing field, and in internal audit and control of companies including review of records, implementation of internal control systems, and sampling, etc. In respect

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of legal matters and post-listing compliance, upon Listing, Mr. Wong Wing and the Company will seek advice from external legal counsel with expertise in these areas on a timely basis to ensure compliance with legal and Listing Rules requirements. The compliance officer will report to the Board whenever he becomes aware of or suspects any deviation from the requirements, practice or procedures as set out in the compliance manual or any potential breach of the relevant laws and regulations by any of our employees;

- Our compliance officer, with assistance from our legal advisers, will regularly refer to relevant publications from the PRC, Hong Kong and Macao authorities to ensure that we have obtained all licences and legal documents required for our business development and operation;
- Our management and employees will report to a compliance officer (assisted by members of the senior management responsible for administration) when they encounter new legal and regulatory issues. The compliance officer will then consult our legal advisers and report to our Board on the advice provided by the legal advisers. Our Board will then make a decision as to the necessary action to be taken by our Group;
- The compliance officer will conduct quarterly reviews of legal compliance issues based on an internal compliance checklist; he will also liaise with our PRC Legal Advisor from time to time in respect of updates on PRC legal requirements; and
- These compliance measures will be reviewed quarterly and may be amended, revised or modified to ensure compliance with the prevailing laws, regulations, codes and practices. A compliance manual will be distributed to our Directors and each member of our Group accordingly.

In addition to the above compliance measures, we will engage a qualified risk advisory consultant from one of the four largest accountancy and professional services firms to perform quarterly reviews on our risk management procedures in respect of hedging activities during the first full financial year commencing after the Listing Date.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Overview

Our Company, Strong Petrochemical Holdings Limited, is a holding company and was incorporated as an exempted company in the Cayman Islands on 1 February 2008. Upon completion of the Reorganisation, our Company became the holding company of the Group. We conduct our business through our indirect wholly-owned operating subsidiaries, namely Strong Petrochemical (Macao) and Strong Petrochemical (HK). The following is a brief summary of our business milestones and corporate history.

Business Milestones

- | | |
|------|---|
| 1999 | Incorporation of Strong Petrochemical (HK) in November. |
| 2000 | Commencement of our oil business by trading petrochemical product and crude oil in the market in late 2000. |
| 2002 | Strong Petrochemical (HK) commenced trading of petroleum products and secured credit facilities of US\$15 million from Société Générale Singapore Branch and US\$6.4 million from another banker which we have discontinued the banking relationship. |
| 2003 | Strong Petrochemical (HK) entered into a buy-side term agreement of LSWR for one year. |
| 2004 | Established Strong Petrochemical (Macao) on 4 February, the main office for trading of crude oil and petroleum products. Since April, Strong Petrochemical (HK) mainly handles trading of petrochemical products, whilst the majority of trading of crude oil and petroleum products are shifted to Strong Petrochemical (Macao). The credit facilities from Société Générale Singapore Branch were increased to US\$35 million in July. |
| 2005 | Société Générale Singapore Branch increased the limit of our credit facilities to US\$70 million in March. With the support of Société Générale Singapore Branch, which is a bank specialised in commodity financing, the banking relationship with Bank of China (Hong Kong) Limited was terminated in May; credit facilities granted by our bankers increased to a total of US\$197 million, compared with the total of US\$21.4 million in 2002. |
| 2006 | Credit facilities granted by Société Générale Singapore Branch increased to US\$80 million in May; we successfully established business relationships with Chevron USA Inc (Singapore branch) and another renowned international oil company in relation to the supply of crude oil. |
| 2007 | A new trading team for petrochemical products was set up in January by Strong Petrochemical (HK). We invested in and developed the PRC Storage Business through the implementation of the Nantong Project in June 2007 and our investment in the Tianjin Company in February 2007. |
| 2008 | Credit facilities granted by Société Générale Singapore Branch increased to US\$100 million in October; MTBE was newly introduced in our existing petrochemical products trading portfolio. |

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Corporate history

The establishment of our Group is marked by the incorporation of Strong Petrochemical (HK), the operating subsidiary of our Group in Hong Kong, on 3 November 1999. Because the ultimate beneficial shareholders of both Strong Petrochemical (HK) and other operating subsidiaries of our Group were Mr. Wang and Mr. Yao, our Directors are of the view that these operating subsidiaries were under the common control of our Group during the Track Record Period.

The following is a brief corporate history of our Group, including the establishment and changes in the shareholdings of the various operating subsidiaries of our Group which are under the common control of our Company.

(1) *Strong Petrochemical (HK)*

i. Establishment

Strong Petrochemical (HK) was incorporated in Hong Kong on 3 November 1999 with an authorised share capital of HK\$10,000 and was owned as to 90% and 10% by Santron Holdings and Mr. Yao, respectively. Please refer to sub-section (2) below for detailed information about Santron Holdings.

ii. Increase in share capital and share transfer

On 15 August 2000, the authorised share capital of Strong Petrochemical (HK) was increased from HK\$10,000 to HK\$6,000,000 by a capital contribution in cash of HK\$5,990,000 made by (a) its then shareholders; and (b) an Independent Third Party. Upon the completion of the above share subscription, Strong Petrochemical (HK) was owned as to 70%, 15% and 15% by Santron Holdings, Mr. Yao and the Independent Third Party, respectively.

On 28 November 2000, each of Mr. Yao and the Independent Third Party disposed of their respective interests in Strong Petrochemical (HK) to Santron Holdings at consideration of HK\$900,000 each. On the same date, Santron Holdings transferred one share of Strong Petrochemical (HK) to Mr. Yao, and Mr. Yao holds the same on trust for Santron Holdings in accordance with a declaration of trust dated 18 October 2000.

On 20 November 2003, the authorised share capital of Strong Petrochemical (HK) was increased from HK\$6,000,000 to HK\$20,000,000 by a capital contribution in cash of HK\$14,000,000 made by Santron Holdings.

(2) *Santron Holdings*

i. Establishment

Santron Holdings is an investment holding company incorporated in the BVI on 20 October 1999 with an authorised share capital of US\$10 and was owned as to 70% and 30% by Mr. Yao and another Independent Third Party, respectively.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

That Independent Third Party was a former director of Santron Holdings and he resigned as a director on 18 October 2000.

ii. Increase in share capital and share transfer

On 18 October 2000, that Independent Third Party transferred his entire shareholding interest in Santron Holdings to Mr. Yao at a consideration of US\$3 by executing an instrument of transfer. On the same day, the authorised share capital of Santron Holdings was increased from US\$10 to US\$10,000 by a capital contribution in cash of US\$4,490 and US\$5,500 made by Mr. Yao and Sino Century (China) Ltd., respectively. Upon completion of the above share transfer and increase in share capital, Santron Holdings was owned as to 45% and 55% by Mr. Yao and Sino Century (China) Ltd., respectively.

As Sino Century (China) Ltd. and Sino Century were companies wholly-owned by Mr. Wang, pursuant to the restructuring plan of Mr. Wang to use Sino Century as the investment holding company of Santron Holdings, Sino Century (China) Ltd. transferred its entire shareholding interest in Santron Holdings to Sino Century at a consideration of US\$5,500 on 24 January 2002.

On 26 August 2002 and 10 January 2007, Sino Century transferred 499 shares and one share in Santron Holdings to Mr. Yao at the considerations of US\$499 and US\$1, respectively.

Upon completion of the above shares transfers, Santron Holdings was owned as to 50% and 50% by Mr. Yao and Sino Century, respectively.

(3) *Strong Petrochemical (Macao)*

Strong Petrochemical (Macao) was incorporated as a private company in Macao on 4 February 2004 and obtained its Certificate of Authorisation of Offshore Services on 20 February 2004. The registered capital of Strong Petrochemical (Macao) was MOP\$100,000, which was contributed in cash by Santron Holdings in full. Strong Petrochemical (Macao) is engaged in the trading of crude oil, petroleum products and petrochemical products. As the target markets and target customers of Strong Petrochemical (Macao) are respectively non-Macao areas (e.g. the PRC and overseas markets) and non-Macao residents and the transactions are conducted in currencies other than MOP, the economic activities engaged by Strong Petrochemical (Macao) are defined as offshore activities under the relevant laws of Macao. The registered capital of Strong Petrochemical (Macao) remained unchanged as at the Latest Practicable Date.

(4) *Strong Petrochemical (Nantong)*

To broaden our revenue base and secure a stable income flow, we have invested in and developed the PRC Storage Business. Strong Petrochemical (Nantong) was incorporated as a WFOE in the PRC on 29 June 2007 with a registered capital of US\$5 million. Teamskill Investments, a company incorporated in the BVI and an indirect wholly-owned subsidiary of our Company after the

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Reorganisation, is the sole equity owner of Strong Petrochemical (Nantong). As at the Latest Practicable Date, a total amount of US\$2,999,980, representing approximately 60% of the total registered capital of Strong Petrochemical (Nantong) was paid up. The remaining registered capital shall be paid up on or before 29 June 2009.

As advised by our PRC Legal advisor, the partial contribution of registered capital was in compliance with both the relevant PRC laws and regulations and the articles of association of Strong Petrochemical (Nantong) dated August 2006 which provided that a contribution in the amount of 20% of the registered capital should be paid within three months from the date of business licence, and the remaining 80% of the registered capital should be paid within two years from the date of business licence.

Reorganisation

Our Company was incorporated in the Cayman Islands on 1 February 2008 as an exempted company with limited liability. The companies comprising our Group underwent the Reorganisation. As a result, our Company became the holding company of our Group. The major steps of the Reorganisation are described in detail in the paragraph headed “Corporate Reorganisation” in Appendix V to this prospectus.

The rationale of the Reorganisation is (1) to incorporate a new BVI holding company, Wide Sea, under the Company; and (2) to dispose of Strong Property.

In relation to (1), under the new corporate structure, each BVI intermediate company under Wide Sea will be holding its operating subsidiary in a different business area, that is Santron Holdings will be holding Strong Petrochemical (Macao) for conducting Macao business, Keen Star will be holding Strong Petrochemical (HK) for conducting Hong Kong business, Teamskill Investments will be holding Strong Petrochemical (Nantong) for the Nantong Project and Charming Energy will be holding Smart Team which will be holding the Tianjin Company for the Tianjian Project. Through these BVI intermediate companies, the risks involved in different lines of businesses are separated and minimised through the use of limited liability companies. The amount and basis of shareholding transfers is with reference to the net asset value of Santron Holdings as at 26 November 2008, the net asset value of Strong Petrochemical (HK) as at 10 November 2008 and the net asset value of Teamskill Investments and Charming Energy as at 31 October 2008.

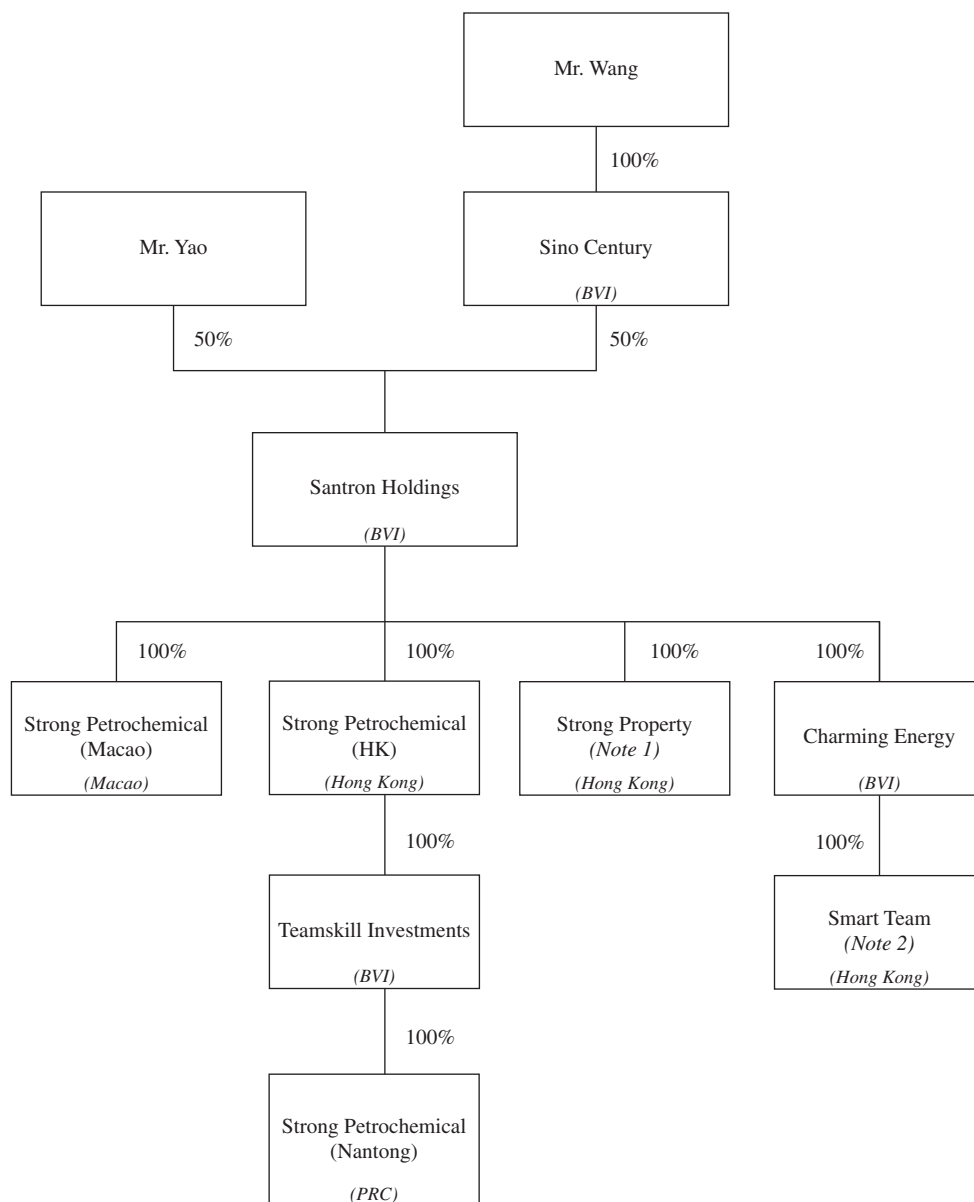
In relation to (2), given that Strong Property’s business is investment in real properties, leasing of properties and investment in equities, it has a line of business different from that of the Group. As such, Strong Property is disposed of and transferred back to Active Tools, while the Group will rent its office from Strong Property. On 26 November 2008, Santron Holdings transferred its entire equity interest and shareholders’ loan in Strong Property to Active Tools at a consideration of HK\$32,031,625.66 which was determined with reference to the retained earning and shareholder’s loan in Strong Property as at 31 October 2008.

In relation to the PRC incorporated foreign investment enterprises of the Group, since the Reorganisation will not include change of the holders of registered capital, no approval from PRC authorities is required.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Existing shareholding structure and corporate structure immediately before the Reorganisation

The following diagram sets out the corporate structure and the shareholders of our Company immediately before completion of the Reorganisation:



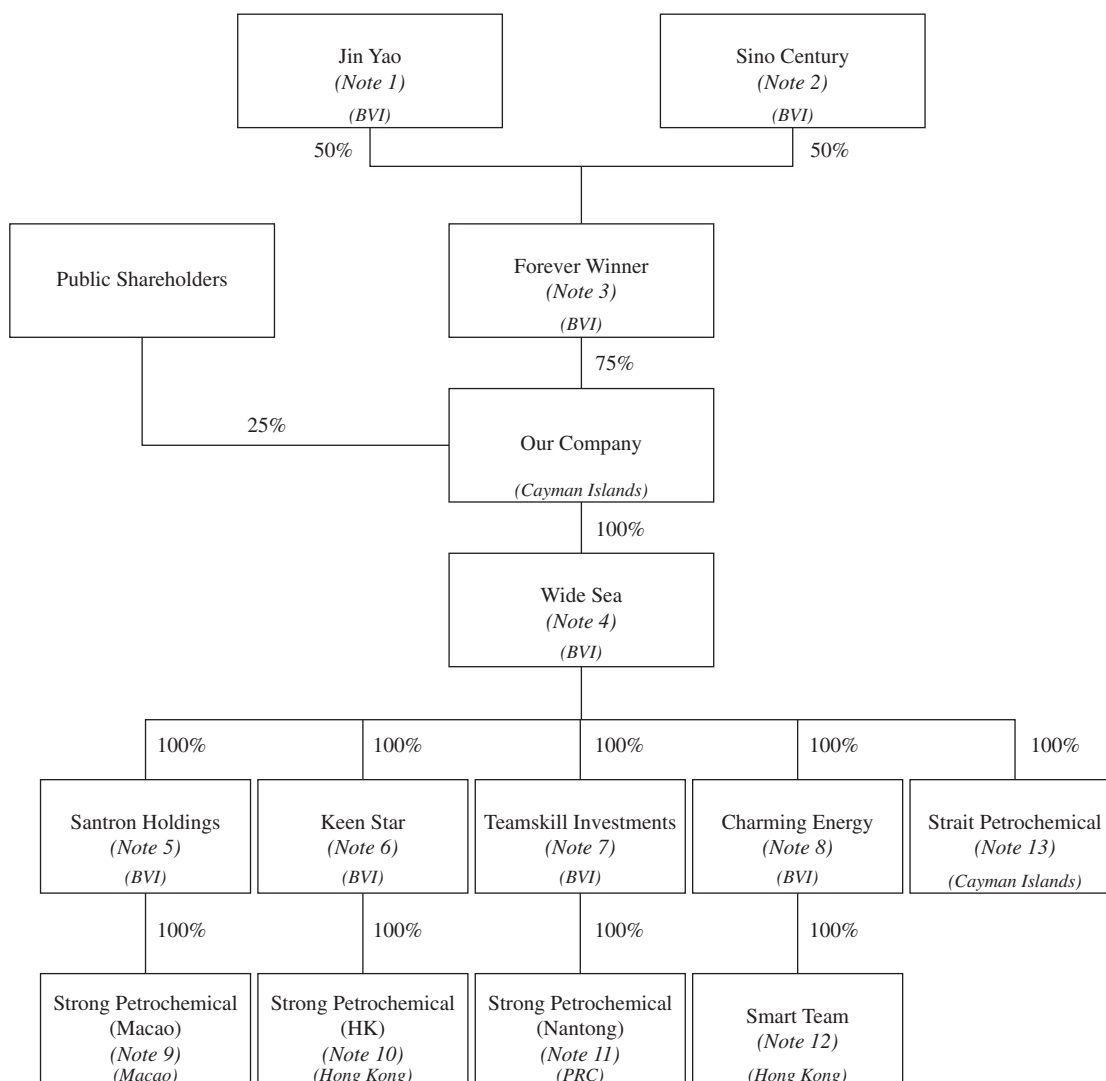
Notes

1. Strong Property was incorporated in Hong Kong with limited liability on 18 March 2002. It is an investment holding company. On 26 November 2008, Santron Holdings transferred its entire equity interest and shareholders' loan in Strong Property to Active Tools at a cash consideration of HK\$32,031,625.66 which was determined with reference to the retained earning and shareholder's loan in Strong Property as at 31 October 2008. Other than holding and leasing certain properties located in Hong Kong, Strong Property has not conducted any business since its incorporation and has no material assets and liabilities.
2. Smart Team holds a 15% interest in the Tianjin Company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Shareholding structure and corporate structure immediately after the Share Offer

The following diagram sets out the corporate structure of our Group and the shareholders of our Company after completion of the Share Offer and the Capitalisation Issue (assuming no Shares are issued pursuant to the exercise of options under the Share Option Scheme):



Notes:

1. Jin Yao was incorporated in the BVI with limited liability on 2 January 2008. It is an investment holding company which is wholly owned by Mr. Yao, an executive Director and our chief executive officer.
2. Sino Century was incorporated in the BVI with limited liability on 10 May 1993. It is an investment holding company which is wholly owned by Mr. Wang, an executive Director and the chairman of our Board.
3. Forever Winner was incorporated in the BVI with limited liability on 2 January 2008. It is an investment holding company which is owned as to 50% by Jin Yao and 50% by Sino Century, respectively.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

4. Wide Sea was incorporated in the BVI with limited liability on 2 January 2008. It is an investment holding company and is our direct wholly-owned subsidiary.
5. Santron Holdings was incorporated in the BVI with limited liability on 20 October 1999. It is an investment holding company and is our indirect wholly-owned subsidiary.
6. Keen Star was incorporated in the BVI with limited liability on 11 December 2007. It is an investment holding company and is our indirect wholly-owned subsidiary.
7. Teamskill Investments was incorporated in the BVI with limited liability on 30 March 2005. It is an investment holding company and is our indirect wholly-owned subsidiary.
8. Charming Energy was incorporated in the BVI with limited liability on 27 September 2007. It is an investment holding company and is our indirect wholly-owned subsidiary.
9. Strong Petrochemical (Macao) was incorporated in Macao with limited liability on 4 February 2004. It is our operating subsidiary in Macao and is wholly-owned by Santron Holdings.
10. Strong Petrochemical (HK) was incorporated in Hong Kong with limited liability on 3 November 1999. It is our operating subsidiary in Hong Kong and is wholly-owned by Keen Star.
11. Strong Petrochemical (Nantong) was incorporated in the PRC with limited liability on 29 June 2007. It is our operating subsidiary in the PRC and is wholly-owned by Teamskill Investments.
12. Smart Team was incorporated in Hong Kong with limited liability on 3 October 2007. It holds 15% interests of the Tianjin Company¹⁴.
13. Strait Petrochemical was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 3 April 2008. It is an investment holding company and is our indirect wholly-owned subsidiary.
14. The Tianjin Company was incorporated in the PRC with limited liability on 28 February 2007. It is principally engaged in the establishment and operation of storage facilities for crude oil, petroleum products and petrochemical products in 天津市南疆港區 (Tianjin Nanjiang Port Zone). It is owned as to 25%, 35%, 25% and 15% by 天津港對外經濟技術合作公司 (Tianjin Port Foreign Economic And Technological Cooperative Company), 中化國際實業公司 (Sinochem International Industry Co), 中化國際石油(巴哈馬)有限公司 (Sinochem International Oil (Bahamas) Co., Ltd.) and Smart Team, respectively.

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OVERVIEW

We are principally engaged in the trading of oil products. The oil products we trade can be broadly categorised into (i) crude oil; (ii) petroleum products; and (iii) petrochemical products.

The following table summarises our sales performance by our trading product categories during the Track Record Period:

Products	Units	Year ended 31 March														
		2006				2007				2008						
		Number of shipment	Sales quantity	Turnover	Sales	Number of shipment	Sales quantity	Turnover	Sales	Number of shipment	Sales quantity	Turnover	Sales			
		(HK\$' million)		(HK\$' million)		(HK\$' million)		(HK\$' million)		(HK\$' million)		(HK\$' million)				
1. Crude oil	BBL	20	7,634,093	3,418.4	20	7,090,199	3,763.9	13	5,557,849	3,327.1	8	3,762,467	2,058.1	10	4,869,513	4,091.3
2. Petroleum products	BBL	19	3,913,168	1,909.9	15	2,796,843	1,317.5	9	1,400,419	776.4	6	1,026,166	529.6	3	497,740	629.7
3. Petrochemical product	MT	—	—	—	2	8,258	57.3	4	14,897	107.7	3	10,147	73.0	4	11,681	87.6
Total		39	5,328.3	37	5,138.7	26	4,211.2	17	2,660.7	17	4,808.6					

In recent years, price movements of oil products have been very volatile. To secure our profitability under the volatile market, we traded with our counterparties prudently and selectively throughout the Track Record Period. Before entering into any agreement with our counterparties, we carefully examined the profitability of each trade. Therefore, the number of shipments traded and corresponding sales quantity of crude oil and petroleum products exhibited a decreasing trend over the Track Record Period. We recorded gross profit/(loss) of approximately HK\$98.0 million, HK\$187.5 million, HK\$108.2 million and HK\$(45.8) million during the Track Record Period, respectively. The substantial increase in our gross profit during the year ended 31 March 2007 was mainly attributable to remarkable growth in gross profit margin attributable to our sales of LSWR. During the year ended 31 March 2008, our gross profit was negatively affected by the slowdown in our LSWR sales due to insufficient supply of LSWR in the same period. During the seven months ended 31 October 2008, we recorded gross loss of approximately HK\$45.8 million mainly due to gross loss of approximately HK\$101.6 million arising from three shipments of crude oil. Given that (i) the floating prices under the buy-side and sell-side agreements of these three shipments of crude oil were not determined with reference to the same pricing period, (ii) floating prices under the sell-side agreements were one or two months behind the buy-side agreements, and (iii) the price of crude oil kept on falling during the pricing period, our final purchase costs under the buy-side agreements were higher than the selling prices under the sell-side agreements. Therefore, we recorded gross loss on these three shipments. To hedge our price risk against decreases in selling prices under the sell-side agreements, we entered into derivative financial instruments. Taking into account the gain/(loss) derived from trading in derivative financial instruments, our gross profit during the Track Record Period were approximately HK\$97.0 million, HK\$155.9 million, HK\$104.5 million and HK\$142.9 million, respectively.

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Our Hong Kong operating subsidiary, Strong Petrochemical (HK), commenced operations in the year 2000. Through our operating subsidiaries in Hong Kong and Macao, we procure our trading products mainly from Oil Majors and other international oil trading companies which are not related to the Five State-owned Licensed Import Agents. During the Track Record Period, our purchases from (i) Oil Majors, such as Chevron U.S.A. Inc. (Singapore Branch), amounted to approximately 5.4%, 19.9%, 29.4% and 42.8%, respectively, of our total purchase; (ii) other trading companies such as Glencore International AG amounted to approximately 68.4%, 71.4%, 63.7% and 47.6%, respectively, of our total purchase; and (iii) the Five State-owned Licensed Import Agents amounted to approximately 26.2%, 8.7%, 6.9% and 9.6%, respectively, of our total purchases.

Under the relevant PRC regulations, only licensed importers are permitted to import crude oil and petroleum products. Currently, imports of crude oil and petroleum products in the PRC are dominated by the Five State-owned Licensed Import Agents. As announced by MOFCOM in October 2007, the total import quota granted to non-state-owned entities for crude oil and petroleum products in 2008 amounted to approximately 19.2 million tonnes and 10.7 million tonnes respectively, representing approximately 11.7% and 31.5% of the total import of crude oil and petroleum products in 2007. During the Track Record Period, we mainly sold crude oil and petroleum products to the Five State-owned Licensed Import Agents and our aggregated sales to them accounted for approximately 81.6%, 97.4%, 91.9% and 71.5% respectively, of our turnover.

We operate in a highly competitive environment against a large number of oil companies which can also supply oil products to our customers. To enhance our competitive advantage, we position ourselves as a niche player focusing on satisfying immediate and unplanned purchase demands from the Five State-owned Licensed Import Agents by supplying oil products of different varieties and specifications within a short time frame.

Anticipating that (i) the PRC government will open up its domestic crude oil and petroleum products markets and more non-state-owned licensed import agents will be permitted to import oil products into in the PRC; and (ii) international trading activities for oil products will continue to grow, we intend to broaden our customer base through establishing new business relationships with non-state-owned licensed import agents and overseas oil trading companies.

Taking into account the large amount transacted per shipment and the fluctuating market prices of oil products, we developed our trading business with prudent financial and risk management policies during the Track Record Period, with an aim to minimising our financial and operational risks. Under our trading policies, we usually confirm separate agreements with our customers and suppliers within about one month. As a result, we did not need to maintain any inventory during the Track Record Period. However, in order to assist the development of our PRC trading business, around 10%-30% of the storage facilities to be constructed under the Nantong Project may be used by us for self-storage of petroleum and/or petrochemical products on or after 2011. Please refer to the section headed “Business — The PRC Storage Business — (i) The Nantong Project” and “Business — Inventory” for the details of our proposed development of self-storage and inventory risk to be faced by us.

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The extension of our business operations to petroleum and petrochemical product storage operations in the PRC

In order to capture business opportunities in the PRC arising from (i) deregulation of crude oil and petroleum products markets after the PRC's entry into the World Trade Organisation in December 2001, as more private companies like ourselves can participate in the import of oil products, and at the same time become our potential customers by sourcing oil products from us; and (ii) increasing demand for imported oil products due to rapid industrialisation and economic growth in the PRC, we are planning, as our medium-term business objective, to apply for various relevant business licences for the wholesale and storage of petroleum products from MOFCOM under the 《成品油市場管理辦法》(Administrative Measures on the Petroleum Products Market) (please refer to the section headed "Industry Overview and Regulation — Laws and regulations in relation to our business operation — (3) China — 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Markets)" for details). With these business licences, we would enjoy the same legal status as the Five State-owned Licensed Import Agents in selling petroleum products directly to customers in the PRC.

Our tentative timetable in respect of making applications for the relevant business licence for the wholesale and storage of petroleum products is materially as follows:

Type of licence	Expected time of application	Expected time of approval
Petroleum products storage operation	After completion of the Nantong Project in the third quarter of 2009	The fourth quarter in 2009
Petroleum products wholesale operation	After approval of petroleum products storage operation i.e., in the first quarter of 2010	The second quarter in 2010

We will disclose the progress of our applications in our subsequent interim and annual reports until all such licences have been obtained. However, we cannot guarantee that we will be able to obtain the above business licences in accordance with our tentative timetable. In the event that we fail to obtain the above business licences on time, we will need to postpone the wholesale and storage of petroleum products business or will not be able to commence the same in the PRC.

In addition to the Nantong Project and investment in the Tianjin Company, we intend to acquire assets or businesses that are related to the PRC Storage Business. However, we have not, at this stage, identified any specific investment targets or entered into any legally binding agreement or arrangement with respect to the acquisition mentioned above, and there is no acquisition in progress.

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Set out below are the details of the Nantong Project and the Tianjin Project:

(I) The Nantong Project

Through Strong Petrochemical (Nantong), we are planning to invest approximately RMB120 million (equivalent to approximately HK\$136.4 million) to construct around 27 storage tanks with a total storage capacity of approximately 134,800 m³ on two parcels of land located at 南通市經濟技術開發區 (Nantong City Economic Technology Development District) with a total site area of approximately 55,095 m². As at the Latest Practicable Date, we paid registered capital of US\$2,999,980 (equivalent to approximately HK\$23.4 million) and incurred capital expenditure of approximately RMB23.5 million in the Nantong Project. Up to the Latest Practicable Date, we have completed the work on piling and tank base setting and have prepared documents for inviting tenders to the purchase of construction materials. We will disclose the updated amounts invested in Nantong Project and the construction progress in our interim and annual reports after the Listing.

Our storage tanks to be constructed under the Nantong Project are qualified for storage of certain types of petroleum and petrochemical products but not crude oil. Under current regulations in the PRC, there are no specific regulations governing the storage of petrochemical products and no petrochemical product storage operation licence is required in the PRC. Please refer to the section headed “Business — The PRC Storage Business” for the details of the PRC Storage Business.

(i) Self-storage business after 2011

For the development of our trading business in the PRC, we expect that approximately 10% to 30%, or 13,480 m³ to 40,440 m³, of storage facilities to be constructed under the Nantong Project will be used by us for self-storage of petroleum and/or petrochemical products. We will not maintain any of the storage facilities for our own use until the following conditions are fulfilled during or after 2011:

1. having obtained the relevant business licence for wholesale and storage of petroleum products in accordance with 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Market);
2. having successfully expanded the types of petroleum products and petrochemical products, including benzene and ortho xylene by 2011, and established and maintained business relationships with at least 5 new active customers for each of these new products; and

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3. having achieved the following target annual trading volumes of new petroleum products and petrochemical products:

	Name of products	Target trading volume
1	Mixed xylene (petrochemical product)	30,000 MT
2	Benzene (petrochemical product)	12,000 MT
3	Ortho xylene (petrochemical product)	20,000 MT
4	Gasoil (petroleum product)	1,500,000 BBL

We will disclose average percentages of storage facilities under the Nantong Project used for self-storage of petroleum and/or petrochemical products during each financial year in our subsequent interim and annual reports after the Listing, including any changes to the approximate proportion of the storage facilities used for self-storage as disclosed above.

(ii) *Leasing of storage facilities*

Before 2011, all of the storage facilities of the Nantong Project will be leased to third parties and/or our trading customers. On 16 November 2008, we entered into a legally binding leasing agreement with a state-owned petrochemical company, an Independent Third Party, pursuant to which such company agreed to lease all of our storage tanks for a period of one year commencing from the completion of construction of these storage tanks. The annual rental will be approximately RMB24.3 million, representing 0.57% of our total revenue for the seven months ended 31 October 2008. For details of the terms of the leasing arrangement with the said state-owned petrochemical company, please refer to the section headed “Business — The PRC Storage Business — (i) The Nantong Project — (c) Leasing arrangement with a state-owned petrochemical company”.

According to a leasing agreement dated 29 June 2007, we obtained the right from an Independent Third Party to use a pier of 40,000 ton berth adjacent to the storage facilities of the Nantong Project for a period of 20 years for the unloading of petroleum and/or petrochemical products under the Nantong Project.

In addition to the wholesale and storage of petroleum products in the PRC, we also plan to apply for relevant business licences for the wholesale and storage of crude oil. However, it is anticipated that it will take us approximately over eight years to comply with all relevant requirements and obtain the requisite business licences for the wholesale and storage of crude oil.

(II) **Tianjin Project**

We, through Smart Team, hold a 15% equity interest in the Tianjin Company. According to a revised feasibility study report issued by CEDR in November 2007 in respect of the Tianjin Project, the Tianjin Company will build a storage facility with a storage capacity of approximately 950,000 m³ on a parcel of land with an area of 570 Mu (equivalent to

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approximately 380,000 m²) located in the southern portion of Nangang Road, South District of Nanjiang, Tianjin Port (天津港南疆南區域南港路以南) for the storage of crude oil, petroleum products and petrochemical products. The construction of the storage facility will be carried out in two phases. It is expected that the first phase will involve the building of a storage facility with a total capacity of 420,000 m³ occupying approximately 210,000 m² of that parcel of land, of which storage capacity for crude oil and petroleum products will be 320,000 m³ and 100,000 m³ respectively. The second phase is expected to involve the building of a storage facility with a total capacity of 530,000 m³, of which storage capacity for crude oil, petroleum products, and petrochemical products will be 320,000 m³, 100,000 m³ and 110,000 m³, respectively. It is expected that the first phase construction will begin in March 2009 and be completed in May 2010, and the second phase construction to begin in March 2010 and be completed in June 2011. The building of the storage facility will be financed by capital contributions made by shareholders and, possibly, bank financing. Subject to the resolution from its board of directors, the registered capital of the Tianjin Company may be increased to finance the building cost. If this is the case, then we will be required to make additional capital contribution to finance the cost. We will disclose the progress of our contribution of registered capital in and the development of Tianjin Company, together with details of the shareholders' loan (if any) to the Tianjin Company, in our subsequent interim and annual reports.

The other shareholders of the Tianjin Company include 天津港對外經濟技術合作公司 (Tianjin Port Foreign Economic And Technological Cooperative Company), 中化國際實業公司 (Sinochem International Industry Co) and 中化國際石油(巴哈馬)有限公司 (Sinochem International Oil (Bahamas) Co., Ltd.), which are Independent Third Parties and their associated companies have prior experience in oil storage business even though the other shareholders of the Tianjin Company themselves do not have the relevant licences.

As we have no track record in developing and managing petroleum and petrochemical products storage operations, the extension of our operations to petroleum and petrochemical product storage operation in the PRC may involve diversification of our operational and financial focus. There may be uncertainties which affect our business and financial performance in the future. The risk factors relating to the Nantong Project and the Tianjin Project include:

- there may be uncertainties as to whether the Nantong Project can be completed at all, or be completed within the time frame or at the cost level originally anticipated;
- there may be uncertainties as to whether the Nantong Project can meet requirements and pass inspections in respect of certain safety and environmental protection regulations within the time frame originally anticipated;
- there may be uncertainties as to whether we can manage inventory risk of the Nantong Project effectively;
- we may not be able to secure suitable tenants for the storage facilities under the Nantong Project;

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- handling of inflammable and toxic petroleum and/or petrochemical products; and
- there may be low or no return on our investment in the Tianjin Company.

Please refer to the section headed “Risk Factors — Risk Factors Relating to the Nantong Project and the Tianjin Project” of this prospectus for further details of the relevant risk factors.

IMPACT OF THE RECENT GLOBAL FINANCIAL CRISIS ON US

Since September 2008, various leading global investment and financial institutions in the US have declared bankruptcy or sought emergency financial supports, or rescue packages, from the US government. The global financial crisis which allegedly began with the bursting of the housing bubble and the related structured financial product markets in the US and Europe. The global financial crisis, which involves the failure or restructuring of mortgage companies, investment firms, banks and government sponsored enterprises invested heavily in sub-prime mortgage and related structured financial products, is ongoing and has resulted in global credit tightening. Furthermore, the deteriorating situation increases counterparties risk under the global financial crisis and have exacerbated the liquidity and credit crunch. This unexpected liquidity and credit crunch has affected not only the banking and financial sectors, but also the commercial sectors relying on the availability of banking facilities and bank borrowings.

In general, we rely on our bankers to provide credit facilities by way of letters of credit to settle our payment obligations owed to our suppliers. In the event that the available limit of the credit facilities is reduced or any of the credit facilities are withdrawn by our major bankers, and we cannot arrange credit facilities with other financial institutions on a timely basis, we will have to arrange finance ourselves to settle the payment obligations. This will adversely affect our cash-flow, business operation and profitability.

Since the beginning of the global financial crisis, our Directors have closely monitored the global macro-economic environment and our financial position, including credit facilities granted by our bankers. As of the Latest Practicable Date, our total banking facilities and unutilised banking facilities amounted to HK\$1,926.6 million and HK\$1,615.8 million, respectively, and we have not received any notification from our principal bankers that the above banking facilities will be cancelled or suspended in the near future, or will be reduced substantially.

In addition, we consider that our prudent and conservative financial position can support us to weather the recent global financial crisis. As at 31 October 2008, we had no outstanding bank borrowing. In light of the foregoing, our Directors consider that we have sufficient financial resources to support our business operation, and our financial performance in the near future will not be severely jeopardised by the recent global financial crisis and global credit tightening.

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Apart from the world-wide liquidity and credit crunch, the recent global financial crisis also negatively affect the demand and market prices of commodities, including oil products. Starting from August 2008, the price of oil products has been poorly battered by the global financial crisis, deleveraging and gloomy economic outlook. West Texas Intermediate Crude Oil futures fell from a peak of US\$147/BBL in mid July 2008 to around US\$46/BBL in mid December 2008.

With most of the developed countries going into recession and many emerging economies slowing down sharply, it is expected that the Chinese economy will cool down as exports to America and Europe are rapidly softening. As a result of slowing economic growth and slackening industrial production growth, the demand for oil product in China is likely to shrink in 2009. Under such circumstances, the demand of oil products from our customers may be affected. However, we consider that the impact of economy slowdown will be short-lived and would not derail the long-term economic development and demand for oil products in China. In order to sustain our business development during the economic downturn, we will (i) evaluate and pursue our trading opportunities selectively in order to minimise our trading risks; (ii) broaden our customer base by seeking new customers, in particular, overseas customers and non-state-owned import agents in the PRC; and (iii) increase the types of petroleum and petrochemical products to be traded by us.

Furthermore, we consider that the falling oil prices do not materially jeopardise our financial performance nor exacerbate our trading risks because (i) we do not hold any inventory for our trading operation; (ii) we usually confirm separate agreements with our customers and suppliers within about one month; and (iii) we endeavor to set the buy-side and sell-side agreements with reference to the same reference oil products, with an aim to minimising our price risks.

As of the Latest Practicable Date, our trading business operation was operating, and we had not received any notification from our oil trading counterparties that they intended to cancel any confirmed buy-side or sell-side agreements, nor are we aware of any of the oil trading counterparties or derivative trading counterparties were going to bankruptcy proceedings or default on any payment obligations.

During the Track Record Period, we, through Strong Property, invested in an insignificant amount of (i) available-for-sale investment such as corporate debenture; (ii) held-for-trading investments; and (iii) real properties, and such investments respectively amounted to HK\$1.2 million, HK\$7.6 million and HK\$16.9 million as at 31 October 2008. Although the carrying values of such investments had been affected by the recent global financial crisis, we consider that such loss does not adversely affect our business operation and financial position. After the transfer of the entire equity interests in Strong Property to Active Tools on 26 November 2008, save for principal-protected bank structured deposits and the derivative financial instruments traded and held for hedging purposes, we did not hold any investment in form of equity or derivative financial instruments as at the Latest Practicable Date.

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COMPETITIVE STRENGTHS

We believe our principal competitive strengths include the following:

(i) **Experienced management and traders**

Our senior management and oil traders have extensive experience and in-depth knowledge in the business of trading crude oil, petroleum products and petrochemical products. For example, Mr. Yao has more than 20 years' experience in the oil industry. Before he established our Group in November 1999, he was a director of UNIPEC Asia Company Limited (a member of Sinopec Group). During his career in the oil industry, Mr. Yao has built up his business network in the oil market, including relationships with the Five State-owned Licensed Import Agents, and accumulated rich and valuable experience and knowledge in international and PRC oil markets. In particular, Mr. Yao is experienced with (i) oil trading and transportation procedures; and (ii) needs and procurement preferences of oil refineries in the PRC. With such experience and knowledge, we can procure oil products to satisfy the needs and requirements of oil refineries and other end-users in advance and deliver the requested oil products to the Five State-owned Licensed Import Agents within a short time frame. On average, our decision making process usually ranges from 2 to 3 days because of our simple management structure.

In addition, Mr. Yao has also introduced to us experienced traders to run our trading operations, including Mr. Yang Qing, Ms. Ng Siu Wai and Mr. Zhuang Jia, all of whom have around 20 years' of experience in trading of oil products in the State-owned oil companies in the PRC or their overseas trading branches. Our new trader, Ms. Yao Hong, also has more than ten years' experience in international oil trading. These traders have accumulated extensive experience in handling import and export of oil products in the PRC, including (i) market analysis, (ii) price negotiations with counterparties; and (iii) chartering and insurance arrangement. In addition, they are familiar with procurement arrangements and preferences of the PRC State-owned oil companies.

Leveraging on their extensive experience and well-established network in the oil industry, our traders maintain frequent communication with our customers and suppliers for business solicitation. In addition, our traders are also responsible for (i) negotiating terms of the buy-side agreements and sell-side agreements with respective counterparties; and (ii) structuring and executing hedging transactions to hedge their exposures on physical trading.

We believe that the valuable experience and knowledge of our senior management and traders give us a competitive advantage in exploring and capturing market opportunities, as well as formulating sound trading strategies.

In addition, the relationship and reputation established and maintained by our management team and traders with our customers and suppliers contribute to our overall ability to maintain good relationships with them. We believe that the combination of our management team and traders' experience, knowledge, relationships and reputation established and maintained with our customers and suppliers has been integral to our success and will continue to be a key component in our future development.

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(ii) Established relationships with our key counterparties

During the Track Record Period, we had a total of four active suppliers and two active customers respectively. All of our active suppliers and customers during the Track Record Period have more than three years of business relationships with us. Our two active customers and one of our four active suppliers belong to the Five State-owned Licensed Import Agent.

Our major customers have very good credit records with us. During the Track Record Period, all of our customers honoured their payment obligations. We have a low risk of default by our major customers. This allows us to maintain sound credit record with our bankers.

In addition, we have established close relationships with our key counterparties, including the Five State-owned Licensed Import Agents. The table below shows the amount of sales and purchases to and from the Five State-owned Licensed Import Agents at headquarters and subsidiaries levels and respective percentages to total sales and purchases during the Track Record Period:

	Year ended 31 March						Seven months ended 31 October			
	2006		2007		2008		2007		2008	
	(HK\$ million)	(%)	(HK\$ million)	(%)	(HK\$ million)	(%)	(HK\$ million)	(%)	(HK\$ million)	(%)
Sales to headquarter level	1,799	33.8	360	7.0	—	—	—	—	—	—
Sales to subsidiaries level	2,549	47.8	4,643	90.4	3,869	91.9	2,453	92.2	3,437	71.5
Sub-total^(Note)	4,348	81.6	5,003	97.4	3,869	91.9	2,453	92.2	3,437	71.5
Purchase from headquarter level	407	7.8	—	—	—	—	—	—	83	1.7
Purchase from subsidiaries level	953	18.4	420	8.7	281	6.9	281	10.8	378	7.9
Sub-total^(Note)	1,360	26.2	420	8.7	281	6.9	281	10.8	461	9.6

Note: Other than the Five State-owned Licensed Import Agents, remaining customers and suppliers during the Track Record Period were trading companies.

Over the Track Record Period, there was a shift in sales to and purchase from the headquarter to subsidiaries level. Our directors believe that this is due to a change of internal policy of the Five State-owned Licensed Import Agents which requires us to trade with their subsidiaries instead of the headquarters.

Our expedient decision making process and established relationships with the Five State-owned Licensed Import Agents improve our competitiveness against competitors in satisfying immediate business demands from the Five State-owned Licensed Import Agents. With the Five State-owned Licensed Import Agents being our major customers of crude oil and petroleum products, our reputation and recognition in the industry are enhanced, which in turn facilitates our business expansion with those non-state-owned enterprises upon the opening up of the PRC market which allows the importing of crude oil by non-state-owned enterprises.

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(iii) **Established relationships with and support from key bankers**

Access to credit facilities in the oil trading business is important, due to the large sums of money required to purchase, transport and sell oil products. Our strong balance sheet and track record in the oil industry allows us to have greater access to credit facilities than many other small-sized and newly-established oil trading companies.

We maintain stable relationships with our four major bankers, as evidenced by the increase in total credit facilities limits granted to us by our major bankers. As at 1 April 2005, credit facilities limit granted by our major bankers totaled approximately HK\$1,014.0 million, and such figure has been increased by approximately 90.0% to HK\$1,926.6 million as at the Latest Practicable Date.

With the credit facilities granted by our bankers, we do not need to rely fully on our own financial resources for settling our payment obligations to our suppliers. Thus we can utilise our financial resources for the trading of more shipments within short time frames.

(iv) **Prudent financial and risk management policies**

We maintain strict financial and risk management policies in order to minimise our financial and operational risks in the course of trading. Taking into account the large amount transacted per shipment and the fluctuating market prices of oil products, we adopt a relatively conservative trading policy, which we usually confirm in separate agreements with our customers and suppliers within about one month, and set the payment date under the sell-side agreement such that it would coincide with the payment date under the buy-side agreement, which is normally 30 days from the date of bill of lading. In this regard, we do not need to maintain any inventory, thus we are protected from price risks arising from fluctuations in international oil prices for inventory at hand. In addition, we reduce our funding needs for trading to only the margin deposits pledged with banks for the issuance of the letters of credit. Furthermore, we will review background and credibility of our new customers and suppliers. During the Track Record Period, we experienced no default in payment by our customers.

Apart from the above, we also carry out hedging activities, as and when appropriate, to reduce our price risk exposure in the course of trading. We have devised a risk management policy to evaluate and monitor our hedging activities. For further information about our hedging and risk management policy, please refer to the paragraph headed “Hedging and risk management policy” under this section.

We shall strive to strictly enforce our financial and risk management policies in the future and review and update our policies regularly to accommodate the ever-changing market environment of the oil industry.

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(v) **Niche trading strategy**

Unlike large oil companies with enormous resources to monitor and trade a wide range of oil products, we have adopted a niche trading strategy by focusing on certain oil products with market potential in the PRC and certain non-mainstream crude oil products. Through our traders' networks, we closely monitor the prices and supply of our focused oil products, in order to expedite our ability to respond to the changing demands from our customers.

In addition, we may secure procurement by entering into term purchase contracts with suppliers of niche oil products. For example, we entered into a one-year term purchase contract for LSWR in 2003. Through such term purchase arrangements, we can secure the supply of those niche oil products thereby enhancing our power to bargain with customers.

GROWTH STRATEGIES

(i) **Strengthening existing long-term relationships with key customers and seeking new customers**

China's demand for crude oil and petroleum products increased substantially in recent years, due to the rapid industrialisation and economic growth which triggered a growing demand for secured oil supply. In addition, since its entry into the World Trade Organisation in December 2001, China has gradually opened up its domestic oil and petroleum products market.

Currently, non-state-owned enterprises are allowed to apply for (i) business licences for operating retail and wholesale businesses in respect of petroleum products in the PRC; and (ii) import quota for the import of crude oil and petroleum products from overseas suppliers. As announced by MOFCOM in October 2007, total quota granted to non-state-owned entities to import crude oil and petroleum products in 2008 amounted to approximately 19.2 million tonnes and 10.7 million tonnes, representing approximately 11.7% and 31.5%, respectively, of total crude oil and petroleum products imports in 2007. It is expected that the annual import quota granted to non-state-owned entities will continue to increase in the future.

To take advantage of the above trends, we intend to strengthen our sales and market intelligence capabilities by (i) closely monitoring the oil and petroleum markets' development; (ii) obtaining an in-depth understanding of existing and potential customer needs, behavior and trends; and (iii) strengthening our existing relationships with our key customers and broadening our customer base by seeking new customers, in particular, overseas customers and non-state-owned import agents in the PRC.

In addition, we intend to establish a representative office in Shanghai for marketing and liaising with existing and potential customers. We understand most of the end-users of LSWR and petrochemical products, being refineries and chemical complexes, are located in Eastern and Northern

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China. With an office in Shanghai, we will be located much closer to our counterparties, facilitating interaction and mutual understanding. In addition, Nantong City, where the Nantong Project is located, is in the vicinity of Shanghai. A representative office in Shanghai will facilitate our progress inspection, and future management and operation.

We also plan to employ one additional trader who will be responsible for developing our business at home and abroad.

(ii) Investment and development of the PRC Storage Business

In order to capture business opportunities in the PRC arising from (i) deregulation of the crude oil and petroleum products market after the PRC's entry into the World Trade Organisation in December 2001; and (ii) increasing demand for imported oil products due to rapid industrialisation and economic growth in the PRC, we are planning to apply, as our medium-term business objective, for various relevant business licences from MOFCOM with respect to the wholesale and storage of petroleum products in the PRC.

Pursuant to the 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Market), enterprises applying for these licences should meet certain conditions, including, but not limited to, possessing oil depots for petroleum products in the PRC. Therefore, we started to develop the PRC Storage Business in 2007 through our investment in the Nantong Project and the Tianjin Project. Please refer to the sub-section headed "The PRC Storage Business" in this section for details of the Nantong Project and the Tianjin Project.

After the Listing, we will continue to develop the PRC Storage Business through mergers and acquisitions of assets or businesses. However, as at the Latest Practicable Date, we have neither identified any specific investment targets, nor have we entered into, or have any intentions to enter into, any legally binding agreement or arrangement with respect to the mergers and acquisitions mentioned above.

(iii) Expansion of product types and trading of petroleum products and petrochemical products

During the Track Record Period, we traded 25 types of crude oil, seven types of petroleum products and two types of petrochemical products. With the increase in financial and human resources after the Share Offer, we plan to increase the types of petroleum and petrochemical products to be traded by us to, for example, para-xylene, benzene and ortho-xylene, and also increase our trading activities in petroleum and petrochemical products.

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BUSINESS MODEL FOR THE TRADING BUSINESSES

(i) Overview

As trading opportunities appear from time to time in the dynamic international oil market environment, oil trading companies, like ourselves, by utilising broad market experiences and capabilities to respond to the changing needs of suppliers and buyers, can develop trading businesses in a profitable and sustainable manner.

To capture trading business opportunities, oil trading companies source oil products in the international oil markets from National Government-owned Oil Companies, Oil Majors and/or other oil trading companies and then resell such oil products to importers and/or other oil trading companies.

While traders of shares, currencies or other financial assets may access market information through analysts' reports and the internet, information transparency of the physical oil market is comparatively limited, as oil products are commodities which must comply with each customer's specification and delivery requirements. Traders of oil products still rely on negotiations with other traders, specialists and oil trading journalists to ascertain pricing, demand and position in the oil products market. For example, a skilful trader can buy a shipment of crude oil at a rather low price and resell it shortly at a profit. A shipment of oil products may change ownership more than once in the course of transit, as a result of market volatility and rapid change in market demand and supply.

There are various trading strategies and opportunities in the international oil trading business. Traders of oil products may identify trading opportunities if they find sellers having difficulties in selling a particular shipment. The traders of oil products may acquire such "distressed shipment" at a low price, and subsequently sell it at a profit when they find a buyer who demands that shipment.

To reduce our financial exposure, we adopt a relatively conservative trading policy and carry out hedging activities, as and when appropriate, in conjunction with our trading business. Under our trading policy, we confirm separate agreements with our suppliers and customers within around one month and thus we do not need to maintain any inventory. We usually purchase trading products from a supplier only when we have already reached a firm understanding, which is non-legally binding in nature, with a customer to whom the trading product will eventually be sold, or we are first approached by suppliers and then seek customers for the relevant trading product. The Directors are of the view that a firm understanding with a customer takes place when we are verbally requested by our customers to provide a written offer for their consideration. In both cases, there is no particular difference in the roles performed by us, and the trading products are shipped directly from the loading port to the discharging port without passing either Hong Kong or Macao as entrepot.

Negotiations with the supplier and the customer for a given shipment usually proceed simultaneously and cover issues such as type, specifications and quantity of oil product to be traded, the place and date of delivery, the contract price, payment terms and shipping terms. In every shipment, we (i) arrange for loading, discharging as well as transportation; (ii) monitor and convey

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loading details; and (iii) liaise with and receive reports from shipping brokers regarding location of oil tankers and the status of transportation. The shipping arrangement is agreed between our counterparties and ourselves based on shipment terms such as CFR, CIF, FOB, and DES. In the event that the buy-side agreement is FOB or CFR and the sell-side agreement is CIF or DES, that is neither our supplier nor our customer is responsible for the charter of an oil tanker and/or shipping insurance, then we would have to make suitable arrangements on our own. The charter of oil tanker is usually entered into in accordance with international industry practice and conducted through shipping brokers. We maintain a master shipping insurance policy with a recognised insurance company and we purchase individual shipping insurance on a case-by-case basis.

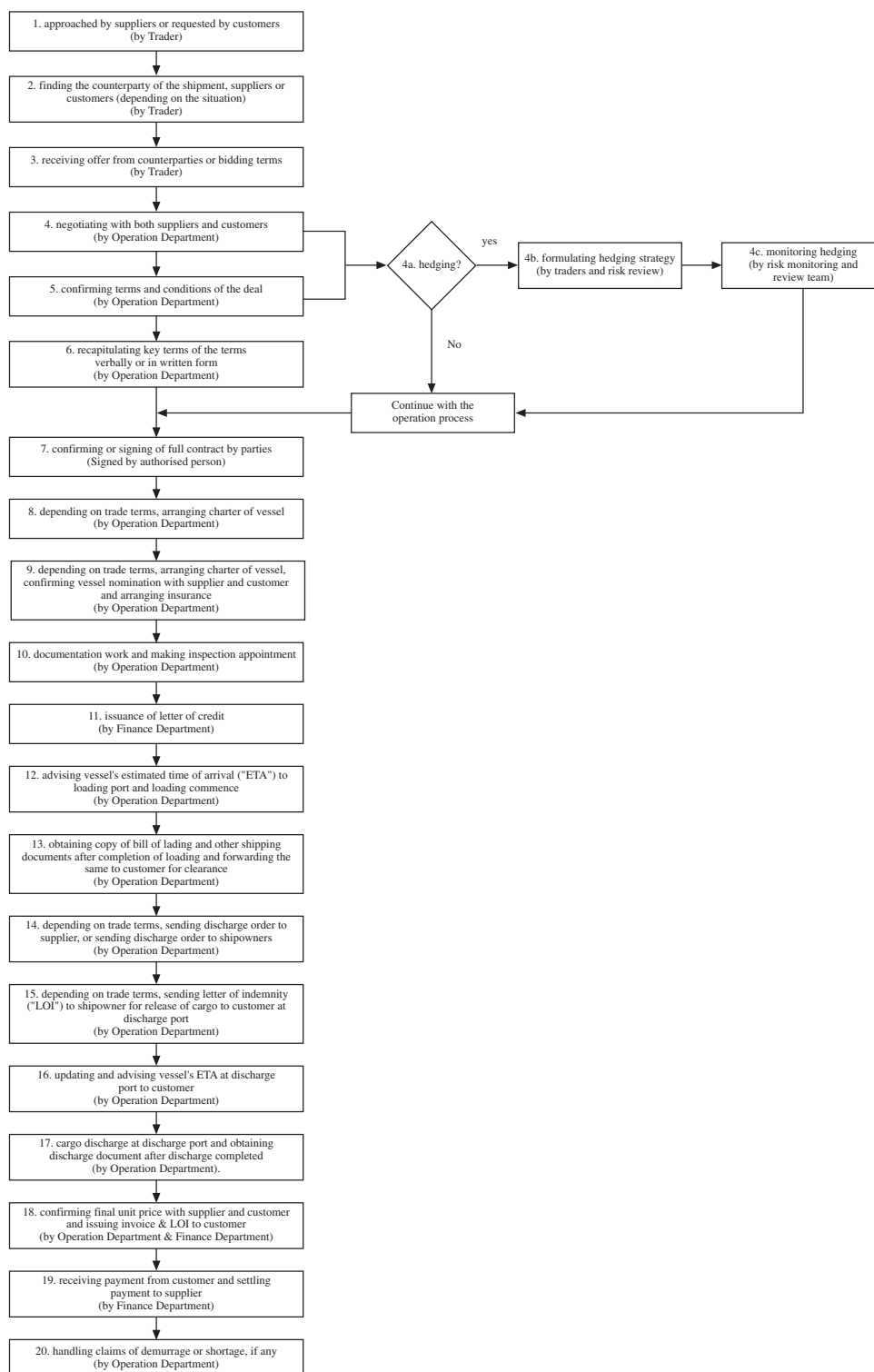
We usually enter into buy-side and sell-side agreements on a shipment-by-shipment basis, i.e. one agreement for the purchase or sale of one shipment of oil product. Occasionally, we also enter into term contracts with customers or suppliers, i.e. one agreement for the purchase or sale of more than one shipment of oil product within a specified period. If we consider that availability of an oil product is rare and that the market demand is high, then we would enter into a term contracts with our customers or suppliers. Trading without entering into a term contract is a specific practice in the oil products trading industry, as the price of oil products is volatile and no trader would like to be locked-in for a long period of time. In addition, without binding oneself to a term contract, traders of oil products could enjoy more flexibility to adapt to market conditions.

In general, we settle our payment obligations to suppliers by means of letters of credit and receive payment from customers via telegraphic transfer. For any given shipment, the payment date under the buy-side agreement usually coincides with the payment date under the sell-side agreement, which is normally 30 days from the date of bill of lading. In this regard, the only funding needed for a shipment, assuming the customer pays on time, is the margin deposit pledged with the bank for the issuance of a letter of credit. Depending on our banking facilities, the margin deposit usually ranges from 10% to 25% of the amount of the letter of credit issued, or a fixed sum deposit according to the banking facilities. In the event that payment from a customer is unexpectedly delayed, we would have to obtain financing from the standing trust receipt loan facilities granted by our bankers to cover the funding needs for the period between the date of payment to the supplier and date of late receipt from the customer. During the Track Record Period, we incurred trust receipt loan interest of approximately HK\$263,000, HK\$197,000, HK\$6,000 and HK\$275,000. Given our customers' sound reputation and credit records, our Directors consider that likelihood of delayed payment from our customers is rare. In addition, we take extra care to keep track of our customers' payment status before the settlement date to ensure that cleared funds are timely received.

In relation to crude oil trading, during the Track Record Period, 90.0%, 100%, 92.3% and 100% of the payments to suppliers in terms of shipment were denominated in US dollars, whereas the remaining were settled in Sterling Pounds, and all payments from customers were settled in US dollars. All settlements in relation to petroleum products and petrochemical product trading, both in respect of suppliers and customers, are denominated in US dollars.

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The flow-chart below summaries the procedures for our trading operation for both Strong Petrochemical (HK) and Strong Petrochemical (Macao):



Note: As advised by Deloitte Touche Tohmatsu, our tax advisers, as our traders may conduct the first three steps in the above flow-chart in the PRC, this may give rise to the PRC FEIT liability.

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Set out below are value-added services provided by us to our customers:

- Provision of oil products of different varieties and specifications within a short time frame to satisfy immediate, unfulfilled and unplanned purchase orders from the Five State-owned Licensed Import Agents;
- Provision of general information services such as price trend information and market analysis, in particular, in respect of certain types of non-mainstream crude oil which may not be extensively covered by other oil trading companies;
- Provision of flexible pricing method; and
- Provision of relaxed payment methods to our customers. For example, we accept telegraphic transfer on an open account basis from our customers.

Set out below are a list of value-added services provided by us to our suppliers:

- Provision of prompt feedback to our suppliers during deal negotiations; and
- Provision of market information on the PRC oil market.

(ii) Products

- (a) The table below sets out the general specifications of the various crude oil traded by us during the Track Record Period:

Crude oil name	Origin	Density (KG/L)	Sulfur (WT%)
Badin	Pakistan	0.8433	0.04
Bayu Undan	Australia	0.730	<0.015
Belanak	Indonesia	0.809	0.190
Benchamas Blend	Thailand	0.812	0.040
Bolivian	Bolivia	0.7311	0.036
Bontang Return Condensate	Indonesia	0.682	0.005
Escalante	Argentina	0.910	0.190
Geragai	Indonesia	0.689	0.015
Kuwait	Kuwait	0.862	2.550
Loreto	Peru	0.943	1.330
Malampaya Condensate	Philippines	0.770	0.095
Masila	Yeman	0.873	0.620
Meslu	Indonesia	0.750	0.140
Mixed Gas Condensate	Russia	0.806	0.116
Nile Blend	Sudan	0.855	0.056
Northwest Shelf Condensate	Australia	0.7325	0.003

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Crude oil name	Origin	Density (KG/L)	Sulfur (WT%)
Okruznoye	Russia	0.838	0.260
Oman Export Blend	Oman	0.8672	1.06
Pelepas	Malaysia	0.849	0.35
Sakhalin Blend	Russia	0.853	0.247
Santa Cruz Condensate	Argentina	0.794	<0.1
South Pars Condensate	Iran	0.737	0.290
Su Tu Den	Vietnam	0.753	<0.015
Walio	Indonesia	0.837	0.490
Zatapi	Malaysia	0.8112	0.115

- (b) The table below sets out the general specifications of the petroleum products traded by us during the Track Record Period:

Product Name	Density @15°C (Kg/L)	Sulphur (%WT)	Flash Point (°C)	Carbon Residue (%wt)	Pour Point (°C)	Viscosity @50°C (mm2/s)	Lead Content g/l	RON
Naphtha	0.65-0.74	0.650	N.A.	N.A.	N.A.	N.A.	0.01	N.A.
Unleaded Gasoline	0.736	0.012	N.A.	N.A.	N.A.	N.A.	0.006	93
Jet Fuel	0.7976	0.147	38	N.A.	N.A.	8.0@20°C	N.A.	N.A.
Gasoil	0.852	0.05	77	0.00	-6	5.3@20°C	N.A.	N.A.
Fuel oil	0.9442	1.11	60	N.A.	24	180@50°C	N.A.	N.A.
LSWR	0.8918	0.13	60	4.5	49	180@50°C	N.A.	N.A.
LSFO	0.935	0.5	60	9	24	180@50°C	N.A.	N.A.

Note: Items marked with “N.A.” means those specifications are not important to the relevant oil products and they are not specified in the agreements.

- (c) The table below sets out the general specification of the petrochemical products traded by us during the Track Record Period

Name	Density @15°C (Kg/L)	Non Aromatics wt%	Ethyl Benzene wt%	Sulphur ppm
Mixed xylene	0.8650 - 0.8750	Max. 1.0	Max. 18	N.A.
MTBE	0.7400	N.A.	N.A.	23.8

Note: Items marked with “N.A.” means those specifications are not important to the relevant oil products and they are not specified in the agreements.

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- (d) Summarised below are the revenue and number of shipments by trading product types during the Track Record Period:

	Year ended 31 March						Seven months ended 31 October			
	2006		2007		2008		2007		2008	
	<i>No. of shipment</i>	<i>Revenue</i> <i>(HK\$ million)</i>	<i>No. of shipment</i>	<i>Revenue</i> <i>(HK\$ million)</i>	<i>No. of shipment</i>	<i>Revenue</i> <i>(HK\$ million)</i>	<i>No. of shipment</i>	<i>Revenue</i> <i>(HK\$ million)</i>	<i>No. of shipment</i>	<i>Revenue</i> <i>(HK\$ million)</i>
Crude oil	20	3,418.4	20	3,763.9	13	3,327.1	8	2,058.1	10	4,091.3
Petroleum products	19	1,909.9	15	1,317.5	9	776.4	6	529.6	3	629.7
Petrochemical products	—	—	2	57.3	4	107.7	3	73.0	4	87.6
Total	<u>39</u>	<u>5,328.3</u>	<u>37</u>	<u>5,138.7</u>	<u>26</u>	<u>4,211.2</u>	<u>17</u>	<u>2,660.7</u>	<u>17</u>	<u>4,808.6</u>

In recent years, price movements of oil products have been very volatile. To secure our profitability under the volatile market, we traded with our counterparties prudently and selectively throughout the Track Record Period. Before entering into any agreements with our counterparties, we carefully examined the profitability of each trade. Therefore, the number of shipments traded and the corresponding sales quantity for crude oil and petroleum products exhibited a decreasing trend over the Track Record Period. We recorded gross profit/(loss) of approximately HK\$98.0 million, HK\$187.5 million, HK\$108.2 million and HK\$(45.8) million during the Track Record Period, respectively.

The substantial increase in our gross profit during the year ended 31 March 2007 was mainly attributable to remarkable growth in gross profit margin, attributable to our sales of LSWR. During the year ended 31 March 2008, our gross profit was negatively affected by the slowdown in our sales of LSWR due to insufficient supply of LSWR during the same period. During the seven months ended 31 October 2008, we recorded a gross loss of approximately HK\$45.8 million mainly due to a gross loss of approximately HK\$101.6 million arising from three shipments of crude oil. Given that (i) the floating prices under the buy-side and sell-side agreements of these three shipments of crude oil were not determined with reference to the same pricing period, (ii) floating prices under the sell-side agreements were one or two months lag behind the buy-side agreements, and (iii) the price of crude oil kept on falling during the pricing period, our final purchase costs under the buy-side agreements were higher than the selling prices under the sell-side agreements. Therefore, we recorded gross loss for these three shipments. To hedge our price risk against the decrease in selling prices under these sell-side agreements, we entered into derivative financial instruments. Taking into account the gain/(loss) derived from trading in derivative financial instruments, our gross profit during the Track Record Period were approximately HK\$97.0 million, HK\$155.9 million, HK\$104.5 million and HK\$142.9 million, respectively.

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- (e) Summarised below is the place of origin and discharging of oil products by location during the Track Record Period:

Origin	Discharging place
Dalian, PRC	Dalian, PRC
Argentina	Huizhou, PRC
Australia	Laizhou, PRC
Bolivia	Nanjing, PRC
Indonesia	Nantong, PRC
Iran	Ningbo, PRC
Japan	Qingdao, PRC
Kuwait	Qinhuangdao, PRC
Malaysia	Quanzhou, PRC
Oman	Shanghai, PRC
Pakistan	Tianjin, PRC
Papua New Guinea	Yangpu, PRC
Philippines	Zhanjiang, PRC
Peru	Zhoushan, PRC
Russia	Australia
Singapore	Indonesia
South Korea	Korea
Sudan	Philippines
Taiwan	Singapore
Thailand	Taiwan
USA	Thailand
Ukraine	
Vietnam	
Yeman	

(iii) Trading of Crude Oil

We traded 25 types of crude oil during the Track Record Period. We primarily source crude oil from international markets through crude oil trading companies, the Oil Majors and national oil companies by way of direct purchases or, to a smaller extent (in terms of turnover and the number of shipments involved), open tender. During the Track Record Period, we traded 20, 20, 13 and 10 shipments of crude oil, amongst which 70.0%, 80.0%, 84.6% and 90.0% were sold on a shipment-by-shipment basis without any term agreements, and approximately 7.6 million BBL, 7.1 million BBL, 5.6 million BBL and 4.9 million BBL of crude oil respectively, with no crude oil inventory kept. During the Track Record Period, the turnover arising from crude oil trades accounted for approximately 64.2%, 73.3%, 79.0% and 85.1% of our total turnover respectively.

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The direct customers of our crude oil trading business are mainly the Five State-owned Licensed Import Agents and they accounted for approximately 100.0%, 96.4%, 95.6% and 70.5% respectively, of our turnover arising from crude oil trades during the Track Record Period, while the remaining sales arising from other trading companies outside the PRC market. Our Directors believe that the Five State-owned Licensed Import Agents distribute products purchased from us to PRC end-users such as oil refineries and petroleum enterprises.

Our suppliers of crude oil trading business include crude oil trading companies, the Oil Majors and national oil companies. We do not depend on any single supplier for our supply of crude oil.

(iv) Trading of Petroleum Products

During the Track Record Period, we traded seven types of petroleum products including LSWR, LSFO, unleaded gasoline, fuel oil, jet fuel, naphtha and gasoil. In terms of trading volume and turnover, our principal petroleum product was LSWR. During the Track Record Period, we traded 19, 15, 9 and 3 shipments of petroleum products respectively, all were sold on a shipment-by-shipment basis without any term agreement. During the Track Record Period, the turnover arising from petroleum products trading business accounted for approximately 35.8%, 25.6%, 18.4%, and 13.1% of our total turnover respectively.

Direct customers of petroleum products are mainly the Five State-owned Licensed Import Agents, whose purchases accounted for approximately 47.0%, 100%, 81.1% and 87.6% respectively of our turnover arising from petroleum products trading business during the Track Record Period. The remainder of our revenues arising from sales to other trading companies or petroleum products companies licensed to import petroleum products into the PRC. In addition to sales of petroleum products to the PRC, during the Track Record Period, we also sourced four, nil, nil and nil shipments of petroleum products originated from the PRC which were sold to other trading companies in the international market.

Suppliers of our petroleum products include petroleum products trading companies, the Oil Majors and national oil companies. We do not depend on any single supplier for our supply of petroleum products.

(v) Trading of Petrochemical Products

We started trading petrochemical products in 2000. In 2007, we recruited a trader with expertise in petrochemical products trading. As a result, we increased our trading activities in petrochemical products since 2007. We traded two types of petrochemical products during the Track Record Period namely, mixed xylene and MTBE, with nil, two, four and four shipments of petrochemical products and we sold approximately nil, 8,258 MT, 14,897 MT and 11,681 MT of petrochemical products, respectively. All such sales of petrochemical products were sold on a shipment-by-shipment basis without any term agreement. During the Track Record Period, turnover arising from trading of petrochemical products accounted for approximately nil, 1.1%, 2.6% and 1.8% of our turnover respectively. We did not trade any petrochemical products in the year ended 31 March 2006 as we did not observe any profitable trading opportunities in this area.

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As the import of petrochemical products is not restricted by the PRC government, direct customers of our petrochemical products are refineries and other petrochemical complex located in the PRC and other trading companies in the international markets, for example, Korea, Singapore and Taiwan.

Suppliers of petrochemical products include refineries, petrochemical complexes located in the PRC and international markets. We do not depend on any single supplier for our supply of petrochemical products.

(vi) **Business delineation of Strong Petrochemical (HK) and Strong Petrochemical (Macao)**

Before the establishment of Strong Petrochemical (Macao) on 4 February 2004, all of our trading activities were carried out by Strong Petrochemical (HK). In April 2004, our crude oil and petroleum products trading businesses began to shift to Strong Petrochemical (Macao) as it enjoys preferential tax treatment under the applicable laws of Macao. Please refer to the section headed “Industry Overview and Regulation” of this prospectus for details of the preferential tax treatment.

After the establishment of Strong Petrochemical (Macao), we planned to shift to this company most of the crude oil and petroleum products trading businesses because of lower operating costs in Macao. Mr. Yang Qing was transferred to Strong Petrochemical (Macao) upon its establishment. While the other two traders, Mr. Yao and Mr. Ho Yuen (who left us in March 2006 on his own accord for personal reasons) handled trades in both Strong Petrochemical (HK) and Strong Petrochemical (Macao).

In the second half of 2006, we planned to re-activate the trading business of petrochemical products. In consideration of a number of factors, including the allocation of our internal human resources, and the required preparation procedures to re-activate our petrochemical products trading business in Hong Kong and Macao, our Directors decided to select Hong Kong as the base for our petrochemical trading business. In this connection, in 2007, we recruited Mr. Zhuang Jia, our deputy general manager, to oversee the development of our petrochemical business. Leveraging on his previous working experience on petrochemical trading business, Mr. Zhuang is responsible for negotiating with suppliers and customers on terms and pricing of petrochemical products trading.

The finance and operations of Strong Petrochemical (HK) and Strong Petrochemical (Macao) are separate. If any of our counterparties in the crude oil and petroleum products trading businesses prefers Strong Petrochemical (HK) to be the handling office, then such trade will be conducted by Strong Petrochemical (HK). Some of our counterparties prefer Strong Petrochemical (HK) to be the handling office because, according to our Directors’ belief, such counterparties already have established relationships with Strong Petrochemical (HK) and do not wish to switch to Strong Petrochemical (Macao) as the counterparty.

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In an effort to (i) minimise our operational risks in Macao in the event of changes in the Macao SAR's Offshore Law or in the preferential tax treatment; and (ii) increase the flexibility of our business operations by allowing our counterparties to choose the handling offices, our management decided to maintain the operations of Strong Petrochemical (HK) even though most of our trading businesses had been transferred to Strong Petrochemical (Macao) since 2004.

APPLICATIONS FOR BUSINESS LICENCES FOR THE WHOLESALE AND STORAGE OF PETROLEUM PRODUCTS IN THE PRC

In order to capture business opportunities in the PRC arising from (i) deregulation of the crude oil and petroleum products market after the PRC's entry into the World Trade Organisation in December 2001, more private companies, like ourselves, can participate in the import of oil products, and at the same time become our potential customers by sourcing oil products from us; and (ii) increasing demand for imported oil products due to the rapid industrialisation and economic growth in the PRC, we are planning, as our medium-term business objective, to apply for various relevant business licences for the wholesale and storage of petroleum products from MOFCOM under the 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Market). With these business licences, we would enjoy the same legal status as the Five State-owned Licensed Import Agents in selling petroleum products directly to customers in the PRC, which will boost our oil trading business significantly.

Our tentative timetable in respect of making applications for the relevant business licence for the wholesale and storage of petroleum products is as follows:

Type of licence	Expected time of application	Expected time of approval
Petroleum products storage operation	After completion of the Nantong Project in the third quarter of 2009	The fourth quarter in 2009
Petroleum products wholesale operation	After approval of petroleum products storage operation ie., in the first quarter of 2010	The second quarter in 2010

We will disclose the progress of our applications in our subsequent interim and annual reports until all such licences have been obtained. However, we cannot guarantee that we will be able to obtain the above business licences in accordance with our tentative timetable. In the event that we fail to obtain the above business licences on time, we will need to postpone or the wholesale and storage operation of petroleum products business or will not be able to commence the same in the PRC.

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Set out below are the qualifications for the wholesale and storage of petroleum products in the PRC and our plan to obtain these relevant business licences:

(a) 申請成品油倉儲經營資格 (Qualifications for petroleum products storage operation)

Conditions	Compliance status/ proposed actions	(Expected) timing
1. Possess depots for storage of petroleum products with storage capacity of not less than 10,000 m ³ . Construction of the petroleum depots shall comply with urban and village planning, oil depots allocation planning, and shall have passed the inspection acceptance by the authorities of state land resources, planning and construction, safety regulation, public security and fire prevention, environment protection, meteorology and quality inspection etc.;	The storage capacity of the Nantong Project will be 134,800 m ³ . Thus we shall comply with this condition upon the completion of the Nantong Project.	The third quarter of 2009
2. Being a corporate legal person in the PRC with registered capital of not less than RMB10 million;	The registered capital of Strong Petrochemical (Nantong) is US\$5 million (equivalent to approximately RMB34.3 million). Thus we are in compliance with this condition.	Already complied with in June 2007
3. Possess facilities for uploading/ discharging of petroleum products such as transmission pipelines, special railway lines, highway transportation vehicles, or petroleum product marine terminal of over 10,000 ton berth;	According to the leasing agreement dated 29 June 2007, we have obtained from an Independent Third Party the right to use a pier of 40,000 ton berth adjacent to the storage facilities of the Nantong Project for a period of 20 years for the unloading of petrochemical products. Therefore, we are already in compliance with this condition.	Already complied with in June 2007
4. Where an applicant is a branch company of a corporate legal person in the PRC, the legal person shall possess the petroleum product storage operation qualification.	Not applicable as Strong Petrochemical (Nantong) is not a branch company.	—

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(b) 申請成品油批發經營資格 (Qualifications for petroleum products wholesale operation)

Conditions	Compliance status/ proposed actions	(Expected) timing
<p>1. Possess long-term and stable petroleum product supply channels through:</p> <ul style="list-style-type: none"> — being an oil refining enterprise complying with State industry policies, with annual processing capacity of crude oil exceeding 1,000,000 tons and annual production capacity of petroleum and diesel complying with state product quality standard of 500,000 tons; or — being an import enterprise qualified for petroleum product importation operation; or — entering into petroleum product supply agreement with an enterprise qualified for petroleum product wholesale operations and with an annual operation of petroleum product exceeding 200,000 tons. The agreement shall be of a term of over one year and with a scale comparable to that of the operation; or — entering into petroleum product supply agreement with an import enterprise whose annual import of petroleum product exceeds 100,000 tons. The agreement shall be for a term of over one year and with a scale comparable to that of the operation; 	<p>To comply with this condition, we intend to sign a petroleum product supply agreement with an enterprise qualified for petroleum product wholesale operations and with an annual operation of petroleum product exceeding 200,000 tons. We expect that we will take further action to sign the agreement after we obtain the licence for petroleum products storage operation.</p>	<p>The first quarter of 2010 ^(Note)</p>

Note:

As at the Latest Practicable Date, we had not identified nor negotiated with any enterprise qualified for petroleum product wholesale operations for the supply of petroleum products. As the construction of our storage facilities under the Nantong Project is expected to be completed in the third quarter of 2009, our Directors consider it premature to negotiate with suppliers of petroleum product at this stage. Taking into account there are many petroleum product suppliers around Yangtze River Delta, who are qualified for petroleum product wholesale operations, and some of them are members of Five State-owned Licensed Import Agents, our Directors do not foresee any difficulties in finding suitable and qualified suppliers of petroleum product by the first quarter of 2010.

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Conditions	Compliance status/ proposed actions	(Expected) timing
2. Being a corporate legal person in the PRC with registered capital of not less than RMB30 million;	The registered capital of Strong Petrochemical (Nantong) is US\$5 million (equivalent to approximately RMB34.3 million). Therefore, we are in compliance with this condition.	Already complied with in June 2007
3. Where an applicant is the branch company of a corporate legal person in the PRC, the legal person shall possess qualification of petroleum product wholesale operation;	Not applicable as Strong Petrochemical (Nantong) is not a branch company.	—
4. Possess depots for storage of petroleum products with storage capacity of not less than 10,000 m ³ . Construction of the oil depots shall comply with urban and village planning, oil depots allocation planning, and shall have passed the inspection acceptance by the authorities of state land resources, planning and construction, safety regulation, public security and fire prevention, environment protection, meteorology and quality inspection etc.;	The storage capacity of the Nantong Project will be 134,800 m ³ . Thus we shall comply with this condition upon the completion of the Nantong Project.	The third quarter of 2009
5. Possess facilities for unloading/ discharging of petroleum products such as transmission pipelines, special railway lines, highway transportation vehicles, or petroleum product marine terminal of over 10,000 ton berth.	According to the leasing agreement dated 29 June 2007, we have obtained from an Independent Third Party the right to use a pier of 40,000 ton berth adjacent to the storage facilities of the Nantong Project for a period of 20 years for the unloading of petrochemical products. Therefore, we are in compliance with this condition.	Already complied with in June 2007

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In addition to the wholesale and storage of petroleum products in the PRC, we also plan to apply for the relevant business licences in the wholesale and storage of crude oil. However, it is anticipated that it will take us approximately over eight years to comply with all relevant requirements to obtain the business licences for the wholesale and storage of crude oil.

THE PRC STORAGE BUSINESS

Pursuant to the 《原油市場管理辦法》 (Administrative Measures on the Crude Oil Market) and 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Market), enterprises applying for the relevant business licences must meet certain conditions including, but not limited to, possessing oil depots for crude oil and/or petroleum products in the PRC. Therefore, our Directors consider the development of the PRC Storage Business to be a necessary step towards achieving our medium-term business objective of applying for business licences for the wholesale and storage of petrochemical products in the PRC.

In addition to the above strategic reason, the development of the PRC Storage Business would allow us to (i) provide value-added services to our trading customers; (ii) enhance our trading business by maintaining certain portions of the storage facilities for our own storage use and (iii) broadening our revenue base.

Provision of value-added services to our trading customers

In general, our trading customers need to arrange for storage of the petroleum and petrochemical products after our delivery of the same at the discharging port in the PRC. With our storage facilities to be constructed under the Nantong Project, which will be located near 江海石油庫碼頭 (Jianghai Oil Dock Pier), we can lease such storage facilities to our trading customers for storage of petroleum and petrochemical products sold by us. This saves our trading customers transportation costs and time as they do not need to arrange storage on their own.

Enhancing our trading business by maintaining certain portions of the storage facilities for our own storage use

The profit and operating performance of our trading business is strongly affected by price fluctuations in oil products we trade. In order to reduce the risks arising from any unfavorable price trend against the terms of the sell-side or buy-side agreement, we currently maintain a trading policy under which we simultaneously negotiate purchase and sale, and confirm intentions with one party and then with the other within a period of about one month. On the other hand, our profit and trading results may benefit from favorable price movements. Our traders closely monitor the market trend and adopt appropriate trading and/or hedging strategies. In order to assist our traders formulate trading strategies and negotiating terms of purchase and sale, we intend to maintain certain portions of the storage facilities for our own storage. By holding inventory of oil products, we will have more flexibility in deciding on the terms and timing for the purchase and sale, enabling them to trade in the best interest of the Company in any given market condition.

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Under the existing development plan of the Nantong Project, approximately 10%-30% of storage facilities of the Nantong Project will be used for our own storage of petroleum and petrochemical products in or after 2011. Based on our traders' judgment on the market, price trends, and terms of buy-side and/or sell-side agreements, our traders will adjust our inventory management strategy.

Before the utilisation of the storage facilities for self-storage of petroleum and/or petrochemical products in or after 2011, all of the storage facilities of the Nantong Project will be leased to third parties and/or our trading customers.

As the main purpose of the PRC Storage Business is to facilitate and enhance our existing trading business, we do not intend to change our core business of trading of oil products after the development of the PRC Storage Business.

(i) **The Nantong Project**

(a) *Overview*

Through Strong Petrochemical (Nantong), we are planning to invest approximately RMB120 million (equivalent to approximately HK\$136.4 million) to construct around 27 storage tanks with a total storage capacity of approximately 134,800 m³ on two parcels of land located at 南通市經濟技術開發區 (Nantong City Economic Technology Development District) with a total site area of approximately 55,095 m². As at the Latest Practicable Date, we paid registered capital of US\$2,999,980 (equivalent to approximately HK\$23.4 million) and incurred capital expenditure of approximately RMB23.5 million in the Nantong Project. Up to the Latest Practicable Date, we have finished the work in respect of piling and tank base setting and prepared documents for inviting tenders to the purchase of construction materials. We will disclose the updated amounts invested in Nantong Project and the construction progress in our interim and annual reports following the Listing.

The storage tanks of the Nantong Project are designed for storing certain types of petroleum products and petrochemical products but not crude oil. They will initially be used only for storing petrochemical products, as we have not obtained the relevant licences for storage of petroleum products in the PRC. As advised by our PRC Legal Advisor, there is no specific regulation in the PRC governing the storage of petrochemical products and, save for the requirement of a business licence, no other petrochemical product storage operation licence is required for the storage of petrochemical products.

Our storage tanks are initially designed for storing petroleum and petrochemical products with lower freezing points or lower viscosity such as naphtha, unleaded gasoline and mixed xylene. However, we will also reserve an area for furnishing and installing "heating and warm-keeping facilities" for storing petroleum and petrochemical products with higher viscosity or freezing points. Currently, we expect that the installation of the "heating and warm-keeping facilities" and the introduction of storage of petroleum and petrochemical products having higher viscosity or freezing points will only be carried out around three months after the obtaining of the relevant licences for

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storage of petroleum products. Upon the completion of the construction of the oil tanks under the Nantong Project, we will apply for the relevant licences for petroleum products storage operations. When the relevant licences are granted, Strong Petrochemical (Nantong) will expand its storage business to petroleum products in the PRC.

It is expected that the construction of storage tanks and all associated buildings and facilities, including the waste water treatment plant, electrical, instrumentation and surveillance systems and fire fighting systems will be completed and tested in the third quarter of 2009. We intend to finance the implementation of the Nantong Project from part of the net proceeds from the Share Offer and our internal resources. After completion of the construction, the storage tanks are expected to be leased to petrochemical and chemical fiber companies for the storage of petrochemical products and we shall be entitled to receive recurring rental income from our tenants.

(b) *Our capability in developing and operating the PRC Storage Business*

To mitigate the business risks arising from the PRC Storage Business, we have formulated and implemented the following management strategies and policies:

1. to examine the viability of the Nantong Project, in particular, the investment merits and technical requirements, we engaged 南通工業建築設計院有限公司 (Nantong Industrial Construction Design Institute Limited), an independent consultant company in the PRC, to carry out a detailed feasibility study on the Nantong Project in October 2005. We paid RMB30,000 to Nantong Industrial Construction Design Institute Limited to conduct such feasibility study. Nantong Industrial Construction Design Institute Limited possesses Class B qualification, a standard set by 江蘇省建設廳 (Jiangsu Province Construction Bureau) which allows Nantong Industrial Construction Design Institute Limited to undertake small to mid-scale construction projects (the storage capacity of each storage tank should be below 20,000 m³ and the total storage capacity should be below 80,000 m³) for chemical and construction engineering designs. The storage capacity of each storage tank in the Nantong Project is below 20,000 m³. It also processes the qualification for pressure pipeline and pressure container designs, qualification for town gas designs, and qualification for engineering contracting;
2. in order to ensure that the design of the Nantong Project will comply with the relevant requirements for safety and environment protection, we engaged Nantong Industrial Construction Design Institute Limited to carry out the construction design of the Nantong Project;
3. we consider that developing a management team possessing relevant experience and expertise in the PRC Storage Business is vital for the development of the PRC Storage Business. Therefore, we have hired two qualified engineers in the PRC to (i) coordinate the design and construction of the storage facilities under the Nantong Project; (ii) oversee the implementation of the Nantong Project; and (iii) coordinate the applications for the relevant business licences, permissions and approvals for the Nantong Project. These two qualified engineers, namely Mr. Ge Wenquang (葛文泉) and Mr. Hu Xiaorong (胡曉榕), have extensive experience in construction and/or management of infrastructure projects. Mr. Ge

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Wenquang is the project manager and one of the engineers for the Nantong Project. He had been involved in supervising the construction of five food storage facilities, and the modification of pier works for a food storage company. Mr. Hu Xiaorong, another engineer for the Nantong Project, graduated from the China University of Petroleum (中國石油大學(華東)). He has over 25 years of experience in handling oil products storage business including supervising the construction of storage facilities;

4. we will hire qualified and suitable personnel in the future to keep up with the development of the Nantong Project. Currently, we plan to recruit around three additional qualified engineers in first quarter of 2009 to oversee the implementation of the Nantong Project. Anticipating the commencement of operations of the Nantong Project in the fourth quarter of 2009, we have formulated the preliminary management structure and operation flow for the Nantong Project. To keep up with the development of the Nantong Project, we employed two staff members for the financial management of Strong Petrochemical (Nantong) and we will employ around 37 additional management, administration staff, sales representatives, safety technicians and site operators to operate and manage different departments of the Strong Petrochemical (Nantong) gradually before the commencement of operation in the fourth quarter of 2009. Given that the operation model of storage facilities is not very complicated and enterprises with oil storage operation are well-established in Yangtze River Delta, our Directors expect that it will not encounter any major difficulties in recruiting sufficient suitable human resources for the Nantong Project;
5. to ensure that the Nantong Project can meet the required PRC environmental standards, we have engaged and paid RMB20,000 to 南通市環境科學研究所 (Nantong City Environmental Science Research Center), an Independent Third Party and a company accredited by 國家環境保護總局 (State Environmental Protection Authority) to conduct environmental impact studies and to prepare the report for the relevant approval authority. Based on the results of the environmental impact studies, 南通市環境保護局 (Nantong City Environmental Protection Bureau) approved the construction of storage facilities under the Nantong Project;
6. to secure a suitable lessee for the Nantong Project upon the completion of construction in the third quarter of 2009, we successfully negotiated and entered into a leasing agreement with a state-owned petrochemical company, pursuant to which the lessee agreed to lease all of our storage tanks to be constructed under the Nantong Project for a period of one year commencing from the completion of construction of these storage tanks at a unit rate of RMB15/m³ on a monthly basis;
7. when we commence the self-storage of petroleum and/or petrochemical products after 2010, we will be exposed to inventory risk. In order to manage the inventory risk, we will set up an inventory management team to formulate and implement flexible inventory management strategies. For example, the inventory management team will make necessary adjustments to our inventory level according to the market and price trends of the related petroleum and/or petrochemical products; and

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8. to manage the inventory risk associated with the Nantong Project, we will also use derivative financial instruments to hedge the price of inventory held by us. For example, we can minimise the risk arising from market price volatility through selling forward/future contracts of the related petroleum and/or petrochemical products.

Taking into account the above management strategies and policies and the well-planned business model of the PRC Storage Business, among others, hiring sufficient technical personnel and complying with the relevant laws and regulations, our Directors consider that we are capable of developing and managing the PRC Storage Business.

(c) *Leasing arrangement with a state-owned petrochemical company*

In 2006, we carried out an internal feasibility study on the Nantong Project. Our management, including Mr. Yao and Mr. Wang, had discussions with certain potential users of storage facilities in Nantong to evaluate the business potential of the PRC Storage Business. A state-owned petrochemical company, which we have been selling petrochemical products to it since 2004, indicated to our management that it had an intention to lease our storage facilities on an ongoing basis, we commenced to negotiate the terms of a leasing agreement in the second half of 2007.

On 16 November 2008, we entered into a legally binding leasing agreement with such state-owned petrochemical company, an Independent Third Party, pursuant to which such company agreed to lease all of our storage tanks to be constructed under the Nantong Project with total storage capacity of 134,800 m³ for a period of one year commencing from the completion of construction at a unit rate of RMB15/m³ on a monthly basis. The annual rental will be RMB24.3 million, representing approximately 0.57% of the total revenue for the seven months ended 31 October 2008. According to the leasing agreement, such storage tanks will be used for the storage of petrochemical products.

Our Directors confirm that the terms of the above leasing agreement have been negotiated on an arm's length basis and with reference to prevailing market rental of similar storage tanks in Nantong. The terms of the leasing agreement with the state-owned petrochemical company contain no specific provisions stipulating the completion date of all of our storage tanks, and we are not required to compensate it for any delays in completion of the storage tanks. In addition, there are no price adjustment provision or early termination option pursuant to the leasing agreement. Upon comparing market rates for storage facilities of petrochemical products under similar terms and conditions, the Sponsor is of the view that the annual rental for the leasing agreement with that state-owned petrochemical company is on normal commercial terms.

We expect that, during the first year of operations, such state-owned petrochemical company will be our only tenant under the Nantong Project. Under the said leasing agreement, such state-owned petrochemical company will have an option to renew the term for a further one-year period after the expiration of the initial one-year term, however we also reserve the right to decline the renewal and resume the storage facility for our own use.

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(d) *Self-Storage business after 2011*

The total storage volume for the Nantong Project will be 134,800 m³ and for the development of our trading business we expect that approximately 10% to 30%, or 13,480 m³ to 40,440 m³, will be used by us for self-storage of petroleum and/or petrochemical products when we introduce the wholesale business of petroleum and petrochemical products in 2011. We expect to implement this plan when the following conditions are fulfilled during or after 2011:

1. having obtained the relevant business licences for the wholesale and storage of petroleum products in accordance with 《成品油市場管理辦法》 (Administrative Measures on the Petroleum Products Market);
2. having successfully expanded the types of petroleum products and petrochemical products, including benzene and ortho xylene and gasoil by 2011, and established and maintained business relationships with at least 5 new active customers for each of these new products; and
3. having achieved the following target annual trading volumes of new petroleum products and petrochemical products:

Name of products	Target trading volume
1 Mixed xylene (petrochemical product)	30,000 MT
2 Benzene (petrochemical product)	12,000 MT
3 Ortho xylene (petrochemical product)	20,000 MT
4 Gasoil (petroleum product)	1,500,000 BBL

For the year ended 31 March 2008, the total trading volume of petroleum and petrochemical products were 1,400,419 BBL and 14,897 MT, respectively. The table below sets out the total storage capacity and expected self-storage capacity of petroleum and petrochemical products from the storage business, and their respective percentages to our total trading volume of (i) petroleum products; and (ii) petrochemical products for the year ended 31 March 2008:

	Petroleum products	Petrochemical products
Total storage capacity of the Nantong Project (that is, 134,800 m ³ or 848,162 BBL or 117,217 MT) as a percentage of our oil products trading quantity for the year ended 31 March 2008	60.6%	786.8%
30% of the total storage capacity of the Nantong Project expected for self-storage (that is, 40,440 m ³ or 254,448 BBL or 35,167 MT) as a percentage of our oil products trading quantity for the year ended 31 March 2008	18.2%	236.1%

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As imports of petrochemical products into the PRC are not restricted by the PRC government, we are able to transact with end customers of the petrochemical products directly. We have introduced our storage services to some of our customers for petrochemical products in Nantong and invited them to lease our storage facilities when they commence operation. In addition, we will utilise our business connections with our existing customers, such as Five State-owned Licensed Import Agents, to promote our storage business in Nantong to state-owned petrochemical companies which are members of the Five State-owned Licensed Import Agents.

We have been promoting the Nantong Project to those potential customers in Nantong and keeping them updated with the construction progress of the Nantong Project. However, as the Nantong Project is expected to be completed in the third quarter of 2009 and we have signed a one-year leasing agreement with a state-owned petrochemical company, we have not entered into any concrete understanding or agreement with other companies in relation to the lease of our storage facilities in Nantong at this stage.

Our Directors do not foresee any difficulty in finding suitable tenants for our storage facilities in Nantong if that state-owned petrochemical company decides to discontinue the leasing agreement upon the expiry of which due to the following reasons:

- (i) The expansion of refining capacity and blending requirements for petroleum products in the PRC

According to the Medium Term Oil Market Report issued by International Energy Agency in July 2007, the PRC continues to contribute more than any other country to forecast refinery growth. Newly-built refineries and the expansion of existing plants will contribute 2.3 million b/d of additional crude capacity before the end of 2012.

During the oil refinery process, crude oil is processed and refined into petroleum products. Therefore, the expansion of refining capacity will stimulate the import of crude oil and production of petroleum products in the PRC, resulting in increasing demand for storage facilities for crude oil and petroleum products.

- (ii) Substantial demand for storage facilities from refineries and chemical complexes located along the Yangtze River and coastal region

As many refineries and chemical complexes are located along the Yangtze River and coastal region, including 中國石化集團南京化工廠 (Sinopec Nanjing chemical plant), 中石化巴陵分公司 (Sinopec Baling Co.), 中國石化儀征化纖股份有限公司 (Sinopec Yizheng Chemical Fibre Company Limited), 中國石油吉林石化公司(上海分公司) (Petrochina Jilin Petrochemical Co. (Shanghai Branch)) and 江蘇宏信化工有限公司 (Jiangsu Hongxin Chemical Co.), it is expected they create sizeable demand for storage facilities in Nantong during their normal course of business.

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(ii) Investment in Tianjin Company

(a) Overview

We, through Smart Team, hold a 15% equity interest in the Tianjin Company. The current amount of total investment and the amount of registered capital as contained in the certification of incorporation are RMB670 million and RMB300 million respectively. According to a resolution of the board of directors of the Tianjin Company and the revised feasibility study, subject to the approvals from the relevant government authorities, the total investment of the Tianjin Company will be increased to approximately RMB1.57 billion, 40% of which is expected to be derived from investment from its shareholders and the remaining 60% to be financed from bank borrowings by the Tianjin Company. According to our 15% interest in the Tianjin Company, we are thus required to invest a total of approximately RMB94.2 million. In March 2008, we paid RMB45.0 million, representing approximately 13.0% of our net assets as at 31 October 2008. The remaining sum of approximately RMB49.2 million (equivalent to approximately HK\$55.9 million) is to be paid by June 2009 or other time approved by the relevant government authorities and we expect to finance it with net proceeds from the Share Offer and our internal resources. Up to July 2008, the total capital contribution made to the Tianjin Company by its shareholders were approximately RMB300 million, and around RMB140 million has been utilised for the purchase of land use rights for the parcel of land with an area of approximately 210,000 m² for the construction of storage capacity in the first phase, related land-fillings and foundation works, and general working capital.

According to the revised feasibility study report issued by 總裝備部工程設計研究總院 (Center for Engineering Design and Research under the Headquarters of General Equipment) in November 2007 in respect of the Tianjin Project, the Tianjin Company will build a storage facility with a capacity of 950,000 m³ on a parcel of land with an area of 570 Mu (equivalent to approximately 380,000 m²) located in the southern portion of Nangang Road, South District of Nanjiang, Tianjin Port (天津港南疆南城南港路以南) for the storage of crude oil, petroleum products and petrochemical products. Tianjin Company entered into a land use right transfer agreement with the Tianjin Shi Guo Tu Zi Yuan He Fang Wu Guan Li Ju (天津市國土資源和房屋管理局) in July 2008 for this piece of land and Tianjin Company is in the process of applying for the land use rights certificate. The construction of the storage facility will be carried out in two phases. The first phase will involve the building of a storage facility with a total capacity of 420,000 m³ occupying approximately 210,000 m² of the said piece of land of which storage capacity for crude oil and petroleum products will be 320,000 m³ and 100,000 m³, respectively. The second phase will involve the building of a storage facility with a total capacity of 530,000 m³, of which storage capacity for crude oil, petroleum products and petrochemical products will be 320,000 m³, 100,000 m³ and 110,000 m³, respectively. It is expected that the first phase construction will begin in March 2009 and be completed in May 2010. As at the end of November 2008, the land-fillings for the first phase construction have been completed, an engineering company was engaged for the design of the storage facility for the first phase. The second phase construction is expected to begin in March 2010 and be completed in June 2011. A professional design company was appointed in mid-November to design the foundation work of the second phase construction. Upon completing the first phase construction in the second quarter of 2010, the Tianjin

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Company will satisfy all conditions for the qualifications for petroleum and crude oil storage operation, and will submit an application to the relevant authorities in the PRC for petroleum and crude oil storage operations. It is expected that the Tianjin Company can obtain the relevant business licences in the third quarter of 2010.

The construction of the storage facility will be financed by capital contributions made by shareholders and, possibly, bank financing. Subject to the resolution from its board of directors, the registered capital of the Tianjin Company may be increased to finance the building cost. In this event, we will be required to make additional capital contribution to finance the cost. We will disclose the progress of our contribution of registered capital in and the development of the Tianjin Company, together with details of shareholders' loan (if any) to the Tianjin Company in our subsequent interim and annual reports.

(b) *Board of directors, supervisory committee and shareholders of the Tianjin Company*

To safeguard our interest in the Tianjin Company, we are entitled to appoint one out of five directors of the Tianjin Company, and one out of three supervisors of the Tianjin Company. According to the articles of association of the Tianjin Company, the board of directors is responsible for setting the strategic direction of the Tianjin Company and for overseeing and monitoring its businesses and other important affairs. In addition, unanimous approvals from the board of directors of the Tianjin Company are required for certain important board resolutions which may affect the equity interest of each shareholder, including changes in the registered capital and the amendments to the articles of association. According to the joint venture agreement and the articles of association of the Tianjin Company, the board of directors of the Tianjin Company approves annual financial statements and management reports including annual capital expenditure and operation plans, annual financial reports, annual budget and final accounts. Each shareholder will receive the Tianjin Company's audited annual financial statements three months after the end of the relevant financial year.

Mr. Jin Dianlu (金殿祿), aged 46, who joined Smart Team as a manager in December 2007, is the director representing Smart Team in the Tianjin Company. He graduated from Tianjin University of Finance and Economics (天津財經大學) with a master's degree in 2008. He has around 13 years of experience in supervisory, senior management and directorate positions. Prior to representing Smart Team in the Tianjin Company, he had been a director in an optical precision instruments manufacturing company in Tianjin for around 13 years.

The supervisory committee is responsible for monitoring financial matters and supervising the activities of the board and management of the Tianjin Company. The supervisory board of the Tianjin Company has authority to inspect the accounts of the Tianjin Company. Ms. Xie Yan (解炎), aged 37, who joined Smart Team as an officer in December 2007, is the supervisor representing Smart Team in the Tianjin Company. She graduated from Hebei University (河北大學) with a bachelor's degree in 2004. She has more than two years of experience in supervisory and management positions. Prior to representing Smart Team in the Tianjin Company, she was a departmental vice-supervisor in a measuring apparatus manufacturer in Tianjin for approximately two years.

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The table below sets out the details of the directors and supervisors appointed by the shareholders (other than Smart Team) of the Tianjin Company:

Name	Position	Appointing shareholder	Experience
Yao Jun (姚軍)	director	Sinochem International Industry Co.	General manager of Sinochem Xingzhong Oil Staging (Zhoushan) Co., Ltd from 2004 to 2008 and the vice-general manager of Sinochem International Industry Co. since 2008
Zhong Ren (鍾韜)	director	Sinochem International Industry Co.	Vice general manager of Sinochem International Oil Co. and general manager of the crude oil department of Sinochem International Oil Co. since 2006
Yang Xuejun (楊學軍)	director	Tianjin Port Foreign Economic And Technological Cooperative Company	Department head of the investment management department of Tianjin Port (Group) Co., Ltd since 2005
Qian Lixin (錢立新)	director	Sinochem International Petroleum (Bahamas) Co., Ltd	General manager of the project management department of Sinochem International Industry Co. since 2005
Lan Hai (蘭海)	supervisor	Sinochem International Industry Co.	Chief finance officer of the oil centre of Sinochem Corporation since 2005
Du Bin (杜斌)	supervisor	Tianjin Port Foreign Economic And Technological Cooperative Company	Divisional head of the investment management department of Tianjin Port (Group) Co., Ltd since 2006

We appointed Mr. Jin and Ms. Xie to be the director and supervisor, respectively, representing Smart Team in the Tianjin Company because of their profound experience in supervisory and directorate positions. Although they do not have prior experience in, respectively, storage business or oil industry, our Directors are of the view that personnel bearing adequate experience in directorate and supervisory positions are important, as our Company is solely an investor in the Tianjin Company. We did not appoint our existing directors or members of the senior management to the Tianjin Company because we plan to have them focus on the operation and management of Strong Petrochemical (HK), Strong Petrochemical (Macao) and Strong Petrochemical (Nantong).

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All other shareholders of Tianjin Company, namely, Tianjin Port Foreign Economic And Technological Cooperative Company⁽¹⁾, Sinochem International Industry Co⁽²⁾, and Sinochem International Oil (Bahamas) Co., Ltd.⁽³⁾, are Independent Third Parties and they do not have the relevant licences in oil storage business. However, their respective associated companies, being members of Tianjin Port (Group) Co., Ltd. and Sinochem Corporation, possess prior experience in oil storage business in the PRC. Thus, our Directors consider that the other shareholders can share their experience of oil storage business gained from their respective associated companies. Coupled with our representatives in the board of directors and supervisory position in the Tianjin Company as mentioned above, our equity interest in the Tianjin Company has been reasonably and sufficiently protected.

Notes: Background information of the other shareholders of the Tianjin Company is as follow:

1. Tianjin Port Foreign Economic And Technological Cooperative Company is a wholly-owned subsidiary of Tianjin Port (Group) Co., Ltd, which is a state-owned enterprise responsible for overseeing the administrative and business activities of the port of Tianjin. Tianjin Port Foreign Economic And Technological Cooperative Company is independent of Sinochem International Industry Co and Sinochem International Oil (Bahamas) Co., Ltd.
2. Sinochem International Industry Co is a wholly-owned subsidiary company of Sinochem Corporation, a state-owned enterprise. It mainly deals in storage, wholesale, retail of crude oil, oil products, chemical products, liquefied natural gas. Sinochem International Industry Co. is also an associate company of Sinochem International Oil (Bahamas) Co., Ltd.
3. Sinochem International Oil (Bahamas) Co., Ltd is one of the operating enterprises of Sinochem Corporation for oil trading business. Sinochem International Oil (Bahamas) Co., Ltd. is also an associate company of Sinochem International Industry Co.

(c) *Feasibility study report issued by CEDR*

Established in 1958, CEDR, an Independent Third Party, is under the 中國人民解放軍總裝備部 (General Armament Department of the People's Liberation Army of China) and possesses 甲級工程設計資質 (Class A Qualification in Engineering Design).

CEDR was engaged to examine the viability of the Tianjin Project through detailed analysis on (i) import and export of crude oil, petroleum and petrochemical products in the Tianjin port region; (ii) technical requirements for the construction of storage facilities, pipelines and other relevant infrastructures; (iii) management system of the Tianjin Company; and (iv) investment merits, including internal return rate (10.49%), investment pay-back period (9.87 years) and investment return rate (8.37%).

Based on the above analysis, CEDR considered that the implementation of the Tianjin Project is technically and financially feasible.

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(d) *Reasons for our investment in the Tianjin Company*

In the 11th Five-Year Plan endorsed by the National People Congress of the PRC and released in March 2006, the port of Tianjin was designated by the PRC government as the principal gateway to the hinterland of the north and northwest parts of China. The PRC government's goal is to establish the port of Tianjin as the principal international trading port and logistics hub for the northern China. The 11th Five-Year Plan also emphasises acceleration of the development of the Tianjin-Binhai Coastal Area, which encompasses the port of Tianjin, as a key element of advancing the regional economy.

Taking into account the above favorable PRC government's development plan, we consider that the Tianjin Project has promising business prospects and will offer attractive investment returns to us in the future.

In addition to the above monetary benefits, our Directors consider that we can enjoy the following non-monetary benefits from our investment in the Tianjin Company:

- (1) compared with the Nantong Project which only provides storage services to petrochemical products initially, the Tianjin Project is a large-scaled storage project for crude oil, petroleum products and petrochemical products. Although we will not participate in the daily operations of the Tianjin Company, collectively with other shareholders of the Tianjin Company, we have authority to make major decisions of the Tianjin Company and to obtain progress reports from management of the Tianjin Company in relation to its implementation and operation. As a result, we will have opportunities to accumulate valuable experience and expertise in operating large-scale storage facilities in the PRC; and
- (2) it is expected that our exposure and reputation in the PRC oil products storage industry will be strengthened, which will assist us in (i) applying for relevant business licences for the wholesale and storage of oil products in the PRC; and (ii) exploring business opportunities through acquisition and development of new oil products storage projects in the PRC.

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Set out below is a comparison of the Nantong Project and the Tianjin Project:

	Nantong Project	Tianjin Project
Our management role:	We will be actively involved in the daily operation of the Nantong Project	As we are only interested in 15% equity interest in the Tianjin Company, we have limited control and involvement in the daily operation of the Tianjin Project
Target storage product:	Petrochemical products (<i>note</i>)	Crude oil, petroleum products and petrochemical products
Storage capacity:	134,800 m ³	950,000 m ³
Location:	At a river port in the eastern China	At a sea port in the northern China

Note: Strong petrochemical (Nantong) intends to expand its storage business to petroleum products when it obtains the relevant business licence from the PRC government.

SUPPLIERS AND CUSTOMERS

(i) Suppliers

In general, we settle payment to suppliers by means of letters of credit upon 30 days from the date of bill of lading. Our aggregate purchases from our five largest suppliers accounted for approximately 74.1%, 77.8%, 75.4% and 89.2% of our total purchases during the Track Record Period. The five largest suppliers during the Track Record Period are members of the Five State-owned Licensed Import Agents, members of the Oil Majors, and other trading companies specialised in trading of oil and refined products and raw materials situated in Singapore, London, Indonesia and Hong Kong. Purchases from our largest supplier accounted for approximately 22.8%, 37.0%, 29.3% and 42.8%, of our total purchases during the Track Record Period. None of our Directors, their respective associates or shareholders holding more than 5% of the issued share capital of our Company has any interest in any of our five largest suppliers. Our five largest suppliers were Independent Third Parties during the Track Record Period.

During the Track Record Period, we have a total of four active suppliers who traded with us who accounted for approximately 51.2%, 31.3%, 55.1% and 74.0% of our total purchases. Although compositions of the five largest suppliers during the Track Record Period varied each year and the single largest supplier in each year accounted for less than 50% of our total purchases for that particular year, taking into account purchases from our four active suppliers and aggregate purchases from our five largest suppliers during the Track Record Period, we are of the view that we have relied on our existing suppliers as a whole. In order to mitigate this reliance, we will actively look for new

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suppliers after the Listing by attending conferences and by setting up a representative office in Shanghai, which is expected to be in operation in the first quarter of 2009. We have also secured two new suppliers since 31 March 2008 for petroleum products and crude oil. However, we cannot guarantee that our reliance on existing suppliers will be resolved afterwards, as we usually select our suppliers based on reputation, market trends, terms and profit margin in a given trade. If terms offered by our major suppliers or active suppliers are more favourable than new suppliers, we may still source oil products from them.

(ii) Customers

In general, we receive payment from customers on open account basis by telegraphic transfer upon 30 days from the date of bill of lading. Aggregate sales to our five largest customers accounted for approximately 97.2%, 100.0%, 94.2% and 97.3%, respectively, of our total sales during the Track Record Period. The five largest customers during the Track Record Period are members of the Five State-owned Licensed Import Agents and other oil products trading companies situated in Singapore and the PRC. Sales to the largest customer accounted for approximately 55.0%, 82.8%, 35.6% and 38.2%, respectively, of our total sales during the Track Record Period. None of our Directors, their respective associates or shareholders holding more than 5% of the issued share capital of our Company has any interest in any of our five largest customers. Our five largest customers were Independent Third Parties during the Track Record Period. Due to restrictions under relevant regulations, we were heavily reliant on the Five State-owned Licensed Import Agents.

During the Track Record Period, we had established close relationships with the Five State-owned Licensed Import Agents at both the headquarters and subsidiaries levels. Usually, we conclude and sign the buy-side and/or sell-side agreements with trading subsidiaries of the Five State-owned Licensed Import Agents. We sometimes procure oil products from overseas trading subsidiaries of one of the Five State-owned Licensed Import Agents, and then sell such oil products to companies owned by another the Five State-owned Licensed Import Agent or other customers not related to the Five State-owned Licensed Import Agents. This situation arises because the Five State-owned Licensed Import Agents usually handle such smaller-scaled trading orders through other trading companies like us.

With increased imports of crude oil into the PRC market, we will continue to look for and secure new customers in the PRC and capture new opportunities with a view to minimising our reliance on major customers. Since 31 March 2008, we have secured one new customer for petroleum products and one new customer for petrochemical products. We will also set up an office in Shanghai by the first quarter of 2009, which is located in the vicinity of refineries and chemical complexes. We also intend to expand our trading in petrochemical products, which has no import restriction to the Five State-owned Licensed Import Agents in the PRC. However, we cannot guarantee that our reliance on existing customers will be resolved, as we will have to carefully evaluate the credibility of new customers before we establish trading relationships with them so as to minimise any default risk on payment from those new customers.

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During the financial year ended 31 March 2008, the average selling price of each shipment reached approximately HK\$162.0 million, representing approximately 174.7% of our net profit for the same period. In the event that any of our customers fails to meet its payment obligations, we will suffer significant loss or even become bankrupt. To limit our credit risk exposure, we select our customers prudently and selectively. During the Track Record Period, we mainly transacted with the Five State-owned Licensed Import Agents which have strong financial background and well-established market positions. Before accepting any new customers, we will assess their background and credibility. In addition, our banks will also review and evaluate the background and credibility of our suppliers and customers before we enter into a buy-side and/or sell-side agreement. Without our banks' consent, we will not carry out a transaction.

PRICING

We are not aware of any existing legal or regulatory controls in Hong Kong and Macao that regulate the prices of our trading products. Prices for crude oil, petroleum products and petrochemical products under the buy-side agreement and/or sell-side agreement are set, upon arm's length negotiations with our suppliers and customers, on different pricing basis including a fixed price per unit or a floating price plus a margin or minus a discount per unit. The floating price per unit is determined with reference to the average closing price of a reference oil product (which may or may not be the same as the underlying product of the trade) over a certain period of future dates (for example, average daily prices in June of Brent quoted in Means of Platts, Singapore (MOPS) plus US\$2.0, where "Brent" is the reference oil product for calculation of floating price and the trading oil product can be different from Brent). As the underlying trading oil product may not have an active and public market to indicate its daily market price, it is a norm for oil traders to set the floating price by reference to another active reference oil product with a public market price. The closing price of the reference oil product is quoted on international commodity exchanges, official announcements and market publications, such as Means of Platts, Singapore (MOPS), Indonesia Crude Oil Prices (ICP). During the price negotiation process with our suppliers and customers, our traders will take into account various factors such as market trend, market price in the specific region, availability and demand and supply of the relevant trading product and our cost on that corresponding batch of oil products.

The pricing basis (fixed or floating basis) is negotiated and determined amongst ourselves and our counterparties by considering (i) the terms on the delivery date of the buy-side or sell-side agreements; (ii) price volatility of the underlying oil products; and (iii) preferences of our counterparties. Similar to industry practice, after our counterparties and we have determined the pricing method and other key terms of the agreement, we would send a verbal or written memorandum to each other to confirm the key terms and conditions of the agreement, and then we would sign the formal agreement. In the event that we do not reach agreement with our counterparties as to the pricing basis, we will evaluate the profitability and attractiveness of the terms offered by our counterparties. If we consider that it is not commercially feasible to proceed with that shipment, we would reject offers from our counterparties.

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With an aim to minimising price risks faced by us, we endeavor to set the buy-side and sell-side agreements with reference to the same reference oil products. For example, if the buy-side agreement is set at a floating price basis with a pricing formula of the average daily closing price in Brent (the reference oil product) plus US\$1.00 and the sell-side agreement is set at a floating price basis with a pricing formula of the average daily closing price in Brent (the reference oil product) plus US\$3.50, then we can secure our trading profit and eliminate all price risk. However, it is not uncommon for us to accept the buy-side and sell-side agreements with different reference oil products from time to time because of the varying preferences of our counterparties. Under such circumstances, we would face price risks arising from changes in prices of different reference oil products according to the global economy, supply and demand of oil-producing countries and oil-consuming countries, international political factors, oil products commodities futures market, etc. In any event, we endeavor to match the buy-side and sell-side agreements with the same reference oil product. If our counterparties disagree on such pricing terms, we shall evaluate the potential profitability of the shipment and our ability to hedge the different pricing formula before accepting the buy-side and/or sell-side agreement.

During the Track Record Period, approximately 12.8%, 10.8%, 19.2% and 23.5% of our trades were set with reference to different reference oil products under the buy-side and sell-side agreements.

HEDGING AND RISK MANAGEMENT POLICY

Hedging

We are principally engaged in the trading of oil products including crude oil, petroleum products and petrochemical products. We, as the principal, purchase oil products from our suppliers and sell such products to our customers. We negotiate separately with our suppliers and customers, who may have different requirements in pricing basis on the buy-side and sell-side agreements. We generally ascertain the terms of the buy-side and sell-side agreements at different points of time within approximately one month.

Our purchase cost and selling price of oil products are set, in general, after arm's length negotiations with our suppliers and customers separately, on different pricing basis including a fixed price per unit or a floating per unit price plus a margin or minus a discount. The floating price is determined with reference to the average closing price of a reference oil product (which may or may not be the same as the underlying oil product of the shipment) over a certain period of future dates. The closing price of the reference oil product is quoted on international commodity exchanges, official announcements and market publications, such as Means of Platts, Singapore (MOPS), Indonesia Crude Oil Prices (ICP). Under the floating pricing basis, the choice of the reference oil products and the pricing period with reference to which such average closing price is calculated will be made according to the preference of each customer or supplier and subject to our negotiations with our supplier and customer respectively.

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Due to the commodity nature of oil products, the price of oil products varies from time to time according to the global economy, supply of oil producing countries and demand of oil consuming countries, international political factors, oil products commodities futures market, etc. As such, our operating performance is vulnerable to the nature of our business and operating environment. In particular, when the buy-side agreement and/or sell-side agreement are/is priced based on the floating price basis, we may be subject to price risk from the moment of entering into the agreement to the last day of pricing the shipment since the market price of reference oil products under the floating price basis may move against our favour. In order to minimise our price risk exposure and reduce fluctuations in our operating results, we engage in hedging activities by entering into derivative financial instruments, as and when appropriate, during the course of our trading business. Based on the market price structure (premium or discount between spot price and futures price) of (i) the underlying oil products of the shipment; (ii) the reference oil products under floating basis; and/or (iii) the relevant derivative financial instruments, we shall consider how hedging should be done if required at different stages of our trading process. We generally consider carrying out hedging activities at each of the three stages of our trading process as demonstrated below:

1. *During negotiation of buy-side and/or sell-side agreements (ceased after 1 September 2008)*

During negotiations with our suppliers and customers, the pricing basis of buy-side and sell-side agreements may vary from time to time according to the relative bargaining power and preferences of our suppliers, customers and ourselves. To hedge against possible price movements unfavourable to the pricing basis under negotiation, we carried out appropriate hedging strategies. For demonstration purposes, we set out below two illustrative scenarios:

a. *Negotiation of a buy-side agreement with floating price*

In March, our supplier considers selling to us a shipment of Sakhalin crude oil (the underlying oil product) and requests that the price be set at floating price basis with a pricing formula of average daily closing price in April Dated Brent (the reference oil product) plus US\$1.00.

To hedge our price risk against increases in purchase cost under the potential buy-side agreement, we shall long futures or forward contracts on oil-related energy products. If the oil market price rises, then our gain from trading in derivative financial instruments can cover, fully or partially, our extra purchase cost in the potential physical shipment, or vice versa. In this case, we are hedging the price risk of the potential buy-side agreement by locking the purchase cost through derivative financial instruments.

If our traders anticipate a drop in price of Dated Brent (the reference oil product) in coming April and the price of Dated Brent is currently at a peak, we shall short futures or forward contracts on oil-related energy products to hedge our price risk against the anticipated decrease in selling price under the potential sell-side agreement. If the market price of oil drops, then our gain from trading in derivative financial instruments can cover, fully or partially, the lowered selling price in the potential physical shipment, or vice versa. In this case, we are hedging the price risk of the potential sell-side agreement by locking the selling price through derivative financial instruments.

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b. Negotiation of a sell-side agreement with floating price

In March, one of our customers considered purchasing from us a shipment of Nile Blend (the underlying oil products) and requests that the price be set at floating price basis with a pricing formula of 5-day average closing price around bill of lading date (assuming on 25 April) in price of Oman (the reference oil product) plus US\$3.50.

If our traders anticipate a drop in the price of Oman (the reference oil product) in the near future, we shall short futures or forward contracts on oil-related energy products to hedge our price risk against the anticipated decrease in selling price under the potential sell-side agreement. If the market price of oil drops, then our gain in derivative financial instruments can cover, fully or partially, our loss arising from the decrease in the selling prices under the potential physical shipment, or vice versa. In this case, we are hedging the price risk of the potential sell-side agreement by locking the selling price through derivative financial instruments.

If our traders anticipate a rise in price of Oman (the reference oil product) in near future, and the price of Oman is currently at a trough, we shall long futures or forward contacts on oil-related energy products to hedge our price risk against the anticipated increasing purchasing price under the potential buy-side agreement. If the market price of oil rises, our gain from trading in derivative financial instruments can cover, fully or partially, the higher purchasing cost in the potential physical shipment, or vice versa. In this case, we are hedging the price risk of the potential buy-side agreement by locking the purchase cost through derivative financial instruments.

Before 1 September 2008, we might carry out hedging activities when we commenced negotiations with potential customers and/or suppliers as and when appropriate, if we considered that there was a likelihood for us to conclude the transactions, even no formal agreements were signed during the negotiation process. To assess the chance of concluding the trade, our traders would consider, amongst other things, the relationship with the counterparties, proposed terms of the shipment and existing current market sentiment on demand and supply of different oil products. The trading volume under the hedging activities would normally be less than, or at most equal to, the trading volume under the negotiating shipment.

We consider that hedging during the negotiation process of buy-side or sell-side agreement to be crucial, as oil products prices fluctuate significantly from time to time. In early stage of negotiation, our trader and counterparties would discuss the type of oil products, target quantities and pricing basis. Other terms such as delivery date, shipping terms, insurance, freight would be discussed in later stages. When negotiations become mature and the target pricing basis is verbally confirmed, our trader would determine, based on the target pricing basis and their view of the oil markets, whether hedging is necessary. By entering into derivative financial instruments, we could be assured that if we accept a target offer price but there are unfavourable price movement on the reference oil products under the pricing basis, our price risk could be reduced or eliminated.

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Due to various commercial reasons, including but not limited to, prices, quantities, specification and quality of oil products, and shipping terms under the buy-side and/or sell agreement, we might negotiate with our counterparties on a continuous basis and amend such terms to increase our profitability. If our counterparties reject the proposed terms in relation to a shipment, then the relevant shipment may not be concluded ultimately. Where the proposed quantity of a shipment is changed or the negotiation cannot be concluded, we would closely monitor and adjust our derivative financial instruments positions in accordance with the negotiation process with our suppliers and/or customers.

Although hedging activities during the negotiation process could reduce or eliminate price risk of the target price at an early stage, we would be subject to volatility risks from trading in derivative financial instruments if the buy-side and/or sell-side agreement could not be concluded eventually. To further manage our risks arising from trading in derivative financial instruments in a volatile market, our Directors have decided to amend our risk management policy effective from 1 September 2008, pursuant to which trading in derivative financial instruments will be prohibited before we can confirm either the buy-side and/or sell-side agreement by recapitulating key terms of the agreements in a written form with our counterparties.

2. After conclusion of a buy-side or a sell-side agreement

Where either a buy-side or sell-side agreement is confirmed whilst another agreement is still under negotiation, and our traders' view on price trends of the underlying oil product of the shipment and/or the reference oil product under floating pricing basis is unfavourable to the agreed pricing basis of the confirmed agreement and/or the agreement under negotiation, we will carry out appropriate hedging strategies after considering the expected timing for the conclusion of the agreement still under negotiation.

3. After conclusion of both buy-side and sell-side agreements

When both the buy-side and sell-side agreements are confirmed, we will consider whether or not the existing hedging strategies, if any, are still appropriate, taking into account (i) the final pricing basis on the buy-side and sell-side agreements; and (ii) the market price structure (premium or discount between spot price and futures price) of (a) the underlying oil products of the shipment; (b) the reference oil products under floating basis; and/or (c) the relevant derivative financial instruments. If the existing hedging strategies are no longer appropriate, we will close our hedging position and, if necessary, re-establish new hedge positions and hold such positions until the conclusion of the final purchase cost and selling price, or adjust the hedging position if and when necessary. For demonstration purposes, we set out below three illustrative scenarios:

- a. Conclusion of a buy-side agreement on a floating price basis and a sell-side agreement on a fixed price basis

The buy-side agreement is concluded on a floating price basis with a pricing formula of the average daily closing price in April Dated Brent (the reference oil product) plus US\$1.00 and the sell-side agreement is set at a fixed selling price. However, our traders anticipated a rise in the

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price of Dated Brent (the reference oil product) in April. As such, we shall long futures or forward contracts on oil-related energy products to hedge our price risk against the anticipated increasing purchase cost, or we can use a swap contract to receive a floating price from a swap dealer by paying a fixed price to the swap dealer.

- b. Conclusion of a sell-side agreement on a floating price basis and a buy-side agreement on a fixed price basis

The sell-side agreement is concluded on a floating price basis with a pricing formula of a 5-day average closing price around bill of lading date in Oman (the reference oil product) plus US\$3.50 and the buy-side agreement is set at a fixed selling price. However, our traders anticipate a drop in price of Oman (the reference oil product) in the near future. As such, we shall short futures or forward contracts on oil-related energy products to hedge our price risk against the anticipated decreasing selling price, or we can short a swap contract to receive a fixed price from a swap dealer by paying a floating price to that swap dealer.

- c. Conclusion of both buy-side and sell-side agreements on floating price basis but different pricing formula

The buy-side agreement is concluded on a floating price basis with a pricing formula of the average daily closing price in April Dated Brent (the reference oil product) plus US\$1.00 and the sell-side agreement is concluded on a floating price basis with a pricing formula of 5-day average closing price around bill of lading date (assuming on 25 April) in Oman (the reference oil product) plus US\$3.50. If our traders anticipate a drop in Oman (the reference oil product) price trend, we shall short futures or forward contracts on oil-related energy products to hedge our price risk against the anticipated decreasing selling price. If we anticipate a rise in Dated Brent (the reference oil product), we shall long futures or contracts on oil-related energy products to hedge our price risk of increasing purchasing costs.

In addition, we can enter into swap contracts on the floating prices of both the buy-side and sell side agreements. We shall long a swap contract to receive a floating price of an average daily closing price in April Dated Brent (the reference oil product) from a swap dealer by paying a fixed price to the swap dealer; and at the same time we shall short a swap contract to receive a fixed price from a swap dealer by paying the floating price of a 5-day average closing price around the bill of lading date (assuming on 25 April) in Oman (the reference oil product). By doing so, our price risk on both buy-side and sell-side agreements will be eliminated.

After the execution of hedging activities by entering into derivative financial instruments, taking into consideration any changes in market condition and price trends, and our negotiations with suppliers and/or customers, we shall closely monitor our hedging positions and if necessary, adjust our hedging positions or strategies in a dynamic way in accordance with the factors including, but not limited to, (i) the actual price movement of the derivative financial instruments; (ii) the market price structure (premium or discount between spot price and futures price) of (a) the underlying oil products of the shipment; (b) the reference oil products under floating price basis; and/or (c) the relevant

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derivative financial instruments; (iii) the changes in the proposed pricing basis under negotiation; (iv) any unrealised losses on trading in derivative financial instruments which may exceed the risk tolerance thresholds as discussed in the next section headed “Risk Management Policy”; and (v) the movement of the margin amount held in our broker accounts.

As such, our hedged shipments may involve a series of trading in derivative financial instruments, the positions of which may change from time to time in accordance with the changing operating and market environment.

Our Directors confirm that our trading in derivative financial instruments is solely for the purpose of hedging our financial positions in different stages of our trading process. Hedging is an integral part of the ordinary and usual course of our trading business, the purpose of which is to minimise our price risk exposure and reduce fluctuation in our operating results. The following table sets forth the breakdown of fair value changes on derivative financial instruments during the Track Record Period:

	Year ended 31 March			Seven months ended 31 October						
	2006	2007	2008	2007	2008					
	(HK\$'000)	No. of shipment (HK\$'000)	No. of shipment (HK\$'000)	No. of shipment (HK\$'000)	No. of shipment (HK\$'000)	No. of shipment				
Realised/unrealised gain/(loss) arising from derivative financial instruments held on hand as at balance sheet date	3,869	N/A	—	N/A	—	N/A	(3,697)	1	(309)	2
Gain/(loss) from trading in derivative financial instruments for Hedged Shipment (Note 1)	(3,151)	13	(28,942)	16	(6,655)	16	(11,432)	12	191,896	8
Gain/(loss) from trading in derivative financial instruments for Unsuccessful Shipment with Derivative Contracts	(1,733)	8	(2,568)	4	2,988	5	1,824	3	(2,896)	2
Total	<u>(1,015)</u>		<u>(31,510)</u>		<u>(3,667)</u>		<u>(13,305)</u>		<u>188,691</u>	

Note 1: During the Track Record Period, there were nil, two, two and nil Hedged Shipments with derivative financial instruments entered into in the financial year which is different from the financial year for the settlement of the contract value with suppliers and customers.

For the year ended 31 March 2005, we recognised an unrealised loss of approximately HK\$3.9 million for 400 lots short position of crude oil futures held on hand as of 31 March 2005. During the year ended 31 March 2006, we closed such short position by buying back 400 lots of crude oil futures. Therefore, the unrealised loss of approximately HK\$3.9 million in the previous financial year was

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reversed and recognised as realised gain in the year ended 31 March 2006. For the seven months ended 31 October 2008, we recognised an unrealised loss of approximately HK\$2.9 million for (i) 170 lots short position of crude oil futures; (ii) 190 lots of long position of crude oil futures held on hand as of 31 October 2008. For details of Hedged Shipment and Unsuccessful Shipment with Derivative Contracts during the Track Record Period, please refer to “Financial information — (IV) Principal income statement items — Fair value changes on derivative financial instruments — A. Details of Hedged Shipment/B. Details of Unsuccessful Shipments with Derivative Contracts”.

During the Track Record Period, not all of the shipments conducted by us were hedged. Certain shipments definitely did not require hedging because (i) the buy-side and sell-side agreements were both priced at a fixed price, or with the same pricing formula under a floating price basis, thus posing no inherent price risk to the shipment; or (ii) the shipments involved petrochemical products where no appropriate derivative financial instruments exists for hedging. However, we might consider hedging for some shipments with buy-side and sell-side agreements being priced with different pricing formula under the floating price basis or either one agreement being priced on the fixed price basis and the other on floating price basis. However, eventually we did not hedge these shipments because our traders considered the price risks low for such shipments, given the then favourable oil market condition.

The following table sets forth an analysis of our shipments associated with hedging during the Track Record Period:

	Year ended 31 March						Seven months ended 31 October			
	2006		2007		2008		2007		2008	
	<i>No. of shipment</i>	<i>(%)</i>	<i>No. of shipment</i>	<i>(%)</i>	<i>No. of shipment</i>	<i>(%)</i>	<i>No. of shipment</i>	<i>(%)</i>	<i>No. of shipment</i>	<i>(%)</i>
Shipments without hedging and without considering hedging	23	59.0	22	59.5	12	46.2	7	41.2	9	52.9
Shipments without hedging but hedging had been considered	3	7.7	1	2.7	—	—	—	—	—	—
Shipments with hedging (Note 2)	13	33.3	14	37.8	14	53.8	10	58.8	8	47.1
Total number of shipments	<u>39</u>	<u>100.0</u>	<u>37</u>	<u>100.0</u>	<u>26</u>	<u>100.0</u>	<u>17</u>	<u>100.0</u>	<u>17</u>	<u>100.0</u>
Unsuccessful shipments with Derivative Contracts	8	—	4	—	5	—	3	—	2	—

Note 2: The number of shipments with hedging represents the number of shipments with derivative financial instruments entered into in the same financial years as the settlement of the contract value with suppliers and customers.

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Risk Management Policy

In order to evaluate and monitor our hedging activities, we have formulated a risk management policy documenting, amongst other things, the scope of risk management, roles and responsibility and risk tolerance in September 2004. The risk management policy was developed and improved taking into account the recent recommendations made by HLM in March 2008. Please refer to the section headed “Internal Controls” to this prospectus for details of the internal control review.

(a) Scope of Hedging Risk Management Policy

The scope of our Hedging Risk Management Policy focuses on price risks arising from the trading business and the trading of derivative financial instruments, including swaps, futures, and options, traded in both over-the-counter (OTC) and different exchanges for hedging purposes.

Before 1 September 2008, the hedging strategies are applied during three stages of our trading process: (i) during negotiation of buy-side and/or sell-side agreements; (ii) after conclusion of either a buy-side or a sell-side agreement; and (iii) after conclusion of both buy-side and sell-side agreements. After 1 September 2008, we ceased hedging activities during negotiations of the buy-side and/or sell-side agreements. Derivative financial transactions entered into for hedging purposes will be monitored for suitability in terms of size, direction, and strategy with reference to the corresponding shipment involved.

We have not conducted any speculative trading in financial instruments which were not related to shipments negotiated and/or traded by us during the Track Record Period. Upon the Listing, speculative trading in derivative financial instruments will continue to be prohibited.

(b) Roles and responsibility

The three main parties involved in hedging activities are: (i) traders; (ii) the reporting and monitoring team; and (iii) the review team. Our Directors consider that well-defined and proper risk management and internal control systems are critical to our operations, therefore members of the review team and reporting and monitoring team have been authorised by the Board to monitor the trading activities of the traders. The principal responsibilities and personnel involved in the three parties are set out below:

(i) Traders

- To consider whether (i) potential shipments in negotiation (ceased after 1 September 2008); and (ii) confirmed shipments are subject to price risks under (a) the current international oil market price movements; (b) the pricing basis on a buy-side agreement and a sell-side agreement; and (c) progress of negotiations with counterparties on the terms of the buy-side agreement and the sell-side agreement;

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- To consider the appropriate hedging strategies, including derivative financial instruments, size, direction and timing, and communicate with and seek written approval on such strategies from the review team from time to time;
- To initiate and execute the hedging transactions according to the hedging strategies agreed and approved by the review team;
- To record and report to the reporting and monitoring team within 24 hours on newly transacted derivative financial instruments; and
- To monitor the open positions of derivative financial instruments in conjunction with potential shipment under negotiation and/or confirmed shipment and close out such positions as and when appropriate according to the risk tolerance thresholds.

Set out below is the list of our traders during the Track Record Period:

	Year ended 31 March			Seven months ended	As at the Latest Practicable Date
	2006	2007	2008	31 October 2008	
Name of our traders	Mr. Yao Guoliang	Mr. Yao Guoliang	Mr. Yao Guoliang	Mr. Yao Guoliang	Mr. Yao Guoliang
	Mr. Yang Qing	Mr. Yang Qing	Mr. Yang Qing	Mr. Yang Qing	Mr. Yang Qing
	Mr. Ho Yuen	Mr. Zhuang Jia	Mr. Zhuang Jia	Mr. Zhuang Jia	Mr. Zhuang Jia
				Ms. Yao Hong	Ms. Yao Hong

Notes:

1. For academic and professional background of Mr. Yao Guoliang, Mr. Yang Qing, Mr. Zhuang Jia and Ms. Yao Hong, please refer to the section headed “Directors, Senior Management and Staff” of this prospectus.
2. Mr. Ho Yuen was our trader from November 2000 to March 2006. He graduated from 華南理工大學 (South China University of Technology) in 1984 with a bachelor’s degree in chemical engineering. From 1996 to 1998, he worked in the trading and vessel chartering division of Far East Petroleum Limited and was responsible for handling petroleum products trading and vessel chartering. Prior to joining us in November 2000, he was engaged in the shipping business between 1996 and 2000. In March 2006, Mr. Ho resigned from us on his own accord.

Both the reporting and monitoring team and our traders are responsible for monitoring the open positions. Since traders are the front line personnel who formulate and implement hedging strategies, they monitor and keep track of open positions held on hand as part of the hedging process. Such monitoring function focuses on the implementation of hedging strategies. The reporting and monitoring team provides support, and is responsible for reporting and monitoring the derivative transactions conducted by the traders. Their monitoring duty is focusing on activities of the traders and the derivative transactions. Based on the above, our Directors consider that we have sufficient segregation of duties under the hedging risk management policy.

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(ii) *Reporting and monitoring team*

- To collect details/information on (i) newly transacted derivative financial instruments; and (ii) associated potential shipment in negotiation/trade from traders on a daily basis;
- To match and verify details of newly transacted derivative financial instruments with counterparties or brokers against information provided by traders on a daily basis;
- To prepare daily mark-to-market reports on all open positions of derivative financial instruments and disseminate the mark-to-market reports to traders and the review team on a daily basis;
- To monitor the open positions and unrealised losses of derivative financial instruments against the risk tolerance thresholds;
- To report timely to traders and the review team whenever a threshold is exceeded and to call for close-out of excess positions or stop loss action. Mr. Pang Man Chun Manson (“Mr. Pang”) is responsible for informing the traders and the review team before the end of each day, upon his receipt of the daily position reports from brokers or banks in respect of the prior day’s outstanding position. He is also responsible for monitoring the close-out of excess positions by the relevant traders;
- When Mr. Pang is not available to inform and monitor the close-out excess positions by traders, Ms. Chan Si Vai and Ms. Fu Lai Kuen will take up his responsibilities accordingly; and
- To disseminate information to the finance unit to update the accounting system.

As at the Latest Practicable Date, our reporting and monitoring team headed by Mr. Pang comprised three members. Please refer to the section headed “Directors, Senior Management and Staff” to this prospectus for the biography of Mr. Pang. Before Mr. Pang joined our Group in March 2008, the duties of the reporting and monitoring team were performed by Ms. Chan Si Vai (our operation manager) and Ms. Fu Lai Kuen (our finance & operation manager), under the supervision of the review team. Ms. Chan and Ms. Fu possess over 8 and 10 years, respectively of experience in financial and operation management. Ms. Fu has also been an affiliate member of the Association of Chartered Certified Association since 2002. Ms. Chan graduated from National Taiwan Ocean University with a bachelor’s degree in shipping and transportation management in 2001. Save for the joining of Mr. Pang in 2008, there was no change in the composition of the reporting and monitoring team during the Track Record Period. The reporting and monitoring team only provides support to the traders, and its duties are mainly clerical, including collecting details of newly transacted derivative financial instruments and trades from traders on a daily basis, and preparing daily mark-to-market reports on all open positions of derivative financial instruments. Thus our Directors and the Sponsor are of the view that our review and monitoring team is capable of handling the reporting and monitoring duties.

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(iii) *Review team*

- To review and approve hedging strategies proposed by traders before the same are implemented;
- To ensure that hedging strategies, derivative transactions, and corresponding risk management strategies are being followed;
- To report to the Board any significant operational deficiencies and/or sizeable potential loss that would cause a major impact on us on a going basis; and
- To conduct semi-annual meetings with traders, the reporting and monitoring team and the Board for the purpose of updating and reviewing our risk management processes^(Note).

As at the Latest Practicable Date, our review team comprised three members, namely, Mr. Wong Wing, Ms. Ng Siu Wai and Ms. Lai Yin Ping, Joyce. Please refer to the section headed “Directors, Senior Management and Staff” in this prospectus for the biography of the members of our review team. There was no change in the composition of the review team during the Track Record Period.

(c) **Risk tolerance**

Under the risk management policy, traders are limited by different risk tolerance thresholds upon execution of derivative financial instruments, namely (i) lots size threshold; (ii) traders threshold (not applicable after 1 September 2008); (iii) company threshold (not applicable after 1 September 2008); and (iv) broker account threshold.

Before 1 September 2008, in respect of derivative financial instruments entered into during the negotiation of the buy-side and/or sell-side agreement, where both agreements had not been concluded such that the derivative position could turn into an “uncovered” position when the physical shipment could not materialise subsequently, the open position would be subject to all of the four risk tolerance thresholds for the sake of prudence. To further manage its risks arising from trading in derivative financial instruments, the Directors decide to amend its risk management policy effective from 1 September 2008, pursuant to which trading in derivative financial instruments will be prohibited before we can confirm either the buy-side and/or sell-side agreement by recapitulating with the counterparty key terms of the agreement in a written form. Accordingly, the traders’ threshold and the company threshold were no longer applicable to us after 1 September 2008.

For derivative financial instruments entered into for hedging trade where (i) both buy-side and sell-side agreements have been concluded; or (ii) only one of the buy-side or sell-side agreement has been concluded, traders are limited only by lots size threshold and broker account threshold.

Note: Eight meetings were held during the Track Record Period since the implementation of the Hedging Risk Management Policy in September 2004.

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(i) Lots size threshold

The size of the open position of derivative financial instruments must not exceed the size of the associated physical shipment. Any excess open position must be closed immediately.

If the shipment fails to conclude during the negotiation process, or the trade is completed, then all of the associated open positions of derivative financial instruments must be closed as soon as possible, but in any event no later than 48 hours.

(ii) Trader threshold (not applicable after 1 September 2008)

Open positions and unrealised losses assigned to each trader were subject to limits for trade under negotiation, which were determined with reference to the average size of shipments traded by us and recent international oil price and volatility. Any excess position or unrealised loss must be closed immediately. The open position and unrealised loss limits of derivative financial instruments held on hand at any time assigned to each trader were as follows:

Authorised traders	Open position	Unrealised loss <i>(US\$)</i>
Mr. YAO Guoliang	400 lots	400,000
Mr. YANG Qing	200 lots	200,000
Mr. ZHUANG Jia	100 lots	100,000

As trading in derivative financial instruments has been prohibited for trade under negotiation after 1 September 2008, trader threshold is no long application to our risk management policy effective on the same day.

(iii) Company threshold (not applicable after 1 September 2008)

The aggregated unrealised loss for all traders at any time must not exceed 5% of the latest quarterly net current assets position. Any excess in unrealised losses must be cut immediately. As at 31 March 2008, our unaudited net current assets amounted to HK\$124.9 million and the company threshold amounted to HK\$6.2 million.

As trading in derivative financial instruments has been prohibited for trade under negotiation after 1 September 2008, company threshold is no long application to our risk management policy effective on the same day.

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(iv) Broker account threshold

There is a daily limit on trading activities of derivative financial instruments. The broker account will, in accordance with a standing instruction given by the review team, stop taking orders if the trader places over 500 lots of futures contracts in a day.

The risk tolerance level had not been revised during the Track Record Period as we mainly determined the risk tolerance level with reference to the absolute amount of potential loss arising from trading in derivative financial instruments.

We assess the risk level in trading of derivative financial instruments through the following risk management procedures:

- (1) the reporting and monitoring team will obtain daily mark-to-market statements from brokers and banks, which summarise our positions in derivative financial instruments, including accumulated unrealised gains/losses, trading margin positions, the latest outstanding derivative positions and the amount of margin calls, if any;
- (2) based on the daily mark-to-market report, the reporting and monitoring team can assess our position in derivative financial instruments and evaluate whether risk tolerance levels have been exceeded; and
- (3) for derivative financial instruments entered into during the negotiation process before 1 September 2008, if the risk tolerance level (lots size threshold, traders threshold or company threshold) is exceeded, our reporting and monitoring team will inform and monitor relevant traders to close out excess positions or execute stop loss action.

Taking into account the above procedures, our Directors consider that we can assess our risk level given that all derivative trading activities are for hedging purposes.

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(d) **Implementation of risk management policies in respect of hedging activities**

Set out below are the details of our risk management policies on our hedging activities:

(i) ***Risk management policies implemented during and after the Track Record Period***

Details	Details of non-compliance issues
1. Our traders are responsible to: <ul style="list-style-type: none">— consider appropriate hedging strategies, including derivative financial instruments, size, direction and timing, and communicate with and seek written approval on such strategies from the review team from time to time;— initiate and execute hedging transactions according to the hedging strategies agreed and approved by the review team;— record and report to the reporting and monitoring team within 24 hours on newly transacted derivative financial instruments; and— monitor open positions of derivative financial instruments in conjunction with potential shipment under negotiation and/or confirmed shipment and close out such positions as and when appropriate according to the risk tolerance thresholds.	<ul style="list-style-type: none">— During the Track Record Period, we had used unleaded gasoline futures contract to hedge a shipment of LSWR. ^(Note 1)— No record for commencement date of negotiation during the Track Record Period. ^(Note 2)— No record for specific reasons for termination of negotiation for each of the Unsuccessful Shipment with Derivative Contracts. ^(Note 2)

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Details	Details of non-compliance issues
<p>2. Our reporting and monitoring team is responsible for:</p> <ul style="list-style-type: none">— collecting details/information on (i) newly transacted derivative financial instruments; and (ii) associated potential shipment in negotiation/confirmed shipment from traders on a daily basis;— matching and verifying details of newly transacted derivative financial instruments with counterparties or brokers against information provided by traders on a daily basis;— preparing daily mark-to-market reports on all open positions of derivative financial instruments and disseminating mark-to-market reports to traders and the review team on a daily basis; and— monitoring open positions and unrealised losses of derivative financial instruments against the risk tolerance thresholds; reporting timely to traders and the review team whenever a threshold is exceeded and calling for close-out of excess positions or stop loss action.	<p>During the Track Record Period, there were 1, 2, nil and nil Hedged Shipments with the hedging period being later than 48 hours after the pricing period. ^(Note 3)</p>

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Details	Details of non-compliance issues
<p>3. Our review team is responsible for:</p> <ul style="list-style-type: none">— reviewing and approving hedging strategies proposed by traders before such hedging strategies are implemented;— ensuring that hedging strategies, derivative transactions, and corresponding risk management strategies are being followed;— reporting to the Board any significant operational deficiencies and/or sizeable potential loss that would cause a major impact on us on a going concern basis; and— conducting semi-annual meetings with traders, the reporting and monitoring team and the Board for the purposes of updating and reviewing our risk management processes.	Nil

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Details

4. Traders are limited by the following risk tolerance thresholds upon execution of derivative financial instruments:

- Lots size threshold
- Trader threshold
- Company threshold
- Broker account threshold

The reporting and monitoring team will obtain daily mark-to-market reports from brokers and banks, which summarise our positions in derivative financial instruments, including accumulated unrealised gains/losses, trading margin positions, the latest outstanding derivative positions and the amount of margin calls, if any. Based on these daily mark-to-market reports, the reporting and monitoring team can assess our position in derivative financial instruments and evaluate whether the risk tolerance levels have been exceeded. For derivative financial instruments entered into during the negotiation process, if the risk tolerance level (including lots size threshold, traders' threshold or company threshold) is exceeded, our reporting and monitoring team will inform and monitor the relevant traders to close out excess positions or execute stop loss action.

Notes:

1. For details of the LSWR shipment hedged by unleaded gasoline futures contract, please refer to "Financial information — (IV) Principal income statement items — (D) Fair value changes on derivative financial instruments — A. Details of Hedged Shipments — Inefficient hedging shipments — (1) Lack of appropriate derivative financial instruments". To prevent using inappropriate derivatives for hedging, we have improved our risk management policies by requiring our traders to discuss internally to evaluate and select appropriate derivative financial instruments to hedge the corresponding physical shipments, with reference to the historical price correlations between such derivative instruments and the target physical shipments before carrying out hedging procedures. At least two traders have to agree in writing on the selected derivative financial instruments before hedging.

Details of non-compliance issues

During the Track Record Period, there were 8, 7, 3 and nil Hedged Shipments having equivalent quantity of shipment in BBL under "maximum no. of lots outstanding" in derivative financial instruments trading being larger than the trading quantity of shipment in BBL.
(Note 4)

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2. For details on the records for commencement date of negotiation, please refer to “Financial information — (IV) Principal income statement items — (D) Fair value changes on derivative financial instruments — A. Details of Hedged Shipments — General notes to all hedged shipments during the Track Record Period”. To improve our documentation in support of the rationale for decision-making and authorisation of the derivative transactions, we have put (i) the trade negotiation commencement date as part of the trading record of shipment; and (ii) the specific reasons for termination of negotiation for each of the Unsuccessful Shipment with Derivative Contracts as part of the trading record of shipment after 1 April 2008.

3. For details on the hedging period being later than 48 hours after the pricing period, please refer to “Financial information — (IV) Principal income statement items — (D) Fair value changes on derivative financial instruments — A. Details of Hedged Shipments — Trading Period of derivative financial instruments”. To ensure we can comply with this risk management policy, all of the associated open positions of derivative financial instruments must be closed compulsorily as soon as possible, but in any event no later than 48 hours, if shipment is completed. If our monitoring and reporting team identifies any incompliance of this risk management procedure within 24 hours after the pricing period of the associated shipment, it will report to our review team, which will directly execute the corresponding trading instruction to brokers in closing the positions.

4. For details on the derivative trading quantity exceeding the equivalent quantity of shipment in BBL, please refer to “Financial information — (IV) Principal income statement items — (D) Fair value changes on derivative financial instruments — A. Details of Hedged Shipments — Trading size of derivative financial instruments”. To ensure we can comply with this risk management policy, outstanding position in derivative financial instruments established by our traders are prohibited to exceed the equivalent quantity of shipment in BBL. If our monitoring and reporting team identifies any excess position in derivative financial instruments within 24 hours after the execution of latest hedging position, it will request our traders to close out such excess position accordingly.

To strengthen our risk management on hedging activities and to correspond to the above non-compliance issues, we have implemented the following additional risk management policies.

(ii) *Additional risk management policies implemented by our Group*

Details	Date of implementation	Details of non-compliance issues after implementation
1. Trading in derivative financial instruments has been prohibited before we can confirm either the buy-side and/or sell-side agreement by recapitulating key terms of the agreements in a written form with its counterparties.	1 September 2008	Nil

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Details	Date of implementation	Details of non-compliance issues after implementation
<p>2. We will engage a qualified risk advisory consultant from one of the four largest accountancy and professional services firms to perform quarterly reviews on our risk management procedures in respect of hedging activities during the first full financial year commencing after the Listing. After the first full financial year after the Listing, we will continue to engage a qualified risk advisory consultant to perform annual review on our risk management procedures in respect of hedging activities until we do not conduct any hedging activities in the future.</p> <p>The results of these reviews will be reported to our audit committee, which consists of our three independent non-executive Directors, and will be disclosed in our interim and annual reports after the Listing. After obtaining the review reports from the risk advisory consultant, our audit committee will ensure that the limits are adhered to and risk management policies are complied with, and any significant breach of limits issues will be escalated to the attention of our Board. In addition, our Board will take necessary measures to rectify the deficiency, if any, identified by the risk advisory consultant.</p> <p>Our review team will review our internal control measures, including hedging activities, and our internal control environment semi-annually after the Listing, and submit their review report to audit committee. The results of these reviews will be disclosed in our interim and annual reports after the Listing.</p>	<p>Upon the Listing</p>	<p>Not applicable</p>
<p>3. All of the associated open positions of derivative financial instruments must be closed compulsorily as soon as possible, but in any event no later than 48 hours, if shipment is completed. If our monitoring and reporting team identifies any incompliance of this risk management procedure, it will report to our review team, which will execute the corresponding trading instruction to brokers directly in closing the positions.</p>	<p>1 September 2008</p>	<p>Nil</p>

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Details	Date of implementation	Details of non-compliance issues after implementation
4. Our traders will discuss internally to evaluate and select appropriate derivative financial instruments to hedge the corresponding physical shipments with reference to the historical price correlations between these derivative instruments and the target physical shipments before they carry out hedging procedures. At least two traders have to agree in writing on the selected derivative financial instruments before hedging.	1 September 2008	Nil
5. Outstanding position in derivative financial instruments established by our traders are prohibited to exceed the equivalent quantity of shipment in BBL. If our monitoring and reporting team identifies any excess position in derivative financial instruments, it will request our traders to close out such excess position accordingly.	1 September 2008	Nil
6. To improve our documentation in support of the rationale for decision-making and authorisation of the derivative transactions, we have put (i) the trade negotiation commencement date as part of the trading record of shipment; and (ii) the specific reasons for termination of negotiation for each of the Unsuccessful Shipment with Derivative Contracts as part of the trading record of shipment after 1 April 2008.	1 April 2008	Nil

The above risk management policies will continue to be implemented following the Listing. If there is any material change in our Group's hedging and risk management, we will inform the public by way of an announcement and/or in interim and annual reports upon the Listing.

INVENTORY

As we either confirm separate agreements with customers and suppliers within about a month's time, or we locate and conclude sell-side agreement with customers whilst shipments are still in transit, we did not need to maintain any inventory during the Track Record Period. To assist our development of the trading business in the PRC, around 10%-30% of the storage facilities to be constructed under the Nantong Project may be used by us for self-storage of petroleum and/or petrochemical products on or after 2011.

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The market prices of petroleum products and petrochemical products were volatile during the Track Record Period. The fluctuation in the prices of petroleum products and petrochemical products were affected by various factors which could neither be controlled nor predicted by us. Therefore, we intend to manage inventory risk which may exist when we purchase oil products and store them in our own storage facilities (but before the sell-side agreement is confirmed) by adopting hedging strategies through trading in derivative financial instruments if and when appropriate. For example, we can minimise the risk arising from market price volatility through selling forward/future contracts of related petroleum and/or petrochemical products.

Although we intend to implement necessary hedging strategies to manage our inventory risk for self-storage oil products in Nantong, it is impossible to eliminate all inventory risks through hedging as our hedging strategies may be inefficient. For details of price risk faced by us, please refer to the section headed “Risk factors — Exposure to the risk of inefficient hedging or inability to hedge”.

QUALITY CONTROL

Our Directors believe that we maintain a very high standard in quality control on oil products delivered by our suppliers. Our suppliers and we jointly appoint an independent surveyor to measure, at the loading port, the quality of oil products from our suppliers in all cases. During the Track Record Period, we experienced no disputes with our customers in relation to the quality of products supplied by us.

ENVIRONMENTAL MATTERS

(I) Oil trading business

Given the business nature of our oil product trading operations in Hong Kong and Macao, we are not required to obtain any approvals from the relevant environmental authorities for our trading operations.

(II) PRC Storage Business

The storage facilities to be constructed under the Nantong Project and the Tianjin Project are used for the storage of crude oil, petroleum and/or petrochemical products. When we commence operations of our storage facilities, we expect that leakage will be the greatest potential hazard threatening our storage facilities, which may result in oil products or other hazardous substances seeping into the soil and contaminating groundwater. Leakages of oil products or other hazardous substances can also cause other health and environmental risks, including the potential fire and explosion.

BUSINESS

According to PRC laws and regulations, storage enterprise of crude oil, petroleum and petrochemical products in the PRC must comply with environmental laws and regulations stipulated by the national and local environmental protection government agencies. The PRC Storage Business is therefore subject to numerous national and provincial environmental laws and regulations governing the leakage preventive measures. Please refer to the section headed “Industry overview and regulation — The Environmental Protection Law” in this prospectus for details regarding the laws and regulations governing the PRC Storage Business.

To ensure that the operations under the PRC Storage Business can meet the required PRC environmental standards, each of Strong Petrochemical (Nantong) and the Tianjin Company has carried out environmental impact studies before commencing construction. In 2007, we engaged 南通市環境科學研究所 (Nantong City Environmental Science Research Center) to conduct environmental impact studies on the Nantong Project, and based on the result of such studies, 南通市環境保護局 (Nantong City Environmental Protection Bureau) approved the construction of the storage facilities under the Nantong Project. Based on the environmental impact studies conducted by 天津市環境工程評估中心 (Tianjin City Environmental Project Assessment Centre) on the Tianjin Project, 天津市塘沽區環境保護局 (Tianjin City Tanggu Zone Environmental Protection Bureau) approved the construction of storage facilities under the Tianjin Project in May 2008. The Nantong Project and Tianjin Project will be examined by the relevant local government agencies upon its completion and it is expected that they will comply with the Regulation on Safety Administration of Dangerous Chemicals upon their respective completion and operation.

According to the Administrative and Technical Criteria for Storage Enterprise of Refined Oil Product (成品油倉儲企業管理技術規範)(SB/T 10445-2007) (the “Criteria”) promulgated by the MOFCOM, which became effective as of 1 May 2008, the construction of oil depots should satisfy conditions including:

1. leakage preventive measures shall be adopted on oil tanks and oil transfer pipe lines;
2. positive pressure oil unloading technique is proposed to be used in the unloading of oil;
3. flammable gas alert shall be set up in the gasoline storage tanks area, oil pump room, and oil departure area in accordance with relevant PRC requirements;
4. oil vapor recycling equipment is proposed;
5. fire-dike designed in accordance with relevant design standards shall be installed in the oil storage tanks area;
6. third class pollution discharge pool or oil-water separation device shall be equipped in oil depot;

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7. the discharge of oil vapor and waste water shall meet the national standard of pollutant discharge in relation to oil storage and transportation; and
8. oil containment boom, oil-absorbing roll, oil-collecting device and other pollution prevention equipments shall be installed on the oil dock. Those devices are required to pass the environment evaluation and shall meet relevant local environmental protection standards.

To comply with the above conditions, storage facilities of the Nantong Project and Tianjin Project will be constructed in accordance with the above requirements under the Criteria.

Pursuant to the Criteria, the oil products storage enterprise shall abide by the following requirements in relation to the environmental protection in its daily operations:

1. the enterprise shall establish the Health, Safety and Environment Management System, which is a structured set of controls for managing business operations in respect of health, safety, and environment. By conducting risk pre-assessment to evaluate the potential operational hazards and subsequent effects, the approach focuses taking effective preventive measures to minimise potential personal injuries, property loss, and environmental pollution; and
2. Air quality in workplaces of oil storage enterprise shall meet the requirements set forth in relevant PRC standards, and the emission of oil vapor is subject to relevant PRC standards.

To comply with the requirements in relation to the environmental protection in its daily operations under the Criteria, Strong Petrochemical (Nantong) will set up an environmental protection office to implement systematic measures to ensure ongoing compliance with the Criteria upon its operation in the second half of 2009. The environmental protection office will be managed by dedicated safety technicians who have relevant and sufficient expertise and experience in safety control management of oil storage facilities in the PRC. Based on the current tentative timetable of the Nantong Project, we will recruit these safety technicians in the third quarter of 2009.

Upon the operation of the Nantong Project, we will commission an external environmental auditor to conduct environmental audits on leakage preventive measures of oil storage facilities semi-annually. The environmental auditor would visit our storage facilities in Nantong and conduct inspections on our facilities to ensure that the storage facilities are in compliance with the various leakage preventive measures as set out at the Criteria. If the environmental auditor identifies any non-compliance with the specified standards, they will notify us of such non-compliance, and we will immediately take appropriate actions to rectify such non-compliance.

To ensure that daily operations of the Tianjin Company can comply with relevant environmental protection requirements, Tianjin Company will recruit a qualified Health, Safety and Environment Engineer who will be responsible for providing health, safety and environmental expertise in the daily operations of Tianjin Company. In addition, our representatives on the board and supervisory committee of the Tianjin Company will closely monitor the daily operations of the Tianjin Company and ensure that its compliance with relevant environmental protection requirements in the PRC.

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COMPETITION

(I) Trading in oil products

We operate in a highly competitive environment competing with a large number of oil companies which can also supply oil products to our customers. These oil companies generally fall into the following categories:

(i) National Government-owned Oil Companies

National Government-owned Oil Companies generally operate as monopolies in their respective countries. Many of the major oil and gas producing countries possess their own national companies, each of which is responsible for maximising returns from the petroleum interests of the country. National Government-owned Oil Companies include, for example, Kuwait Petroleum Corporation (Kuwait), Saudi Aramco (Saudi Arabia) and Pertamina (Indonesia).

(ii) Oil Majors

Oil Majors are leading global energy companies which typically have large, integrated operations, including exploration, exploitation, production, refinery, trading and marketing of energy products in many locations around the world. They include ExxonMobil, British Petroleum, Royal Dutch Shell, Total S.A., Chevron Corporation, and ConocoPhillips.

(iii) Oil trading companies

There are a large number of oil trading companies scattered around various countries who frequently buy and sell oil products which exist physically and which are due to be transported shortly or are even already in transit. Their scale of operation is relatively small, compared with National Government-owned Oil Companies and Oil Majors.

During the Track Record Period, the Five State-owned Licensed Import Agents were our major customers. The main policy objective of the Five State-owned Licensed Import Agents is to ensure a regular supply of oil products to their respective parent group's refineries and private refineries in the PRC. To the best knowledge of our Directors, the Five State-owned Licensed Import Agents regularly and directly procure oil products from certain National Government-owned Oil Companies and Oil Majors. However, in addition to the planned and large-batch procurements from National Government-owned Oil Companies and Oil Majors, the Five State-owned Licensed Import Agents may need to procure oil products from the oil market, from time to time, because of unplanned demand for oil products by oil refineries in the PRC.

We face fierce competition in selling oil products to our customers. Some of our competitors are the Oil Majors and large-scaled oil trading companies with greater financial and marketing resources and geographical reach.

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To differentiate ourselves in the highly competitive environment, we position ourselves as a niche player focused on satisfying immediate business demands from the Five State-owned Licensed Import Agents.

Leveraging on (i) our management's personal network in the oil market, coupled with their extensive experience and knowledge in the international and PRC oil markets, in particular, the needs and procurement preference of oil refineries in the PRC; (ii) our well-established business relationships with the Five State-owned Licensed Import Agents; and (iii) our nimble and efficient corporate hierarchy that allows us to respond swiftly to the changing needs of sellers and buyers, we believe that we are well-positioned to capture business opportunities arising from immediate business demands from the Five State-owned Licensed Import Agents.

In addition, with the growth of economies in the PRC, our Directors believe that the demand for oil products will accordingly increase. This also leads to an increase in demand for crude oil, petroleum products and petrochemical products. Our Directors believe that we, although in face of fierce competition in the industry, will be able to benefit from the growth of the PRC economies.

(II) The PRC Storage Business

For petroleum and petrochemical product storage operations in the PRC, we also face fierce competition from storage operators in Nantong and Tianjin where we will operate the PRC Storage Business. Some of our competitors are state-owned large oil enterprises and multinational oil enterprises with longer operating histories, better brand recognition, better pricing or greater financial and marketing resources.

Oil storage facilities are usually situated close to oil refineries or at locations where marine tankers can discharge their cargo. Therefore, we regard only those companies with a presence in or near Nantong and Tianjin as primary competitors of Strong Petrochemical (Nantong) and the Tianjin Company respectively.

Major competitors of Strong Petrochemical (Nantong) include 中化南通石化儲運有限公司 (Sinochem Nantong Terminal Co., Ltd). According to the Company's official website, Sinochem Nantong Terminal Co., Ltd. operates one of the largest storage bases along the Yangtze River. Its storage base located in Jianghai Harbor Area of Nantong city consists of 58 storage tanks for petroleum and petrochemical products, with a storage capacity of approximately 238,000 m³. Its storage capacity will be further expanded upon completion of the phase 2 and 3 expansion programs. In addition, Strong Petrochemical (Nantong) will also compete with a number of small to mid-scaled storage operators in Nantong.

The strategic geographic location and economic prospect of Tianjin attracts many enterprises to develop their storage facilities in Tianjin. Major competitors of the Tianjin Company include 天津北方石油有限公司 (Tianjin Northern Petroleum Co., Ltd.), 天津孚寶南疆石化倉儲有限公司 (Vopak Nanjiang Petrochemicals Terminal Tianjin Company Limited). Vopak Nanjiang Petrochemicals Terminal Tianjin Company Limited is a 50/50 joint venture between Tianjin Port Petrochemicals Terminal Company and Royal Vopak which, according to the official website of Royal Vopak, is the world's largest provider of conditioned storage facilities for bulk liquids.

BUSINESS

As Strong Petrochemical (Nantong) and the Tianjin Company are not expected to commence operations until 2009 and 2010 respectively, therefore, the above competitors can enjoy first-mover advantages to develop and consolidate their business relationships with local oil refineries and other users of storage facilities.

However, our Directors are enthusiastic about the development of commercial oil reserves and storage facilities in the PRC and it is expected to be stimulated by the expansion of refining capacity in China and the growth in oil demand and trading volume. In addition, locations of storage facilities are an important factor in determining the competitiveness and profitability of storage facilities.

Our storage facilities under the Nantong Project are constructed in Nantong City, located at the estuary of the Yangtze River in the east of Jiangsu province. Leveraging on their unique geographic location and proximity to the refining and petrochemical base along the Yangtze River, they have attracted many oil enterprises to construct commercial storage facilities in Nantong.

In addition to the strategic location of our storage facilities, existing business relationships with our customers also assist us to develop the PRC Storage Business. As some of our customers for petrochemical products are situated in Nantong, we have introduced our storage services to them and have invited them to lease our storage facilities when it commences operation. In addition, we can utilise our business connections with existing customers, such as the Five State-owned Licensed Import Agents to promote our storage business in Nantong to state-owned petrochemical companies which are members of the Five State-owned Licensed Import Agents.

Regarding our investment in the Tianjin Project, the Tianjin Company will be able to compete with its competitors and be able to benefit from the fast growing demand for the oil product storage in the PRC due to the following reasons:

- The location of storage facilities play an important role in determining the competitiveness and profitability of storage facilities. The storage facilities constructed under the Tianjin Project are located at Nanjiang Tianjin Port (天津港南疆). Tianjin Port is an important marine access point for many inland provinces, including Henan, Shanxi, Sha'anxi, Ningxia, Qinghai, Sichuan, Inner Mongolia, Gansu and Xinjiang. Nanjiang Tianjin Port (天津港南疆) has been developed into a specialised cargo port area to handle the transit transportation for non-containerised cargo such as coke, coal, iron ore, oil and liquified chemical products; and
- The shareholders of Tianjin Company include 中化國際實業公司 (Sinochem International Industry Co) and 中化國際石油(巴哈馬)有限公司 (Sinochem International Oil (Bahamas) Co., Ltd.), which are subsidiaries of Sinochem Corporation. Sinochem Corporation, one of the Five State-owned Licensed Import Agents, has been engaged in the oil business for several decades and it enjoys long-term partnerships with its global counterparts. Leveraging on the network of its reputable shareholders, our Directors consider that the Tianjin Company has competitive advantages in developing business relationship with oil refineries and chemical complexes operated by Sinochem Corporation.

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INSURANCE

We maintain a master insurance policy with PICC Property and Casualty Company Limited (中國人民財產保險股份有限公司) for all risks of loss or damages to our trading products, general average and salvage charges. Under the master insurance policy, we only need to pay a premium when we need insurance coverage for a particular shipment.

Except for DES, titles and risks are passed to the buyer at the loading port. The party responsible for claiming insurance depends on the terms of the shipment. The table below sets out the responsible party for arranging insurance under the different shipping terms:

Shipping Terms	Party responsible for arranging insurance in a single trade
CFR	Buyer
FOB	Buyer
CIF	Seller
DES	Seller

As shown in the above table, we are responsible for payment of insurance premium and for claiming insurance if our supplier ships products to us on FOB or CFR basis and we ship products to our customers on CIF or DES basis. The use and structure of the trade terms in a given shipment depends on negotiations amongst our suppliers, customers and ourselves. During the Track Record Period, we did not make any insurance claim for major accidents.

In general, if both the suppliers and customers adopt the same measuring standards, that is, the volume of products recorded at the loading port and in the bill of lading are identical, then no shortages would occur. However, if our customers prefer to measure the actual volume of products unloaded from a given shipment at the unloading port, there will be a risk of shortage. The higher the viscosity of the product being transported, the more likely that a certain amount of the product will remain in the pipes during transportation and thus the actual volume unloaded at the unloading port will differ from the measurement made at the loading port and recorded in the bill of lading.

During the Track Record Period, we only made four insurance claims for shortage of oil products. First, in May 2006, we claimed an amount of approximately US\$496,000. The second claim was made in April 2007 for approximately US\$754,000. The third claim was made in May 2007 for approximately US\$9,000. The fourth claim was made in February 2008 for approximately US\$505,900. The shortage claims were mainly due to the difference in standards in measuring the volume of oil product in the shipment and losses in transport.

The first claim involved negotiations amongst ourselves, our customer and the insurance company which took about a year. Negotiations were lengthy, since we could not come to an agreement with the insurance company as to the quantum and/or reasonableness of the loss suffered by our customer. In this case, large shortages were caused by the customer's use of small vessels at the unloading port. As more vessels were needed to unload the products, the more products were left in the pipes and thus the shortage of oil products between the volume recorded in the bill of lading and actual volume unloaded at the loading port differed.

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The second claim involved negotiations between ourselves and an insurance company, but not our customer. In this case, our customer paid us according to the actual volume of the oil product unloaded at the unloading port but we purchased the oil product by reference to the volume recorded in the bill of lading. Accordingly, the shortage was actually borne by us and we claimed insurance to cover our loss. The negotiations in respect of this claim only took about two months.

Both the third and fourth claims involved negotiations amongst ourselves, insurance companies and our customers. We claimed the shortage on behalf of our customer.

All of the above four claims were settled at approximately US\$33,300, US\$449,000, US\$9,000 and US\$49,000, respectively. In the first, third and fourth cases, as we had been fully paid by our customers and the settlement amount was agreed amongst our customers, the insurers, and ourselves, hence the loss was borne by our customers. On the contrary, the loss in the second case was assumed by us. However, we provided a higher fee quotation to this customer to cover our potential loss, as it had required that the amount of payment to us be set by reference to the actual volume of products unloaded at the unloading port. The purpose of the second insurance claim is to further minimise our loss in a given trade.

The sum of the claim amounts as disclosed above do not match with the amount of ‘insurance claims received’ stated in Note 7 of the section headed “Notes to the Financial Information” in Appendix I to this prospectus because the first, third and fourth sums (approximately US\$33,300, US\$9,000 and US\$49,000 respectively) were booked in the ‘accruals’ as we were required to pay these sums to the respective customers, the second sum (approximately US\$449,000) was booked as an ‘other income’.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we have registered trademarks in Hong Kong and have applied for trademarks registrations in the PRC and Macao. We have also registered domain names in Hong Kong, the PRC and Macao. Details of which are disclosed in the section headed “Further Information About the Business — Intellectual property rights of the Group” under Appendix V to this prospectus.

LAND AND BUILDINGS

(i) Hong Kong and Macao

We currently own four properties in Macao, including two office premises and two car-parking spaces. We occupy the two office premises as the office of Strong Petrochemical (Macao) and have leased the two car-parking spaces to two Independent Third Parties. Our office situated in Hong Kong, is currently occupied by Strong Petrochemical (HK), and is leased from Strong Property, a connected person to us. In addition, we have also leased from Strong Property two staff quarters situated in Hong Kong. Further details of the leases are disclosed in the section headed ‘Connected Transactions’ of this prospectus.

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(ii) the PRC

We also own two parcels of land in Nantong City, Jiangsu Province, the PRC, with a total site area of approximately 55,095 m². These properties are used for the construction of oil product storage tanks estimated to be completed in the third quarter of 2009. As such, there are no operations on these properties at this stage. We have obtained the land use right certificates for these two parcels of land. As confirmed by our PRC Legal Advisor, we are not required to obtain any building ownership certificate for the storage tanks. We have also leased a property from an Independent Third Party as our temporary office premises, for a term of one year from July 2008. We also licensed the right to use a pier adjacent to the storage facilities of the Nantong Project from an Independent Third Party, for a period of 20 years for the unloading of petroleum and/or petrochemical products. The leased pier (with a length of approximately 102 meter) is rented by Strong Petrochemical (Nantong) from an Independent Third Party under a pier lease agreement dated 29 June 2007 for a term of 20 years commencing on 29 June 2007 and expiring on 28 June 2027 at an annual rent of RMB700,000. It will be used by Strong Petrochemical (Nantong) for loading and unloading petroleum and/or petrochemical products. This pier is critical to the operation of Strong Petrochemical (Nantong). The lessor owned and obtained land use rights certificates for the parcel of land where the pier is located. As advised by our PRC Legal Advisor, the lease agreement for this pier is legal and valid and is not registrable under the PRC laws.

LITIGATION

As at the Latest Practicable Date, we were not involved in any actual, pending or threatened litigations, arbitrations or administrative proceedings against us.

INTERNAL CONTROLS

INTERNAL CONTROLS

With the objectives of establishing and maintaining high standards of internal control over our operations and financial management, we have adopted a set of policies and procedures to promote the consistency and transparency of our operational and financial management. For the preparation of the Listing, these policies and procedures have been further improved taking into account the recommendations made by HLM.

HLM is a certified public accountancy firm with relevant experiences in performing internal control reviews, including reviewing internal control systems on risk management policies. It had performed internal control reviews for four listed companies in Hong Kong.

In January 2008, HLM performed an independent review of our internal control system which covered all material controls, including financial, operational and compliance controls and risk management functions, and to provide recommendations on how we can further improve the effectiveness of our internal control system.

The works conducted by HLM since its appointment in January 2008 includes:

1. Review of documentation describing our operating procedures and systems of controls;
2. Discussion with our management and relevant staff to understand the operations of the selected areas and processes;
3. Preparation of risk control matrices at entity level and process level to assess the key internal control activities in selected areas and processes;
4. Evaluation of effectiveness of the internal control procedures;
5. Performance of walkthrough tests to confirm the existence and operations of internal control procedures; and
6. Discussion with our management on the operating deficiencies identified and the remediation plans.

According to the ICR Report, it stated that our internal control procedures was in compliance with our internal control policy, and no major internal control deficiency was identified by HLM during its internal control review. As internal control is usually an ongoing process, HLM provided certain recommendations for best practice to our management in order to further enhance our internal control on (i) hedging strategy, procedure and control; (ii) sales of goods, trade receivables and cash receipt cycle; (iii) trade payables, cash payment cycle and accrued liabilities; (iv) property, plant and equipment cycle; and (v) payroll cycle.

As advised by HLM, our old internal control procedures were considered as sufficient and effective in the context of our operation. Although there were certain minor deficiencies noted during the internal control review in January 2008, HLM was of the view that these deficiencies were not detrimental and could be covered by other compensating controls. In addition, HLM has made some recommendations for best practices in order to further enhance our internal control system.

Set out below are (i) the observations from HLM; (ii) recommendations of best practices suggested by HLM; and (iii) our improvements on internal control implemented since 1 April 2008:

(i) Hedging strategy, procedure and control

Observations	Recommendations of best practices suggested by HLM	Our improvements on internal control implemented since 1 April 2008
<p>a. It is noted that some commodity derivatives transactions did not have adequate supporting documentation for the rationale of decision-making and the proper authorisation prior to the execution, for example, the commencement date of negotiation and specific reasons for termination of negotiation have not been documented. Although there is a master file which captured all the confirmed transactions, the internal control policy had not specified the procedures for recording the derivative transactions.</p>	<p>There should be documentation to support the rationale of the decision-making and the authorisation of the derivative transactions. Such documents should be reviewed and approved before a transaction is executed. The internal control policy for recording the derivative transactions should be updated.</p>	<p>The internal control policy has been updated to require a hedging approval deal sheet to be prepared and discussed with the review team for the approval of the hedging strategies before execution.</p> <p>We have put (i) the commencement date as part of the trading record of shipment; and (ii) the specific reasons for termination of negotiation for each of the Unsuccessful Shipment with Derivative Contracts as part of the trading record of shipment after 1 April 2008.</p>
<p>b. There is no clear co-ordination mechanism between the traders for the placing of orders. This increases the risk of duplication of orders. One of the review team members is responsible for both the monitoring and trading of derivative transactions. There is no segregation of duty for this particular staff.</p>	<p>The co-ordination mechanism for placing orders should be designed and implemented. The duty of the monitoring and the execution of derivative transactions should be separated.</p>	<p>Mr. Zhuang Jia, our designated second trader is assigned the task in executing the orders to be placed with brokers or banks to avoid any possible duplication. The members of the review team and reporting and monitoring team are not allowed to execute derivative transactions since March 2008.</p>
<p>c. The monitor staff will send an e-mail to the traders to confirm the latest derivative transactions done, the cash position reconciliation, the cumulative profit/(loss) of each trader and the net unrealised profit/(loss) of each trader. However, there is no evidence that the traders had reviewed such emails.</p>	<p>The review team members should design ways to ensure that the emails have been read.</p>	<p>The daily monitoring emails, containing all relevant important information about the corresponding physical shipments and derivative transactions, sent by the reporting and monitoring team is followed by a phone call to ensure that the traders have read the daily monitoring emails, and any significant issue that needs the traders' attention will be followed up immediately. In addition, our email system has been setup to request the traders to send the acknowledgement of receipt of email to the reporting and monitoring team when they receive the emails. The above step has been updated in the internal control policy.</p>

INTERNAL CONTROLS

Observations	Recommendations of best practices suggested by HLM	Our improvements on internal control implemented since 1 April 2008
d.	The minutes of the review team meeting are not signed.	Matters discussed and recorded on the minutes were in fact sent by emails to all participants for their record. The internal control policy has been updated to have the attending members to either sign on the minutes or reply in the forwarded email for confirmation purpose in the contents.
e.	The traders comprised of the directors and general managers while most of the members of the review team are the subordinates of the traders. It is questionable on the efficiency of the function of the review team.	The risk management policy on hedging activities has been revised to take out the trading function of the General Manager. As we have not appointed any non-executive Directors at the date of ICR Report, it was not feasible for us to implement this recommendation. Instead, our independent non-executive Directors will review our internal control measures, including hedging activities, and internal control environment semi-annually after the Listing.
f.	The stop loss actions are carried out by the traders while the reporting and monitoring team is only responsible for stop loss warning. This increases the risk of the delay of stop loss action.	The management team believes that the current procedure to have the trader in executing the loss cutting is still effective, however the review team also has the right to carry out such stop-loss should the situation deemed necessary.
(ii) Sales of goods, trade receivables and cash receipt cycle		
		Our improvements on internal control implemented since 1 April 2008
a.	There is no approved trade customer master file. This increases the risk of trading with unapproved customers.	Given the nature of our business, the customers are already well-known to the traders. Therefore, our management does not consider it a significant risk.
b.	Though the bank statement reconciliation is prepared to ensure all cash receipts are recorded, the internal control policy has not mentioned this control activity.	Our management has updated the internal control policy accordingly.

INTERNAL CONTROLS

Observations	Recommendations of best practices suggested by HLM	Our improvements on internal control implemented since 1 April 2008
<p>c. According to the transaction test, though the shipping documents have been provided, there is no indication that the shipping documents have been reviewed to ensure those documents agree with the sale contract. This increases the risk of error in the sale process.</p>	<p>A schedule should be prepared to record the progress of the sale, and the schedule should be reviewed regularly.</p>	<p>Due to the nature of the oil industry, the shipping documents original copies are not significant documentations in the practical aspect of our operation. However there are steps by the operational staffs to check against them to ensure that our invoice forwarded to buyer are accurate, for example, (i) the operational staffs will confirm final unit price and sales amounts with customers before issuance of invoices; and (ii) Mr. Wong Wing (in the case of Strong Petrochemical (Macao)) and Ms. Lai Yin Ping, Joyce (in the case of Strong Petrochemical (HK)) will review and sign the invoices.</p>
<p>d. It is founded that there is no internal control policy to ensure all the sale orders have been processed. This increases the risk of occurrence of sale orders being omitted.</p>	<p>The sale contracts should be pre-numbered. And the internal control policy should be designed to monitor the progress of the every transaction.</p>	<p>Given the number of transactions, viz one to two cargoes per month, our Management considers that the risk in omitting a sale order is very low. In addition there is indeed some sort of pre-numbering followed by the Company in terms of the specific month and the number of the cargo in that month.</p>
(iii) Trade payables, cash payment cycle and accrued liabilities		
Observations	Recommendations of best practices suggested by HLM	Our improvements on internal control implemented since 1 April 2008
<p>a. There is no approved trade supplier master file. This increases the risk of trading with an unapproved supplier.</p>	<p>The approved trade supplier master-file should be created, and an appropriate internal control policy should be designed to monitor any changes to the master-file.</p>	<p>Given the nature of our business, the suppliers are already well-known to the traders. However, our management will arrange to compile a master-file of the suppliers, and information of those suppliers that we had rejected.</p>
<p>b. According to the transaction test, though the shipping documents have been provided, there is no indication that the shipping documents have been reviewed to ensure those documents agree with the purchase contract. This increases the risk of error in the purchase process.</p>	<p>A schedule should be prepared to record the progress of the purchase, and the schedule should be reviewed regularly.</p>	<p>Due to the nature of the oil industry, the shipping documents original copies are not significant documentations in the practical aspect of our operation. However there are steps by the operational staff to check against them to ensure that the billing from supplier is accurate, for example, (i) the operational staffs will confirm the final unit price and purchase amounts upon receipt of invoices from suppliers; and (ii) Mr. Wong Wing (in the case of Strong Petrochemical (Macao)) and Ms. Lai Yin Ping, Joyce (in the case of Strong Petrochemical (HK)) will review and sign the payment instructions.</p>

INTERNAL CONTROLS

Observations	Recommendations of best practices suggested by HLM	Our improvements on internal control implemented since 1 April 2008
<p>c. Though the bank statement reconciliation is prepared to ensure all cash payments are recorded, in some of the samples that HLM has selected, there is no indication that the reconciliation has been reviewed.</p>	<p>The bank statement reconciliation should be reviewed and signed.</p>	<p>Our management will ensure that the reviewer will sign on the bank statement reconciliation after his review.</p>
<p>d. There is no dual signatures requirement for cheque payments in any amount. This cannot prevent any unauthorised payments.</p>	<p>Dual signatures should be required for the payment exceeding a certain amount.</p>	<p>Our management has implemented to imposed a limit on cheques signed by a single signatory. Dual signatures will be required for amount exceeding HKD1,000,000.00.</p>
<p>e. According to the transaction test, it is founded that the suppliers did not sign any purchase contracts with the Company. The validity of the purchases are ambiguous and any dispute relating to the purchase may result in contingency liabilities.</p>	<p>The purchase contracts should be signed by the supplier.</p>	<p>Other than the purchase contracts, there are communications with the suppliers. Our management considers that the risk of having disputes with suppliers is quite remote.</p>
(iv) Property, plant and equipment cycle		
Observations		
<p>a. There is no supporting document to indicate the authorisation for acquisitions or disposals of fixed assets. It is unable to ensure those actions are in best interest of the Company.</p>	<p>Written approval instruction should be issued before the acquisitions or disposals of the property, plant and equipments.</p>	<p>Approval from the Directors must be obtained before any decision on acquisition or disposal of fixed assets over HK\$50,000 (original cost for acquisition, and net book value for disposal). For those below HK\$50,000, general manager's approval are required.</p>
<p>b. According to the transaction test, it is noted that Strong Petrochemical (HK) had not provided for the depreciation expense on a monthly basis.</p>	<p>Strong Petrochemical (HK) should provide the depreciation expense on a monthly basis in accordance with the internal control policy.</p>	<p>Our management will enforce such compliance.</p>
<p>c. According to the transaction test, it is noted that there was no evidence that the property, plant and equipments register was reviewed after updating or physical inspection taking.</p>	<p>The property, plant and equipment register should be reviewed regularly.</p>	<p>Our management will enforce such compliance.</p>
Recommendations of best practices suggested by HLM		
Our improvements on internal control implemented since 1 April 2008		

INTERNAL CONTROLS

Observations	Recommendations of best practices suggested by HLM	Our improvements on internal control implemented since 1 April 2008
<p>d. The property, plant and equipment are not tagged for identification. This increases the risk of misallocation or loss of the property, plant and equipment.</p> <p>d. No internal control policy is designed for the managing the property, plant and equipments. This decreases the accountability when there is damage or theft of property, plant and equipment.</p>	<p>All property, plant and equipment should be tagged for identification.</p> <p>The internal control policy for managing the property, plant and equipment should be designed and implemented.</p>	<p>Given the nature and value of the assets in use, our management considers this is not a significant risk to us.</p> <p>Given the nature and value of the assets in use, our management considers this is not a significant risk to us. However, our management will take this into consideration when our size and operation deem this warranted.</p>
(v) Payroll cycle		
<p>Observation</p> <p>a. Only one member of staff is responsible for the update of the personnel files and there is no indication as to the changes to the personnel files have not been checked or reviewed. Therefore, any errors in filing the personnel information or any unauthorised changes to the files might not be detected.</p> <p>b. There is no internal control policy to record the number of working days and hours for each employee. This increases the risk of errors in calculating of payroll.</p> <p>c. In Strong Petrochemical (Macao), the general manager is responsible for preparing and approving the monthly salary payment. There is no segregation of duties and it cannot effectively prevent the occurrence of error and/or fraud.</p>	<p>Recommendations of best practices suggested by HLM</p> <p>The personnel files should be reviewed by another staff for every update.</p> <p>The number of working days and hours for each employee should be recorded properly.</p> <p>The monthly salary payment should be checked by another person before payment. As an additional measure, there had better be a limit to the amount of each payment such that any exceptional large amount transacted could be alerted to management immediately.</p>	<p>Our improvements on internal control implemented since 1 April 2008</p> <p>Ms. Ng Siu Wai (co-general manager of the Group) has been assigned to review any update on personnel files.</p> <p>Our management advised that there are records for staff taking leaves. However, given the existing staff structure and the staff are all on a monthly salary basis, our management considers that it is not so important as to the keeping of a detail record of the number of working days and hours for each employee.</p> <p>Ms. Lai Yin Ping, Joyce (deputy general manager of the Group) and Ms. Ng Siu Wai (co-general manager of the Group) have been assigned to review and counter-check the monthly salary payment for Strong Petrochemical (Macao) and Strong Petrochemical (HK), respectively.</p>

INTERNAL CONTROLS

Taking into account of the above and our small-scaled operation in term of number of employees, place of operations and business decision hierarchy, our Directors and the Sponsor are of the view that our old internal control procedures being adopted over the Track Record Period were sufficient and effective.

After the issuance of the ICR Report in March 2008, our management have already held several internal meetings with staff who worked in the relevant departments for the full implementation of the new internal control procedures recommended by HLM. On 31 March 2008, our board was resolved to implement the recommendations of best practices suggested by HLM from 1 April 2008.

In July 2008, we engaged HLM to carry out an update review of our internal control. According to the Update Report, it is stated that HLM is satisfied with our established procedures, systems and controls (including accounting and management systems) and that they are sufficient and effective having regard to the obligations of the new applicant and its directors to comply with the Listing Rules (including but not limited to Rules 13.09, 13.10, 13.46, 13.48 and 13.49, Chapters 14 and 14A and Appendix 16) and other relevant legal and regulatory requirements and which are sufficient to enable our Directors to make a proper assessment of our financial position and prospects. HLM is also satisfied that we have complied with the procedures stipulated in its operation manuals. Based on the conclusion of the Update Report, our current operation scale and deal size of physical shipments, and the due diligence works performed by the Sponsor, including but not limited to (i) meetings with HLM to discuss its findings and conclusions stated in the ICR Report and Update Report; (ii) interviewing with our management about their duties and roles under our internal control procedures; and (iii) reviewing relevant internal documents in order to ascertain whether the improvements stated in the ICR Report and Update Report have been implemented by us, the Sponsor is of the view that our internal control procedures (before and after implementation of the new internal control procedures in April 2008) are sufficient and effective.

Except for the above engagement of HLM in performing internal control review, we have no intention to engage HLM to review our internal control system on an on-going basis after the Listing.

With the objectives of establishing and maintaining high standards of internal control over our operations, risk and financial management, our review team, which comprised three members, namely, Mr. Wong Wing, Ms. Ng Siu Wai and Ms. Lai Yin Ping, Joyce, will review our internal control measures, including hedging activities, and our internal control environment semi-annually after the Listing, and submit their review report to audit committee. The results of these reviews will be disclosed in our interim and annual reports after the Listing.

RELATIONSHIPS WITH CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account the Shares which may be issued pursuant to the exercise of any options that have been or may be granted under the Share Option Scheme), each of Sino Century and Jin Yao will hold 50% of Forever Winner which in turn holds approximately 75% of our Company's issued share capital. Since the entire issued share capital of Sino Century and Jin Yao is owned by Mr. Wang and Mr. Yao respectively, Mr. Wang, Mr. Yao, Forever Winner, Sino Century and Jin Yao are deemed Controlling Shareholders under the SFO.

Independence from Controlling Shareholders

Management independence and operational independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, our Company has full rights to make all decisions on, and to carry out, its own business operations independently. Our Company (through our subsidiaries) holds all relevant licences necessary to carry on our businesses, and has sufficient capital, equipment and employees to operate our businesses independently of any of our Controlling Shareholders.

Our Company's management and operational decisions are made by our executive Directors and senior management, who have served our Company or our subsidiaries for a long time and have substantial experience in the industry in which our Company is engaged. Further, our three independent non-executive Directors will bring independent judgment to the decision-making process of the Board.

Except for the continuing connected transactions which are disclosed at the section headed "Connected Transactions" of this prospectus, our Directors currently do not expect that following the Listing, there will be any business transactions between our Company and any of our Controlling Shareholders. Based on the above, our Directors are of the view that our Company is independent of any of the Controlling Shareholders in terms of management and business operations.

Administrative independence

Our Group has our own capabilities and personnel to perform all essential administrative functions including financial and accounting management, inventory management development. Our qualified accountant, company secretary and senior management staff are independent of any of our Controlling Shareholders.

Financial independence

Our Group has its own financial management system and the ability to operate independently from our Controlling Shareholders from the financial perspective. Our Group is capable of obtaining financing from external sources without reliance on any of our Controlling Shareholders.

Our Directors' assets and personal guarantee to secure our banking facilities will be fully released upon the Listing.

RELATIONSHIPS WITH CONTROLLING SHAREHOLDERS

Having considered the above reasons, our Directors are of the view that our Group is capable of carrying our businesses independently of any of our Controlling Shareholders (including any associate thereof) after the Listing.

Non-competition undertakings given by Controlling Shareholders

Our Controlling Shareholders have confirmed that they do not have any interest in any business, apart from the Group's business, which competes or is likely to compete, directly or indirectly, with the Group's business (as disclosed in this prospectus) and would require disclosure under rule 8.10 of the Listing Rules. Our Controlling Shareholders have entered into the Deed of Non-competition with our Company to the effect that each of them will not directly or indirectly participate in, or hold any right or interest in, or otherwise be involved in, any business which may be in competition with our businesses. The Articles of Association and the Deed of Non-competition also provides that all conflicted Directors shall absent themselves from meetings and voting of the Board when matters in which such Director or his associates have a material interest are discussed (including first rights of refusal), unless expressly requested to attend by a majority of the independent non-executive Directors.

The Deed of Non-competition also provides that:

- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders and their respective associates, or first rights of refusal provided by our Controlling Shareholders and their respective associates on their existing or future competing businesses;
- (ii) our Controlling Shareholders shall provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (iii) our Company shall disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the undertakings and first right of refusal provided by the Controlling Shareholders either through the annual report of our Company, or by way of announcements to the public;
- (iv) our Controlling Shareholders shall make declaration(s) of compliance with the Deed of Non-competition in accordance with the requirements under appendix 14 (Code of Corporate Governance Practices) and appendix 23 (Corporate Governance Report) to the Listing Rules and disclose in the annual reports of our Company; and
- (v) the Controlling Shareholders shall abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests.

The Deed of Non-competition will cease to have effect on any of our Controlling Shareholders if he or it ceases to be a Controlling Shareholder.

CONNECTED TRANSACTIONS

We have, pursuant to a master leasing agreement, entered into a number of tenancy agreements with Strong Property in respect of the leasing of certain properties owned by Strong Property, a subsidiary of Active Tools to us. As property investment and leasing of properties are not the principal business of our Group, Strong Property was disposed of pursuant to the Reorganisation and was transferred back to Active Tools.

As each of Mr. Wang and Mr. Yao is an executive Director, a Controlling Shareholder and each of them owns 50% interests in Active Tools, each of Mr. Wang, Mr. Yao, and each of Active Tools and Strong Property is a connected person under the Listing Rules. Any transactions entered into between Active Tools and us will constitute connected transactions for our Company under the Listing Rules upon Listing. Details of the connected transactions between each of Active Tools and Strong Property and ourselves are set out below.

A. Continuing connected transactions which are exempted from reporting, announcement requirements and independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules

Leasing of properties by Strong Property, a subsidiary of Active Tools to us

Prior to the Listing Date, Strong Property, a subsidiary of Active Tools has leased certain properties (the "Properties") including staff quarters and offices and car parking space in Hong Kong to us pursuant to 3 tenancy agreements (collectively, the "Leasing Agreements"), details of which are set out below:

	Location	Term	Approximate gross floor area	Current monthly rental	Use
1.	Flat D, 38th Floor Nam Fung Court Harbour Heights No. 1 Fook Yum Road North Point Hong Kong	1 April 2008 to 31 March 2009	744 ft ²	HK\$16,400	Staff-quarter
2.	Flat E, 59th Floor Tower 8 The Belcher's No. 89 Pok Fu Lam Road Sai Ying Pun Hong Kong	1 April 2008 to 31 March 2009	1,462 ft ²	HK\$58,500	Staff-quarter

CONNECTED TRANSACTIONS

Location	Term	Approximate gross floor area	Current monthly rental	Use
3. Unit 1604 16th Floor Far East Finance Centre No. 16 Harcourt Road Admiralty Hong Kong	1 April 2008 to 31 March 2009	2,549 ft ²	HK\$104,000	Office

As we intend to continue to lease the Properties from Strong Property with reference to the prevailing monthly market rental as set out in the Leasing Agreements, Strong Petrochemical (HK), a member of our Group, entered into a master tenancy agreement (the “Master Leasing Agreement”) with Active Tools on 28 November 2008 in respect of the leasing of the Properties, the term of which shall commence with effect from 1 November 2008 and continue until 31 March 2009.

For the three years ended 31 March 2008 and the seven months ended 31 October 2008, the annual rental in connection with the leasing of the Properties amounted to approximately HK\$1.116 million, HK\$1.137 million, HK\$1.731 million and HK\$1.252 million, respectively. From 1 November 2008 up to 31 March 2009, the estimated aggregate rental in connection with the leasing of properties amounted to approximately HK\$0.895 million while for the financial year ending 31 March 2009, the estimated aggregate annual rental is approximately HK\$2.147 million. The increase of approximately 24.0% in estimated aggregate annual rental for the year ending 31 March 2009 is made with reference to the market rental increment from 1 April 2008 to 31 August 2008. BMI Appraisals Limited, an independent valuer, has confirmed that the monthly rents payable for the financial year ending 31 March 2009, are on normal commercial terms, fair and reasonable and reflect the prevailing market rents in Hong Kong.

The Master Leasing Agreement is a framework agreement which provides the mechanism for the operation of the connected transactions described therein. As the executed agreements simply further elaborate on the provision of services as contemplated by the Master Leasing Agreement, they do not constitute new categories of connected transactions.

The percentage ratios of the aggregate consideration of the Master Leasing Agreement is less than 0.1% (being the threshold stipulated in Rule 14A.31(2) of the Listing Rules). Therefore, the Master Leasing Agreement will be an exempted connected transaction for our Company under 14A.33(a) of the Listing Rules immediately upon Listing and will be exempted from the reporting, announcement and the independent shareholders’ approval requirements contained in Rules 14A.45 to 47 of the Listing Rules.

CONNECTED TRANSACTIONS

B. Summary of connected transactions

Set out below is a summary of the connected transactions mentioned above:

Transaction	Three years ended 31 March 2008 and seven months ended 31 October 2008	Historical figures of transactions of similar nature <i>(HK\$' million)</i>	Estimated aggregate <i>(HK\$' million)</i>
Leasing of Properties	1 April 2005 to 31 March 2006	1.116	0.895
	1 April 2006 to 31 March 2007	1.137	(1 November
	1 April 2007 to 31 March 2008	1.731	2008 to 31
	1 April 2008 to 31 October 2008	1.252	March 2009)

LISTING RULES COMPLIANCE

Our Directors (including the independent non-executive Directors) consider that the connected transactions above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms, and are fair and reasonable and in the interests of the Shareholders as a whole.

After Listing, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules upon entering into new Master Leasing Agreements and Leasing Agreements thereunder upon their expiry.

In the view of our Directors (including the independent non-executive Directors) the continuing connected transactions referred to above are fair and reasonable.

BMI Appraisals Limited, an independent valuer, has confirmed that the monthly rents payable under the continuing connected transactions for the financial year ending 31 March 2009, are on normal commercial terms, fair and reasonable and reflect the prevailing market rents in Hong Kong.

Taking into account the nature of transactions and the opinion from BMI Appraisals Limited on the fairness of the monthly rents payable by the Group, the Sponsor is of the view that the connected transactions as described above are in the ordinary and usual course of business of our Group, on normal commercial terms (or, when there is no available comparison, on terms no less favourable than terms available to or from (as appropriate) Independent Third Parties) and are fair and reasonable and in the interests of the Shareholders as a whole.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Mr. WANG Jian Sheng (王健生先生), aged 54, is the Chairman and an executive Director. In October 2000, Mr. Wang invested in our Group and acted as a substantial shareholder. At the same time he joined our Group as the supervisor. He graduated from Henan University of Science and Technology (河南科技大學), formerly known as Luoyang Industrial College (洛陽工學院) in the PRC and was awarded in 1978 a bachelor's degree in metallic materials and heat process. Mr. Wang was deputy manager of the Focus Project Department from 1985 to 1987 and senior project manager in the General Planning Department of Beijing Everbright Industries Company Limited (北京光大實業公司). Between 1988 and 2000, Mr. Wang was involved in the trading business and property investment business. He oversaw our operations and was generally responsible for the following matters: collectively with Mr. Yao, he approved and counter signed payments and banking documents; collectively with Mr. Yao, he decided on the major decisions of our Group; meeting with and listening to reports from senior management of our Group and implementation of strategies; explored investment projects and other sourcing and introducing to our Group; soliciting new business opportunities and business development for our Group; and designed, developed and implemented overall strategic plans for the Group. As he is responsible for formulating our major corporate and business strategies at the high level, he is not involved in our Group's day-to-day operations. On 1 February 2008, Mr. Wang was appointed as an executive Director.

Mr. Wang is currently the chairman and an executive director of China National Resources Development Holdings Limited (中國資源開發集團有限公司) (Stock Code: 661) ("CNRD"), and an independent non-executive director of K.P.I. Company Limited (港佳控股有限公司) (Stock Code: 605). The shares of both companies are listed on the Main Board. China National Resources Development Holdings Limited is an investment holding company, which is engaged in trading and investing in securities in the PRC and Hong Kong. It is also involved in the property investment business, as well as providing management consultancy services and natural resources investment and development in the PRC, mainly in molybdenum/wolfram and silver/copper minings and related businesses. As chairman and an executive director of CNRD, Mr. Wang provides leadership to the board of directors and formulates its major corporate and business strategies. Mr. Wang's directorship is assisted by two other executive directors. K.P.I. Company Limited is actively engaged in the investment in China's retail market. As an independent non-executive director, he is not involved in the day-to-day management of K.P.I. Company Limited.

Mr. YAO Guoliang (姚國梁先生), aged 43, the chief executive officer and an executive Director. In November 1999, Mr. Yao founded our Group, and has been a director and a trader of our Group since then. He graduated from University of International Business and Economics (對外經濟貿易大學) in the PRC and was awarded in 1988 with a bachelor's degree in economics. Prior to setting up our Group, he worked in the crude oil division of Sinochem International Oil Company (中化國際石油公司) as a crude oil trader from August 1988 to December 1993. During the period from 1994 to 1997, he was a director of UNIPEC Asia Company Limited (聯合石化亞洲有限公司) and was responsible for general management and oil trading. He has more than 20 years of experience in handling crude oil trading and associated hedging activities. Leveraging on his extensive experience in the oil industry, Mr. Yao is responsible for formulating our corporate and business strategies, business development and management, trade solicitation as well as hedging implementation. On 1 February 2008, Mr. Yao was appointed as an executive Director.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. WONG Wing (黃榮先生), aged 41, an executive Director, is responsible for the finance and risk management of our Company. He graduated from Indiana University (Bloomington), the United States of America, with a Bachelor of Science in Business degree in 1991. In 1995 and 2002, he became a member of the American Institute of Certified Public Accountants and a member of the Association of Financial Professionals respectively. He has over 17 years of experience in handling finance and auditing work. He was an accountant and later promoted to the position of senior accountant at KPMG Peat Marwick from August 1991 to May 1994. After he left KPMG Peat Marwick, he joined Standard Chartered Bank Hong Kong as a senior auditor in the Group Audit Department from November 1994 to November 1996. In November 1996, he joined Goldman Sachs (Asia) L. L. C. as Technical Specialist (Global Ops) in the Treasury Operations Department until he departed in March 2003. He joined our Group in March 2004 as a general manager and was in charge of the setting up of Strong Petrochemical (Macao). Mr. Wong is responsible for the financial management, including arranging and renewal of credit facilities of our Group, and day-to-day management of our Company. He prepared the Group's risk management policy and is a member of the review team to review the risk position of our Group. He is also the compliance officer of our Group, ensuring our compliance with applicable laws and regulations of our operations. He was appointed as an executive Director on 3 March 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHU Yao Bin (祝耀濱先生), aged 68, has been an independent non-executive Director since 28 November 2008. He is currently the senior consultant in Changshu Alliance Chemical Co., Ltd. (常熟市聯邦化工有限公司). He was accredited an engineer by the State Council of the PRC in 1980, and was named deputy general engineer in China Petrochemical Corporation (中國石油化工總公司) in August 1984. He was deputy general manager of China Petrochemical International Co., Ltd. (中國石化國際事業有限公司) from 1992 to 1995 and chief executive of UNIPEC (中國國際石化聯合公司) from 1995 to 1998. He obtained a certificate in 1964 from the Shanghai TV University (上海電視大學) in the PRC, in inorganic chemistry, organic chemistry and analytical chemistry.

Mr. LAU Hon Kee (劉漢基先生), FCPA, CPA (Aust.), aged 38, has been independent non-executive director since 28 November 2008. Mr. Lau has over 10 years' experience in and has held positions in various fields including audit, finance and accounting, and has held senior management positions in technology service and manufacturing companies before 2003. Since March 2003, Mr. Lau has been the financial controller and company secretary of the Shandong Luoxin Pharmacy Stock Company Limited (山東羅欣藥業股份有限公司) (Stock Code: 8058), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Lau holds a bachelor's degree in commerce from the Australian National University and is a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a CPA of CPA Australia.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. LIN Yan (林燕女士), aged 44, has been an independent non-executive Director since 28 November 2008. She is a member of Certified General Accountant Association of Ontario in Canada. She is currently vice president and chief finance officer of Tebon Securities Co., Ltd (德邦証券有限責任公司) in Shanghai, the PRC. Ms. Lin has over 10 years of experience in the finance industry. She held the position as a senior compliance manager in Rabobank Hong Kong Branch from 1997 to 1999. In 2000 to 2001, she was the corporate controller of Assante Advisory Services in Toronto, Canada. She later joined China Eagle Securities Co, Ltd (大鵬証券有限責任公司) in the PRC as the assistant chief finance officer until mid 2002. She obtained her bachelor of science degree majoring in chemistry from Huaqiao University (華僑大學), the PRC, in 1985. In 1993, she obtained a master's degree in business administration from Queen's University, Kingston, Canada. She was appointed a member of the Self-Disciplinary Committee of the Securities Association of China (中國證券業協會) in February 2008. The Securities Association of China (中國證券業協會) is not a state-owned or statutory organisation in the PRC.

SENIOR MANAGEMENT

Mr. YANG Qing (楊清先生), aged 42, is co-general manager of our Group. He is responsible for our international trading business and coordinating the petroleum products business. He is also a trader in our Company. His duties include liaising with suppliers and customers, considering hedging strategies to be carried out, and monitoring open positions of derivative financial instruments of the Company. He obtained a bachelor of science degree majoring in management science at Shangdong University (山東大學) in the PRC in 1989. He joined the oil industry in 1989 after he left university. He was a trader, a deputy general manager and latter a general manager in the petroleum products division with Sinochem International Oil Company (中化國際石油公司) from 1998 to 2002 and was responsible for trading operation, the associated hedging activities and day-to-day management of the division. He joined our Group in April 2002.

Ms. NG Siu Wai (吳小惠女士), aged 55, is co-general manager of our Group. She is responsible for trading and the operation of our Company. Her duties include assisting the trading teams to source crude oil and petroleum products from the international market, arranging chartering of vessels and handling insurance claims when necessary, and reviewing hedging strategies and the risk management process of the Company. She graduated from Zhongshang University (中山大學) in the PRC with a bachelor's degree majoring in English language in 1976. She then obtained a master's degree in economics in Zhongshang University (中山大學), the PRC, in 1993. She has over 25 years of experience in the oil industry. She has extensive experience in handling crude oil and oil products trading and risk management. From 1979 to 1985, she was seconded to China Resources Petroleum and Chemical Co., Ltd. as a sales manager. During the period from 1985 to 1994, she was the deputy general manager of Sinochem International Oil (Hong Kong) Co., Limited (中化香港石油國際有限公司) and was responsible for crude oil and oil products trading and risk management. Immediately before joining our Group in November 2003, she was the general manager and director of international trading for Fortune Oil Co., Limited, a company listed on the London Stock Exchange.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. LAI Yin Ping, Joyce (黎燕萍女士), aged 51, is the deputy general manager of our Group. She is responsible for banking and trading relationships, company secretarial work, and the administration and human resources of our Group. She has over 30 years of experience in accounting and financial management. From 1988 to 2000, Ms. Lai was an accountant and then promoted to assistant to director at a private company in Hong Kong and was responsible for the administration, financial and accounting aspects of the company. She is also responsible for the corporate administration and human resources of Strong Petrochemical (HK). She joined the Group in November 2000 as a manager.

Mr. ZHUANG Jia (庄加先生), aged 43, is the deputy general manager of our Group. He is responsible for the trading, shipping and business development of our Group and overseeing our petrochemical trading business. He is also a trader of our Company. His duties include negotiating with suppliers and customers on terms and pricing of trades, considering and executing hedging strategies, and monitoring open positions of derivative financial instruments of our Company. He obtained his bachelor of engineering degree from East China University of Science and Technology (華東理工大學), previously known as East China Institute of Chemical Technology (華東化工學院) in the PRC, majoring in petroleum processing in 1988. He has nearly 20 years of experience in the oil industry. After university graduation, he joined Sinochem Shanghai (上海市化工進出口公司) as a salesman in the petroleum department and was involved in the hedging activities from April 1993 to February 1994. During the period from March 1994 to January 1997, he was seconded to SCHECO (Hong Kong) Co., Limited, an overseas branch of Sinochem Shanghai, as a trading manager and later promoted to deputy general manager. After the secondment, he returned to Sinochem Shanghai and accepted the position as a manager in the import department until March 1998. Prior to joining our Group in March 2007, he was the trading manager for ICC Chemical Corporation (Shanghai Office) for more than 8 years and was responsible for trading petrochemical products.

Ms. YAO Hong (姚紅女士), aged 42, is the vice president (trading) of our Group. She is responsible for sourcing crude oil supply, creating trading positions, marketing to domestic and overseas clients and developing team resources. Her other duties include storage management, setting up trading and risk management models as well as organising training courses for team members. She obtained her bachelor's degree of engineering and economics in 1991 from the Beijing University of Technology. Prior to joining our Group in September 2008, Ms. Yao had gathered over 10 years of experience in international oil trading and over 5 years of experience in project management. From January 2003 to April 2007, she served as senior trading manager at UNIPEC UK Company Limited in charge of sourcing, marketing and hedging for crude oil in the areas of Africa, the North Sea and the Mediterranean. From January 2000 to December 2002, she was the coordinator of the crude oil department at China International United Petroleum & Chemicals Co. Ltd. (UNIPEC), Beijing, responsible for coordinating West African crude oil supplies from twelve refineries. Ms. Yao is holder of the Certificate for Futures Trader issued by the PRC Securities Regulatory Commission and the Certificate of International Business Specialist co-issued by the Ministry of Personnel and Ministry of Foreign Trade and Economics Cooperation.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. PANG Man Chun Manson (彭文俊先生), aged 38, is the financial controller, company secretary and qualified accountant of our Company, and is a member of the senior management employed by us on a full-time basis as required under Rule 3.24 of the Listing Rules. He is responsible for the overall financial management and company secretarial functions of our Group. He joined our Group in March 2008 and is responsible for the financial management of Strong Petrochemical (HK). He graduated from the University of Canberra, Australia, with a Bachelor of Commerce in Accounting degree. He is a member of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of CPA Australia. He has 10 years of experience in finance and accounting. He was an auditor with Sabrina Chan & Company, CPA from March 1998 to October 2004. During the period from November 2004 to October 2005, he was an accountant with Zolar Company Limited. He later returned to Sabrina Chan & Company, CPA as senior auditor from November 2006 to April 2007. Prior to joining our Group in March 2008, he was an accountant with Asahi Group Company Limited.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

In each of the three years ended 31 March 2008 and the seven months ended 31 October 2008, the total remuneration (comprising fees, salaries and allowances, discretionary bonuses and pension scheme contributions) and benefits in kind of our Directors was approximately HK\$759,000, HK\$728,000, HK\$780,000 and HK\$500,000 respectively and the total remuneration of the five highest-paid members of senior management (including Directors, if appropriate) was approximately HK\$2,682,000, HK\$2,933,000, HK\$3,593,000 and HK\$2,241,000 respectively. No emolument was paid to Mr. Wang and Mr. Yao during the Track Record Period as they are our Controlling Shareholders who respectively received returns from us in the form of dividends declared during the Track Record Period.

Except as disclosed above, no other amounts have been paid or were payable by us to the Directors and members of the senior management for the three years ended 31 March 2008 and the seven months ended 31 October 2008.

We will determine the remuneration of the Directors on the basis of their experience, performance, duties and market conditions. The aggregate remuneration (including fees, basic salaries, allowances and other benefits and contributions to pension schemes, housing allowances, other allowances and benefits in kind, and discretionary bonuses) of the executive Directors and the independent non-executive Directors for the year ending 31 March 2009 are estimated to be HK\$1,685,000 and HK\$140,000, respectively, among which, it is expected that Mr. Wang and Mr. Yao will separately receive remunerations of approximately HK\$333,000.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EMPLOYEES

Staff composition

As at the Latest Practicable Date, we had 22 employees. For the three years ended 31 March 2008 and the seven months ended 31 October 2008, our staff costs and commission to traders was approximately HK\$4.5 million, HK\$4.6 million, HK\$5.5 million and HK\$4.4 million, which represented approximately 5.6%, 3.4%, 5.9% and 3.9% of net profits for the corresponding periods.

The following table sets out the number of employees by function and locations as at the Latest Practicable Date.

Function	Number of Staff in Macao	Number of Staff in Hong Kong	Number of Staff in the PRC	Total
Management and administration	2	3	4	9
Trading and operation	3	5	—	8
Financial and accounting	1	2	1	4
Engineering	—	—	1	1
TOTAL	<u>6</u>	<u>10</u>	<u>6</u>	<u>22</u>

Relationship with our employees

During the Track Record Period, we did not experience any strikes or other labour disturbances that have materially interfered with our operations.

All Directors, members of the senior management and employees are bound by obligations of non-disclosure and confidentiality under confidentiality agreements with respect to our confidential and proprietary information. Under these confidentiality agreements, the employees are prohibited from disclosing to any third party the trade secrets of our Group including but not limited to business strategies and business plans. These agreements are effective after the termination of the employment contracts of the relevant employees. During the Track Record Period, we instituted no legal proceedings against any employees for breach of their non-disclosure and confidentiality obligations.

Employee benefits

We provide our employees with employee benefits, including pension, medical insurance scheme and other applicable social insurance. We also provide certain employees with staff quarters in Hong Kong.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Employee training

With the aim to encouraging our employees to continuously develop themselves by further education, we provide our employees who have completed service with us for more than one year with a subsidy for attending external courses relevant to their current roles or anticipated tasks in our Group. In addition, we also subsidise our employees to take open examinations organised by reputable associations which are relevant to the nature of their work and beneficial to us. We value our employees as our assets in which we invest our resources in order for them to make a greater contribution to our success.

SHARE OPTION SCHEME

We conditionally adopted the Share Option Scheme on 28 November 2008. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus.

The purpose of the Share Option Scheme is to provide an incentive or a reward to certain individuals of our Group for their contribution to, and continuing efforts to promote the interests of our Group. Please refer to the section headed “Share Option Scheme” in Appendix V to this prospectus for more details.

An application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, any Shares which may fall to be allotted and issued upon exercise of certain options that may be granted under the Share Option Scheme.

It is our intention to grant options to our Directors and employees under the Share Option Scheme following the Listing for incentive purposes when appropriate.

Internal Controls

Under our Articles of Association, our Board has the authority to determine our internal management organisation and corporate governance. We have clearly defined the responsibility and authority of our Board and our senior management through our Articles of Association and internal policies. We have adopted certain internal control policies to manage and minimise financial and other risks, to ensure timely and accurate preparation and reporting of financial information, and to monitor compliance with laws by the senior management of the Group in the performance of their duties. We have also established an audit committee under our Board, both of which have the functions of monitoring compliance with laws by our senior management and in our daily operations, and of carrying out investigations for suspected breaches of the law. However, certain control procedures, which are new and were introduced after Reorganisation may need further adjustment and development to operate effectively. Our Directors are in the process of establishing additional policies and procedures.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Corporate Governance Measures

We are aware that, upon the Listing, we will be required to comply with stringent requirements concerning internal controls and corporate governance. In this regard, we have resolved to undertake the following steps to improve the protection for minority shareholders, to ensure that the management of our Company will adhere to the Listing Rules, as well as other applicable laws and regulations for a company listed on the Stock Exchange, and to enhance internal controls:

- a) We adopted new Articles of Association by sole shareholder's resolutions dated 28 November 2008, in compliance with requirements of the Cayman Companies Law and the Listing Rules. The Articles of Association prohibit a Director from attending and being present in the Board meeting while any resolution of the Board in respect of any contract or arrangement in which such Director or any of his Associate(s) has/have a material interest is being discussed or resolved, unless the attendance of such Director at such Board meeting is specifically requested by the remaining Directors. Our Directors is also prohibited from voting (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his Associate(s) has/have a material interest, and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution). We have established a balanced system to protect the interests of the minority shareholders.
- b) Our Controlling Shareholders undertake with us to defer or pass to the independent non-executive Directors all matters to which they have or may have a conflict of interest for consideration and decision. Such matters include, but are not limited to (i) the exercise of option(s) which relate(s) to any connected persons (as defined in the Listing Rules) to us; and (ii) any connected transactions with us and the connected persons to us; and to provide all information necessary for us and the independent non-executive Directors to enforce the non-competition undertaking given under the Deed or to assess whether or not there is a breach of such a non-competition undertaking.
- c) Our executive Directors undertake with us to increase the transparency in disclosure of decisions on matters considered or reviewed by the independent non-executive Directors in the annual report or by way of announcement, as appropriate, after the Listing, in compliance with the corporate governance measures and internal control systems as adopted by us.
- d) We have retained HLM to perform an independent review on our internal control system which cover all material controls, including financial, operational and compliance controls and risk management functions in January 2008. Please refer to the sub-section headed "Internal Control" of this section for the details of internal control review.
- e) Our lawyer provided training to our Directors concerning the requirements of the Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

- f) By the written resolutions of the sole shareholder dated 28 November 2008, we appointed three independent non-executive Directors who will make autonomous determinations on matters which may affect the minority shareholders' interests. Any conflicts in the interests of minority and majority shareholders will be reported in both Board and Shareholder meetings, thus preventing the Controlling Shareholders from adversely affecting the legal rights of other Shareholders in voting.

- g) We expect to appoint China Everbright Capital as the compliance adviser ("Compliance Adviser") in order to ensure our future compliance with the Listing Rules, and plan to retain a Compliance Adviser for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. We expect the Compliance Adviser to play an active role in assisting us in complying with the Listing Rules, raising our standards in terms of Listing Rules compliance and corporate governance as a whole and this has been specified in the agreement between us and the Compliance Adviser.

AUDIT COMMITTEE

We set up an audit committee on 28 November 2008 in compliance with the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of our Group. The audit committee comprises Mr. Lau Hon Kee, the chairman of the audit committee, and two members namely, Mr. Zhu Yao Bin and Ms. Lin Yan.

REMUNERATION COMMITTEE

We set up a remuneration committee on 28 November 2008 in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The remuneration committee will make recommendations to the Board on the remuneration of executive Directors and will determine on behalf of the Board specific remuneration packages and conditions of employment for our Directors. The remuneration committee comprises, Ms. Lin Yan, the chairperson of the remuneration committee, and two members namely, Mr. Wang and Mr. Lau Hon Kee.

The chairperson of the remuneration committee will not have a casting vote in case of a deadlock of the committee. Each member will abstain from voting in relation to his/her own remuneration package.

Ms. Lin Yan and Mr. Lau Hon Kee will constitute a majority in the committee and thus will be a check and balance to Mr. Wang's or the management of our suggestions and proposals.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

COMPLIANCE ADVISOR

We expect to appoint China Everbright Capital as the Compliance Adviser pursuant to Rule 3A.19 of the Listing Rules to provide advisory services to us pursuant to the requirements thereunder. It is expected that China Everbright Capital will, amongst other things, provide advice to our Company with due care and skill on a timely basis when consulted by us in the following circumstances pursuant to Rule 3A.23:

- (i) before the publication by us of any regulatory announcement (whether required by the Listing Rules or requested by the Stock Exchange or otherwise), circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated by us including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of ours deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of us under Rule 13.10 of the Listing Rules.

In addition, it is expected that the Compliance Adviser will also provide, amongst other things, the following services to us:

- (a) if required by the Stock Exchange, deal with the Stock Exchange in respect of any or all matters listed in paragraphs (i) to (iv) above;
- (b) in relation to an application by us for a waiver from any of the requirements in Chapter 14A of the Listing Rules, advise us on its obligations and in particular the requirement to appoint an independent financial adviser; and
- (c) assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer and, to the extent the compliance adviser forms an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps, such as training.

The term of the appointment is expected to commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue, without taking into account the Offer Shares that may be taken up under the Share Offer and the Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme, the following persons will have interests or short positions in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Capacity/Nature of interest	Number of Shares directly or indirectly held immediately following completion of the Share Offer	Approximate percentage of issued Share immediately following completion of the Share Offer
Forever Winner	Beneficial Owner	300,000,000	75%

Note:

Each of Sino Century and Jin Yao holds 50% of the entire issued share capital of Forever Winner. Mr. Wang holds the entire issued share capital of Sino Century. Mr. Yao holds the entire issued share capital of Jin Yao.

So far as our Directors are aware, immediately following completion of the Share Offer, no person will be directly or indirectly interested in 10% or more of the nominal value of a member of our Group (other than our Company).

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Share Offer and the Capitalisation Issue, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group (other than our Company).

SUBSTANTIAL SHAREHOLDERS

RESTRICTIONS ON DISPOSAL OF SHARES

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange, our Company and the Sponsor respectively that it/he shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is the beneficial owner; or
- (b) in the period of six months commencing on the date on which the period referred to in (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he, together with other Controlling Shareholders would cease to be Controlling Shareholders.

Each of our Controlling Shareholders has further undertaken to the Stock Exchange, our Company and the Sponsor respectively that within the period from the date of this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares first commence on the Stock Exchange, it/he shall:

- (1) when it/he pledges/charges any securities of our Company beneficially owned by it/him in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155, Laws of Hong Kong) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge/charge together with the number of securities so pledged/charged; and
- (2) when it/he receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged securities of the Company will be disposed of, immediately inform our Company in writing of such indications.

Our Company has undertaken to the Sponsor that it shall inform the Stock Exchange as soon as it has been informed of matters referred to in (1) and (2) above by our Controlling Shareholders or any of them and disclose such matters by way of a press announcement which is to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

SHARE CAPITAL

SHARE CAPITAL

Our issued share capital, fully paid or credited as fully paid, immediately following the Share Offer and the Capitalisation Issue will be as follows:

	<i>HK\$</i>
<i>Authorised share capital</i>	
1,000,000,000 Shares	100,000,000
<i>Issued shares</i>	
20,000,000 Shares in issue at the date of this prospectus	2,000,000
<i>Shares to be issued</i>	
280,000,000 Shares to be issued pursuant to the Capitalisation Issue	28,000,000
<u>100,000,000</u> Shares to be issued pursuant to the Share Offer	<u>10,000,000</u>
<i>Total issued share capital</i>	
<u>400,000,000</u> Shares	<u>40,000,000</u>

ASSUMPTIONS

The above table assumes that the Share Offer becomes unconditional. It takes no account of Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and/or Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate granted to our Directors for the allotment and issue of Shares and the repurchase of Shares as referred to below.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all the Shares now in issue as outlined in this prospectus, and in particular, will rank equally for all dividends or other distributions (other than the interests in the Capitalisation Issue) declared, made or paid on the Shares after the issue of the Offer Shares.

SHARE OPTION SCHEME

We conditionally adopted the Share Option Scheme on 28 November 2008. Under the Share Option Scheme, the eligible persons of the Scheme, including any director or employee of any member of our Group may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially an amount not exceeding 10.0% of the total number of Shares in issue, which is equivalent to 40,000,000 Shares immediately following completion of the Share Offer and the Capitalisation Issue. Options which have lapsed in accordance with the Share Option Scheme shall not be counted in calculating the 10.0% limit. This limit may be renewed from time to time as described in Appendix V to this prospectus. The Share Option Scheme also contains limits as to the number of Shares which (i) may be issued upon exercise of all

SHARE CAPITAL

outstanding options granted and not yet exercised under the Share Option Scheme and any other scheme; (ii) may be subject to options granted to individual participants; and (iii) may be subject to options granted to our Directors, chief executive or substantial shareholders of our Company or any of their respective associates. Further details of the rules of the Share Option Scheme, including those matters referred to above, are set out under the section headed “Share Option Scheme” in Appendix V to this prospectus.

GENERAL MANDATE TO ISSUE SHARES AND REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to allot, issue and deal in Shares with an aggregate nominal value of not more than the sum of (i) 20.0% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme); and (ii) the total amount of share capital of our Company repurchased by our Company (if any) pursuant to the repurchase mandate of our Company.

This mandate will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which our next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- the date on which such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

Our Directors have also been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value not exceeding 10.0% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme).

This mandate will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which our next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands; or
- the date on which such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. Any repurchases by our Company shall be made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Repurchase by the Company of Shares” under the section headed “Further Information about the Company and its subsidiaries” in Appendix V to this prospectus.

FINANCIAL INFORMATION

The following discussion should be read in conjunction with our combined financial statements for the three years ended 31 March 2008 and the seven months ended 31 October 2008, and in each case, together with the accompanying notes, which are set forth in Appendix I to this prospectus. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such risks and uncertainties include those discussed in the sections entitled “Risk Factors” in this prospectus.

(I) OVERVIEW

We are principally engaged in the trading of oil products with a history of approximately eight years since the commencement of operation of Strong Petrochemical (HK), our Hong Kong operating subsidiary, in 2000. The oil products we trade can be broadly categorised into (i) crude oil; (ii) petroleum products; and (iii) petrochemical products.

During the Track Record Period, our aggregate turnover was approximately HK\$5,328.3 million, HK\$5,138.7 million, HK\$4,211.2 million and HK\$4,808.6 million, respectively, and our net profit was approximately HK\$81.3 million, HK\$135.8 million, HK\$92.7 million and HK\$110.6 million, respectively.

Taking into account of the large amount transacted per shipment and the fluctuating market prices of oil products, we developed our trading business with prudent financial and risk management policies during the Track Record Period, with an aim to minimising our financial and operational risks. Under our trading policies, we usually confirm separate agreements with our customers and suppliers within about one month. As a result, we did not need to maintain any inventory during the Track Record Period.

The industry of oil products trading is a highly leveraged industry where the sales volume for a participant depends on the credit facility available for the participant which in turn also depends on the amounts of pledged bank deposits that the participant can provide. In general, we settle payment to suppliers by means of letters of credit and receive payment from customers by telegraphic transfer. For any given shipment, the payment date under the buy-side agreement usually coincides with the payment date under the sell-side agreement, which is normally 30 days from the date of bill of lading. In this regard, the only funding needed for a shipment, assuming the customer pays on time, is the margin deposit pledged with the bank for the issuance of the letter of credit. Depending on our banking facilities, the margin deposit usually ranges from 10% to 25% on the amount of the letter of credit issued, or a fixed sum deposit according to the banking facilities.

FINANCIAL INFORMATION

(II) FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our operational results and the period-to-period comparison of our financial results are affected by a number of external factors. Our combined financial statements may not be indicative of our future earnings, cash flows or financial position for numerous reasons, including those described below.

1. Demand for our trading products in the PRC

During the Track Record Period, we mainly transacted with the Five State-owned Licensed Import Agents. To the best knowledge of our Directors, most of our trading products are finally consumed by oil refineries and other end-users in the PRC. Therefore, the demand for our trading products is primarily driven by the level of oil refinery activities and the overall demand for oil products in the PRC, which is affected by numerous factors, including but not limited to (i) economic growth in the PRC; (ii) market prices and supply of oil products; and (iii) development and utilisation of alternative energy in the PRC.

China became a net importer of petroleum products in 1993 and a net importer of crude oil in 1996. Stimulated by its robust economic development and accelerated urbanisation process, the demand for petroleum products is expected to continue its growing trend in China, but such fast-growing demand is unlikely to be satisfied by its domestic production. To lessen its reliance on the imported petroleum products, China has been gradually expanding its overall oil refinery capacity in order to increase its domestic production capacity for petroleum products, which in turn will have a positive impact on our business prospects. As a result, our Directors expect our Group is in a position to benefit from the growth in demand for crude oil and petroleum products in the PRC.

2. Purchase costs and selling prices

The prices for our crude oil, petroleum products and petrochemical products under the buy-side agreement and/or sell-side agreement are set, upon arm's length negotiation with our suppliers and customers, on different pricity basis including a fixed price per unit or a floating price plus a margin or minus a discount per unit. The floating price per unit is determined with reference to the average closing price of a reference oil product (which may or may not be the same as the underlying product of the trade) over a certain period of future dates. The closing price of the reference oil product is quoted on international commodity exchanges, official announcements and market publications, such as Means of Platts, Singapore (MOPS), Indonesia Crude Oil Prices (ICP).

We trade different kinds of oil products when there are attractive opportunities and reasonable profit. Our gross profit and gross profit margin on a shipment depends on our ability to obtain comparatively lower purchase cost and a comparatively higher selling price. Once we spot a potential profitable trading opportunity, we shall actively line up suppliers and customers. We do not maintain/target a standard/stable margin on different types of oil products as long as the trade is profitable.

FINANCIAL INFORMATION

Our Directors consider that the selling price and purchase cost for each shipment of oil products vary according to a combination of factors, including but not limited to, our bargaining power relative to our supplier and customer, the pricing basis, the reference energy products under floating price basis, demand and supply in the market and the market price trend. Some of these factors are beyond control of our customer, supplier and us. Therefore, we may have different selling prices and purchase costs for the same product traded under the same period of time.

We sold 119 shipments of oil products during the Track Record Period. The total revenue, cost of sales, gross profit and gross profit margin for each product were affected by results from each individual shipment.

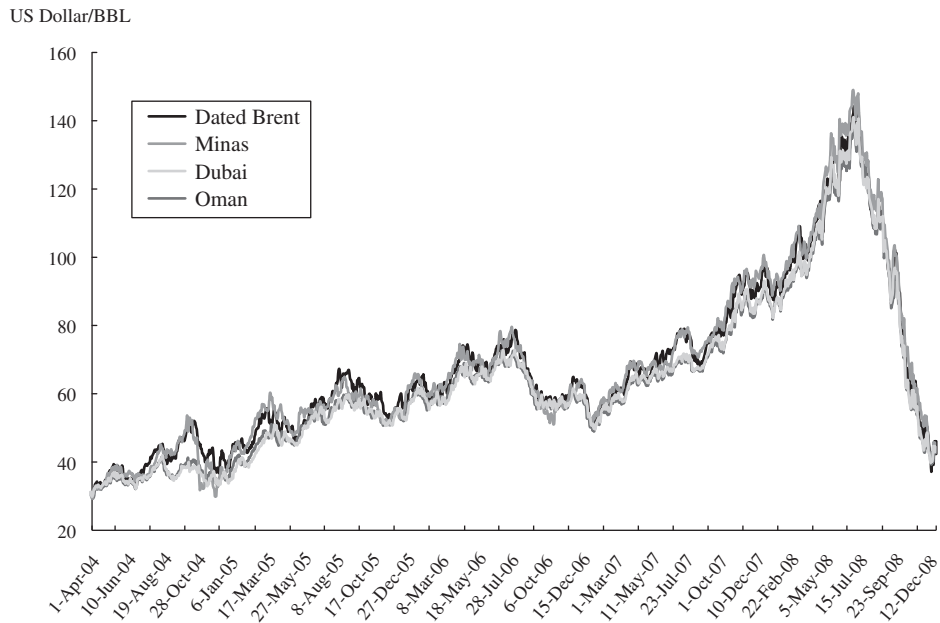
The following table sets forth an analysis on the pricing basis, being fixed or floating, of our buy-side agreement and sell-side agreement during the Track Record Period:

Buy-side agreement	Sell-side agreement	Year ended 31 March			Seven months ended 31 October	
		2006	2007	2008	2007	2008
		<i>No. of shipment</i>	<i>No. of shipment</i>	<i>No. of shipment</i>	<i>No. of shipment</i>	<i>No. of shipment</i>
Fixed	Fixed	0	2	3	2	0
Fixed	Floating	0	1	1	1	0
Floating	Fixed	4	9	1	0	0
Floating	Floating	35	25	21	14	17
		<u>39</u>	<u>37</u>	<u>26</u>	<u>17</u>	<u>17</u>

FINANCIAL INFORMATION

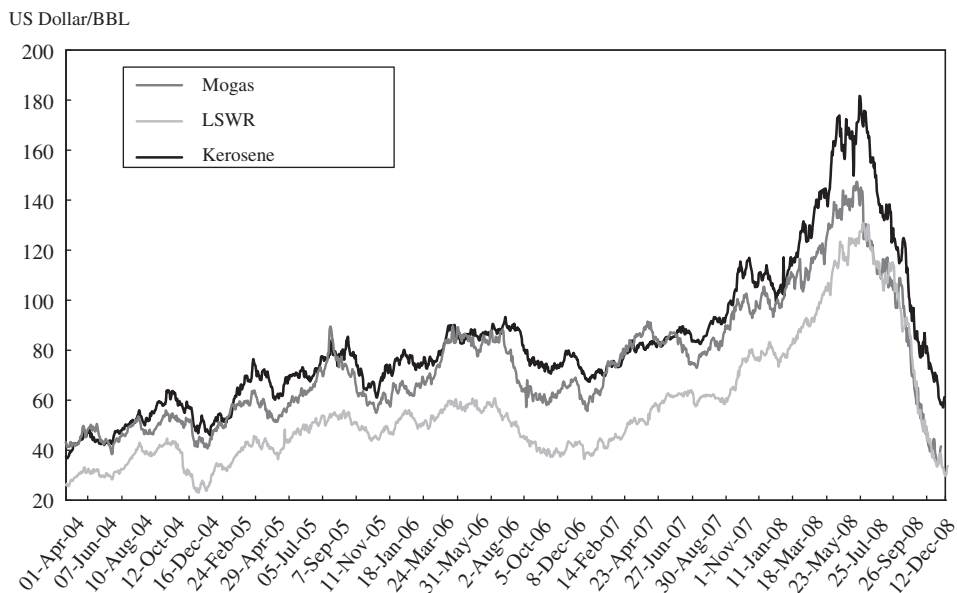
The following charts set forth the price trend of some common reference oil products which we use as a reference on the floating price in the buy-side and sell-side agreement:

Crude oil floating price reference



Source: Reuters

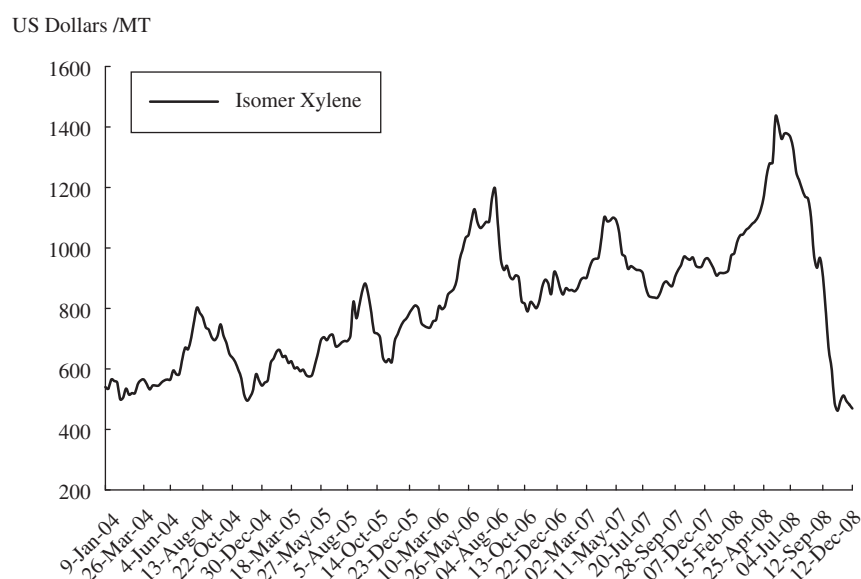
Petroleum products floating price reference



Source: Reuters

FINANCIAL INFORMATION

Petrochemical products floating price reference



Source: Reuters

For each of the above reference oil product, we set out below the range of margin to the reference oil product we had contracted during the Track Record Period:

	Buy-side agreement	Sell-side agreement
Dated Brent	-US\$21.2/BBL to -US\$0.32/BBL	-US\$6.70/BBL to +US\$2.00/BBL
Minas	-US\$1.27/BBL to +US\$1.92/BBL	-US\$1.40/BBL to +US\$4.45/BBL
Dubai	-US\$1.95/BBL to +US\$10.50/BBL	-US\$1.95/BBL to +US\$8.42/BBL
Oman	-US\$1.95/BBL to +US\$5.20/BBL	-US\$1.95/BBL to +US\$5.80/BBL
Gasoline	-US\$0.70/BBL to +US\$3.80/BBL	-US\$0.60/BBL to +US\$3.80/BBL
LSWR	+US\$0.30/BBL to +US\$8.50/BBL	+US\$1.95/BBL to +US\$16.00/BBL
Kerosene	-US\$0.58/BBL to +US\$3.90/BBL	+US\$2.50/BBL to +US\$5.35/BBL
Isomer Xylene ^(Note)	—	+US\$20.0/MT
MTBE	-US\$59.0/MT to -US\$40.0/MT	-US\$5.0/MT to +US\$7.0/MT

Note: During the Track Record Period, no buy-side agreement for mixed xylene was priced at floating price and therefore no range of margin to the reference oil product of Isomer Xylene was presented; and there was only one sell-side agreement for mixed xylene which was priced at floating price.

FINANCIAL INFORMATION

3. Taxation

During the Track Record Period, trading activities carried out by Strong Petrochemical (Macao) attributed to approximately 80.6%, 87.3%, 69.2% and 81.9% of our total turnover in the same period respectively. Under the Macao SAR's Offshore Law, Strong Petrochemical (Macao) is exempted from income tax, industrial tax and stamp duties on (i) insurance policies concerning offshore risks; (ii) contracts established with entities with registered headquarters not in Macao; (iii) bank transactions carried out within the scope of offshore business; and (iv) its incorporation and any increase in its share capital.

There is no assurance that the tax regime in Macao will continue to grant such preferential treatment to offshore companies in Macao. Should there be any changes in the Macao SAR's Offshore Law or any changes in the current preferential tax treatment, Strong Petrochemical (Macao) may be subject to tax or duties arising from its trading activities conducted in Macao at the applicable rate, in such event our Group's financial condition and profitability may be affected.

However, pursuant to the Implementation Rules of the Old FEIT Law 《企業所得稅法實施條例》 issued by State Administration of Taxation, the PRC dated 30 June 1991, a foreign enterprise shall subject to PRC FEIT at a rate of 33% if it has establishments or place in the PRC and is deriving income in the PRC from such establishments or places. Establishment in the PRC includes business agents. In accordance with the Article 4 of the Old FEIT Law, business agents are defined as any of the following:

- (i) an agent who regularly represents principals in arranging purchases and signing of purchase contracts and the purchasing of commodities on commission;
- (ii) an agent who has entered into agency agreements or contracts with principals, stores on a regular basis products or commodities owned by principals, and delivers on behalf of principals such products or commodities to other parties; and
- (iii) an agent who has authority to regularly represent principals in the signing of sales contracts and accepting purchase orders.

As advised by Deloitte Touche Tohmatsu, our tax advisers, since the directors of Strong Petrochemical (Macao) travelled frequently to the PRC during the Track Record Period, their business-related activities for Strong Petrochemical (Macao) during their presence in the PRC may create an establishment in the PRC according to item (iii) above. However, our Directors, to the best of their knowledge, considered that given the majority of the negotiation process and conclusion of all trade contracts for Strong Petrochemical (Macao) had been handled by staff based in Macao, and Strong Petrochemical (Macao) did not have any branch office in the PRC for its operation of oil products trading business, Strong Petrochemical (Macao) should not be subject to PRC FEIT.

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Currently, there are no specific tax circulars or rules to define or comment on the meaning of “regularly”. However, taking into account our tax advisers’ opinion that Strong Petrochemical (Macao) has the potential risk of being deemed to be established in the PRC, in the best interests of our Group and potential investors after the Share Offer, we accept the tax advisers’ advice to make a provision on PRC FEIT under the Old FEIT Law to cover the potential establishment risk in the PRC.

In order to access the amount of PRC FEIT, our Directors identified the Deemed-PRC-related-shipment, of which the probability of the profits being subject to PRC FEIT is higher by virtue of the involvement of the directors of Strong Petrochemical (Macao) in these particular shipments including selling new products to customer and ad-hoc distressed cargo for which the negotiation window was short since the shipment needed to be discharged promptly, and their presence in the PRC during the period from negotiation to conclusion of these shipment. If the directors of Strong Petrochemical (Macao) were outside the PRC during the period from negotiation to conclusion of shipment, or the directors of Strong Petrochemical (Macao) did not involve in handling the shipment at the time they were present in the PRC, those shipment will not be treated as “Deemed-PRC-related-Shipment”. The gross profits derived from the Deemed-PRC-related-shipment amounted to HK\$1.3 million for the year ended 31 March 2007. Therefore, we made PRC FEIT provision of approximately HK\$0.4 million for the year ended 31 March 2007, which is based on the gross profits of such Deemed-PRC-related-shipment at a tax rate of 33%. Tax provision at a tax rate of 33% on the gross profits attributable to the Deemed-PRC-related-shipment has been made in consideration of Articles 2 and 3 of the Old FEIT Law as follows:

- Article 2 of the Old FEIT Law stipulates that a foreign enterprise includes a foreign company, which has an “establishment” set up in the PRC undertaking production and business activities, or has no “establishment” in the PRC but has derived PRC-sourced income.
- Article 3 of the Old FEIT Law stipulates that a foreign enterprise is subject to PRC FEIT in relation to the profits attributable to the PRC establishment.

Articles 2 and 3 of the Old FEIT Law only stipulate that foreign enterprise is subject to PRC FEIT if it has establishment in the PRC and derives income from such PRC establishment. The Reporting Accountants have taken the gross profits of the relevant shipments to calculate the provision as other than the cost of goods sold, the relevant administrative cost is not readily identified for a specific shipment and that the PRC tax authorities would likely not accept the deduction in calculating the taxable profits.

Based on the above, our Directors and the Reporting Accountants are of the view that the PRC income tax provision should be based on the gross profits of the relevant shipments and the PRC income tax provision is adequate.

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The Directors are of the view that a PRC local tax authority normally would not make a determination as to whether there is a permanent establishment in the PRC based on the request from a foreign enterprise, even though the local tax authority has full right to make a determination upon an audit done on the foreign enterprise's place of business in the PRC, especially in a case where the establishment could be established because of the activities of a certain individual. Our tax advisers concurred on this from a practical perspective. Therefore, we have not attempted to request a determination by a local tax authority. If Strong Petrochemical (Macao) is not required by the local tax authorities to report and settle the PRC FEIT after 3 to 5 years, the management will consider reversing the provision of PRC FEIT on the Deemed PRC-related-shipments.

Our profits in Hong Kong are subject to the relevant prevailing tax rates set by the Inland Revenue Department of Hong Kong, details of which are set out in the Accountants' Report.

4. Credit facilities granted by our bankers

We rely on our bankers to provide credit facilities by way of letters of credit to settle our payment obligations owed to our suppliers. In the event that the available limit of the credit facilities is reduced or any of the credit facilities are withdrawn by our major bankers, and we cannot arrange credit facilities with other financial institutions on a timely basis, we will have to arrange finance ourselves to settle the payment obligations, and this will adversely affect our cash-flow, business operation and profitability. As a result, we expect that our ability to maintain and strengthen the businesses relationship with existing and new bankers will continue to play an important role in sustaining our growth.

The following table sets forth details of credit facilities as of each balance sheet date and the Latest Practicable Date:

	2006	As at 31 March 2007	2008	As at 31 October 2008	As at Latest Practicable Date
Total credit facilities (HK\$ million)	1,536.6	1,037.5	1,716.0	1,926.6	1,926.6
Pledged bank deposits (HK\$ million)	98.5	23.5	15.7	49.2	46.1
Number of bankers	4	4	4	4	4

Our credit facilities are subject to annual review. As at 31 March 2007, our total credit facilities decreased as we terminated the credit facilities of US\$80 million (equivalent to HK\$624 million) with a bank in January 2007. Such bank had changed their internal credit control policy to require the parent company of our customers to provide a payment undertaking on the payment obligation of the shipment; however, our customers could not meet this new requirement. Although we terminated our relationship with such bank, we were also able to secure new credit facilities of (i) US\$40 million (equivalent to HK\$280 million) from Standard Chartered Bank in May 2007; and (ii) US\$75 million (equivalent to HK\$585 million) from The Bank of Tokyo-Mitsubishi UFJ Ltd. in December 2007.

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The following table sets forth details of utilised and unutilised credit facilities during the Track Record Period:

	Year ended 31 March			Seven months ended
				31 October
	2006	2007	2008	2008
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Maximum utilised credit facilities	1,487.9	1,763.6	1,093.3	1,893.8
Maximum unutilised credit facilities	863.5	1,099.7	1,289.7	1,476.2
Minimum unutilised credit facilities	0	0	529.1	0

For the year ended 31 March 2007, our maximum utilised credit facilities was greater than the total available credit facilities at that moment. During our daily business operations, we may have a number of shipments dealing concurrently which require the issuance of letters of credit around the same period. In case the total available credit facilities are insufficient at any particular moment, we shall liaise with the bank and request special approval on the extra amount of credit facilities.

During the Track Record Period, our credit facilities were secured by properties and deposits owned by us and properties held by our Controlling Shareholders, and also guaranteed by our Controlling Shareholders. The security and guarantee provided by our Controlling Shareholders on our banking facilities will be fully released upon the Listing.

5. Hedging

Due to the commodity nature of oil products, the price of oil products varies from time to time according to the global economy, supply of oil producing countries and demand of oil consuming countries, international political reasons, oil products commodities futures market, etc. As such, our operating performance is vulnerable to the nature of our business and operating environment. In particular, when the buy-side agreement and/or sell-side agreement are/is priced on the floating price basis, we may be subject to price risk from the moment of entering into the agreement to the last day of pricing the shipment since the market price of the reference oil products under the floating price basis may move against our favour.

In order to minimise our price risk exposure and reduce fluctuations in our operating results, we carry out hedging activities by entering into derivative financial instruments, as and when appropriate, during the course of our trading business. Based on the market price structure (premium or discount between spot price and futures price) of (i) the underlying oil products of the shipment; (ii) the reference oil products under floating basis; and/or (iii) the relevant derivative financial instruments, we shall consider how hedging is to be done at different stages of our trading process if this is required. During the Track Record Period, we recorded fair value changes on derivative financial instrument of approximately HK\$(1.0) million, HK\$(31.5) million, HK\$(3.7) million and HK\$188.7 million on trading in derivative financial instruments. Any gain/(loss) from trading in derivative financial instruments in effect represents a hedge to our profit in the oil products trading business.

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6. Impact of the recent global financial crisis and credit tightening

Since September 2008, various leading global investment and financial institutions in the US have declared bankruptcy or sought for emergency financial supports, or rescue packages, from the US government. The global financial crisis which was allegedly began with the bursting of the housing bubble and the related structured financial product markets in the US and Europe. The global financial crisis, which involves the failure or restructuring of mortgage companies, investment firms, banks and government sponsored enterprises invested heavily in sub-prime mortgage and related structured financial products, is ongoing and has resulted in global credit tightening. Furthermore, the deteriorating situation increases counterparties risk under the global financial crisis and have exacerbated the liquidity and credit crunch. This unexpected liquidity and credit crunch has affected not only the banking and financial sectors, but also the commercial sectors relying on the availability of banking facilities and bank borrowings.

The continual weak economic sentiment might result in decrease in demand from our customers, and the credit tightening might affect our financial resources by way of, among other things, reduction in the amount of available banking facilities. Our Directors will therefore closely monitor the macro-economic environment and our financial position.

As of the Latest Practicable Date, our total banking facilities and unutilised banking facilities amounted to HK\$1,926.6 million and HK\$1,615.8 million, respectively, and we have not received any notification from our principal bankers that the above banking facilities will not be available in the near future, or will be reduced substantially.

In addition, we consider that our prudent and conservative financial position can support us to weather the recent global financial crisis. As at 31 October 2008, we had no outstanding bank borrowing. In light of the foregoing, our Directors consider that we have sufficient financial resources to support our business operation, and our financial performance in the near future will not be severely jeopardised by the recent global financial crisis and global credit tightening.

As of the Latest Practicable Date, our trading business operation was operating, and we had not received any notification from our oil trading counterparties that they intended to cancel any confirmed buy-side or sell-side agreements, nor are we aware of any of the oil trading counterparties or derivative trading counterparties were going to bankruptcy proceedings or default on any payment obligations.

During the Track Record Period, we, through Strong Property, invested in an insignificant amount of (i) available-for-sale investment such as corporate debenture; (ii) held-for-trading investments; and (iii) real properties, and such investments respectively amounted to approximately HK\$1.2 million, HK\$7.6 million and HK\$16.9 million as at 31 October 2008. Although the carrying values of such investments had been affected by the recent global financial crisis, we consider that such loss does not adversely affect our business operation and financial position. After the transfer of the entire equity interests in Strong Property to Active Tools on 26 November 2008, save for principal-protected bank structured deposits and the derivative financial instruments traded and held for hedging purpose, we, as at the Latest Practicable Date, did not hold any investment in form of equity or derivative financial instruments.

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(III) CRITICAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of our financial statements are based on HKFRS issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). A summary of the principal accounting policies adopted in the preparation of our financial statements is set out in note 3 of the Accountants’ Report in Appendix I to this prospectus. Principal accounting policies are those that are important to the portrayal of our Group’s financial conditions and results of operation that require the management’s subjective judgement, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. Our reported financial performance and financial conditions are affected by the relevant accounting policies, assumptions and estimates adopted in the preparation of the financial statements.

In reporting our financial performance and conditions, our Directors are required to exercise their judgment, based on their experiences, knowledge of other companies in our industry and on other assumptions which they consider to be reasonable. Our Directors believe that the following accounting policy involve the most significant judgment and estimates adopted in the preparation of our financial statements.

Taxation

Current tax liabilities for the current and prior periods shall be measured at the amount expected to be paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Based on the advice from our tax advisers and the judgment of our Directors, Strong Petrochemical (Macao) has the potential risk of being deemed to have establishment in the PRC according to Article 4 of the FEIT Law. In the best interests of our Group, we made a PRC FEIT provision at a rate of 33% on the gross profits of Deemed-PRC-related-shipments to cover the potential establishment risk in the RPC.

(IV) PRINCIPAL INCOME STATEMENT ITEMS

(A) Revenue and cost of sales

Our revenue is generated from the sales of crude oil, petroleum products and petrochemical products primarily to the Five State-owned Licensed Import Agents and, to a lesser extent, oil trading companies in the Asia Pacific region. Our revenue from sales of trading products are recognised when the trading products are delivered and the title of which has been passed.

Our cost of sales primarily includes the purchase cost of crude oil, petroleum products and petrochemical products from international oil producers and trading companies. During the Track Record Period, the purchase cost of oil products respectively accounted for approximately 99.1%, 97.7%, 99.4% and 99.0% of the total cost of sales. Apart from the purchase cost, our cost of sales also includes freight cost, inspection fee, insurance and other trading expenses.

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The following tables set forth detail breakdown of our revenue and cost of sales during the Track Record Period:

Year ended 31 March 2006

	Unit	No. of shipment	Sell-side agreement			Buy-side agreement			Other cost of sales (HK\$ million)	Gross profit (HK\$ million)	Gross profit margin
			Turnover (HK\$ million)	Sales quantity	Average unit price (HK\$)	Purchase cost (HK\$ million)	Purchase quantity	Average unit price (HK\$)			
Crude oil	BBL	20	3,418.4	7,634,093	447.8	3,327.9	7,633,354	436.0	8.6	81.9	2.4%
Petroleum products	BBL	19	1,909.9	3,913,168	488.1	1,857.4	3,913,168	474.7	36.4	16.1	0.8%
Petrochemical products	MT	—	—	—	—	—	—	—	—	—	—
Total		39	5,328.3			5,185.3			45.0	98.0	1.8%

Adjustment:

— Inspection fee (incurred)/write back for shipments in other financial years	(0.0)
— Provision for demurrage charges for shipments in other financial years	—
— Trade discount granted by suppliers	—
	<u>98.0</u>

Year ended 31 March 2007

	Unit	No. of shipment	Sell-side agreement			Buy-side agreement			Other cost of sales (HK\$ million)	Gross profit (HK\$ million)	Gross profit margin
			Turnover (HK\$ million)	Sales quantity	Average unit price (HK\$)	Purchase cost (HK\$ million)	Purchase quantity	Average unit price (HK\$)			
Crude oil	BBL	20	3,763.9	7,090,199	530.9	3,667.1	7,092,590	517.0	46.1	50.7	1.3%
Petroleum products	BBL	15	1,317.5	2,796,843	471.1	1,115.7	2,796,843	398.9	63.8	138.0	10.5%
Petrochemical products	MT	2	57.3	8,258	6,943.6	56.1	8,258	6,793.1	0.0	1.2	2.1%
Total		37	5,138.7			4,838.9			109.9	189.9	3.7%

Adjustment:

— Inspection fee (incurred)/write back for shipments in other financial years	—
— Provision for demurrage charges for shipments in other financial years	(2.4)
— Trade discount granted by suppliers	—
	<u>187.5</u>

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Year ended 31 March 2008

	Unit	No. of shipment	Sell-side agreement			Buy-side agreement			Other cost of sales (HK\$ million)	Gross profit (HK\$ million)	Gross profit margin
			Turnover (HK\$ million)	Sales quantity	Average unit price (HK\$)	Purchase cost (HK\$ million)	Purchase quantity	Average unit price (HK\$)			
Crude oil	BBL	13	3,327.1	5,557,849	598.6	3,213.0	5,569,694	576.9	16.8	97.3	2.9%
Petroleum products	BBL	9	776.4	1,400,419	554.4	758.4	1,400,419	541.6	7.2	10.8	1.4%
Petrochemical products	MT	4	107.7	14,897	7,226.1	107.5	14,897	7,216.0	0.0	0.1	0.1%
Total		26	4,211.2			4,078.9			24.0	108.2	2.6%

Adjustment:

— Inspection fee (incurred)/write back for shipments in other financial years	0.0
— Provision for demurrage charges for shipments in other financial years	—
— Trade discount granted by suppliers	—
	<u>108.2</u>

Seven months ended 31 October 2007

	Unit	No. of shipment	Sell-side agreement			Buy-side agreement			Other cost of sales (HK\$ million)	Gross profit/(loss) (HK\$ million)	Gross profit margin
			Turnover (HK\$ million)	Sales quantity	Average unit price (HK\$)	Purchase cost (HK\$ million)	Purchase quantity	Average unit price (HK\$)			
Crude oil	BBL	8	2,058.1	3,762,467	547.0	2,002.4	3,774,312	530.5	9.7	46.0	2.2%
Petroleum products	BBL	6	529.6	1,026,166	516.1	521.5	1,026,166	508.2	0.4	7.7	1.5%
Petrochemical products	MT	3	73.0	10,147	7,194.9	74.9	10,147	7,380.8	0.0	(1.9)	N.A.
Total		17	2,660.7			2,598.8			10.1	51.8	1.9%

Adjustment:

— Inspection fee (incurred)/write back for shipments in other financial years	—
— Provision for demurrage charges for shipments in other financial years	—
— Trade discount granted by suppliers	—
	<u>51.8</u>

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Seven months ended 31 October 2008

	Unit	No. of shipment	Sell-side agreement			Buy-side agreement			Other cost of sales (HK\$ million)	Gross profit/(loss) (HK\$ million)	Gross profit margin
			Turnover	Sales quantity	Average unit price	Purchase cost	Purchase quantity	Average unit price			
Crude oil	BBL	10	4,091.3	4,869,513	840.2	4,105.1	4,870,171	842.9	46.6	(60.4)	N.A.
Petroleum products	BBL	3	629.7	497,740	1,265.0	616.6	497,740	1,238.8	0.2	12.8	2.0%
Petrochemical products	MT	4	87.6	11,681	7,500.0	83.1	11,681	7,115.6	3.0	1.5	1.8%
Total		<u>17</u>	<u>4,808.6</u>			<u>4,804.8</u>			<u>49.8</u>	<u>(46.1)</u>	<u>N.A.</u>

Adjustment:

— Inspection fee (incurred)/write back for shipments in other financial years	—
— Provision for demurrage charges for shipments in other financial years	—
— Trade discount granted by suppliers	0.3
	<u>(45.8)</u>

(B) Other income

Other income consists primarily of bank interest income, net demurrage charges received, insurance claims received and commission income and, to a lesser extent, net exchange gain and changes in fair value in a principal-protected bank structured deposits denominated in US dollars.

Commission income represents rebate from one of our principal trading counterparties for our referral of customers during the Track Record Period. For the year ended 31 March 2006, we received commission income of approximately HK\$2.3 million as we successfully referred customers to such trading counterparty for certain shipments of crude oil and petroleum products. As we did not have sufficient credit facilities to trade those shipments, we did not directly participate in and we were not one of the counterparties of those shipments. Such referral business was not our principal business activity and therefore we recognised such commission income as a result of referral as other income. Since 2006, we did not refer customers to such trading counterparty anymore but purchased oil products from such trading counterparty and then sold to our customers.

Net demurrage charges received represent the net amount of demurrage claim received by us and the demurrage claim charged to us from external counterparties. Demurrage charges represent claims from the vessel owners on the late charge for extended occupancy of the berth which is beyond the agreed period of time (“**Laytime**”) by the vessels for loading or discharging the oil products.

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The amount of demurrage charge is calculated on unit basis by reference to the overtime hours at an agreed rate as stipulated in vessel charter agreement, buy-side agreement and/or sell-side agreement. If the vessel is chartered by us, the vessel owner will charge us demurrage once the total laytime used at loading port and discharging port exceeds the allowed laytime agreed with vessel owner. We shall then charge such demurrage claim to our supplier or customer and pay back such demurrage claim to vessel owner. If the vessel is chartered by our supplier and our supplier claims to us demurrage charge, we shall further claim to our customer, or vice versa, as per the buy-side and sell-side agreements. The agreed laytime stipulated in the buy-side agreement and the sell-side agreement may be different depending on the negotiation between ourselves and the supplier or the customer, which may result in different overtime hours. Therefore, we may incur a gain/loss in the demurrage claim process.

Insurance claims received for the year ended 31 March 2008 represented our claims to insurance companies for the shortage of a shipment of crude oil. Since we use the quantity stated in bills of lading as purchase quantity and the outturn quantity at discharging port as selling quantity of this shipment, and the outturn quantity of crude oil was less than the bill of lading quantity by more than 0.5% on the whole shipment (i.e. shortage of oil products), we therefore claimed from the insurance company for this shortage quantity.

For the year ended 31 March 2006, we received approximately HK\$2.1 million from a supplier for change in trading terms for two shipments of crude oil. We also received a shortage claim of approximately HK\$0.8 million for a shipment of crude oil from a vessel owner.

For the two years ended 31 March 2008 and the seven months ended 31 October 2008, no special circumstances leading us to claim any kinds of compensation from our counterparties.

(C) Administrative and other operating expenses

Our administrative and other operating expenses consists of (i) staff costs and commission to our traders; (ii) commission to arrangers, referral agents and brokers; (iii) professional service fee; (iv) entertainment and travelling; (v) general office expenses; and (vi) depreciation and amortisation.

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The following table sets forth breakdown of our administrative and other operating expenses during the Track Record Period:

	Seven months ended				
	Year ended 31 March			31 October	
	2006	2007	2008	2007	2008
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Staff costs and commission to traders	4,541	4,559	5,463	2,841	4,362
Commission to					
i) arrangers	203	3,255	—	—	—
ii) referral agents	2,563	557	511	511	—
iii) brokers	988	3,178	3,654	3,448	6,897
Professional service fee	1,095	513	7,464	890	5,780
Entertainment and travelling	4,759	4,223	4,810	2,352	3,460
General office expenses	1,297	1,263	1,458	846	1,158
Depreciation and amortisation	1,795	1,759	1,030	787	629
Others	321	—	30	11	2,733
	<u>17,562</u>	<u>19,307</u>	<u>24,420</u>	<u>11,686</u>	<u>25,019</u>
Total	<u>17,562</u>	<u>19,307</u>	<u>24,420</u>	<u>11,686</u>	<u>25,019</u>

During the course of our business operation, we occasionally engage shipping agencies or individual market participants (“**Arrangers**”), which are independent third parties, to assist us in discharging oil products at PRC unloading ports and handling related berthing transiting operations. With the assistance from the Arrangers, we can facilitate and speed up the process of discharging of oil products at PRC unloading ports which are important for some urgent shipments needed to be finished the unloading process within a short period of time. The commission payable to Arrangers are calculated based on a unit basis by reference to the quantity of oil products in the relevant shipment.

During the Track Record, we also occasionally engage other oil trading companies or individual market participants as our referral agents (“**Referral Agents**”), which are independent third parties, for the sourcing of oil products. Leveraging on their own network in the oil market, these referral agents can introduce trading opportunities to us. The commission payable to Referral Agents is calculated based on a unit basis by reference to the quantity of oil products in the relevant shipment.

We did not engage any Referral Agent during the year ended 31 March 2008 and the seven months ended 31 October 2008, as we did not encounter and pursue suitable trading opportunities introduced by Referral Agents.

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As the number of shipments traded by us decreased and the unloading operations of these shipments were relatively smooth during the year ended 31 March 2008, only one shipment required the engagement of the Arranger, compared with four shipments in the previous financial year. For the seven months ended 31 October 2008, we did not engage Arrangers.

Set out below are the numbers of our shipments involved services offered by Arrangers and Referral Agents:

	For the year ended 31 March			For the seven months ended 31 October	
	2006	2007	2008	2007	2008
Arrangers	1	4	0	0	0
Referral agents	2	1	1	1	0

During the Track Record Period, we traded derivative financial instruments for hedging purpose through brokers. The commission payable to brokers is calculated on a unit basis by reference to the number of lots traded.

(D) Fair value changes on derivative financial instruments

In order to minimise our price risk exposure and reduce fluctuation in our operating results, we carry out hedging activities by entering into derivative financial instruments, as and when appropriate, during the course of our trading business.

Hedged Shipments

During the Track Record Period, we conducted 13, 16, 16 and 8 Hedged Shipments with aggregate gain/(loss) from trading in derivative financial instruments of HK\$(3.2) million, HK\$(28.9) million, HK\$(6.7) million and HK\$191.9 million respectively. Among all Hedged Shipments, we classified 2, 2, 1 and nil Inefficient Hedging Shipments with gross loss result after hedging as a result of (i) lack of appropriate derivative financial instruments; and (ii) changes in hedging position.

The total number of lots bought and sold for Hedged Shipments is usually larger than the weighted average number of lots on hand during the hedging period. This is due to the change in hedging positions or hedging strategies. During the Track Record Period, there were 8, 7, 3 and nil Hedged Shipments having equivalent quantity of shipment in BBL under “maximum no. of lots outstanding” in derivative financial instruments trading being larger than the trading quantity of shipment in BBL.

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Before 1 September 2008, we entered into derivative financial instruments any time after the negotiation of the shipment where there was high chance of concluding the shipment, and the trading period would be ended no later than 48 hours after the pricing period. However, there were 1, 2, nil and nil shipments with the hedging period being later than 48 hours after the associated physical shipment during the Track Record Period.

To strengthen our risk management on hedging activities and to correspond to the non-compliance issues, we have implemented additional risk management policies. Please refer to “Business — Hedging and Risk Management Policy — Additional risk management policies implemented by our Group” of this prospectus for the details of our measures for further improvements on our risk management procedures.

Unsuccessful Shipments with Derivative Contracts

During the Track Record Period, we conducted 8, 4, 5 and 2 Unsuccessful Shipments with Derivative Contracts with aggregate gain/(loss) from trading in derivative financial instruments of HK\$(1.7) million, HK\$(2.6) million, HK\$3.0 million and HK\$(2.9) million respectively. Unsuccessful Shipments with Derivative Contracts were potential shipments which we entered into derivative financial instruments during the negotiation period and such potential shipments eventually failing to conclude as a result of collapse in negotiation on trading terms with either one or both counterparties under the trade.

Since 1 September 2008, trading in derivative financial instruments is prohibited before we confirm either the buy-side and/or sell-side agreement by recapitulating key terms of the agreements in written form with our counterparties. As such we have ceased to conduct any Unsuccessful Shipments with Derivative Contracts since September 2008.

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Fair value changes in derivative financial instruments

Fair value changes on derivative financial instruments represent (i) the recognition of realised/unrealised gain/(loss) for the year/period arising from the financial instruments held on hand as at each balance sheet date; and (ii) the recognition of realised gain/(loss) for the year/period arising from trading of derivative financial instruments for Hedged Shipments; and (iii) the recognition of realised gain/(loss) from trading of derivative financial instruments for Unsuccessful Shipments with Derivative Contracts. The following table sets forth the breakdown of fair value changes on derivative financial instruments:

	Year ended 31 March						Seven months ended 31 October			
	2006		2007		2008		2007		2008	
	(HK\$'000)	<i>No. of shipment</i>	(HK\$'000)	<i>No. of shipment</i>	(HK\$'000)	<i>No. of shipment</i>	(HK\$'000)	<i>No. of shipment</i>	(HK\$'000)	<i>No. of shipment</i>
Realised/unrealised gain/(loss) arising from derivative financial instruments held on hand as at balance sheet date	3,869	N/A	—	N/A	—	N/A	(3,697)	1	(309)	2
Gain/(loss) from trading in derivative financial instruments for Hedged Shipment (<i>Note 1</i>)	(3,151)	13	(28,942)	16	(6,655)	16	(11,432)	12	191,896	8
Gain/(loss) from trading in derivative financial instruments for Unsuccessful Shipment with Derivative Contracts	<u>(1,733)</u>	8	<u>(2,568)</u>	4	<u>2,988</u>	5	<u>1,824</u>	3	<u>(2,896)</u>	2
Total	<u><u>(1,015)</u></u>		<u><u>(31,510)</u></u>		<u><u>(3,667)</u></u>		<u><u>(13,305)</u></u>		<u><u>188,691</u></u>	

Note 1: During the Track Record Period, there were nil, two, two and nil Hedged Shipments with derivative financial instruments entered into in the financial year different from the financial year for the settlement of the contract value with suppliers and customers.

For the year ended 31 March 2005, we recognised an unrealised loss of approximately HK\$3.9 million for 400 lots short position of crude oil futures held on hand as of 31 March 2005. During the year ended 31 March 2006, we closed such short position by buying back 400 lots of crude oil futures. Therefore, the unrealised loss of approximately HK\$3.9 million in the previous financial year was reversed and recognised as realised gain in the year ended 31 March 2006.

For the seven months ended 31 October 2008, we recognised an unrealised loss of approximately HK\$0.3 million for (i) 170 lots short position of crude oil futures; (ii) 190 lots of long position of crude oil futures held on hand as of 31 October 2008.

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During the Track Record Period, not all of the shipments conducted by us were hedged. Certain shipments definitely did not require hedging because (i) the buy-side and sell-side agreements both being priced at a fixed price or with the same pricing formula under floating price basis and thus there is no inherent price risk in the shipment; or (ii) the shipments involved petrochemical products where no appropriate derivative financial instruments for hedging. However, we might consider hedging for some shipments with buy-side and sell-side agreements being priced with different pricing formulae under floating price basis or either one agreement being priced on fixed price basis and the other on floating price basis. However, eventually we did not hedge those shipments because our traders considered the price risk was low for such shipments, given a favourable oil market condition.

The following table sets forth an analysis of our shipments associated with hedging during the Track Record Period:

	Year ended 31 March						Seven months ended 31 October			
	2006		2007		2008		2007		2008	
	<i>No. of shipment</i>	<i>(%)</i>	<i>No. of shipment</i>	<i>(%)</i>	<i>No. of shipment</i>	<i>(%)</i>	<i>No. of shipment</i>	<i>(%)</i>	<i>No. of shipment</i>	<i>(%)</i>
Shipments without hedging and without considering hedging	23	59.0	22	59.5	12	46.2	7	41.2	9	52.9
Shipments without hedging but hedging had been considered	3	7.7	1	2.7	—	—	—	—	—	—
Shipments with hedging <i>(Note 2)</i>	13	33.3	14	37.8	14	53.8	10	58.8	8	47.1
Total number of shipments	<u>39</u>	<u>100.0</u>	<u>37</u>	<u>100.0</u>	<u>26</u>	<u>100.0</u>	<u>17</u>	<u>100.0</u>	<u>17</u>	<u>100.0</u>
Unsuccessful shipments with Derivative Contracts	8	—	4	—	5	—	3	—	2	—

Note 2: The number of shipments with hedging represents the number of shipments with derivative financial instruments entered into in the same financial years as the settlement of the contract value with suppliers and customers.

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A. Details of Hedged Shipments

The following tables set forth details of each Hedged Shipment during the Track Record Period:

Year ended 31 March 2006

Shipment	Pricing basis		Gain/(loss) from trading in derivative financial instrument (A) (HK\$'000)	Gross profit/(loss) of shipment before hedging (B) (HK\$'000)	Gross profit/(loss) of shipment after hedging (C)=(A)+(B) (HK\$'000)	Shipment			Derivative trading			Types of derivative		Futures/forward/option		Swap			
	Buy-side agreement	Self-side agreement				Last day of pricing of the shipment	Completion date of the shipment	Trading quantity of shipment (BBL) (Lois)	First day of trading in derivative financial instrument	Last day of trading in derivative financial instrument	Forward	Option	Swap	No. of lots bought and sold (Lois)	Weighted average no. of lots on hand outstanding (Lois)		Maximum no. of lots outstanding (Lois)		
																		Products	Buy-side agreement
1	Crude oil	Floating	Floating	2,633	213	09/01/2006	31/03/2006	15/02/2006	314,587	315	08/02/2006	09/02/2006	v	x	x	860	143	200	—
2	Crude oil	Floating	Floating	3,703	1,665	23/12/2005	31/01/2006	07/04/2006	452,203	452	06/12/2005	12/01/2006	v	x	x	3,200	265	400	—
3	Crude oil	Floating	Floating	31,835	12,097	09/05/2005	31/07/2005	15/08/2005	943,456	943	01/06/2005	11/08/2005	v	x	v	2,000	289	650	Short 500,000 BBL of Dated Brent for 01-31 July 2005
4	LSWR	Floating	Fixed	534	(1,209)	22/12/2004	30/04/2005	09/05/2005	85,008	85	23/03/2005	30/04/2005	v	x	x	1,670	72	200	Long 2,500 MT of high sulphur fuel oil for 1-30 April 2005
5	LSWR	Floating	Floating	2,381	2,454	24/12/2004	31/05/2005	10/06/2005	89,106	89	27/04/2005	31/05/2005	x	x	x	—	—	—	Long 65,000 MT of fuel oil for 03-13 May 2005
6	LSWR	Floating	Fixed	7,990	14,048	07/10/2005	20/10/2005	17/11/2005	199,700	200	06/10/2005	17/10/2005	v	x	x	1,600	167	300	—
7	LSWR	Floating	Floating	2,285	5,942	06/06/2005	26/08/2005	23/09/2005	193,420	193	27/05/2005	18/07/2005	v	x	x	2,224	203	300	—
8	Unleaded Gasoline	Floating	Floating	(7,496)	(6,441)	06/04/2005	30/06/2005	14/07/2005	256,174	256	04/05/2005	23/06/2005	v	x	x	3,446	113	300	—
9	Unleaded Gasoline	Floating	Floating	10,126	11,587	06/04/2005	31/08/2005	22/09/2005	253,461	253	06/07/2005	18/08/2005	v	x	x	1,100	100	150	—
10	Fuel oil	Floating	Floating	677	5,419	09/11/2005	29/11/2005	27/12/2005	230,863	231	15/11/2005	21/11/2005	v	x	x	900	150	400	—
11	Jet fuel	Floating	Floating	(12,441)	(14,579)	02/12/2005	02/02/2006	03/03/2006	225,105	225	16/12/2005	02/02/2006	v	x	x	2,048	225	300	—
12	Jet fuel	Floating	Floating	(9,885)	(7,833)	02/12/2005	31/01/2006	03/02/2006	232,661	233	10/11/2005	14/12/2005	v	x	x	2,406	209	300	—
13	Jet fuel	Floating	Floating	(2,780)	3,048	12/08/2005	27/09/2005	28/10/2005	238,887	239	28/07/2005	28/09/2005	v	x	x	2,180	171	300	—
Total				<u>29,562</u>	<u>26,411</u>														

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Year ended 31 March 2007

Shipment	Pricing basis		Types of derivative												
	Buy-side agreement		Shipment					Derivative trading					Futures/forward/option		Swap
	Products	Self-side agreement	Gain/(loss) from trading in derivative financial instrument (A) (HK\$'000)	Gross profit/(loss) of shipment before hedging (B) (HK\$'000)	Gross profit/(loss) of shipment after hedging (C)=(A)+(B) (HK\$'000)	First day of accepting the shipment	Last day of pricing the shipment	Completion date of the shipment	Trading quantity of shipment (BBL) (Lots)	First day of trading in derivative financial instrument	Last day of trading in derivative financial instrument	Forward Swap	No. of lots bought and sold (Lots)	Weighted average no. of lots on hand outstanding period (Lots)	Maximum no. of lots outstanding period (Lots)
1	Crude oil	Floating	(2,365)	(16,046)	(18,411)	29/06/2006	31/08/2006	22/09/2006	1,044,265	02/05/2006	01/08/2006	v	15,570	114	330
2	Crude oil	Floating	85	—	85	27/12/2006	31/05/2007	14/06/2007	261,828	23/02/2007	15/03/2007	v	4,904	45	100
3	Crude oil	Floating	188	—	188	15/02/2007	04/05/2007	25/05/2007	588,771	16/03/2007	29/03/2007	v	4,080	0	—
4	Crude oil	Floating	(1,194)	1,255	61	19/07/2006	31/08/2006	22/09/2006	475,917	24/07/2006	31/07/2006	v	430	126	200
5	LSWR	Floating	(27,335)	8,370	(18,965)	17/08/2006	18/10/2006	14/12/2006	180,774	17/08/2006	25/10/2006	v	670	142	205
6	LSWR	Fixed	(9,703)	18,862	9,159	28/08/2006	14/09/2006	12/10/2006	174,392	14/08/2006	13/09/2006	v	2,200	128	200
7	LSWR	Floating	260	389	649	12/04/2006	31/05/2006	02/06/2006	72,448	12/04/2006	31/05/2006	v	1,954	76	106
															Short 10,000 MT of fuel oil for 01-31 May 2006
8	LSWR	Fixed	(5,338)	11,742	6,404	04/07/2006	04/08/2006	01/09/2006	214,622	27/06/2006	19/07/2006	v	4,432	173	205
9	LSWR	Fixed	(1,492)	11,774	10,282	02/08/2006	29/08/2006	25/09/2006	178,368	07/08/2006	17/08/2006	v	2,820	142	200
10	LSWR	Floating	(234)	13,595	13,361	27/07/2006	10/10/2006	06/11/2006	208,953	18/08/2006	19/09/2006	v	1,200	95	100
11	LSWR	Fixed	534	4,025	4,559	28/04/2006	10/05/2006	07/06/2006	259,951	01/05/2006	09/05/2006	v	1,932	67	200
12	LSWR	Fixed	1,339	7,287	8,626	20/06/2006	11/07/2006	08/08/2006	218,974	23/06/2006	26/06/2006	v	350	100	100
13	LSWR	Fixed	1,565	14,636	16,201	05/01/2007	26/01/2007	23/02/2007	211,471	04/01/2007	24/01/2007	v	1,320	162	240
14	LSWR	Fixed	11,806	2,959	14,765	04/12/2006	11/01/2007	16/01/2007	119,326	01/12/2006	10/01/2007	v	1,080	124	240
15	LSWR	Fixed	3,761	16,666	20,427	04/08/2006	23/08/2006	20/09/2006	185,016	01/08/2006	08/08/2006	v	4,912	167	200
16	Fuel Oil	Fixed	(819)	2,613	1,794	27/04/2006	03/05/2006	30/05/2006	237,439	28/04/2006	09/05/2006	x	—	—	—
															Long 15,000 MT of fuel oil for 01-30 June 2006
															Short 15,000 MT of fuel oil for 01-30 June 2006
Total			(28,942)	98,127	69,185										

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Year ended 31 March 2008

Shipment	Pricing basis			Gross profit/(loss) from trading in derivative financial instrument (A) (HK\$ '000)	Gross profit/(loss) of shipment before hedging (B) (HK\$ '000)	Gross profit/(loss) of shipment after hedging (C)=(A)+(B) (HK\$ '000)	Shipment			Derivative trading		Types of derivative				Futures/forward/option		Swap		
	Products	Buy-side agreement	Self-side agreement				First day of accepting the shipment	Last day of pricing the shipment	Completion date of the shipment	Trading quantity of shipment (BBL)	First day of trading in derivative financial instrument	Last day of trading in derivative financial instrument	No. of lots bought and sold (Lots)	Weighted no. of lots on hand (Lots)	Maximum no. of lots outstanding (Lots)	Quantity and outstanding period (Lots)	Forward		Option	Swap
1	Crude oil	Floating	Floating	(16,401)	36,532	20,131	794,552	02/10/2007	12/11/2007	795	3,860	154	400						Crude oil for 03-31 December 2007	
2	Crude oil	Floating	Floating	(1,796)	11,269	9,473	568,775	21/09/2007	21/09/2007	569	500	21	150						Short 350,000 BBL of Dated Brent for 03-31 December 2007	
3	Crude oil	Floating	Floating	1,295	1,595	2,890	588,771	15/02/2007	04/05/2007	589	2,350	105	200						Crude oil for 03-31 December 2007	
4	Crude oil	Floating	Floating	(1,058)	8,820	7,762	315,000	07/11/2007	31/12/2007	315	544	59	95						Long 350,000 BBL of Dubai Crude oil for 03-31 December 2007	
5	Crude oil	Floating	Floating	337	14,759	15,096	314,710	07/03/2007	04/05/2007	315	2,050	50	200						Crude oil for 03-31 December 2007	
6	Crude oil	Floating	Floating	2,015	1,031	3,046	574,866	20/06/2007	31/08/2007	575	8,162	48	250						Crude oil for 03-31 December 2007	
7	Crude oil	Floating	Floating	705	—	705	791,706	12/03/2008	31/05/2008	792	1,402	75	220						Crude oil for 03-31 December 2007	
8	Crude oil	Floating	Floating	557	—	557	998,049	29/02/2008	31/05/2008	998	400	75	100						Crude oil for 03-31 December 2007	
9	LSWR	Floating	Floating	(1,371)	1,499	(12,216)	90,385	16/08/2007	31/08/2007	90	3,806	110	383						Crude oil for 03-31 December 2007	
10	LSWR	Floating	Floating	264	1,687	1,951	85,373	16/08/2007	30/09/2007	85	800	49	100						Crude oil for 03-31 December 2007	
11	LSWR	Floating	Floating	2,462	2,773	5,235	203,103	28/03/2007	04/06/2007	203	1,000	50	200						Crude oil for 03-31 December 2007	
12	LSWR	Floating	Floating	5,235	1,453	6,688	229,300	24/05/2007	30/06/2007	229	1,550	61	100						Crude oil for 03-31 December 2007	
13	LSWR	Floating	Fixed	6,753	(150)	6,603	216,555	29/11/2007	19/12/2007	217	1,490	80	100						Crude oil for 03-31 December 2007	
14	LSWR	Floating	Floating	(407)	1,623	1,216	77,465	16/08/2007	31/10/2007	77	820	84	190						Crude oil for 03-31 December 2007	
15	LSFO	Floating	Floating	280	1,943	2,223	82,502	16/08/2007	31/01/2008	83	170	43	50						Crude oil for 03-31 December 2007	
16	LSFO	Floating	Floating	6,819	(1,375)	5,444	340,540	28/05/2007	31/07/2007	341	2,004	50	100						Crude oil for 03-31 December 2007	
Total				(6,655)	83,459	76,804														

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Seven months ended 31 October 2008

Shipment	Pricing basis		Gain/(loss)		Gross		Shipment		Derivative trading		Types of derivative		Futures/forward/option		Swap			
	Buy-side agreement	Sell-side agreement	from trading in derivative financial instrument (A)	before hedging (B)	profit/(loss) of shipment hedging after (C)=(A)+(B)	First day of accepting the shipment	Last day of pricing the shipment	Completion date of the shipment	Trading quantity of shipment (BBL)	First day of trading in derivative financial instrument	Last day of trading in derivative financial instrument	Forward	Option	No. of lots bought and sold (Lots)	Weighted average no. of lots on hand outstanding (Lots)	Maximum no. of lots outstanding (Lots)	Quantity and period	
1	Crude oil	Floating	1,318	(5,635)	(4,317)	16/11/2007	30/06/2008	11/07/2008	600,006	20/05/2008	30/06/2008	v	x	v	414	4	13	Short 600,000 BBL of Dated Brent for 02-30 June 2008; Long 500,000 of Minas for 02-30 June 2008; Long 100,000 BBL of IPE for 02-30 June 2008
2	Crude oil	Floating	23,993	(16,559)	7,434	08/08/2008	31/10/2008	12/11/2008	110,847	04/09/2008	31/10/2008	x	x	v	—	—	—	Long 111,000 BBL of Dated Brent for 01-30 September 2008; short 111,000 BBL of Dated Brent for 01-31 October 2008
3	Crude oil	Floating	58,425	(42,741)	15,684	24/03/2008	31/08/2008	08/09/2008	324,125	09/06/2008	31/08/2008	v	x	v	992	240	324	Short 320,000 BBL of Dated To Frontline Brent for 01-31 August 2008
4	Crude oil	Floating	13,916	10,248	24,164	09/06/2008	30/11/2008	01/12/2008	427,192	03/09/2008	29/10/2008	v	x	v	80	42	50	Long 11,000 MT of Fuel Oil 03-30 September 2008; short 11,000 MT of Fuel Oil 01-31 October 2008 ; long 81,000 BBL of Fuel Oil for 01-31 October 2008; short 81,000 BBL of Dated Brent for 01-31 October 2008
5	Crude oil	Floating	(642)	25,216	24,574	17/05/2008	30/06/2008	14/07/2008	650,110	12/05/2008	27/06/2008	v	x	x	452	76	114	—

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Products	Pricing basis	Gain/(loss) from trading in derivative financial instrument		Gross profit/(loss) of shipment before hedging (B) (HK\$'000)	Gross profit/(loss) of shipment after hedging (C)=(A)+(B) (HK\$'000)	Shipment		Derivative trading		Types of derivative		Futures/forward/option	Swap							
		(A) (HK\$'000)	(B) (HK\$'000)			First day of accepting the shipment	Last day of pricing of the shipment	Completion date of the shipment	Trading quantity of shipment (BBL) (Lots)	First day of trading in derivative financial instrument	Last day of trading in derivative financial instrument			Forward	Option	Forward	Swap			
Crude oil	Floating	69,489	(42,321)	27,168	27,008	31/10/2008	31/10/2008	12/11/2008	327,554	328	01/09/2008	31/10/2008	x	v	x	v	11	11	11	Long 17,000 BBL of Dated Brent for 12-30 September 2008; short 17,000 BBL of Dated Brent for 01-31 October 2008; long 300,000 BBL of Dated Brent for 01-30 September 08; short 300,000 BBL of Dated Brent 01-31 October 2008
	Floating	36,745	(6,292)	30,453	29,022	31/05/2008	31/05/2008	05/06/2008	998,049	998	01/04/2008	10/04/2008	v	x	x	x	4,912	619	756	—
Gasoil	Floating	(11,348)	12,291	943	19,006	01/08/2008	01/08/2008	25/08/2008	130,956	131	20/06/2008	01/08/2008	x	x	x	x	—	—	—	Short 130,000 BBL of Gasoil for 01-31 July 2008; long 130,000 BBL of Gasoil 01-29 August 2008; short 130,000 BBL of Gasoil 01-29 August 2008
Total		<u>191,896</u>	<u>(65,793)</u>	<u>126,103</u>																

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General notes to all Hedged Shipments during the Track Record Period:

- 1 lot futures/forward/option represents 1,000 BBL.
- Futures and option contracts were listed in New York Mercantile Exchange (NYMEX) and Intercontinental Exchange (ICE), formerly known as the International Petroleum Exchange (IPE). Trading of futures and option contracts were dealt with two brokers based in London which are regulated by the Financial Services Authority in the United Kingdom and are members of the London Stock Exchange. One of these brokers provides full brokerage service to institutional, corporate and retail brokerage business in the international investment and commodity markets. Its parent company had credit rating on long-term issuer default rating of A from Fitch as at 22 May 2008. The other broker is a trading office in London which provides multiple trading platforms and direct exchange connectivity using its exchange memberships. It has no credit rating accredited by Fitch or other credit rating companies.
- Forwards and swap contracts were traded through Over-the-counter market. We traded forwards and swap contracts with three institutional banks, one oil major company and one international oil trading company. The first institutional bank is a European corporate and investment bank, which has been a major global participant in the precious metals and energy markets since 1988. It is experienced in trading derivative products (including forwards, options and swaps), and its clients include producers, refiners, end-users, traders, financial institutions, investors, and funds. It had credit rating on issuer default rating of AA- from Fitch as at 21 October 2008. The second institutional bank is a European banking and financial services provider which offers, amongst other things, risk management tools for clients in the global energy markets. Its clientele consisting of producers & consumers including several utilities, refineries and airlines in North America, South America, Europe and the Far East., gas marketers, trading companies, hedge funds and other financial institutions and dealers. It had credit rating on long term issuer default rating of AA from Fitch as at 21 October 2008. The third institutional bank is registered in the United Kingdom which offers amongst other things, equity derivatives, commodity and energy hedging services for its client. It had credit rating on long-term issue default rating of AA from Fitch as at 17 October 2008. The oil major company is one of the most active players in the international oil markets with activities in 120 countries and 8 offices worldwide. It had credit rating on long-term issue default rating of AA from Fitch as at 25 June 2008. The international oil trading company is based in London and has been engaged in the trading of crude oil, products and oil derivatives in all the world's major markets. It also has a trading group responsible for trading of derivative financial instruments. It has no credit rating accredited by Fitch or other credit rating companies.
- Our trading orders on futures, option, forwards and swap contracts are placed in Hong Kong or Macao.
- “Last day of pricing the shipment” represents the last day of the pricing period of buy-side agreement or sell-side agreement (whichever is later) under floating price basis, which in effect should be taken as the last date of hedging activities for the shipment as the purchase cost and the selling price are finalised on such day.

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- “Completion date of the shipment” represents the settlement date of either buy-side agreement or sell-side agreement (whichever is later), which in effect the whole transaction of the shipment is completed.
- “No. of lots bought and sold” represents the total number of lots of futures, forward and option bought and sold for the shipment. It is usually greater than the quantity under “trading quantity of shipment (Lots)” because (i) “No. of lots bought and sold” count the quantity twice upon purchase and sale of the derivative financial instrument; (ii) change in hedging positions or hedging strategies increase the quantity under “No. of lots bought and sold”; and (iii) the rollover activity of expiry futures contract increase the quantity under “No. of lots bought and sold”.
- “Weighted average no. of lots on hand” represents the time weighted average number of lots of futures, forward and option held on hand during the period from first day of trading in derivative financial instrument to last day of trading in derivative financial instrument.
- All of the Hedged Shipments had been concluded with confirmed buy-side and sell-side agreements during the Track Record Period. Therefore, traders were subjected only to the lots size threshold and broker account threshold under our risk management policy as described in the section headed “Business — Hedging and risk management policy — Risk management policy — Risk tolerance” of this prospectus.
- Commencement date of negotiation has not been presented as we had not recorded such information during the Track Record Period given such early stage of negotiation was less formal by using phone conversation or real-time instant dialogue tools. As the first day of trading in derivative financial instrument during negotiation process should be later than the commencement date of negotiation, the omission of the commencement date obstructed the assessment of appropriate timing for entering into the hedging. We admit that this represented an internal control area identified for improvement during the Track Record Period. Our Sponsor also concur such necessary improvement. Being one of our additional risk management procedures, we have put the trade negotiation commencement date as part of the trading record of shipment after 1 April 2008. Please refer to “Business — Hedging and Risk Management Policy — Additional risk management policies implemented by our Group” of this prospectus for the details of our measures for further improvements on our risk management procedures.

Specific notes for Hedged Shipment for the year ended 31 March 2006:

- Shipments 4 and 11 were Inefficient Hedging Shipments.
- Shipments 2, 6, 7, 12 and 13 entered into hedging strategies during negotiation of buy-side agreement and/or sell-side agreement.

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Specific notes for Hedged Shipment for the year ended 31 March 2007:

- Shipments 1 and 5 were Inefficient Hedging Shipments.
- Shipments 1, 6, 8, 13, 14 and 15 entered into hedging strategies during negotiation of buy-side agreement and/or sell-side agreement.
- The pricing period of shipment 2 fell in the financial year ended 31 March 2008; therefore, the gross profit of this shipment before hedging of approximately HK\$5,677,000 was recognised in the financial year ended 31 March 2008. In addition to the gain from trading in derivative financial instruments of HK\$85,000 in the year ended 31 March 2007, the gross profit of this shipment after hedging, as a whole, was approximately HK\$5,762,000. No information of this shipment was presented in the table of Hedged Shipments for the year ended 31 March 2008 as no hedging transactions had been conducted for this shipment in the year ended 31 March 2008.
- Shipment 3 for the year ended 31 March 2007 was the same physical shipment as shipment 3 for the year ended 31 March 2008. Gain from trading in derivative financial instruments of HK\$188,000 represents only the results of trading in derivative financial instruments for this shipment in the year ended 31 March 2007. The full amount of gain from trading in derivative financial instrument for this shipment, as a whole, was approximately HK\$1,483,000. In addition to the gross profit of this shipment before hedging recognised in the year ended 31 March 2008 of approximately HK\$1,595,000, the gross profit of this shipment after hedging, as a whole, was HK\$3,078,000.
- Shipment 3 recorded zero for “weighted average no. of lots on hand” and “maximum no. of lots outstanding” during the hedging period from 16 March 2007 to 29 March 2007 because all the derivative financial positions entered into at any one day were closed on the same day during the hedging period. The buy-side agreement was first confirmed on 15 February 2007. Negotiation with potential customers was then followed. As those potential customers had changed its proposed quantity of shipment for several times, the derivative financial positions was closed for prudent sake. The sell-side agreement was subsequently confirmed on 24 April 2007.

Specific notes for Hedged Shipment for the year ended 31 March 2008:

- Shipment 9 was Inefficient Hedging Shipment.
- Shipments 1, 2, 4, 6, 7, 9, 12, 13 and 16 entered into hedging strategies during negotiation of buy-side agreement and/or sell-side agreement.
- Shipment 3 for the year ended 31 March 2008 was the same physical shipment as shipment 3 for the year ended 31 March 2007. Gain from trading in derivative financial instruments of approximately HK\$1,295,000 represents only the results of trading in derivative financial instruments for this shipment in the year ended 31 March 2008. The full amount of gain from trading in derivative financial instrument for this shipment, as a whole, was approximately HK\$1,483,000. In addition to the gross profit of this shipment before hedging recognised for the year ended 31 March 2008 of approximately HK\$1,595,000, the gross profit of shipment 3 after hedging, as a whole, was approximately HK\$3,078,000.

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- The pricing period of shipment 7 fell in the seven months ended 31 October 2008; therefore, the gross profit of this shipment before hedging of approximately HK\$16,103,000 was recognised in the seven months ended 31 October 2008. In addition to the gain from derivative financial instruments of HK\$705,000 in the year ended 31 March 2008, the gross profit of this shipment after hedging was approximately HK\$16,808,000. No information of this shipment was presented in the table of pledged shipment for the seven months ended 31 October 2008 as no hedging transactions had been conducted for this shipment in the seven months ended 31 October 2008.
- Shipment 8 for the year ended 31 March 2008 was the same physical shipment as shipment 7 for the seven months ended 31 October 2008. Gain from trading in derivative financial instrument of approximately HK\$557,000 represents only the results of trading in derivative financial instruments for this shipment in the year ended 31 March 2008. The full amount of gain from trading in derivative financial instruments for this shipment, as a whole, was approximately HK\$37,302,000. The pricing period of this shipment fell in the seven months ended 31 October 2008; therefore, the gross loss of this shipment before hedging of approximately HK\$6,292,000 was recognised in the seven months ended 31 October 2008. The gross profit of this shipment after hedging, as a whole, was approximately HK\$31,010,000.

Specific notes for Hedged Shipment for the seven months ended 31 October 2008:

- There was no Inefficient Hedging Shipment.
- Shipment 5 entered into hedging strategies during negotiation of buy-side agreement and/or sell-side agreement.
- Shipment 7 for the seven months ended 31 October 2008 was the same physical shipment as shipment 8 for the year ended 31 March 2008. Gain from trading in derivative financial instruments of approximately HK\$36,745,000 represents only the results of trading in derivative financial instruments for this shipment in the seven months ended 31 October 2008. The full amount of gain from trading in derivative financial instruments for this shipment, as a whole, was approximately HK\$37,302,000. In addition to the gross loss of this shipment before hedging recognised for the seven months ended 31 October 2008 of approximately HK\$6,292,000, the gross profit of this shipment after hedging, as a whole was approximately HK\$31,010,000.

In order to (i) minimise our price risk exposure; (ii) optimise our trading profit; and (iii) reduce fluctuation in our operating results, we carry out hedging activities by entering into derivative financial instrument, as and when appropriate during the ordinary course of our trading business. The gain from trading in derivative financial instrument aims to cover, fully or partially, the extra purchase cost or declining selling price of the physical shipment; and the loss from trading in derivative financial instrument is regarded as the additional costs charged, fully or partially, to the declining purchase cost or extra selling price of the physical shipment.

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Inefficient Hedging Shipments

During the Track Record Period, we recorded gain/(loss) of HK\$(3.2) million, HK\$(28.9) million, HK\$(6.7) million and HK\$191.9 million from trading in derivative financial instruments for Hedged Shipments. In addition, we incurred loss from Inefficient Hedging Shipments during the Track Record Period due to the following reasons:

1. Lack of appropriate derivative financial instruments

The reference oil products quoted under the floating pricing basis may not have appropriate derivative financial instruments available in the derivative market for us to conduct a perfect hedge. For example, our principal trading product LSWR was usually priced with reference to LSWR or High Sulphur Fuel Oil. Since there is no futures contract of LSWR and no liquid futures contract of High Sulphur Fuel Oil available in the derivative market, we resort to use crude oil futures as the hedging instruments with an aim to making use of the price trend of crude oil futures to hedge the price trend of LSWR. In certain circumstances, the price movements of the reference oil products and the chosen derivative financial instruments may not be as highly correlated as expected. In such cases, the mismatch of derivative financial instruments may affect the efficiency of our hedging strategies. During the Track Record Period, we had two shipments of LSWR, including shipment 5 in the year ended 31 March 2007 and shipment 9 in the year ended 31 March 2008, recorded substantial loss from trading in derivative financial instruments which led to substantial gross loss of shipment after hedging as a result of unexpected low correlation of the chosen derivative financial instruments to the reference oil products during the hedging period.

For shipment 5 in the year ended 31 March 2007, our trader used unleaded gasoline futures contract to hedge the purchase cost of the shipment which was priced with reference to Pertamina, the official Indonesia pricing on LSWR. Since the futures contract price of unleaded gasoline was correlated to the price movement of crude oil futures, our traders tried to use unleaded gasoline futures contract as the hedging instruments. Unfortunately, the price volatility of unleaded gasoline futures contract was much higher than that of crude oil futures contract during the period between August and September 2006, where the price of unleaded gasoline futures contract fell sharply during the hedging period, our trader cut loss on the hedging position before the pricing period of physical shipment. Except for this case, we did not use unleaded gasoline futures contract to hedge other LSWR shipments during the Track Record Period. Being one of our additional risk management procedures, commencing from 1 September 2008, our traders will discuss internally to evaluate and select appropriate derivative financial instruments to hedge the corresponding physical shipments with reference to the historical price correlations between these derivative instruments and the target physical shipments before they carry out hedging procedures. At least two traders have to agree in writing on the selected derivative financial instruments before hedging. Please refer to “Business — Hedging and Risk Management Policy — Additional risk management policies implemented by our Group” of this prospectus for the details of our measures for further improvements on our risk management procedures.

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For shipment 9 in the year ended 31 March 2008, the proposed quantity of shipment increased during the negotiation period and our traders therefore increased the hedging position correspondingly. Unfortunately, the hedging position was against the extremely volatile market and our counterparty subsequently lowered down the shipment quantity. Our trader then closed the hedging position and recorded substantial loss on trading in derivative financial instruments.

2. Changes in hedging position

After the execution of hedging activities by entering into derivative financial instruments, taking into consideration of any changes in the market conditions and market price trends, and the ongoing negotiations with our suppliers and/or customers, we closely monitor our hedging positions and if necessary, adjust our hedging positions or hedging strategies in a dynamic way in accordance with the factors including, but not limited to, (i) the actual price movement of the derivative financial instruments; (ii) the market price structure (premium or discount between spot price and futures price) of (a) the underlying oil products of the shipment; (b) the reference oil products under floating basis; and/or (c) the relevant derivative financial instruments; (iii) the changes in the proposed pricing basis under negotiations; and (iv) any unrealised losses on trading in derivative financial instruments which may exceed the risk tolerance and will have to be stopped/realised. Any adjustments in our hedging position may incur trading loss in derivative financial instruments given the volatility and timing of the oil products/derivative market.

Although we incurred overall trading loss for most period of time from trading in derivative financial instruments for Hedged Shipment, and there were certain Inefficient Hedging Shipments during the Track Record Period, our Directors consider that our hedging activities were, in general, effective in our ordinary course of business in optimising our trading profit in physical shipments and transferring price risk associated with the physical shipments to derivative financial instruments during the Track Record Period on the basis that (i) our overall gross profit of Hedged Shipments after hedging amounted to HK\$26.4 million, HK\$69.2 million, HK\$76.8 million and HK\$126.1 million during the Track Record Period; and (ii) the Inefficient Hedging Shipments only represented approximately 15.4%, 12.5%, 6.3% and nil of our Hedged Shipments during the Track Record Period.

Trading size of derivative financial instrument

The total number of lots bought and sold for a Hedged Shipment is usually larger than the weighted average number of lots on hand during the hedging period. This is due to the change in hedging positions or hedging strategies as described under the previous section of “Inefficient Hedging Shipments”. Upon changing the hedging position or hedging strategies, the number of lots bought and sold will be increased. In addition, the rollover activity of expiry futures contract will also increase the number of lots bought and sold in a Hedged Shipment.

During the Track Record Period, there were 8, 7, 3 and nil Hedged Shipments having equivalent quantity of shipment in BBL under “maximum no. of lots outstanding” in derivative financial instrument trading being larger than the trading quantity of shipment in BBL. During the negotiation process or even after the conclusion of buy-side agreement or sell-side agreement, the quantity of shipment may be increased as long as the supplier intends to supply extra quantity of oil products before the delivery of the shipment and our customers (either the same customer or another customer)

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also intends to accept such extra quantity. However, such proposed increment of trading quantity may not be concluded eventually. In case our traders have adjusted our hedging position according to the proposed increment of trading quantity and such increment cannot be concluded eventually, equivalent quantity of shipment in BBL under “maximum no. of lots outstanding” in derivative financial instrument trading will be larger than the trading quantity of shipment. Once changes in quantity of shipment is confirmed, our traders will discuss and obtain the consent from the review team and adjust the trading position in derivative financial instrument and report the same to the reporting and monitoring team. Save and except for the above reasons, we had no other time during the Track Record Period with equivalent quantity of shipment in BBL under “maximum no. of lots outstanding” in derivative financial instruments trading being larger than the trading quantity of the shipment in BBL. Being one of our additional risk management procedures, our monitoring and reporting team will monitor our maximum number of lots outstanding position in derivative financial instruments and the equivalent quantity of shipment in BBL. Commencing from 1 September 2008, outstanding position in derivative financial instruments established by our traders are prohibited to exceed the equivalent quantity of shipment in BBL. If our monitoring and reporting team identifies any excess position in derivative financial instruments, it will request our traders to close out such excess position accordingly. Please refer to “Business — Hedging and Risk Management Policy — Additional risk management policies implemented by our Group” of this prospectus for the details of our measures for further improvements on our risk management procedures.

Trading period of derivative financial instrument

Before 1 September 2008, the trading period of derivative financial instrument could be started any time after the negotiation of the shipment where there was high chance of concluding the shipment, and the trading period would be ended no later than 48 hours after the pricing period. The exact period of conducting hedging activities depended on (i) the price trend of the derivative financial instrument; (ii) the price trend of the reference oil products; and (iii) the traders view on the profitability of the physical shipment at any moment. If the traders considered the price risk of the physical shipment was released during the pricing period, the derivative financial position might be closed earlier than the last day of pricing the shipment in order to avoid the exposure in the volatile derivative market.

During the Track Record Period, there were 1, 2, nil and nil Hedged Shipments with the hedging period being later than 48 hours after the pricing period. For shipment 3 in the year ended 31 March 2006 and shipment 5 in the year ended 31 March 2007, the counterparties had offered to us another potential shipment during pricing period of the concluding shipment. Therefore, the derivative financial instruments were held to a later period in order to hedge the potential shipments offered by the counterparties. However, such potential shipments eventually could not be concluded. For shipment 16 in the year ended 31 March 2007, the hedging period represented the first date of entering into the swap contract and the last day of closing the swap contract. We resorted to close the swap contract within 48 hours after the last day of the pricing period. However, the swap counterparty could not offer a competitive price for us to close the swap contract within the designated time frame until four business days after the last day of the pricing period. The reasons for extension of trading period for all of the mentioned three shipments had been notified and approved by the review team.

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In light of lots size threshold under the risk management policy that all of the associated open positions of derivative financial instruments must be closed as soon as possible, but in any event no later than 48 hours, if the shipment fails to conclude during the negotiation process or the trade is completed, and our late hedging period for the above-mentioned three shipments, the Directors admitted that the risk management policy had been breached during the Track Record Period. Upon review and evaluation of the breached incidents, the Directors consider that it would be more appropriate to establish a new hedging position for shipment 3 in the year ended 31 March 2006 and shipment 5 in the year ended 31 March 2007 instead of extending the existing hedging position. For shipment 16 in the year ended 31 March 2007, the Directors consider that the swap contract should be closed disregard of the offer price within 48 hours after the last day of the pricing period. Being one of our additional internal control and risk management procedures, all of the associated open positions of derivative financial instruments must be closed compulsorily as soon as possible, but in any event no later than 48 hours, if the shipment fails to conclude during the negotiation process or the trade is completed. If our monitoring and reporting team identifies any incompliance of this risk management procedure, it will report to our review team, which will execute the corresponding trading instruction to brokers directly. Please refer to “Business — Hedging and Risk Management Policy — Additional risk management policies implemented by our Group” of this prospectus for the details of our measures for further improvements on our risk management procedures.

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B. Details of Unsuccessful Shipment with Derivative Contracts

The following tables set forth details of each Unsuccessful Shipment with Derivative Contracts during the Track Record Period:

Year ended 31 March 2006

Shipment	Planned pricing basis		Gain/(loss) from trading in derivative financial instrument (HK\$ '000)	Planned trading quantity of shipment (BBL)	Termination date of negotiation	Derivative trading		Types of derivative		Futures/forward/option	Swap
	Buy-side agreement	Sell-side agreement				First day of trading in derivative financial instrument	Last day of trading in derivative financial instrument	Futures	Forward		
1 Crude oil	Floating	—	(8,618)	500,000	07/04/2005	23/03/2005	07/04/2005	v	x	No. of lots bought and sold (Lots)	Maximum no. of lots outstanding and period (Lots)
2 Crude oil	—	Floating	144	300,000	23/05/2005	18/05/2005	23/05/2005	v	x	800	400
3 Crude oil	—	Floating	3,080	500,000	13/07/2005	29/06/2005	13/07/2005	v	x	500	150
4 Crude oil	Floating	—	(2,627)	1,000	31/08/2005	29/07/2005	02/09/2005	v	x	1,400	400
5 Crude oil	—	Floating	(1,946)	500,000	25/01/2006	04/01/2006	25/01/2006	v	x	1,600	500
6 Crude oil	—	Floating	6,504	1,000,000	17/02/2006	08/02/2006	17/02/2006	v	x	1,200	400
7 LSWR	—	Floating	256	300,000	21/11/2005	14/11/2005	22/11/2005	v	x	1,600	600
8 LSWR	—	Floating	1,474	300,000	13/03/2006	02/03/2006	13/03/2006	v	x	600	300
Total			(1,733)							400	200

Year ended 31 March 2007

Shipment	Planned pricing basis		Gain/(loss) from trading in derivative financial instrument (HK\$ '000)	Planned trading quantity of shipment (BBL)	Termination date of negotiation	Derivative trading		Types of derivative		Futures/forward/option	Swap
	Buy-side agreement	Sell-side agreement				First day of trading in derivative financial instrument	Last day of trading in derivative financial instrument	Futures	Forward		
1 Crude oil	Floating	—	2,128	300,000	12/02/2007	31/01/2007	12/02/2007	v	x	No. of lots bought and sold (Lots)	Maximum no. of lots outstanding and period (Lots)
2 LSWR	Floating	—	(2,433)	300,000	18/05/2006	05/04/2006	18/05/2006	v	x	1,000	200
3 LSWR	—	Floating	(202)	300,000	11/07/2006	06/07/2006	11/07/2006	v	x	3,770	294
4 LSWR	—	Floating	(2,061)	300,000	26/09/2006	14/09/2006	26/09/2006	v	x	990	295
Total			(2,568)							200	100

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Year ended 31 March 2008

Shipment	Planned pricing basis		Gain/(loss) from trading in derivative financial instrument (HK\$'000)	Planned trading quantity of shipment (BBL)	Planned trading quantity of shipment (Lots)	Termination date of negotiation	Derivative trading		Types of derivative		Futures/forward/option	Swap
	Buy-side agreement	Sell-side agreement					First day of trading in derivative financial instrument	Last day of trading in derivative financial instrument	Futures	Forward		
1 Crude oil	Floating	—	622	300,000	300	26/09/2007	26/09/2007	26/09/2007	v	x	x	x
2 Crude oil	Floating	—	2,152	300,000	300	09/11/2007	09/11/2007	09/11/2007	v	x	x	x
3 LSWR	Floating	—	(988)	200,000	200	13/12/2007	12/12/2007	13/12/2007	v	x	x	x
4 LSWR	—	Floating	191	200,000	200	30/08/2007	27/08/2007	30/08/2007	v	x	x	x
5 Fuel oil	Floating	—	1,011	200,000	200	30/07/2007	25/06/2007	31/07/2007	v	x	x	v
Total			2,988									

Seven months ended 31 October 2008

Shipment	Planned pricing basis		Gain/(loss) from trading in derivative financial instrument (HK\$'000)	Planned trading quantity of shipment (BBL)	Planned trading quantity of shipment (Lots)	First day of trading in derivative financial instrument	Last day of trading in derivative financial instrument	Types of derivative		Futures/forward/option	Swap
	Buy-side agreement	Sell-side agreement						Futures	Forward		
1 Crude oil	—	Floating	(2,896)	600,000	600	28/07/2008	22/08/2008	v	x	x	x
2 Crude oil	Floating	—	—	50,000	50	24/04/2008	15/05/2008	x	x	v	x
Total			(2,896)								

Note: Shipment 2 involves long position of 50 lots put option. As this shipment was terminated on 30 April 2008, the put option was not exercised eventually and no gain/(loss) on trading in derivative financial instruments was recorded.

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General notes to all Unsuccessful Shipments with Derivative Contracts during the Track Record Period:

- 1 lot futures/forward/option represents 1,000 BBL.

- Futures and option contracts were listed in New York Mercantile Exchange (NYMEX) and Intercontinental Exchange (ICE), formerly known as the International Petroleum Exchange (IPE). Trading of futures and option contracts were dealt with two brokers based in London which are regulated by the Financial Services Authority in the United Kingdom and are members of the London Stock Exchange. One of these brokers provides full brokerage service to institutional, corporate and retail brokerage business in the international investment and commodity markets. Its parent company had credit rating on long-term issuer default rating of A from Fitch as at 22 May 2008. The other broker is a trading office in London which provides multiple trading platforms and direct exchange connectivity using its exchange memberships. It has no credit rating accredited by Fitch or other credit rating companies.

- Forwards and swap contracts were traded through Over-the-counter market. We traded forwards and swap contracts with three institutional banks, one oil major company and one international oil trading company. The first institutional bank is a European corporate and investment bank, which has been a major global participant in the precious metals and energy markets since 1988. It is experienced in trading derivative products (including forwards, options and swaps), and its clients include producers, refiners, end-users, traders, financial institutions, investors, and funds. It had credit rating on issuer default rating of AA- from Fitch as at 21 October 2008. The second institutional bank is a European banking and financial services provider which offers, amongst other things, risk management tools for clients in the global energy markets. Its clientele consisting of producers & consumers including several utilities, refineries and airlines in North America, South America, Europe and the Far East., gas marketers, trading companies, hedge funds and other financial institutions and dealers. It had credit rating on long term issuer default rating of AA from Fitch as at 21 October 2008. The third institutional bank is registered in the United Kingdom which offers amongst other things, equity derivatives, commodity and energy hedging services for its client. It had credit rating on long-term issue default rating of AA from Fitch as at 17 October 2008. The oil major company is one of the most active players in the international oil markets with activities in 120 countries and 8 offices worldwide. It had credit rating on long-term issue default rating of AA from Fitch as at 25 June 2008. The international oil trading company is based in London and has been engaged in the trading of crude oil, products and oil derivatives in all the world's major markets. It also has a trading group responsible for trading of derivative financial instruments. It has no credit rating accredited by Fitch or other credit rating companies.

- Our trading orders on futures, option, forwards and swap contracts are placed in Hong Kong or Macao.

- “Termination date of negotiation” represents the day which the negotiation of the shipment confirmed fail.

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- “No. of lots bought and sold” represents the total number of lots of futures, forward and option bought and sold for the shipment. It is usually greater than the quantity under “trading quantity of shipment (Lots)” because (i) “No. of lots bought and sold” count the quantity twice upon purchase and sale of the derivative financial instrument; (ii) change in hedging positions or hedging strategies increase the quantity under “No. of lots bought and sold”; and (iii) the rollover activity of expiry futures contract increase the quantity under “No. of lots bought and sold”.
- The planned sales value and planned purchase value of each of Unsuccessful Shipments with Derivative Contracts were unknown in advance given the pricing of which was based on the floating price basis.
- Commencement date of negotiation has not been presented as we had not recorded such information during the Track Record Period given such early stage of negotiation was less formal by using phone conversation or real-time instant dialogue tools. As the first day of trading in derivative financial instrument during negotiation process should be later than the commencement date of negotiation, the omission of the commencement date obstructed the assessment of appropriate timing for entering into the hedging. We admit that this represented an internal control area identified for improvement during the Track Record Period and we have already put the commencement date as part of the trading record of shipment after 1 April 2008. Our Sponsor also concur such necessary improvement in internal control system.
- Specific reasons for termination of negotiation for each of the Unsuccessful Shipment with Derivative Contracts has not been presented as we had not recorded such information during the Track Record Period. As each of the specific reasons for termination of negotiation may provide insight to our trading in future, the omission of which obstructed our analysis and evaluation on past trading record. We admit that this represented an internal control area identified for improvement during the Track Record Period and we have already put the specific reasons for termination of negotiation for each of the Unsuccessful Shipment as part of the trading record of after 1 April 2008. Our Sponsor also concur such necessary improvement in risk management procedures. Being one of our additional risk management procedures, we have put (i) the trade negotiation commencement date as part of the trading record of shipment; and (ii) the specific reasons for termination of negotiation for each of the Unsuccessful Shipment with Derivative Contracts as part of the trading record of shipment after 1 April 2008. Please refer to “Business — Hedging and Risk Management Policy — Additional risk management policies implemented by our Group” of this prospectus for the details of our measures for further improvements on our risk management procedures.

The Unsuccessful Shipments with Derivative Contracts were potential shipments which we entered into derivative financial instruments during the negotiation period and such potential shipments eventually failing to conclude as a result of collapse in negotiation on trading terms with either one or both counterparties under the trade. Trading terms such as pricing method, pricing period, use of reference oil products and shipping terms will affect the profitability of the shipment. If we consider such trading terms are unfavorable and the counterparties refuse to change their trading terms, the shipment under negotiation may not be concluded. Other trading terms such as specifications and quality of oil products are crucial to our customers. If the specifications or quality of oil products provided by the supplier during the negotiation process turned out to be unacceptable to our potential

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customers upon inspection but before the conclusion of the shipment, our potential customers might not accept such oil products and the shipment could not be proceeded if we were unable to find another customers. In addition, even if the trading terms with both suppliers and customers can be matched, there may not have appropriate vessel available, or no vessel of reasonable freight charges, at the right moment for loading of the oil products. In such circumstances, the shipment under negotiation will also be turned to Unsuccessful Shipment with Derivative Contracts.

Other than the result of negotiations on trading terms with either one or both counterparties under the trades, our Directors consider that Unsuccessful Shipments with Derivative Contracts are, in substance, of a similar nature to the Hedged Shipment because:

- (i) the hedging activities of Unsuccessful Shipments with Derivative Contracts are entered into pursuant to genuine potential trades irrespective of its subsequent results of negotiations;
- (ii) the principle (such as the size of hedging volume) and strategies of execution of the hedging activities for Unsuccessful Shipments with Derivative Contracts are being applied in the same manner in the course of business “during negotiation of buy-side and/or sell-side agreements” and “after conclusion of either a buy-side agreement or a sell-side agreement”; and
- (iii) Hedged Shipment may also include hedging activities executed at an early stage during the negotiation of buy-side and/or sell-side agreements, which is the same stage of hedging activities as Unsuccessful Shipment with Derivative Contracts.

Since 1 September 2008, trading in derivative financial instruments has been prohibited before we confirm either the buy-side and/or sell-side agreement by recapitulating key terms of the agreements in written form with our counterparties. As such we have ceased to conduct any Unsuccessful Shipments with Derivative Contracts since September 2008.

(F) **Finance costs**

Our finance costs mainly represent interests on short-term borrowings and bank charges.

(G) **Taxation**

Our subsidiaries Strong Petrochemical (HK) and Strong Property are subject to Hong Kong Profits Tax at 17.5% (2003/04 to 2007/08) and 16.5% (2008/09 onwards) of the estimated assessable profit.

Our subsidiary Strong Petrochemical (Macao), under the Macao SAR’s Offshore Law, is exempted from income tax, industrial tax and stamp duties on: (i) insurance policies concerning offshore risks; (ii) contracts established with entities with registered headquarter not in Macao; (iii) bank transactions carried out within the scope of offshore business; and (iv) its incorporation and any increase in its share capital.

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However, pursuant to the FEIT Law and based on the judgment of our directors, we made provision on PRC FEIT of approximately nil, HK\$0.4 million, nil and nil, respectively during the Track Record Period, to cover the potential establishment risk in the PRC.

The following table sets forth the portion of profits which was subject to tax and taxation of Strong Petrochemical (HK) and Strong Petrochemical (Macao) during the Track Record Period:

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Portion of profits which was subject to tax					
Assessable profits of Strong Petrochemical (HK)	20,185	40,434	4,701	3,196	24,098
Gross profits of Strong Petrochemical (Macao) arising from Deemed-PRC-related shipments	—	1,255	—	—	—
Taxation					
Hong Kong Profits Tax at 17.5% (2003/04 to 2007/08) and 16.5% (2008/09 onwards)	3,532	7,076	811	664	3,976
PRC FEIT at 33%	—	414	—	—	—
Underprovision of Hong Kong Profits Tax in prior years	242	—	—	—	98
	<u>3,774</u>	<u>7,490</u>	<u>811</u>	<u>664</u>	<u>4,074</u>

During the Track Record Period, based on the judgment of our Directors, there were nil, 1, nil and nil shipments which might be classified as Deemed-PRC-related-shipments, and the gross profit arising from these Deemed-PRC-related-shipments, amounted to approximately nil, HK\$1.3 million, nil and nil, might be subject to the PRC FEIT at a tax rate of 33%.

Our effective tax rate (calculated based on the taxation divided by the profit from ordinary activities before taxation multiplied by 100%) during the Track Record Period were 4.4%, 5.2%, 0.9% and 3.6% respectively. The effective tax rate for the year ended 31 March 2008 was minimal since there was no PRC FEIT for Strong Petrochemical (Macao) and the assessable profits derived from Strong Petrochemical (HK) were low.

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(V) MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

(A) Selected profit and loss data

The following table shows the combined income statements of our Group for the Track Record Period, prepared on the basis that the current Group structure had been in place throughout the Track Record Period. This summary is extracted from, and should be read in conjunction with the Accountants' Report, the text of which is set forth in Appendix I to this prospectus:

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Revenue	5,328,270	5,138,697	4,211,182	2,660,668	4,808,611
Cost of sales	<u>(5,230,271)</u>	<u>(4,951,248)</u>	<u>(4,103,013)</u>	<u>(2,608,896)</u>	<u>(4,854,377)</u>
Gross profit (loss)	97,999	187,449	108,169	51,772	(45,766)
Other income	11,585	11,411	19,040	13,838	3,575
Fair value changes on derivative financial instruments	(1,015)	(31,510)	(3,667)	(13,305)	188,691
Fair value changes on held for trading investments	—	—	(2,635)	—	(3,872)
Administrative and other operating expenses	(17,562)	(19,307)	(24,420)	(11,686)	(25,019)
Finance costs	(5,964)	(4,782)	(2,985)	(2,040)	(2,940)
Share of loss of an associate	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(45)</u>
Profit before taxation	85,043	143,261	93,502	38,579	114,624
Taxation	<u>(3,774)</u>	<u>(7,490)</u>	<u>(811)</u>	<u>(664)</u>	<u>(4,074)</u>
Profit for the year/period	<u>81,269</u>	<u>135,771</u>	<u>92,691</u>	<u>37,915</u>	<u>110,550</u>
Dividends	<u>—</u>	<u>78,000</u>	<u>109,200</u>	<u>54,600</u>	<u>—</u>
Earnings per share					
- basic (HK\$)	<u>0.27</u>	<u>0.45</u>	<u>0.31</u>	<u>0.13</u>	<u>0.37</u>

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(B) Management's discussion and analysis

(i) *Comparison of our results for the seven months ended 31 October 2007 and 2008*

Revenue

Our total revenue for the seven months ended 31 October 2008 was approximately HK\$4,808.6 million, representing an increase of approximately HK\$2,147.9 million, or approximately 80.7%, from approximately HK\$2,660.7 million during the same period in previous financial year.

For the seven months ended 31 October 2008, we successfully captured more attractive trading opportunities in crude oil with our existing and new customers and suppliers, and completed 10 shipments, compared with 8 shipments during the same period in 2007. Such increase was mainly attributable to the increase in sales quantity and average selling price of crude oil. During the seven months ended 31 October 2008, the quantity of crude oil sold by us increased by approximately 1.1 million BBL or approximately 29.4% from approximately 3.8 million BBL during the seven months ended 31 October 2007 to approximately 4.9 million BBL during the same period in 2008. In addition, the average selling price of our crude oil increased by 53.6% from approximately HK\$547.0/BBL during the seven months ended 31 October 2007 to approximately HK\$840.2/BBL during the same period in 2008, which was in line with the overall crude oil price movements during the corresponding periods.

In addition, the sales amounts of our petroleum and petrochemical products also increased by approximately 18.9% and 20.0% to approximately HK\$629.7 million and approximately HK\$87.6 million during the seven months ended 31 October 2008, compared with the same period in 2007. For the seven months ended 31 October 2008, we introduced two shipments of gasoil and four shipments of MTBE, both of which were new trading products.

Cost of sales

Our cost of sales for the seven months ended 31 October 2008 was approximately HK\$4,854.4 million, representing an increase of approximately HK\$2,245.5 million, or approximately 86.1%, from approximately HK\$2,608.9 million during the same period in previous financial year, which was in line with the rise in our revenue during the corresponding periods.

Gross profit/ (loss)

We recorded gross loss of approximately HK\$45.8 million for the seven months ended 31 October 2008, compared with gross profit of approximately HK\$51.8 million during the same period in previous financial year.

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The gross loss recorded for the seven months ended 31 October 2008 of approximately HK\$45.8 million was mainly due to the gross loss of approximately HK\$101.6 million arising from three shipments of crude oil. Since the floating prices under the buy-side agreements and the sell-side agreements of these three shipments were not determined with reference to the same pricing period, where floating prices under the sell-side agreements were one or two months lag behind the buy-side agreements, and the price of crude oil kept on falling during the pricing period, our final purchase costs under the buy-side agreements were higher than the selling prices under the sell-side agreements. Therefore, we recorded gross loss for these three shipments. However, we were able to minimise the price risk against the decrease in selling prices under these sell-side agreements through hedging. Our gross profit after hedging for the seven months ended 31 October 2008 amounted to approximately HK\$142.9 million.

Other income

Our other income for the seven months ended 31 October 2008 was approximately HK\$3.6 million, representing a decrease of approximately HK\$10.2 million, or approximately 73.9%, from approximately HK\$13.8 million during the same period in previous financial year.

The fall in our other income for the seven months ended 31 October 2008 was mainly attributable to (i) significant fall in bank interest income of approximately HK\$4.5 million as a result of the decreasing bank balances and interest rate offered by banks; and (ii) absence of the one-off (a) net demurrage charges received of approximately HK\$1.1 million, (b) insurance claims received of approximately HK\$3.5 million and (c) increase in fair value on bank structured deposit of approximately HK\$1.3 million during the seven months ended 31 October 2007.

Administrative and other operating expenses

Our administrative and other operating expenses for the seven months ended 31 October 2008 was approximately HK\$25.0 million, representing an increase of approximately HK\$13.3 million, or approximately 113.7%, from approximately HK\$11.7 million during the same period in previous financial year.

Such increase was mainly due to (i) the increase of approximately HK\$4.9 million in professional service fee; (ii) the increase of approximately HK\$3.4 million in brokerage commissions as result of increase in derivative financial instruments transactions for hedging purposes; (iii) the increase of approximately HK\$1.1 million in entertainment and travelling expenses; and (iv) the increase of approximately HK\$1.5 million in staff costs and commission to traders arising from the growth in our staff number.

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Fair value changes on derivative financial instruments

The fair value changes on derivative financial instruments for the seven months ended 31 October 2008 was approximately HK\$188.7 million, compared with approximately HK\$(13.3) million during the same period in previous financial year.

For the seven months ended 31 October 2008, we recognised significant gain of approximately HK\$203.9 million from a total of six shipments in fair value changes on derivative financial instruments. However, such gain was offset by (i) the loss of approximately HK\$12.0 million in fair value changes on derivative financial instruments from the other 2 Hedged Shipments; and (ii) the loss of approximately HK\$2.9 million in fair value changes on derivative financial instruments from one Unsuccessful Shipments with Derivative Contracts.

Fair value changes on held for trading investments

In March 2008, our subsidiary Strong Property purchased two Hong Kong listed equities at a total cost of approximately HK\$12.0 million for trading purpose. As of 31 October 2008, we recorded fair value changes on held for trading investments of HK\$(3.9) million for the seven months ended 31 October 2008 as a result of the decrease in the market value of these listed equities. Except for the purchase of these two Hong Kong listed equities in March 2008, we had not purchased any listed equities in Hong Kong or elsewhere in the past.

Finance costs

Our finance costs for the seven months ended 31 October 2008 was approximately HK\$2.9 million, representing an increase of approximately HK\$0.9 million, or approximately 45.0%, from approximately HK\$2.0 million during the same period in previous financial year.

For the seven months ended 31 October 2008, bank charges for the issuance of letter of credits represented approximately 82.8% of our total finance costs. The bank charges for the issuance of letter of credits increased from approximately HK\$1.9 million during the same period in previous financial year to approximately HK\$2.4 million for the seven months ended 31 October 2008. As our purchase costs for trading products increased, our bank charges for the issuance of letter of credits throughout the period increased accordingly.

Taxation

Our taxation for the seven months ended 31 October 2008 was approximately HK\$4.1 million, representing an increase of approximately HK\$3.4 million, or approximately 485.7%, from approximately HK\$0.7 million during the same period in previous financial year.

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The increase in taxation was mainly due to the increase in assessable profits generated from Strong Petrochemical (HK) from approximately HK\$3.2 million for the seven months ended 31 October 2007 to approximately HK\$24.1 million for the seven months ended 31 October 2008. For the seven months ended 31 October 2008, Strong Petrochemical (HK) recorded a gain of approximately HK\$78.9 million from trading in derivative financial instruments, which was partially offset by the loss of approximately HK\$45.2 million in oil products trading operations. Therefore, the assessable profits of Strong Petrochemical (HK) was higher than the same period in previous financial year.

Profit for the year

As a result of the changes in the items discussed above, our profit for the seven months ended 31 October 2008 increased by approximately HK\$72.7 million, or approximately 191.8%, from HK\$37.9 million to HK\$110.6 million. Our net profit margin for the seven months ended 31 October 2008 was approximately 2.3%, increased by approximately 0.9 percentage point from approximately 1.4% in the same period in the previous financial year.

(ii) *Comparison of our results for the year ended 31 March 2008 and the year ended 31 March 2007*

Revenue

Our total revenue for the year ended 31 March 2008 was approximately HK\$4,211.2 million, representing a decrease of approximately HK\$927.5 million, or approximately 18.0%, from approximately HK\$5,138.7 million in the previous financial year.

Such decrease was mainly due to the decrease in sales quantity of our principal trading products, namely crude oil and LSWR by approximately 21.6% and 64.8% during the year ended 31 March 2008, which respectively contributed to a decrease in revenue of approximately HK\$436.8 million and HK\$713.4 million. The decrease in crude oil trading for the year ended 31 March 2008 was due to the absence of term agreements with supplier for Sakhalin Blend crude oil as compared to the previous financial year. The decrease in trading of LSWR for the year ended 31 March 2008 was due to (i) the decrease in market supply; and (ii) the weaker demand of LSWR as a result of the surge in world oil price. Russia, being the producing country of Sakhalin Blend crude oil, has suspended the environmental permit of certain Sakhalin Blend crude oil producers since late 2006, and producing countries of LSWR have been reducing their export of LSWR since late 2006 as those producing countries retained LSWR for domestic use.

World oil price surged significantly and became volatile during the year ended 31 March 2008. Therefore, we evaluated and pursued our trading opportunities prudently and selectively in order to minimise our trading risks. As such, we had not pursued sufficient attractive trading opportunities to compensate the decrease in our revenues arising from the fall in the trading of Sakhalin Blend crude oil and LSWR during the year ended 31 March 2008.

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Cost of sales

Our cost of sales for the year ended 31 March 2008 was approximately HK\$4,103.0 million, representing a decrease of approximately HK\$848.2 million, or approximately 17.1%, from approximately HK\$4,951.2 million in the previous financial year.

Gross profit and gross profit margin

Our gross profit for the year ended 31 March 2008 was approximately HK\$108.2 million, representing a decrease of approximately HK\$79.2 million, or approximately 42.3%, from approximately HK\$187.4 million in the previous financial year. Our gross profit margin for the year ended 31 March 2008 was approximately 2.6%, decreased from approximately 3.6% in the previous financial year. Such decrease in gross profit and gross profit margin was mainly due to the decrease in gross profit of approximately HK\$126.5 million from trading of LSWR. Gross profit margin recorded from trading of petroleum products for the year ended 31 March 2008 decreased significantly from 10.5% to 1.4% in the previous financial year. As a result of the surge in world oil price, our customer posted a weaker appetite for LSWR and our margin was squeezed during the timing of high oil price.

Other income

Our other income for the year ended 31 March 2008 was approximately HK\$19.0 million, representing an increase of approximately HK\$7.6 million, or approximately 66.7%, from approximately HK\$11.4 million in the previous financial year. Such increase was mainly due to (i) the recognition of insurance claim of approximately HK\$3.5 million for shortage of crude oil in a shipment; (ii) the recognition of net demurrage charges of approximately HK\$1.2 million; (iii) the increase of approximately HK\$1.8 million in bank interest income as a result of the increase in effective interest rate of pledged bank deposits, balance in saving accounts and short term bank deposits from the range of 4.0% to 5.055% in the year ended 31 March 2007 to the range of 2.55% to 5.65% in the year ended 31 March 2008; and (iv) the recognition of approximately HK\$1.7 million in the change in fair value in a principal-protected bank structured deposits denominated in US dollars.

Administrative and other operating expenses

Our administrative and other operating expenses for the year ended 31 March 2008 was approximately HK\$24.4 million, representing an increase of approximately HK\$5.1 million, or approximately 26.4%, from approximately HK\$19.3 million in the previous financial year. For the year ended 31 March 2008, we did not engage Arrangers for arrangement of custom clearance and discharge of oil products and therefore no commission had been paid to Arrangers. However, we recorded increase in other areas such as (i) professional service fee by approximately HK\$7.0 million; (ii) staff costs and commission to traders by approximately HK\$0.9 million as a result of general increase in salary; and (iii) commission to brokers by approximately HK\$0.5 million.

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Fair value changes on derivative financial instruments

The fair value changes on derivative financial instruments for the year ended 31 March 2008 was approximately HK\$(3.7) million, representing an increase of approximately HK\$27.8 million from approximately HK\$(31.5) million in the previous financial year.

For the year ended 31 March 2008, we recognised significant loss of approximately HK\$16.4 million and approximately HK\$13.7 million from two shipments in fair value changes on derivative financial instruments. However, such loss was offset by (i) the gain of approximately HK\$23.5 million in fair value changes on derivative financial instruments from the other 14 Hedged Shipments; and (ii) the gain of approximately HK\$3.0 million in fair value changes on derivative financial instruments from the 5 Unsuccessful Shipments with Derivative Contracts.

Fair value changes on held for trading investments

In March 2008, our subsidiary Strong Property purchased two Hong Kong listed equities at a total cost of approximately HK\$11.9 million for trading purpose. As of 31 March 2008, the fair value of these two Hong Kong listed equities was HK\$9.3 million. Therefore, we recorded fair value changes on held for trading investments of HK\$(2.6) million for the year ended 31 March 2008. Except for the purchase of these two Hong Kong listed equities in March 2008, we had not purchased any listed equities in Hong Kong or elsewhere in the past.

Finance costs

Our finance costs for the year ended 31 March 2008 was approximately HK\$3.0 million, representing a decrease of approximately HK\$1.8 million, or approximately 37.5%, from approximately HK\$4.8 million in the previous financial year. Such decrease was mainly due to the decrease in bank charges for the issuance of letter of credits. As our purchase costs for trading products decreased, our bank charges for the issuance of letter of credits throughout the year decreased accordingly.

Taxation

Our taxation for the year ended 31 March 2008 was approximately HK\$0.8 million, representing a decrease of approximately HK\$6.7 million, or approximately 89.3%, from approximately HK\$7.5 million in the previous financial year. The decrease in taxation was mainly due to the decrease in gross profits generated from Strong Petrochemical (HK). For the year ended 31 March 2007 and 2008, Strong Petrochemical (HK) recorded gross profit of approximately HK\$48.9 million and HK\$15.7 million respectively. As the profitability of those shipments derived from Strong Petrochemical (HK) for the year ended 31 March 2008 was lower

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than that in the previous year due to decreasing gross profit from trading in LSWR, taxation for Strong Petrochemical (HK) decreased. In addition, there were no Deemed-PRC-related-shipments in the year ended 31 March 2008 and therefore no PRC FEIT for Strong Petrochemical (Macao) was recorded.

Profit for the year

As a result of the changes in the items discussed above, our profit for the year ended 31 March 2008 decreased by approximately HK\$43.1 million, or approximately 31.7%, from HK\$135.8 million to HK\$92.7 million. Our net profit margin for the year ended 31 March 2008 was approximately 2.2%, decreased by approximately 0.4 percentage point from approximately 2.6% in the previous financial year.

(iii) *Comparison of our results for the year ended 31 March 2007 and the year ended 31 March 2006*

Revenue

Our total revenue for the year ended 31 March 2007 was approximately HK\$5,138.7 million, representing a decrease of approximately HK\$189.6 million, or approximately 3.6%, from approximately HK\$5,328.3 million in the previous financial year.

Such decrease was mainly due to the lack of revenue contribution from jet fuel of approximately HK\$682.3 million and unleaded gasoline of approximately HK\$379.4 million. We stopped trading jet fuel and unleaded gasoline in the year ended 31 March 2007 since we posted an unsatisfactory trading performance in jet fuel in the previous financial year and the PRC market lack of supply in unleaded gasoline.

For the year ended 31 March 2006, we traded five shipments of jet fuel and recorded revenue of HK\$682.3 million and gross loss of HK\$21.2 million. Among the five shipments, we secured customers of four shipments by way of tender. The pricing basis of jet fuel which was pre-determined by the tenderer under the tender, was floating and based on the average daily prices of a reference oil product in the month prior to the physical delivery date of the shipment plus a margin (for example, April “Kerosene” + US\$2.0, where delivery date of the shipment was in May and Kerosene is the reference oil product). This pricing basis is different to the norm in the oil products trading industry where the floating price is usually referenced to the prices of reference oil product in the month of bill of lading date (for example, April “Kerosene” + US\$2.0, where bill of lading date of the shipment is in April and Kerosene is the reference oil product).

Since the floating prices under the buy-side agreement (which followed the traditional pricing basis by reference to the month of bill of lading date) and the sell-side agreement (which followed the special pricing basis by reference to the month prior to delivery date) might not be referenced to the same month, where floating prices under the buy-side agreement might be one month lag behind the sell-side agreement, and the price of Kerosene kept on rising during the

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pricing period, our final purchase costs under the buy-side agreement were higher than the selling prices under the sell-side agreement. In order to prevent the price risk similar to this incident, we endeavor to price the buy-side agreement and the sell-side agreement with the same pricing basis in future trading shipments in order to eliminate our price risk.

However, the decrease in total revenue was offset by (i) the increase of approximately HK\$345.5 million in sales of crude oil due to the increase in unit price as a result of surge in world oil price; and (ii) the increase in HK\$482.8 million in sales of LSWR due to the increase in number of trading shipments and sales quantity since we traded with two new suppliers of LSWR since the fourth quarter of 2005. In the year ended 31 March 2006, we sourced four shipments of LSWR in the amount of HK\$450.2 million from these two new suppliers of LSWR. In the year ended 31 March 2007, we sourced nine shipments of LSWR in the amount of HK\$857.9 million from these two new suppliers of LSWR.

Cost of sales

Our cost of sales for the year ended 31 March 2007 was approximately HK\$4,951.2 million, representing a decrease of approximately HK\$279.1 million, or approximately 5.3%, from approximately HK\$5,230.3 million in the previous financial year.

Gross profit and gross profit margin

Our gross profit for the year ended 31 March 2007 was approximately HK\$187.4 million, representing an increase of approximately HK\$89.4 million, or approximately 91.2%, from approximately HK\$98.0 million in the previous financial year. Our gross profit margin for the year ended 31 March 2007 was approximately 3.6%, increased from approximately 1.8% in the previous financial year.

Such increase was primarily due to increase in gross profit of approximately HK\$102.0 million from trading of LSWR. Since LSWR sourced in the year ended 31 March 2007 was of better quality in terms of lower density, lower sulphur content and lower micro carbon residue content, we were able to sell at a higher margin and therefore we posted a higher gross profit and gross profit margin. The gross profit margin of LSWR in the year ended 31 March 2007 was significantly higher than that in the previous financial year.

However, such increase was slightly offset by the decrease in gross profit and gross profit margin from trading of crude oil. The gross profit recorded from crude oil trading in the year ended 31 March 2007 was approximately HK\$50.7 million (representing gross profit margin of 1.3%), compared with approximately HK\$81.9 million (representing gross profit margin of 2.4%) in the previous financial year. In the year ended 31 March 2007, we traded 14 shipments of Sakhalin Blend crude oil, among which 10 shipments were under three buy-side term agreements. The gross profit margin from trading of each shipment of Sakhalin Blend crude oil ranged from 0.4% to 3.6%. In the year ended 31 March 2006, we traded 7 shipments of Sakhalin Blend crude oil, among which 6 shipments were under two buy-side term agreements with gross

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profit margin ranged from 1.7% to 2.0%. However, we also traded 4 shipments of Nile Blend crude oil in the year ended 31 March 2006 and earned gross profit margin ranging from 1.3% to 7.4%. Since we did not trade Nile Blend crude oil in the year ended 31 March 2007, our gross profit and gross profit margin was lower.

Other income

Our other income for the year ended 31 March 2007 was approximately HK\$11.4 million, representing a slight decrease of approximately HK\$0.2 million, or approximately 1.7%, from approximately HK\$11.6 million in the previous financial year. For the year ended 31 March 2008, bank interest income accounted for approximately 95.2% of the total other income and increased by approximately HK\$4.5 million to approximately HK\$10.9 million. Such increase in bank interest income was due to the increase in effective interest rates of pledged bank deposits, balances in saving accounts and short term bank deposits from the range of 2.15% to 4.565% in the year ended 31 March 2006 to the range of 4.0% to 5.055% in the year ended 31 March 2007.

Administrative and other operating expenses

Our administrative and other operating expenses for the year ended 31 March 2007 was approximately HK\$19.3 million, representing an increase of approximately HK\$1.7 million, or approximately 9.7%, from approximately HK\$17.6 million in the previous financial year.

Such increase was mainly due to (i) the increase of approximately HK\$3.1 million in commission to Arrangers for the arrangement of custom clearances and discharges of four shipments of LSWR; and (ii) the increase of approximately HK\$2.2 million in brokerage commissions as result of the increase in derivative financial instruments transactions for hedging purposes. However, such increase was offset by the decrease in commission to Referral Agents of approximately HK\$2.0 million since there was only one shipment of crude oil being successfully referred by Referral Agent versus two shipments of crude oil, one shipment of LSWR and one shipment of Naphtha being successfully referred by Referral Agents in the year ended 31 March 2006.

Fair value changes on derivative financial instruments

The fair value changes on derivative financial instruments for the year ended 31 March 2007 was approximately HK\$(31.5) million, representing a decrease of approximately HK\$30.5 million from approximately HK\$(1.0) million in the previous financial year.

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For the year ended 31 March 2007, we recognised a significant loss of approximately HK\$27.3 million in fair value changes on derivative financial instruments for an Inefficient Shipment (Shipment 5 in the year ended 31 March 2007). For details of which, please refer to “Financial information — (IV) Principal income statement items — Fair value changes on derivative financial instruments — Inefficient Hedging Shipments — 1. Lack of appropriate derivative financial instruments”.

Finance costs

Our finance costs for the year ended 31 March 2007 was approximately HK\$4.8 million, representing a decrease of approximately HK\$1.2 million, or approximately 20.0%, from approximately HK\$6.0 million in the previous financial year. Such decrease was mainly due to the decrease in bank charges for the issuance of letters of credit. As our purchase costs for trading products decreased, our bank charges for the issuance of letters of credit throughout the year decreased accordingly.

Taxation

Our taxation for the year ended 31 March 2007 was HK\$7.5 million, representing an increase of approximately HK\$3.7 million, or approximately 97.4%, from approximately HK\$3.8 million in the previous financial year. The increase in taxation was mainly due to the increase in assessable profits generated from Strong Petrochemical (HK) from approximately HK\$20.2 million for the year ended 31 March 2006 to approximately HK\$40.4 million for the year ended 31 March 2007. For the year ended 31 March 2006, Strong Petrochemical (HK) recorded a loss of approximately HK\$16.3 million from trading in derivative financial instruments, which led to lower assessable profits. However, Strong Petrochemical (HK) did not conduct trading in derivative financial instrument for the year ended 31 March 2007 and therefore the assessable profits was comparatively higher.

In addition, there was one Deemed-PRC-related-shipment with gross profit of approximately HK\$1.3 million in the year ended 31 March 2007 which might subject to PRC FEIT at a tax rate of 33% with taxation amounted to HK\$0.4 million.

Profit for the year

As a result of the changes in the items discussed above, our profit for the year ended 31 March 2007 increased by approximately HK\$54.5 million, or 67.0%, from HK\$81.3 million to HK\$135.8 million. Our net profit margin for the year ended 31 March 2007 was approximately 2.6%, increased by approximately 1.1 percentage point from approximately 1.5% in the previous financial year.

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(VI) CERTAIN BALANCE SHEET ITEMS

The following table shows the combined balance sheet of our Group as at 31 March 2006, 2007 and 2008, and 31 October 2008 prepared on the basis that the current Group structure had been in place throughout the Track Record Period.

	As at 31 March			As at
	2006	2007	2008	31 October
	HK\$'000	HK\$'000	HK\$'000	2008 HK\$'000
Non-current assets				
Property, plant and equipment	21,432	19,703	19,731	22,358
Prepaid lease payments	—	—	21,302	21,019
Available-for-sale investments	1,592	1,592	1,592	1,592
Bank structured deposit	—	—	17,271	16,597
Interest in an associate	—	—	49,789	50,489
	<u>23,024</u>	<u>21,295</u>	<u>109,685</u>	<u>112,055</u>
Current assets				
Prepaid lease payments	—	—	—	434
Trade receivables	382,052	—	63,027	234,238
Other receivables, deposits and prepayments	2,471	5,971	6,003	4,539
Amounts due from brokers and other oil trading company	—	—	—	151,274
Tax recoverable	—	—	4,565	2,289
Held for trading investments	—	—	9,327	7,622
Deposits placed with brokers	17,202	35,084	22,606	29,360
Pledged bank deposits	98,482	23,475	15,677	49,225
Bank balances and cash	122,269	187,036	80,996	52,128
	<u>622,476</u>	<u>251,566</u>	<u>202,201</u>	<u>531,109</u>
Current liabilities				
Trade and bills payables	371,709	—	3,928	158,788
Other payables and accruals	1,454	7,494	10,500	74,935
Derivative financial instruments	—	—	—	310
Amounts due to shareholders	68,361	1,990	—	—
Dividend payable	—	—	53,313	53,313
Taxation	12,336	13,966	9,540	9,570
	<u>453,860</u>	<u>23,450</u>	<u>77,281</u>	<u>296,916</u>
Net current assets	<u>168,616</u>	<u>228,116</u>	<u>124,920</u>	<u>234,193</u>
Total assets less current liabilities	<u>191,640</u>	<u>249,411</u>	<u>234,605</u>	<u>346,248</u>
Equity				
Share capital	78	78	78	78
Reserves	<u>191,562</u>	<u>249,333</u>	<u>234,527</u>	<u>346,170</u>
Total equity	<u>191,640</u>	<u>249,411</u>	<u>234,605</u>	<u>346,248</u>

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(A) Trade receivables and trade and bills payables

We usually collect payment from our customer by telegraphic transfer around 30 days from the bill of lading date and make payment to our supplier by letter of credits at around the same time, which is also 30 days from bill of lading date. Therefore, the amount of trade receivables, trade and bill payables as at each balance sheet date, in general, are mirror to each other, and varies according to the number of shipments and the corresponding contract price pending to be settled.

The following table sets forth the amounts of trade receivables, bills payables, trade payables, trade receivables turnover days, bills and trade payables turnover days and the number of shipment pending to be settled as of each of the balance sheet date:

	As at 31 March			As at
	2006	2007	2008	31 October 2008
Trade receivables (<i>HK\$ million</i>)	382.1	—	63.0	234.2
Bills payables (<i>HK\$ million</i>)	365.4	—	—	—
Trade payables (<i>HK\$ million</i>)	6.3	—	3.9	158.8
Trade receivables turnover days (<i>Note 1</i>)	23	14	3	7
Bills and trade payables turnover days (<i>Note 2</i>)	22	14	0.2	4
Number of shipments pending to be settled	3	—	2	2

Notes

1. Calculated based on the average opening and closing balance of trade receivables as at balance sheet date divided by revenue generated for the corresponding year/period and multiplied by number of days in the corresponding year/period.
2. Calculated based on the average opening and closing balance of the bills and trade payables as at balance sheet date divided by cost of sales for the corresponding year/period and multiplied by number of days in the corresponding year/period.

As presented above, the amount of trade receivables (representing revenue to be received from our customer) and bills payables (representing purchase cost to be paid to our supplier by letter of credits) corresponded to the total contract amounts for those shipments pending to be settled as at each of the balance sheet date. As at 31 March 2007, we had no outstanding shipments pending to be settled and therefore we did not have any trade receivables and bills payables. As at 31 March 2008, trade receivables of approximately HK\$63.0 million represented the total contract amounts for two shipments pending to be received from customers. As these two shipments had been partially settled by advance payment to suppliers, we had no bills payables as at 31 March 2008. As at 31 October 2008, trade receivables of approximately HK\$234.2 million represented the total contract amounts for two shipments pending to be received from customers. The corresponding total contract amounts of

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approximately HK\$147.6 million for that two shipments, which were pending to be paid to suppliers, were recorded as trade payables instead of bills payables. Therefore, no bills payables was recorded as at 31 October 2008. The amounts of trade receivables and bills payables, if any, as of 31 March 2006, 2007, 2008 and 31 October 2008 were all subsequently settled.

Trade payables as at each of the balance sheet date usually represented commission, freight charges and demurrage charges relating to our trading business. However, as at 31 March 2008, trade payables of approximately HK\$3.9 million represented outstanding purchase cost for two shipments, and as at 31 October 2008, among the total trade payables of approximately HK\$158.8 million, approximately HK\$147.6 million represented outstanding purchase cost for two shipments, all of which had been fully subsequently settled.

The turnover days for trade receivables and bills and trade payables were roughly the same during the Track Record Period, as the amounts of trade receivables and bills payables mirror to each other. The relatively higher turnover days on accounts receivables and bills and trade payables for the year ended 31 March 2006 were due to the higher total contract value for those shipments to be settled after 31 March 2006. Although no shipment was pending to be settled as at 31 March 2007, we recorded turnover days of 14 days due to the calculation basis of the turnover days which included the average opening and closing balance of trade receivables and bills payables. For the year ended 31 March 2008, the turnover days for bills and trade payables was 0.2 day as no balance of bills payables was recorded as of 31 March 2007 and 2008 and only minimal amount of trade payables were pending to be settled as of 31 March 2008; and the turnover days for trade receivables was 3 days, which was lower than the previous financial year, as no trade receivables was recorded as of 31 March 2007. For the seven months ended 31 October 2008, both turnover days for trade receivables and trade payables increased slightly to 7 days and 4 days respectively as a result of the contract values of two shipments were pending to settle after 31 October 2008.

During the Track Record Period, most of the sales to our customers were settled on an open account basis using telegraphic transfer. During the financial year ended 31 March 2008, the average selling price of each shipment reached approximately HK\$162.0 million, representing approximately 174.7% of our net profit for the same period.

In the event that any of our customers fails to meet its payment obligations, we will suffer significant loss or even become bankrupt. To limit our credit risk exposure, we select our customers prudently and selectively. During the Track Record Period, we mainly transacted with the Five State-owned Licensed Import Agents which have strong financial background and well-established market positions. Before accepting any new customers, we will assess their background and credibility. In addition, our banks will also review and evaluate the background and credibility of our suppliers and customers before we enter into a buy-side and/or sell-side agreement. Without our banks' consent, we will not carry out a transaction.

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(B) Prepaid lease payments

As at 31 October 2008, we had prepaid lease payments of approximately HK\$21.5 million, representing the total land premium for the two parcels of land in Nantong City under Nantong Project.

(C) Bank structured deposits

As at 31 October 2008, we had bank-structured deposit (the “Bank-structured Deposit”) of approximately HK\$16.6 million. In May 2007, we placed a principal of US\$2 million (the “Principal”) to an authorised licensed commercial bank (the “Bank”) in Hong Kong on a principal-protected structured deposits. The amount of interest on the Bank-structured Deposit is linked to the return of a proprietary foreign exchange yield differential index published by the Bank.

The Bank-structured Deposit has a term of 5 years which matures on 9 May 2012. At maturity, we are entitled to receive the higher of (i) the Principal or (ii) the Principal plus return after deduction of the administration fee. There is no recurring interest/return payment during the term of the Bank-structured Deposit. The expected return from the Bank-structured Deposit is uncertain until maturity with a minimum of zero and unlimited upside potential. The Bank-structured Deposit may be early terminated by us (at a fee based on a percentage of the deposit and the deposit term, and with the underlying structured instruments value at current value); or the Bank (with payment of principal and interest).

During our ordinary course of business, we have to place pledged bank deposits with the Bank for issuance of letter of credits to our supplier. The Bank-structured Deposit can be recognised by the Bank as our pledged bank deposits. Given that the Bank-structured Deposit is principal-protected in nature with an upside potential of earning a more attractive return than current saving/fixed deposit rate under the recent downward interest rate trend, and we have to place pledged bank deposits with the Bank for issuance of letter of credits, we consider that the Bank-structured Deposit is in the interest of our Group.

(D) Deposits placed with brokers

As at 31 March 2006, 2007 and 2008, and 31 October 2008, we maintained margin deposits of approximately HK\$17.2 million, HK\$35.1 million, HK\$16.5 million and HK\$25.1 million, respectively, with brokers for trading of financial instruments for hedging purpose. Such deposits solely represented our accumulated cash balance in the broker account rolling over the years. The margin deposits carried interest at market rate, which ranged from 0% to 5.74% per annum during the Track Record Period. As at 31 March 2008 and 31 October 2008, we also maintained deposits of HK\$6.1 million and HK\$4.3 million with securities broker for trading in Hong Kong listed securities, which carried interest at market rates from 0.25% to 0.77% per annum.

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(E) Amounts due from brokers and other oil trading company

As at 31 October 2008, we had amounts due from brokers and an oil trading company of approximately HK\$151.3 million, which represented the settlement amounts pending to be received from brokers and such oil trading company arising from the gain from trading in forward and swap contracts concluded on 31 October 2008. Such amounts had been fully settled on 7th and 14th of November 2008 in accordance with the terms of the forward and swap contracts entered into between the counterparties and ourselves in September 2008.

(F) Other receivables, deposits and prepayments

The following table sets forth other receivables, deposits and prepayments during the Track Record Period:

	As at 31 March			As at
	2006	2007	2008	31 October
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Other receivables	2,383	5,860	347	547
Deposits	75	77	170	174
Prepayments	<u>13</u>	<u>34</u>	<u>5,486</u>	<u>3,818</u>
Total	<u>2,471</u>	<u>5,971</u>	<u>6,003</u>	<u>4,539</u>

As at 31 March 2006, other receivables mainly comprised of commission income earned in relation to rebate from one of our principal trading counterparts for our referral of customer. As at 31 March 2007, other receivables of approximately HK\$5.5 million represented cash advance to a staff. As at 31 March 2008 and 31 October 2008, prepayments mainly comprised of professional service fee in relation to the preparation of the Share Offer.

(G) Other payables and accruals

	As at 31 March			As at
	2006	2007	2008	31 October
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Other payables	436	826	65	63,939
Accruals	<u>1,018</u>	<u>6,668</u>	<u>10,435</u>	<u>10,996</u>
Total	<u>1,454</u>	<u>7,494</u>	<u>10,500</u>	<u>74,935</u>

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As at 31 October 2008, other payables of approximately HK\$63.6 million represented the advance payment from a customer in excess of the final billing amounts. As at 31 October 2008, accruals of approximately HK\$11.0 million mainly comprised of (i) professional service fee of approximately HK\$1.5 million in relation to the preparation of the Share Offer; (ii) construction fee of approximately HK\$3.3 million for the Nantong Project; and (iii) demurrage expenditure of approximately HK\$5.1 million.

(H) Amounts due to shareholders

As at 31 March 2006, 2007 and 2008, and 31 October 2008, amounts due to shareholders were approximately HK\$68.4 million, HK\$2.0 million, nil and nil.

(I) Current ratio

As at 31 March 2006, 2007, 2008 and 31 October 2008, we recorded current ratio of 1.4 times, 10.7 times, 2.6 times and 1.8 times respectively. Our current ratio was relatively stable during the Track Record Period except the financial year ended 31 March 2007.

For the financial year ended 31 March 2007, amounts due to the shareholders decreased from approximately HK\$68.4 million as at 31 March 2006 to approximately HK\$2.0 million as at 31 March 2007 as a result of our cash repayment to shareholders which were financed by our strong operating cash inflow of HK\$141.2 million following the substantial increase in gross profit in the year ended 31 March 2007. In addition, trade receivables and trade and bills payables as of 31 March 2007 decreased substantially by HK\$382.1 million and HK\$371.7 million as no shipment was pending to be settled as of 31 March 2007. The sharp decrease in amounts due to shareholders and trade and bills payables significantly pulled down the size of current liabilities compared with current assets and therefore the current ratio increased substantially in the financial year ended 31 March 2007.

For the financial year ended 31 March 2008, our current ratio dropped to 2.6 times as a result of (i) the decrease in our bank balances and cash of approximately HK\$106.0 million; and (ii) the increase in our dividend payable of approximately HK\$53.3 million. The decrease in our bank balances and cash was mainly attributable to (i) our investment in bank structured deposit (non-current assets) of approximately HK\$17.3 million; (ii) our capital contribution to the Tianjin Company (non-current assets) of approximately HK\$49.8 million; and (iii) prepaid lease payments for land premium of the Nantong Project (non-current assets) of approximately HK\$21.3 million.

As at 31 October 2008, our current ratio further dropped to 1.8 times as a result of (i) the increase of trade and bills payables of approximate HK\$154.9 million; and (ii) the increase of other payables and accruals of approximately HK\$64.4 million. The increase in trade and bills payables of approximately HK\$154.9 million was mainly due to two shipments pending to be settled after 31 October 2008. The increase in other payables and accruals was mainly attributable to the payables due to a customer as a result of the excess of the final billing amounts of approximately HK\$63.6 million. The above shipments and accruals had been fully settled before the Latest Practicable Date.

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(J) Gearing ratio

As at 31 March 2006 and 2007, we had no bank borrowings but shareholders' loan and we recorded gearing ratio (calculated based on amounts due to shareholders divided by total assets multiplied by 100%) of 10.6% and 0.7% respectively. Since we continued repaying our shareholders' loan during the two years ended 31 March 2008, our gearing ratio decreased accordingly. As at 31 March 2008 and 31 October 2008, we had no bank borrowings and no shareholders' loan and therefore gearing ratio was nil.

(K) Return on equity

For the years ended 31 March 2006, 2007 and 2008, and the seven months and 31 October 2008, we recorded return on equity of 42.4%, 54.4%, 39.5% and 31.9% respectively.

The increase in return in equity during the year ended 31 March 2007 was mainly attributable to the significant increase in our net profit, which was driven by the increase in gross profit and gross profit margin of our oil trading business during the same year. For the year ended 31 March 2007, our net profit increased by approximately 67.1% to approximately HK\$135.8 million, and our equity only increased by approximately 30.1% to approximately HK\$249.4 million; therefore, return on equity was higher for the year ended 31 March 2007.

The subsequent decrease in return on equity for the year ended 31 March 2008 was mainly due to the decrease in our net profit, which was partially offset by the decrease in our total equity. During the year ended 31 March 2008, our net profit fell by approximately 31.7% to approximately HK\$92.7 million due to the decrease in our gross profit and gross profit margin. Although our total equity decreased by approximately 5.9% to approximately HK\$234.6 million mainly as a result of the declaration of dividend of HK\$109.2 million in the year ended 31 March 2008, our return on equity decreased to 39.5% for the year ended 31 March 2008 because of the fall in our net profit.

(VII) CAPITAL STRUCTURE, LIQUIDITY AND BANKING FACILITIES

We generally finance our operations through operating profit and a combination of letter of credit facilities from banks and capital contributions from our Shareholder. During the Track Record Period, we settled payment to suppliers by means of letter of credit and received payment from customers by telegraphic transfer. In general, our capital requirements for the oil products trading business include (i) margin deposit pledged with the bank for the issuance of letter of credit; (ii) freight cost, inspection fee, insurance, demurrage charges, discharge fees and other trading expenses; and (iii) margin deposits placed with brokers.

As at the Latest Practicable Date, we had not experienced any difficulty with issuance of letter of credits, and we had not experienced any liquidity problems in settling our payables in the normal course of business.

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The following table sets out selected cash flow data from our combined cash flow statements for the year/period indicated:

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Net cash inflow from operating activities	81,647	141,180	4,984	30,897	11,308
Net cash inflow/(outflow) from investing activities	(34,622)	67,958	(54,380)	(71,451)	(40,104)
Net cash inflow/(outflow) from financing activities	(45,277)	(144,371)	(57,877)	(14,222)	—
Net (decrease)/increase in cash and cash equivalents	1,748	64,767	(107,273)	(54,776)	(28,796)
Cash and cash equivalents at the end of the year/period	<u>122,269</u>	<u>187,036</u>	<u>80,996</u>	<u>132,223</u>	<u>52,128</u>

(A) Operating activities

Seven months ended 31 October 2008

Net cash from operating activities for the seven months ended 31 October 2008 was approximately HK\$11.3 million, comprised primarily of our profit before taxation of approximately HK\$114.6 million, reduced by, among other things, (i) an increase in trade receivables of approximately HK\$171.2 million due to two shipments pending to be settled after 31 October 2008; and (ii) an increase in amounts due from brokers and other oil trading company of approximately HK\$151.3 million, and partially offset by (i) an increase in trade and bills payables of approximately HK\$154.9 million due to two shipments pending to be settled after 31 October 2008; and (ii) an increase in other payables and accruals by approximately HK\$64.4 million as a result of the excess of final billing amounts due to a customer.

The increase in amounts due from brokers and other oil trading company of approximately HK\$151.3 million represented the settlement amounts pending to be received from brokers and such oil trading company arising from the gain from trading in forward and swap contracts concluded on 31 October 2008. Such amounts had been fully settled on 7th and 14th of November 2008 in accordance with the terms of the forward and swap contracts entered into between the counterparties and ourselves in September 2008.

Year ended 31 March 2008

Net cash from operating activities for the year ended 31 March 2008 was approximately HK\$5.0 million, comprised primarily of our profit before taxation of approximately HK\$93.5

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million, reduced by, among other things, (i) an increase in trade receivables of approximately HK\$63.0 million due to two shipments pending to be settled after 31 March 2008; and (ii) an increase in held for trading investments in two Hong Kong listed equities of approximately HK\$9.3 million.

Year ended 31 March 2007

Net cash from operating activities for the year ended 31 March 2007 was approximately HK\$141.2 million, comprised primarily of our profit before taxation of approximately HK\$143.3 million, reduced by, among other things, a decrease in trade receivables of approximately HK\$382.1 million, and substantially offset by a decrease in trade and bills payables of approximately HK\$371.7 million.

The decreases in trade receivables and trade and bills payables were due to no shipments pending to be settled after 31 March 2007.

Year ended 31 March 2006

Net cash from operating activities for the year ended 31 March 2006 was approximately HK\$81.6 million, comprised primarily of our profit before taxation of approximately HK\$85.0 million, reduced by, among other things, an increase in trade receivables of approximately HK\$101.0 million, and substantially offset by an increase in trade and bills payables of approximately HK\$99.9 million.

The increases in trade receivables and trade and bills payables were due to the outstanding settlement for three shipments which were all due on 30 days from bill of lading date after 31 March 2006.

(B) Investing activities

Seven months ended 31 October 2008

Net cash used in investing activities for the seven months ended 31 October 2008 was approximately HK\$40.1 million, primarily due to an increase of approximately HK\$33.5 million in pledged bank deposits in relation to the issuance of letter of credits. As a result of our mounting sales volume during the seven months ended 31 October 2008, the amounts of utilised credit facilities and pledged bank deposits also increased accordingly.

Year ended 31 March 2008

Net cash used in investing activities for the year ended 31 March 2008 was approximately HK\$54.4 million, primarily due to (i) an increase of approximately HK\$21.3 million in prepaid leases payments for land premium of the Nantong Project; (ii) an increase of approximately

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HK\$15.6 million in a principle-protected bank structured deposit denominated in US dollars; and (iii) an increase of approximately HK\$49.3 million in investment in the Tianjin Company; and partially offset by (i) an increase of approximately HK\$12.5 million in deposits placed with brokers; and (ii) an increase of approximately HK\$7.8 million in pledged bank deposits.

Year ended 31 March 2007

Net cash from investing activities for the year ended 31 March 2007 was approximately HK\$68.0 million, primarily due to (i) the receipt of bank interests of approximately HK\$10.9 million; and (ii) the release of pledged bank deposits for issuance of letter of credits of approximately HK\$75.0 million, and partially offset by the increase of approximately HK\$17.9 million in deposits placed with brokers as we opened a new broker account for derivative financial instruments transaction.

Compared with other financial years/periods, we recognised cash inflow from investing activities for the year ended 31 March 2007 mainly as a result of increase in cash flow from the release of pledged bank deposits. Since we did not have any shipments pending to be settled as at 31 March 2007, our bank released majority of the pledged deposits held with them for the purpose of obtaining letter of credit. However, we still maintained approximately HK\$23.5 million of pledged bank deposits as at 31 March 2007 as we did not instruct our bank to release such amounts of pledged bank deposits.

Year ended 31 March 2006

Net cash used in investing activities for the year ended 31 March 2006 was approximately HK\$34.6 million, primarily due to the increase of approximately HK\$51.5 million in pledged bank deposits for issuance of letter of credits, and partially offset by the decrease of approximately HK\$10.9 million in deposits placed with brokers.

(C) Financing activities

Seven months ended 31 October 2008

We did not recognise net cash inflow/(outflow) from financing activities for the seven months ended 31 October 2008.

Year ended 31 March 2008

Net cash used in financing activities for the year ended 31 March 2008 was approximately HK\$57.9 million, comprised of (i) dividends payment of approximately HK\$55.9 million, which was part of the dividends of HK\$109.2 million declared by Santron Holdings, the then holding company of our Group; and (ii) repayment to shareholders of approximately HK\$2.0 million.

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Year ended 31 March 2007

Net cash used in financing activities for the year ended 31 March 2007 was approximately HK\$144.4 million, comprised of (i) dividends payment of approximately HK\$78.0 million, declared by Santron Holdings, the then holding company of our Group; and (ii) repayment to shareholders of approximately HK\$66.4 million.

Year ended 31 March 2006

Net cash used in financing activities for the year ended 31 March 2006 was approximately HK\$45.3 million, representing the repayment to shareholders.

(D) Net current assets

The table below sets out our current assets, current liabilities and net current assets as at 31 October 2008:

	<i>HK\$'000</i>
Current assets	
Prepaid lease payments	434
Trade receivables	234,238
Other receivables, deposits and prepayments	4,539
Amounts due from brokers and other oil trading company	151,274
Tax recoverable	2,289
Held for trading investments	7,622
Deposits placed with brokers	29,360
Pledged bank deposits	49,225
Bank balances and cash	52,128
<i>Total:</i>	<i>531,109</i>
Current liabilities	
Trade and bills payables	158,788
Other payables and accruals	74,935
Derivative financial instruments	310
Amounts due to shareholders	—
Dividend payable	53,313
Tax payable	9,570
<i>Total:</i>	<i>296,916</i>
Net current assets	234,193

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(E) Capital expenditure

During the Track Record Period, our main capital expenditures were addition of plant, equipment and machinery, including additions of buildings, leasehold improvements, furniture and fixtures, office equipment and motor vehicles. The total capital expenditures amounted to approximately HK\$0.007 million, HK\$0.03 million, HK\$1.1 million and HK\$3.0 million during the Track Record Period, respectively.

Up to December 2009, our major planned capital expenditure includes the following:

	Amount of planned capital expenditure	Source of funding	
		IPO proceeds	Internal resources
Nantong Project	RMB99.5 million (equivalent to HK\$113.1 million)	RMB93.5 million (equivalent to HK\$106.2 million)	RMB6.0 million (equivalent to HK\$6.9 million)

Note: The above-mentioned source of funding for the planned capital expenditure up to December 2009 is based on the Offer Price of HK\$2.5 per Offer Share. Please refer to the section headed “Future plans and use of proceeds” of this prospectus for the details of allocation of proceeds from the Share Offer.

(F) Working capital management policy

As of each balance sheet date, our trade receivables and bills and trade payables fluctuated significantly because of the different settlement status of our shipments. As the monetary values involved in our shipments are comparatively large, ranging from approximately US\$1.6 million to US\$120.5 million, and we carried out our trading business mainly on shipment-by-shipment basis, we might or might not have trade receivables and bills and trade payables as at each balance sheet date during the Track Record Period.

In order to ensure the ongoing availability of sufficient working capital for the smooth operation of our oil products trading business and the PRC Storage Business, we have implemented the following working capital management policies:

1. *Minimisation of working capital required for a shipment*

We settle our payment obligations to suppliers by means of letters of credit and receive payment from our customers via telegraphic transfer. For any given shipment, the payment date under the buy-side agreement usually coincides with the payment date under the sell-side agreement, which is normally 30 days from the date of bill of lading. In this regards, the only funding needed for a shipment, assuming that the customer pays on time, is the margin deposit pledged with the bank for the issuance of a letter of credit. In the event that payment from a customer is unexpectedly delayed, we would have to obtain financing from the standing trust receipt loan facilities granted by our bankers to cover the funding needed for the period between the payment date to the supplier and date of late receipt date from the customer.

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2. *Monitoring of cashflow movement in oil products trading business*

We closely and regularly monitor and follow up with our counterparties in relation to the settlement date and settlement amount of shipment in accordance with the relevant buy-side and/or sell-side agreements after the conclusion of the contract value. Our finance department will also prepare and update a cash flow forecast from time to time to assess and evaluate our latest working capital position. Before the conclusion of a buy-side or sell-side agreement, we shall check the payment terms of such agreement against the latest cash flow forecast and banking facilities available in order to ensure sufficient working capital are available for such shipment.

3. *Maintaining minimum working capital on hand*

We maintain a minimum aggregate daily balance of US\$3 million at banks for operational liquidity to meet any unexpected demands for working capital.

4. *Investments in major assets or projects*

In order to develop our PRC Storage Business, we have invested in the Nantong Project and the Tianjin Company. Any major investment or capital expenditure on the Nantong Project, the Tianjin Company, other major assets investment or project investments must be considered in conjunction with the use of working capital as stated in items 1 to 3 above and subjected to the approval of the Board.

5. *Use of free cash*

Taking into account the use of working capital as stated in items 1 to 4 above, we may consider distributing such free cash to our Shareholders in the form of dividends; and/or investing the remaining free cash on hand in short-term fixed deposits or medium-term fixed deposits such as the US dollar principal-protected structured deposits.

Mr. Wong Wing is responsible to manage and implement our working capital management policy. Mr. Wong, our executive Director, has over 17 years experience in handling finance and auditing works. For the details of Mr. Wong's qualification and working experience, please refer to the section headed "Directors, senior management and staff" of this prospectus. To evaluate the effectiveness of the working capital management policy, our management will review it from time to time and adjust details of which as and when appropriate.

Before the disposal of Strong Property, we, through Strong Property, invested in (i) available-for-sale investment such as corporate debenture; (ii) held-for-trading investments; and (iii) real properties, and such investments respectively amounted to approximately HK\$1.2 million, HK\$7.6 million and HK\$16.9 million as at 31 October 2008. Since the principal business of Strong Property is different from our core business of trading in oil products, we disposed of it on 26 November 2008.

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(VIII) INDEBTEDNESS

(A) Borrowings

As at 31 October 2008, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this prospectus, we had no outstanding borrowings.

(B) Securities and guarantees

As at 31 October 2008, we had a total banking facilities of HK\$1,926.6 million on hand, among which HK\$1,355.7 million was unutilised. Our banking facilities were secured by properties and deposits owned by us and properties held by our Controlling Shareholders, and also guaranteed by our Controlling Shareholders.

Our Directors' assets and personal guarantee to secure our banking facilities will be fully released upon the Listing.

(C) Contingent liabilities

As at 31 October 2008, we had no significant contingent liabilities.

(D) Commitments

As at 31 October 2008, we had authorised but not contracted for capital expenditure of approximately RMB99.5 million (or approximately HK\$113.1 million) in respect of the construction of the petroleum and petrochemical products storage facilities on the two parcels of leasehold land acquired in Nantong City, Jiangsu Province, the PRC. The construction work of the storage facilities under Nantong Project commenced around the first quarter of 2008 and is expected to complete around the third quarter of 2009. Our capital expenditure of approximately RMB99.5 million will be applied from time to time during the construction period and approximately RMB93.5 million will be financed by our proceeds raised under the Share Offer and approximately RMB6.0 million will be financed by our internal resources.

As at 31 October 2008, we committed to contribute capital of RMB49.2 million (or approximately HK\$55.9 million), which represented the second investment of the 15% total registered capital, in Sinochem Tianjin Port Petrochemical Technical Co., Ltd. (中化天津港石化倉儲有限公司), on or before June 2009 or other time approved by the relevant government authorities. Such capital will be financed by the net proceeds from the Share Offer and our internal resources.

(E) Disclaimers

Save as aforesaid, and apart from intra-group liabilities, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 31 October 2008.

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Our Directors confirm that there has been no material change in our indebtedness and contingent liabilities since 31 October 2008.

(F) Working Capital

Taking into account the estimated net proceeds available to us from the Share Offer and after due and careful consideration, our cash and cash equivalents on hand, available letter of credit bank facilities and cash generated from future operations, we confirm that we shall have sufficient working capital for at least 12 months from the date of this prospectus.

Based on (i) the discussion between our Sponsor and ourselves on our future working capital; and (ii) the review by our Sponsor on banking facilities letters issued by our bankers, our Sponsor also concurs with our view that we shall have sufficient working capital for at least 12 months from the date of this prospectus.

(IX) DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they are not aware of any circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

(X) DIVIDENDS AND DISTRIBUTABLE RESERVES

(A) Dividends and dividend policy

During the Track Record Period, the Controlling Shareholders received returns from us in the form of dividends declared, and no emolument was paid to them.

We declared dividends of approximately of HK\$78 million and HK\$109.2 million, respectively, for the years ended 31 March 2007 and 2008. Pursuant to a resolution passed at a meeting of our Board held on 26 November 2008, we declared the Pre-IPO Dividend of HK\$226.2 million to our then shareholders. The Pre-IPO Dividend was sourced from our internal resources and will be paid to our then Shareholders before 31 December 2008.

The Pre-IPO Dividend, representing approximately 103.6% of the net proceeds from the Share Offer, was declared out of our Group's retained profit of approximately HK\$343.3 million as at 31 October 2008, generated by shareholders' equity and management efforts of the Controlling Shareholders during the Track Record Period. Therefore, our Directors consider the Pre-IPO Dividend represented an investment return to the Controlling Shareholders due to their past contributions to our Group during the Track Record Period.

Although our working capital position will slightly decrease immediately after (i) the full payment of Pre-IPO Dividend; and (ii) receipt of net proceeds from the Share Offer, our Directors

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confirm that it will not have any material adverse impact to our business operations and financial position. Upon the Share Offer, we will continue to pursue our growth strategies as set out in “Business — Growth Strategies” of this prospectus, which is to be financed by our internal resources and net proceeds from the Share Offer.

In addition to allowing us to raise new share capital from the equity market, our Directors believe that listing of the Shares on the Main Board will also offer the following advantages:

- Access to capital for growth with opportunities to raise funds both at the time of listing and in later stages
- Access to a broader shareholder base, potentially leading to a more liquid market for trading of the Shares
- Employee incentive and commitment resulting from the granting of employee share options to our key staff members
- Enhanced profile and visibility in the market could generate reassurance among our customers and suppliers
- Increased corporate transparency, leading to the potential grant by our bankers of credit lines on more competitive terms
- Greater efficiency from adherence to rigorous disclosure standards demanded of listed issuers, leading to improved control, management information and operating systems

You should note that historical dividend distributions are not indicative of our future dividend distribution policy.

As stated in the Appendix II to this prospectus, our unaudited pro forma adjusted net tangible assets per Share as at 31 October 2008 amounted to HK\$1.44, as if the Share Offer had been taken place on 31 October 2008.

Had it been permissible to include the Pre-IPO Dividend in the calculation as set out in the Appendix II to this prospectus, our unaudited pro forma adjusted net tangible assets per Share would have been reduced to HK\$0.87 per Share based on the Offer Price of HK\$2.5 per Share.

After completion of the Share Offer, our shareholders will be entitled to receive the dividends we declare. The payment and amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Islands Companies Law, including (where required) the approval of shareholders. In addition, our Controlling Shareholder will be able to influence the passing of the shareholders approval in a general meeting for any payment of dividends.

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Subject to the factors above, we currently plan to pay a dividend for the year ended 31 March 2010 of not less than 30% of the distributable profit as of 31 March 2010 to all our equity holders after the Share Offer. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our shareholders by any means which our Directors deem legal, fair and practicable.

(B) Distributable reserves

Our Company had no reserves available for distribution to our Shareholders as at 31 October 2008, being the date of which our latest audited financial statements were made up.

(XI) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Share Offer on our audited combined net tangible assets as at 31 October 2008 as if it had been taken place on 31 October 2008 and based on the audited combined net tangible assets attributable to equity holders of the Company as at 31 October 2008 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	Audited combined net tangible assets attributable to the equity holders of the Company as at 31 October 2008⁽¹⁾	Add: Estimated net proceeds from the Share Offer⁽²⁾	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on an Offer Price of HK\$2.5 per Share ⁽⁵⁾	346,248	229,190	575,438	1.44

This statement was prepared for illustrative purpose only and because of the nature, it may not give a true picture of financial position of our Group following the Share Offer.

Notes:

1. The audited combined net tangible assets attributable to the equity holders of the Company as at 31 October 2008 has been extracted from the accountants' report, the text of which is set forth in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$2.5 for per Share and 100,000,000 Offer Shares, after deduction of the underwriting fees and other related expenses payable by us after 31 October 2008 and taking into account of the professional fees and other expenses relating to the Listing of approximately HK\$5,958,000 and HK\$4,982,000 which have been recognised as expense in the combined income statements for the year ended 31 March 2008 and the seven months ended 31 October 2008 respectively in accordance with HKAS 32 Financial Instruments: Presentation.

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3. The unaudited pro forma net tangible asset value per Share is based on a total of 400,000,000 Shares expected to be in issue immediately following the completion of the Share Offer and the Capitalisation. It has not taken into account any Shares which may fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme or which may be issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.

4. As at 30 November 2008, our property interests were valued by BMI Appraisals Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III to this prospectus. According to the valuation report, our property interests as at 30 November 2008 amounted to approximately HK\$24,842,000. Comparing this amount with the unaudited net carrying value of our property interests as at 30 November 2008 of approximately HK\$22,761,000, there was a surplus of HK\$2,081,000. In accordance with our accounting policies, such properties are stated at historical cost less accumulated depreciation and amortisation and impairment. As such, the net revaluation surplus will not be included in our consolidated financial information. The adjustment referred to in paragraph 2 does not take into account this revaluation surplus. Had our property interests been stated at such revaluation, an additional depreciation of HK\$117,000 per annum would have been charged against the consolidated income statement.

5. **The Pre-IPO Dividend of approximately HK\$226.2 million was declared pursuant to the resolution passed at a meeting held on 26 November 2008 and such amount will be paid to our then Shareholders before 31 December 2008. Had it been permissible to include the Pre-IPO Dividend in the calculation as set out in Appendix II to this prospectus, the unaudited pro forma adjusted net tangible assets per Share would have been reduced to HK\$0.87 per Share based on the Offer Price of HK\$2.5 per Share.**

(XII) PROPERTY INTERESTS AND PROPERTY VALUATION

Our property interests as valued by BMI Appraisals Limited, an independent property valuer, as of 30 November 2008 were approximately HK\$24.8 million. For further details of our property interests and the text of the letter and valuation certificates of these property interests prepared by BMI Appraisals Limited, please refer to Appendix III to this prospectus.

A reconciliation of buildings plus prepaid lease payment from our audited combined financial statements as at 31 October 2008 and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set out below:

	<i>HK\$'000</i>
Capital value of our property interests as of 30 November 2008, as set forth in the property valuation report in Appendix III to this prospectus	<u>24,842</u>
Net book value of our property interests as of 31 October 2008 included in the Accountants' Report set out in Appendix I to this prospectus	39,689
Less: disposal of property interests	(16,886)
Less: depreciation for the month ended 30 November 2008	<u>(42)</u>
Net book value of our property interests as of 30 November 2008 (unaudited)	<u>22,761</u>
Net valuation surplus	<u><u>2,081</u></u>

FINANCIAL INFORMATION

(XIII) DISPOSAL OF STRONG PROPERTY

Strong Property is a company principally engaged in real properties investment, leasing of properties and equities investment. Given the principal business of Strong Property is different from our core business of trading in oil products, Strong Property was disposed of on 26 November 2008 and transferred back to Active Tools as part of the Reorganisation. The consideration of HK\$32,031,625.66, which was determined by reference to the retained earning and shareholder's loan in Strong Property as at 31 October 2008, was settled by cash.

During the Track Record Period, the assets and liabilities of Strong Property were included in our combined balance sheets. Details of which are set forth below:

	As at 31 March			As at
	2006	2007	2008	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets:				
Property, plant and equipment ⁽¹⁾	18,855	17,755	17,148	16,886
Available-for-sale investments ⁽²⁾	1,200	1,200	1,200	1,200
Other receivables, deposits and prepayments	52	52	53	50
Tax recoverable	—	—	69	—
Deposits placed with brokers for equities trading ⁽³⁾	—	—	6,137	4,303
Held for trading investments — equities ⁽⁴⁾	—	—	9,327	7,622
Bank balances and cash	2,171	28	1,120	2,358
Liabilities:				
Other payables and accruals	(7)	(7)	(365)	(358)
Tax payable	—	—	—	(29)
Net assets value	<u>22,271</u>	<u>19,028</u>	<u>34,689</u>	<u>32,032</u>

Notes:

(1) Property, plant and equipment held by Strong Property included two residential flats at (i) Flat D, 38th Floor, Nam Fung Court, Harbour Heights, No. 1 Fook Yum Road, North Point, Hong Kong; and (ii) Flat E, 59th Floor, Tower 8, The Belcher's, No. 89 Pok Fu Lam Road, Sai Ying Pun, Hong Kong; and one office at Unit 1604, 16th Floor, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong.

(2) Available-for-sale investments represented corporate debenture.

FINANCIAL INFORMATION

- (3) Deposits placed with brokers for equities trading represented funds held in brokers for trading of equities. As Strong Property only traded Hong Kong listed equities during and after the year ended 31 March 2008 but not in the previous financial years, no deposits was placed with brokers as at 31 March 2006 and 2007.

- (4) Held for trading investments — equities represented two Hong Kong listed equities held on hand for trading purpose.

(XIV) NO MATERIAL ADVERSE CHANGE

We confirm that there has not been any material adverse change in our financial or trading position since 31 October 2008 (being the date to which our Company's latest combined audited financial results were prepared) and we did not have contingent liabilities or other off-balance-sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition that we believe are material to investors.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section headed “Business — Growth Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

The net proceeds from the Share Offer after deducting the relevant listing expenses, are estimated to be HK\$218.3 million. We currently intend to apply such net proceeds as stated below:-

- up to HK\$106.2 million (approximately 48.7% of the net proceeds) will be used to finance the Nantong Project, which involves the construction of storage tanks, pipelines and other relevant infrastructure. Please refer to the section headed “Business — Growth Strategies — Investment and development of the PRC Storage Business — Nantong Project” in this prospectus for the details of the Nantong Project;
- up to approximately US\$6.0 million, equivalent to approximately HK\$46.8 million (approximately 21.4% of the net proceeds) will be used as pledged bank deposits. Upon the Listing, we intend to expand our oil trading business by increasing trading volume. To finance the proposed expansion, we need additional banking facilities and financing from our principal bankers for issuance of letters of credit to settle our purchase obligation. Therefore, we intend to place a pledged bank deposits of approximately US\$6.0 million to one or more of our principal bankers in order to secure additional letters of credit issued by our principal banker. As informed by one of the principal bankers, it will issue additional letters of credit of approximately US\$40.0 million upon the placement of the above-mentioned pledged bank deposit;
- up to HK\$43.5 million (approximately 19.9% of the net proceeds) will be injected to the Tianjin Company as our proportional contribution to its registered share capital. According to our 15% interest in the Tianjin Company, we are required to invest a total of approximately RMB94.2 million, of which RMB45.0 million was paid in March 2008. The remaining sum of approximately RMB49.2 million (equivalent to approximately HK\$55.9 million) is to be paid by June 2009 or other time approved by the relevant government authorities. Please refer to “Business — Growth Strategies — Investment and development of PRC Storage Business — Tianjin Project” for the details of the Tianjin Project; and
- the remaining net proceeds of approximately HK\$21.8 million (approximately 10.0% of the net proceeds) will be used for our working capital requirements and other general corporate purposes.

Any change to the above proposed use of proceeds will be duly published by announcement. To the extent that the net proceeds of the Share Offer are not immediately applied for the above purposes, we intend to deposit the proceeds in interest-bearing bank accounts, such as short-term savings accounts or basic short-term money market funds, with licensed commercial banks and/or authorised financial institutions in Hong Kong. We will also disclose the same in the annual report of our Company.

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BOOKRUNNER AND LEAD MANAGER

China Everbright Securities (HK) Limited

UNDERWRITERS FOR THE SHARE OFFER

Hong Kong Underwriters

China Everbright Securities (HK) Limited
Christfund Securities Limited
First Shanghai Securities Limited
Grand Vinco Capital Limited
KAB Asia Securities Limited
Kingsway Financial Services Group Limited

International Placing Underwriters

China Everbright Securities (HK) Limited
Christfund Securities Limited
First Shanghai Securities Limited
Grand Vinco Capital Limited
KAB Asia Securities Limited
Kingsway Financial Services Group Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, our Company is offering the Hong Kong Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting listing of, and permission to deal in, our Shares in issue and our Shares to be issued as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Public Offer Shares are fully underwritten pursuant to the Hong Kong Underwriting Agreement.

Grounds for termination

The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the Hong Kong Public Offer Shares are subject to termination. The Hong Kong

UNDERWRITING

Underwriters shall be entitled to terminate their obligations under the Hong Kong Underwriting Agreement upon the occurrence of any of the following events by notice in writing to our Company given by China Everbright Securities at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (the “Termination Time”) if prior to the Termination Time,

- (a) there comes to the notice of China Everbright Securities or any of the Hong Kong Underwriters:
 - i. that any statement, considered by China Everbright Securities to be material, contained in any of the Hong Kong Public Offering Documents, the Formal Notice and any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecasts, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering Documents, the Formal Notice and/or any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) are not fair and honest and based on reasonable assumptions, when taken as a whole; or
 - ii. that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and having not been disclosed in this prospectus, constitute a material omission therefrom; or
 - iii. any breach, considered by China Everbright Securities to be material, of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Placing Agreement (other than on any of the Hong Kong Underwriters or the International Placing Underwriters); or
 - iv. any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to Clause 9 of the Hong Kong Underwriting Agreement; or
 - v. any adverse change or development involving a prospective change (whether permanent or not) in the assets, liabilities, conditions, business affairs, prospects, profits, losses or financial or trading position or performance of any Group Company; or
 - vi. any breach of, or any event rendering untrue or incorrect in any respect, considered by China Everbright Securities to be material, of any of the Warranties; or
 - vii. approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold under the Share Offer is refused or not granted, other than subject to customary conditions, on or before the date of approval of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

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- viii. the Company withdraws this prospectus (and any other documents used in connection with the contemplated subscription and sale of the Shares) or the Share Offer;
- (b) there shall develop, occur, exist or come into effect in the sole and absolute opinion of China Everbright Securities:
- i. any event, or series of events, in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency or war, calamity, crisis, economic sanction, strikes, lock-outs, fire, explosion, flooding, epidemic (including SARS or H5N1 avian flu or any related or mutated forms thereof), civil commotion, riot, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, accident or interruption or delay in transportation or acts of terrorism or any state of emergency or calamity or crisis in or affecting Hong Kong, the PRC, the United States or EU or any other jurisdiction related to any member of our Group); or
 - ii. any change or development involving a prospective change or development, or any event or series of events or results, likely to result in or represents any change or prospective change, or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions or any monetary or trading settlement system or matters and/or disaster (including, without limitation, significant financial market downturn, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States, imposition or declaration of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange, or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currencies, or any moratorium on banking activities or disruption in commercial banking activities or foreign exchange or securities settlement or clearance services or procedures in or affecting Hong Kong, the PRC, the United States, the EU or any other jurisdiction relevant to any member of the Group) in or affecting Hong Kong, the PRC, the United States or the EU or any other jurisdiction relevant to any member of the Group; or
 - iii. any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC or any other jurisdiction relevant to any member of the Group, or there is a material disruption in commercial banking or securities settlement or clearance services in those places; or

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- iv. any new law or regulation or change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the EU or any other jurisdiction relevant to any member of the Group; or
- v. the imposition of economic or other sanctions, in whatever form, directly or indirectly, by, or for the United States or by the EU (or any member thereof) on Hong Kong, the PRC or any other jurisdiction relevant to any member of the Group; or
- vi. a change or development occurs involving a prospective change in Taxation or exchange control, currency exchange rates or foreign investment regulations (or the implementation of any exchange control) in Hong Kong, the PRC, the United States or the EU or any other jurisdiction relevant to any member of the Group adversely affecting an investment in the Shares; or
- vii. any litigation or claim of any third party being threatened or instigated against any Group Company; or
- viii. a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- ix. the commencement by any regulatory or political body or organisation of any action against a Director or an announcement by any regulatory or political body or organisation that it intends to take any such action; or
- x. a contravention by any Group Company of the Companies Ordinance, the SFO, or any of the Listing Rules; or
- xi. a prohibition on the Company for whatever reason from allotting or selling the Shares pursuant to the terms of the Share Offer; or
- xii. non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription for the Shares) or any aspect of the Share Offer with the Listing Rules or any other applicable law or regulation; or
- xiii. other than with the approval of China Everbright Securities and the Hong Kong Underwriters, the issue of or requirement to issue by the Company a supplementary prospectus (or any other documents used in connection with the contemplated subscription for the Shares) pursuant to the Companies Ordinance or the Listing Rules; or

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- xiv. a petition is presented or an order is made for the winding up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any material Group Company; or
- xv. any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting Hong Kong, the PRC, the United States, the EU or any other jurisdiction relevant to any member of our Group; or
- xvi. any loss or damage sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person);

which, in any such case and in the sole opinion of China Everbright Securities:

- (a) is or is likely or will or may individually or in the aggregate have an adverse effect on the business, financial, trading position or other condition or prospects of the Group as a whole; or
- (b) is or is likely or has or will have or may have an adverse effect on the success of the Hong Kong Public Offering or the Share Offer or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or
- (c) is or will or is likely to make it inadvisable or inexpedient or impracticable for Hong Kong Public Offering and/or the Share Offer to proceed or to market the Hong Kong Public Offering and/or the Share Offer; or
- (d) would or is or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement or the International Placing Agreement or the Share Offer (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

International Placing

In connection with the International Placing, it is expected that our Company and the Covenantors will enter into the International Placing Agreement with the International Placing Underwriters. It is expected that upon the entering into the International Placing Agreement, the International Placing will be fully Underwritten.

Under the International Placing Agreement, subject to the conditions set forth therein, the International Placing Underwriters are expected to severally agree to subscribe or procure purchasers for, or failing which, to purchase, the International Offer Shares initially being offered pursuant to the International Placing. It is expected that the International Placing Agreement may be terminated on

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similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Placing Agreement is not entered into, the Share Offer will not proceed. It is expected that pursuant to the International Placing Agreement, our Company and the Covenantors will make similar undertakings as those given pursuant to the Hong Kong Underwriting Agreement as described in the section headed “Undertakings” below.

Commissions and expenses

The Underwriters will receive a commission of 3.5% of the aggregate Offer Price of the Offer Shares. In consideration of the Sponsor’s services in sponsoring the Share Offer, the Sponsor will also receive a financial advisory fee. Such fee and commission, together with the Stock Exchange listing fee, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer which are currently estimated to be approximately HK\$31.7 million in aggregate, are to be borne by us.

Undertakings

Each of the Controlling Shareholders has given an undertaking to each of the Company and China Everbright Securities (for itself and on behalf of the Hong Kong Underwriters) that except as disclosed in this prospectus, without the prior written consent of China Everbright Securities (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) at any time during the period from the date of this prospectus and ending on the date which is six months from the Listing Date (the “First Six-month Period”), he/it shall not, and shall procure that the relevant registered holder(s) and his/its associates and companies controlled by him/it and any nominee or trustee holding in trust for himself/itself shall not, without the prior written consent of China Everbright Securities or otherwise in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or such securities; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, in cash or otherwise; (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above;

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- (b) he/it shall not, and shall procure that the relevant registered holder(s) and his/its associates or companies controlled by him/her and any nominee or trustee holding in trust for himself/itself shall not, without the prior written consent of the Hong Kong Stock Exchange at any time during the period of six months commencing on the date on which the First Six-month Period expires (the “Second Six-month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares held by him/it or any of his/its associates or companies controlled by him/it or any nominee or trustee holding in trust for himself/itself if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be controlling shareholder (as defined in the Listing Rules) of the Company or the aggregate interest of all members of the Controlling Shareholders would be less than 30 per cent. of the Company’s issued share capital; and

- (c) in the event of a disposal of any of our share capital or any interest therein during the Second Six-month Period he/it shall take all reasonable steps to ensure that such a disposal shall not create a disorderly or false market for the Shares or other securities of the Company.

Each of the Controlling Shareholders has given an undertaking to the Company and China Everbright Securities (for itself and on behalf of the Hong Kong Underwriters) that he/it will, at any time within the period commencing on the date of this prospectus and ending on the date which is 12 months after the Listing Date:

- (a) if and when he or it pledges or charges, directly or indirectly, any Shares or other securities of the Company beneficially owned by him or it (or any beneficial interest therein), immediately inform the Company and China Everbright Securities in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and

- (b) if and when he or it receives indications, either verbal or written, from any pledgee or chargee that any Shares or other securities in the Company (or any beneficial interest therein) pledged or charged by him or it will be disposed of, immediately inform the Company and China Everbright Securities in writing of such indications.

Our Company also undertakes to notify the Hong Kong Stock Exchange as soon as we have been informed of such event and shall make a public disclosure by way of announcement in accordance with the Listing Rules.

Our Company undertakes irrevocably and unconditionally to China Everbright Securities (on behalf of all the Hong Kong Underwriters) and each of the Covenantors undertakes irrevocably and unconditionally to China Everbright Securities (on behalf of all the Hong Kong Underwriters) to procure that, without the prior written consent of China Everbright Securities and subject always to the requirements of the Stock Exchange, save for the Offer Shares, the Capitalisation Issue, the grant of any option under the Share Option Scheme, and any Shares which may fall to be issued pursuant

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to the exercise of any option that may be granted under the Share Option Scheme or any capitalisation issue, capital reduction or consolidation or sub-division of Shares, neither our Company nor any of its subsidiaries from time to time shall:

- (a) offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or any of its subsidiaries), either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the First Six-Month Period;
- (b) not at any time during the First Six-month Period, issue or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of the Company) or repurchase any Shares or securities of the Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of the Company or agree to do any of the foregoing;
- (c) not at any time within the Second Six-month Period do any of the acts set out in paragraphs (a) and (b) above such that the Controlling Shareholders together, directly or indirectly, would cease to be a controlling shareholder of the Company (within the meaning defined in the Listing Rules); and
- (d) not at any time during the First Six-month Period purchase any of the outstanding share capital of our Company.

SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Lead Manager and the other Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for the Offer Shares. Particulars of these commissions and expenses are set forth in the section headed "Commissions and expenses" above.

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Save as disclosed above, none of China Everbright Securities and the Underwriters is interested legally or beneficially in shares of any of our Group's members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of its members nor any interest in the Share Offer.

MINIMUM PUBLIC FLOAT

Our Directors and China Everbright Securities will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE STRUCTURE OF THE SHARE OFFER

The Share Offer consists of:

- the International Placing; and
- the Hong Kong Public Offering.

China Everbright Securities (HK) Limited is the Bookrunner and the Lead Manager and China Everbright Capital is the Sponsor of the Share Offer.

An aggregate of 10,000,000 new Shares have been initially allocated to the Hong Kong Public Offering, subject to re-allocation as mentioned below and as stipulated under the Listing Rules. An aggregate of 90,000,000 new Shares will initially be offered under the International Placing subject to the re-allocation as mentioned below.

Investors are free to select whether to apply for the Hong Kong Public Offer Shares or the International Offer Shares, but may only receive Shares under the Hong Kong Public Offering OR the International Placing but not both. Our Directors and China Everbright Securities will take all reasonable steps to identify any multiple applications under the Hong Kong Public Offering and the International Placing which are not allowed and are bound to be rejected.

PRICE PAYABLE UPON APPLICATION FOR THE HONG KONG PUBLIC OFFER SHARES

The Offer Price is HK\$2.50 each. You must also pay 1% of brokerage, 0.005% of Stock Exchange trading fee and 0.004% of SFC transaction levy. All the above are payable in full upon application. The board lot for trading in the Shares is 1,000 Shares. This means that for every 1,000 Hong Kong Public Offer Shares, you will pay HK\$2,525.23. The Application Forms have tables showing the exact amount payable for certain multiples of Shares applied for.

Your payment must be made by one cheque or one banker's cashier order and must comply with the terms set forth in the Application Form relating to the Hong Kong Public Offering. If your application is successful, brokerage is paid to participants of the Stock Exchange, the trading fee is paid to the Stock Exchange and the transaction levy is paid to the SFC.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares will be conditional on:

- the Listing Committee granting the listing of, and permission to deal in, on the Main Board, our Shares in issue, the Offer Shares and any Shares which may fall to be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme; and
- the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements,

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If any of the conditions has not been fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer will be caused to be published by our Company in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application money will be refunded, WITHOUT INTEREST. The terms on which the application money will be returned are set forth under “Refund of your money” on the Application Forms. In the meantime, all application money received from the Share Offer will be held in a separate bank account or separate bank accounts with the receiving bankers of the Share Offer or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE INTERNATIONAL PLACING

Our Company is offering initially 90,000,000 new Shares for subscription and purchase at the Offer Price by way of the International Placing, subject to the re-allocation as mentioned below.

Investors subscribing for or purchasing the International Offer Shares are also required to pay brokerage of 1.0%, the SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005%.

All decisions concerning the allocation of the International Offer Shares to prospective places pursuant to the International Placing will be made on the basis of and by reference to a number of factors including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell our Shares, after the Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole. In addition, our Company and China Everbright Securities will use their best endeavours to observe the minimum public float requirement under the Listing Rules when making allocations of the International Offer Shares to investors who are anticipated to have a sizeable demand for such Shares.

The total number of the International Offer Shares to be allotted and issued may change as a result of the re-allocation as mentioned below and any re-allocation of unsubscribed Offer Shares to the International Placing as mentioned in the section headed “Re-allocation between the International Placing and the Hong Kong Public Offering” below.

THE HONG KONG PUBLIC OFFERING

Our Company is initially offering Hong Kong Public Offer Shares under the Hong Kong Public Offering, representing 10% of the initial number of the Offer Shares, for subscription at the Offer Price by way of a public offer in Hong Kong, subject to the reallocation as mentioned below. The Hong Kong Public Offering is lead managed by China Everbright Securities and is fully underwritten by the

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Hong Kong Underwriters (subject to our Company and China Everbright Securities agreeing to the price). Applicants for the Hong Kong Public Offer Shares are required to pay on application the Offer Price plus brokerage of 1.0%, the SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005%.

The Hong Kong Public Offering is open to all members of the public in Hong Kong. An applicant for the Hong Kong Public Offer Shares will be required to give an undertaking and confirmation in the Application Form that he or she or it has not taken up and will not indicate an interest to take up any International Offer Shares nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Hong Kong Public Offering is bound to be rejected. The Hong Kong Public Offering will be subject to the conditions stated under the paragraph headed "Conditions of the Share Offer" above.

Basis of allocation of the Hong Kong Public Offer Shares

For allocation purpose only, the number of the Hong Kong Public Offer Shares (after taking into account any re-allocation referred to below) will be divided equally into two pools: pool A and pool B. The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Public Offer Shares in the value of HK\$5,000,000 (excluding transaction levy imposed by the SFC, the Stock Exchange trading fee and the brokerage payable thereon) or less. The Hong Kong Public Offer Shares available in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares in the value of more than HK\$5,000,000 (excluding transaction levy imposed by the SFC, the Stock Exchange trading fee and the brokerage payable thereon) and up to the total initial value of pool B.

Investors should be aware that allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the unsubscribed Hong Kong Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of Hong Kong Public Offer Shares initially available under pool A or pool B will be rejected.

RE-ALLOCATION BETWEEN THE INTERNATIONAL PLACING AND THE HONG KONG PUBLIC OFFERING

If the number of Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the initial number of the Hong Kong Public Offer Shares, then the number of Shares to be re-allocated to the Hong Kong Public Offering from the International Placing will increase so that the total number of Shares available under the Hong Kong Public Offering will increase to 30,000,000 Shares, representing 30% of the total number of the Offer Shares initially available under the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If the number of Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the initial number of the Hong Kong Public Offer Shares, then the number of Shares to be re-allocated to the Hong Kong Public Offering from the International Placing will increase so that the total number of Shares available under the Hong Kong Public Offering will increase to 40,000,000 Shares, representing 40% of total number of the Offer Shares initially available under the Share Offer.

If the number of Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the initial number of the Hong Kong Public Offer Shares, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Placing will increase so that the total number of Shares available under the Hong Kong Public Offering will increase to 50,000,000 Shares, representing 50% of the total number of the Offer Shares initially available under the Share Offer.

In each such case, the additional Shares re-allocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of the International Offer Shares will be correspondingly reduced.

If the Hong Kong Public Offer Shares are not fully subscribed, China Everbright Securities will have the absolute discretion to re-allocate all or any unsubscribed Hong Kong Public Offer Shares to the International Placing in such number as it considers appropriate.

LISTING DATE

Assuming that the Share Offer becomes unconditional, it is expected that dealings in our Shares on the Main Board will commence at 9:30 a.m. (Hong Kong time) on Monday, 12 January 2009.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

METHODS OF APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

There are two ways to make an application for the Hong Kong Public Offer Shares. You may apply for the Hong Kong Public Offer Shares by either using a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying using a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC.

1. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to Use

Use a **WHITE** Application Form if you want the Shares issued in your own name

Use a **YELLOW** Application Form if you want the Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: The Offer Shares are not available to existing beneficial owners of Shares in our Company, our Directors or chief executive of our Company or any of its subsidiaries or the associates of any of them.

Where to collect the WHITE and YELLOW Application Forms

You can collect a **WHITE** Application Form and a prospectus from any of the following addresses of the Hong Kong Underwriters:

1. **any participant of the Stock Exchange; or**
2. **China Everbright Securities (HK) Limited, 36th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong; or**
3. **Christfund Securities Limited, 26th Floor, 100 Queen's Road Central, Hong Kong; or**
4. **First Shanghai Securities Limited, 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong; or**
5. **Grand Vinco Capital Limited, Unit 4909-4910, 49th Floor, The Center, 99 Queen's Road Central, Hong Kong; or**
6. **KAB Asia Securities Limited, 30th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong; or**
7. **Kingsway Financial Services Group Limited, 5th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong; or**

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

8. any one of the following branches of Standard Chartered Bank (Hong Kong) Limited:

Hong Kong Island:	Central Branch	Shop no. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Leighton Centre Branch	Shop 12-16, UG/F, Leighton Centre, 77 Leighton Road, Causeway Bay
	Hennessy Road Branch	399 Hennessy Road, Wanchai
Kowloon:	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
	Kwun Tong Branch	1A Yue Man Square, Kwun Tong
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 10 Granville Road, Tsimshatsui
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
New Territories:	Telford Gardens Branch	Shop P9-12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
	Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin
	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 23 December 2008 till 12:00 noon on Friday, 2 January 2009 from:

The **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong

Your **stockbroker**, who may have such Application Forms and this prospectus available.

How to complete the WHITE and YELLOW Application Forms

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) or at your own risk at the address stated in the Application Form.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

You should note that by completing and submitting the **WHITE** and **YELLOW** Application Form, among other things:

- (a) you agree with our Company, for itself and for the benefit of each of our Shareholders, to observe and comply with the Companies Law, the Companies Ordinance, the Memorandum and the Articles;
- (b) you confirm that you have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (c) you agree that none of our Company, China Everbright Securities, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Share Offer is or will be liable for any information and representations not contained in this prospectus and the Application Forms (and any supplement thereto);
- (d) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest in or received or been placed or allocated (including conditionally or provisionally) and will not apply for or take up, or indicate an interest in, any International Offer Shares nor otherwise participated in the International Placing; and
- (e) you agree to disclose to our Company, and/or our share registrar(s), receiving bankers the Sponsor, China Everbright Securities, the Underwriters and their respective advisors and agents any personal data which they require about you and the person(s) for whose benefit you have made the application.

In order for the **YELLOW** Application Forms to be valid:

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - i. the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (b) **If the application is made by an individual CCASS Investor Participant:**
 - i. the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and
 - ii. the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

(c) **If the application is made by a joint individual CCASS Investor Participant:**

- i. the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card Number of all joint CCASS Investor Participants; and
- ii. the participant I.D. must be inserted in the appropriate box in the Application Form.

(d) **If the application is made by a corporate CCASS Investor Participant:**

- i. the Application Form must contain the CCASS Investor Participant's Company name and Hong Kong Business Registration number; and
- ii. the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission of, participant I.D. or other similar matters render the application invalid.

If your application is made through a duly authorised attorney, we and China Everbright Securities, the Underwriters and their respective agents or nominees as our agents may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and China Everbright Securities, in their capacity as our agents, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

2. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give electronic application instructions to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the **CCASS Internet System** (<https://ip.ccass.com>) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
2/F., Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our registrar.

Giving Electronic Application Instructions to HKSCC to Apply for Hong Kong Public Offer Shares by HKSCC Nominees On Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for the Hong Kong Public Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees does the following things on behalf of each such person:
 - i. agrees that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of the HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - ii. undertakes and agrees to accept the Hong Kong Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- iii. undertakes and confirms that that person has not indicated an interest for, applied for or taken up or indicated an interest for, received, been placed or allocated (including conditionally or provisionally) any shares under the International Placing nor otherwise participated in the International Placing;
- iv. (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit);
- v. (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
- vi. understands that the above declaration will be relied upon by our Company, our Directors and China Everbright Securities in deciding whether or not to make any allotment of Hong Kong Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- vii. authorises our Company to place the name of HKSCC Nominees on our register of members as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- viii. confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- ix. confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf save as set out in any supplement to this prospectus;
- x. agrees that our Company, China Everbright Securities, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Share Offer are liable only for the information and representations contained in this prospectus and any supplemental thereto;
- xi. agrees to disclose that person's personal data to our Company, China Everbright Securities and/or its respective agents and any information which they may require about that person;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- xii. agrees (without prejudice to any other rights which that person may have) that once the application to HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- xiii. agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before Monday, 12 January 2009, such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Public Offer Shares to any person before Monday, 12 January 2009, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday, or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- xiv. agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- xv. agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Public Offer Shares;
- xvi. agrees with our Company, for ourselves and for the benefit of each of our Shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies Ordinance, the Memorandum and the Articles; and
- xvii. agrees that the person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Effect of Giving Electronic Application Instructions to HKSCC

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account;
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your behalf, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for those purposes of considering whether multiple applications have been made.

Minimum Subscription Amount and Permitted Multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers or multiples set out in the table in the **WHITE** and **YELLOW** Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Tuesday, 23 December 2008 — 9:00 a.m. to 8:30 p.m.⁽¹⁾**
- Wednesday, 24 December 2008 — 8:00 a.m. to 8:30 p.m.⁽¹⁾**
- Saturday, 27 December 2008 — 8:00 a.m. to 1:00 p.m.⁽¹⁾**
- Monday, 29 December 2008 — 8:00 a.m. to 8:30 p.m.⁽¹⁾**
- Tuesday, 30 December 2008 — 8:00 a.m. to 8:30 p.m.⁽¹⁾**
- Wednesday, 31 December 2008 — 8:00 a.m. to 8:30 p.m.⁽¹⁾**
- Friday, 2 January 2009 — 8:00 a.m.⁽¹⁾ to 12:00 noon**

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 23 December 2008 until 12:00 noon on Friday, 2 January 2009 (24 hours daily, except the last application day).

Effect of Bad Weather on the Opening of the Application Lists

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 2 January 2009, the last application day. If:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 2 January 2009, the last application day will be postponed to the next Business Day which does not have either of these warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Personal Data

The section of the Application Form entitled “Personal Data” applies to any personal data held by us and our share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, China Everbright Securities, and the Underwriters take no responsibility for the application and provided no assurance that any CCASS Participant will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System (<https://ip.ccass.com>), CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE**, or **YELLOW** Application Form; or (ii) go to HKSCC’s Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 2 January 2009.

3. HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for the Hong Kong Public Offer Shares if and only if:

You are a nominee, in which case you may give electronic application instructions to HKSCC (if you are a CCASS Participant) and lodge more than one **WHITE** and **YELLOW** Application Form in your own name if each application is made on behalf of different owners in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner if you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application form or by giving **electronic application instructions** to HKSCC and that you are duly authorised to sign the Application Form or give electronic application instructions as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or
- apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and to give **electronic application instructions** to HKSCC; or
- apply (whether individually or jointly) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC for more than 5,000,000 Shares, being 50.0% of the Offer Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the section entitled "Structure of the Share Offer — The Hong Kong Public Offering"; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) International Offer Shares under the International Placing.

All of your applications will also be rejected as multiple applications if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic instructions to HKSCC is made for your benefit (including the part of the application made by HKSCC acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- you exercise statutory control over that company, then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

4. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The Offer Price is HK\$2.50 per Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,000 Shares you will pay approximately HK\$2,525.23. The Application Forms have tables showing the exact amount payable for certain multiples of Shares up to 5,000,000 Shares.

You must pay the Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Forms (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange, the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

5. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Public Offer Shares for any reason, we will refund your application monies, including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of despatch of refund cheques will be retained for our benefit.

If your application is accepted only in part, we will refund the appropriate portion of your application monies, including the related brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest. Details of the procedure for refund are set out below in the paragraph headed "Despatch/Collection of Share Certificates and Refund of Application Monies".

Refund of your application monies (if any) will be made on Friday, 9 January 2009 in accordance with the various arrangements as described in this section.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

6. MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Friday, 2 January 2009, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” below.

Your completed Application Form, together with payment attached (to which cheques or banker’s cashier orders marked payable to “Horsford Nominees Limited — Strong Petrochemical Public Offer” should be securely stapled), should be deposited in the special collection boxes provided at any of the branches of Standard Chartered Bank (Hong Kong) Limited listed under the section headed “Where to collect the **WHITE** and **YELLOW** Application Forms” above at the following times:

Tuesday, 23 December 2008 — 9:00 a.m. to 5:00 p.m.
Wednesday, 24 December 2008 — 9:00 a.m. to 5:00 p.m.
Saturday, 27 December 2008 — 9:00 a.m. to 1:00 p.m.
Monday, 29 December 2008 — 9:00 a.m. to 5:00 p.m.
Tuesday, 30 December 2008 — 9:00 a.m. to 5:00 p.m.
Wednesday, 31 December 2008 — 9:00 a.m. to 5:00 p.m.
Friday, 2 January 2009 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 2 January 2009.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until the closing of the application lists. No allotment of any of the Shares will be made until the closing of the Application Lists.

7. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists of the Hong Kong Public Offering will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 2 January 2009. Instead they will be open from 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

Business Day means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

8. PUBLICATION OF RESULTS

The announcement of (i) the level of indications of interest in the International Placing; (ii) the level of applications of the Hong Kong Public Offering; (iii) the basis of allocation of the Hong Kong Public Offer Shares; and (iv) the number of Shares reallocated between the Hong Kong Public Offering and the International Placing, if any, will be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), our website at *www.strongpetrochem.com* and the Stock Exchange's website at *www.hkex.com.hk* on Friday, 9 January 2009.

The results of allocations of the Hong Kong Public Offer Shares, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC, which will include the Hong Kong identity card numbers, passport numbers, Hong Kong business registration certificate numbers of successful applicants and the number of the Hong Kong Public Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:-

- Results of allocations will be available from our website at *www.strongpetrochem.com*, the Stock Exchange's website at *www.hkex.com.hk* at 9:00 a.m. on Friday, 9 January 2009;
- Results of allocations will also be available from our Hong Kong Public Offer website at *www.tricor.com.hk/ipo/result* on a 24-hour basis from 8:00 a.m. on Friday, 9 January 2009 to 12:00 midnight on Thursday, 15 January 2009. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its application form to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling 369-18-488 between 9:00 a.m. and 6:00 p.m. from Friday, 9 January 2009 to Wednesday, 14 January 2009 (excluding Saturday and Sunday);
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of the designated branches of Standard Chartered Bank (Hong Kong) Limited from Friday, 9 January 2009 to Tuesday, 13 January 2009 (excluding Saturday and Sunday) at the addresses set forth in the paragraphs under "Where to collect the prospectuses and the Application Forms" in this section.

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9. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Public Offer Shares are set out in the notes attached to the relevant Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and which you should read them carefully. You should note in particular the following situations in which the Hong Kong Public Offer Shares will not be allotted to you.

- **If your application is revoked:**

By completing and submitting an Application Form or giving an electronic application instruction, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before Monday, 12 January 2009. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your electronic application instruction to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contact will be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person until after the expiration of the fifth day after closing of the Application Lists except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday, or public holiday in Hong Kong) if a person responsible for this prospectus under section 10 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their application. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- **Full discretion of our Company or our agents to reject or accept your application:**

Our Company and China Everbright Securities (as our agents), or our respective agents and nominees, have full discretion to reject or accept any application, or to accept any part of any application.

Our Company, China Everbright Securities and the Hong Kong Underwriter(s), in their capacity as our agents, and our agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of Hong Kong Public Offer Shares is void:**

The allotment of Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Shares either:

- within **three** weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee or the Stock Exchange **notifies** our Company of that longer period within three weeks of the closing date of the application lists.

- **Your application will be rejected if:**

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and the International Offer Shares. By filling in any of the **WHITE** or **YELLOW** Application Forms or applying by giving **electronic application instructions** to HKSCC, you agree not to apply for Hong Kong Public Offer Shares as well as the International Offer Shares. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received the International Offer Shares; and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Public Offer Shares in the Hong Kong Public Offering;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;

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- the Hong Kong Underwriting Agreement and the International Placing Agreement do not become unconditional;
- the Hong Kong Underwriting Agreement and the International Placing Agreement are terminated in accordance with their respective terms;
- our Company or China Everbright Securities believes that by accepting your application, they would violate the applicable securities or other laws, rules or regulations; or
- if you apply for more than 50% of the Hong Kong Public Offer Shares initially being offered to the public for subscription.

10. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Share Offer — Conditions of the Hong Kong Public Offering” of this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one share certificate for all the Hong Kong Public Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applications, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) for applications on **WHITE** Application Forms:
- i. share certificate(s) for all Hong Kong Public Offer Shares applied for, if the application is wholly successful; or
 - ii. share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applications on **YELLOW** Application Forms; share certificates for the Shares successfully applied for will be deposited into CCASS as described below); and/or

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- (b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) (or (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful, or (ii) all the application monies, if the application is wholly unsuccessful in each case including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong Identity Card number/Passport number/Business Registration number, or, if you are joint applicants, part of the Hong Kong Identity Card number/Passport number/Business Registration number of the first named-applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/Passport number/Business Registration number for encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/Passport number/Business Registration Number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms; and share certificates for wholly and partially successful applicants under **WHITE** Application Forms are expected to be posted on or around Friday, 9 January 2009. The right of our Company is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on Monday, 12 January 2009 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled “Underwriting — Grounds for Termination” has not been exercised.

(c) **If you apply using a WHITE application form:**

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have indicated your intention in your **WHITE** Application Form, respectively to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from Tricor Investor Services Limited and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) (where applicable) from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 9 January 2009 or such other date as notified by us in the newspapers as the date of collection/despatch of refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identify acceptable to

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Tricor Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your Application Form on Friday, 9 January 2009 by ordinary post and at your own risk.

(d) If you apply using a YELLOW Application Form:

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for Hong Kong Public Offer Shares using a **YELLOW** Application form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you or by your electronic applications on your behalf in your Application Form at the close of business on Friday, 9 January 2009, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominee.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the newspapers on Friday, 9 January 2009. You should check the announcement published by our Company in the manner as described in the paragraph headed "8. Publication of Results" of this section and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 9 January 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares

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to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your stock account.

(e) **If you apply by giving electronic application instructions to HKSCC**

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give electronic application instructions on your behalf or your CCASS Investor Participant Stock Account at the close of business on Friday, 9 January 2009, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong Identity Card/Passport number or other identification code (Hong Kong Business Registration number for corporation) and the basis of allotment of the Hong Kong Public Offering in the newspapers on Friday, 9 January 2009. You should check the announcement published by us in the manner as described in the paragraph headed "8. Publication of Results" of this section and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 9 January 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 9 January 2009. Immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications, in each case including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 9 January 2009. No interest will be paid thereon.

11. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on Monday, 12 January 2009.

The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares is 852.

12. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

23 December 2008

The Directors
Strong Petrochemical Holdings Limited
China Everbright Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Strong Petrochemical Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 March 2008 and seven months ended 31 October 2008 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 23 December 2008 (the “Prospectus”) in connection with the proposed listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 1 February 2008. Pursuant to a corporate reorganisation (“Reorganisation”), as more fully explained in the paragraph headed “Corporate Reorganisation” in Appendix V to the Prospectus, the Company became the holding company of the Group on 28 November 2008.

Particulars of the Company’s subsidiaries are as follows:

Name of the company	Place and date of incorporation/ establishment	Equity interest attributable to the Group				As at date of this report	Issued and fully paid share capital/ paid up registered capital	Principal activities
		As at 31 March 2006	2007	2008	As at 31 October 2008			
Straits Petrochemical Holdings Limited (“Straits Petrochemical”)	Cayman Islands 3 April 2008	—	—	—	—	100%	HK\$0.2	Inactive
Wide Sea International Limited (“Wide Sea”)	British Virgin Islands (“BVI”) 2 January 2008	—	—	—	—	100%	US\$2	Investment holding
Keen Star Holdings Limited (“Keen Star”)	BVI 11 December 2007	—	—	—	—	100%	US\$1	Investment holding

Name of the company	Place and date of incorporation/ establishment	Equity interest attributable to the Group				As at date of this report	Issued and fully paid share capital/ paid up registered capital	Principal activities
		As at 31 March			As at 31 October			
		2006	2007	2008	2008			
Santron Holdings Limited ("Santron Holdings")	BVI 20 October 1999	100%	100%	100%	100%	100%	US\$10,000	Investment holding
Strong Petrochemical Limited ("Strong Petrochemical (HK)")	Hong Kong 3 November 1999	100%	100%	100%	100%	100%	HK\$20,000,000	Trading of petroleum products, crude oil and petrochemical product
Strong Petrochemical Limited (Macao Commercial Offshore) ("Strong Petrochemical (Macao)")	Macao 4 February 2004	100%	100%	100%	100%	100%	MOP100,000	Trading of petroleum products, crude oil and petrochemical product
Charming Energy Holdings Limited ("Charming Energy")	BVI 27 September 2007	—	—	100%	100%	100%	US\$2	Investment holding
Teamskill Investments Limited ("Teamskill Investments")	BVI 30 March 2005	100%	100%	100%	100%	100%	US\$1	Investment holding
Smart Team Investments Limited ("Smart Team")	Hong Kong 3 October 2007	—	—	100%	100%	100%	HK\$10,000	Investment holding
南通潤德石油化工有限公司# Strong Petrochemical (Nantong) Logistics Co. Limited* ("Strong Petrochemical (Nantong)")	People's Republic of China ("PRC") 29 June 2007	—	—	100%	100%	100%	US\$2,999,980##	Provision of petroleum and petrochemical products storage services

All of the subsidiaries are owned indirectly by the Company except for Wide Sea which is owned directly by the Company.

* The English name of this PRC incorporated entity is for identification purpose only.

Wholly foreign owned enterprise registered in the PRC.

The total registered capital of Strong Petrochemical (Nantong) is US\$5,000,000. At 31 October 2008 there was unpaid registered capital of US\$2,000,020. Pursuant to the approval issued by 南通市經濟技術開發區管委會 on 28 June 2007, the unpaid registered capital of US\$2,000,020 should be paid on or before 29 June 2009.

All the companies within the Group, except Strong Petrochemical (Nantong), adopt 31 March as financial year end date. Strong Petrochemical (Nantong) adopts 31 December as financial year end date.

During the Relevant Periods, the Group held the entire interest in Strong Property Limited ("Strong Property"), a company incorporated in Hong Kong which is engaged in property investment activity. On 26 November 2008, as part of the Reorganisation, Santron Holdings, the then holding company of the Group, disposed of its entire interest in Strong Property and assigned the loan due from Strong Property, to a related company at a cash consideration of approximately HK\$32,032,000 which was determined by reference to the net asset value of Strong Property as at 31 October 2008. Accordingly, the combined income statements, combined statements of changes in equity and combined cash flow statements for the Relevant Periods include the results and cash flows of Strong Property for the Relevant Periods. The assets and liabilities of Strong Property are included in the combined balance sheets of the Group as at 31 March 2006, 2007, 2008 and 31 October 2008.

No statutory audited financial statements have been prepared for the Company, Santron Holdings, Charming Energy, Teamskill Investments, Strait Petrochemical, Wide Sea and Keen Star since their respective dates of incorporation as they were incorporated in countries where there are no statutory audit requirements. Smart Team was incorporated on 3 October 2007 and its first set of audited financial statements will be made up to period ending 31 March 2009. For the purpose of this report, we have, however, reviewed all the relevant transactions during the Relevant Periods and carried out such procedures as we considered necessary for inclusion of the Financial Information relating to these companies in this Prospectus.

The financial statements of Strong Petrochemical (Macao) and Strong Petrochemical (Nantong) were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the Macao and the PRC respectively, while the statutory financial statements of Strong Petrochemical (HK) and Strong Property were prepared in accordance with Hong Kong Financial Reporting Standards. They were audited by the following certified public accountants registered in Hong Kong, Macao or the PRC.

Name of subsidiary	Periods covered	Certified Public Accountants
Strong Petrochemical (HK)	Year ended 31 March 2006	Cheung & Siu CPA
	Year ended 31 March 2007	World Link CPA Limited
	Year ended 31 March 2008	Deloitte Touche Tohmatsu
Strong Petrochemical (Macao)	Each of the three years ended 31 March 2008	Deloitte Touche Tohmatsu
Strong Property	Each of the three years ended 31 March 2008	Roger K.C. Lee & Co.
Strong Petrochemical (Nantong)	29 June 2007 (date of establishment) to 31 December 2007	南通愛德信會計師事務所有限公司

For the purpose of this report, the directors of Santron Holdings have prepared the consolidated financial statements of Santron Holdings for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 to the Financial Information. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of Santron Holdings who approve their issues. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis set out in note 1 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 March and 31 October 2008 and of the Group as at 31 March 2006, 2007, 2008 and 31 October 2008 and of the combined results and combined cash flows of the Group for the Relevant Periods.

The comparative combined income statement, combined cash flow statement and combined statement of changes in equity of the Group for the seven months ended 31 October 2007 together with the notes thereon have been extracted from the Group’s unaudited combined financial information for same period (the “31 October 2007 Financial Information”) which were prepared by the directors of the Company solely for the purpose of this report. We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries of the Group management personnel and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 October 2007 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 31 October 2007 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with HKFRSs.

(A) FINANCIAL INFORMATION

Combined income statements

	Notes	Year ended 31 March			Seven months ended 31 October	
		2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000
Revenue	6	5,328,270	5,138,697	4,211,182	2,660,668	4,808,611
Cost of sales		(5,230,271)	(4,951,248)	(4,103,013)	(2,608,896)	(4,854,377)
Gross profit (loss)		97,999	187,449	108,169	51,772	(45,766)
Other income	7	11,585	11,411	19,040	13,838	3,575
Fair value changes on derivative financial instruments	26	(1,015)	(31,510)	(3,667)	(13,305)	188,691
Fair value changes on held for trading investments		—	—	(2,635)	—	(3,872)
Administrative and other operating expenses		(17,562)	(19,307)	(24,420)	(11,686)	(25,019)
Finance costs	8	(5,964)	(4,782)	(2,985)	(2,040)	(2,940)
Share of loss of an associate		—	—	—	—	(45)
Profit before taxation		85,043	143,261	93,502	38,579	114,624
Taxation	10	(3,774)	(7,490)	(811)	(664)	(4,074)
Profit for the year/period	11	<u>81,269</u>	<u>135,771</u>	<u>92,691</u>	<u>37,915</u>	<u>110,550</u>
Dividends	12	<u>—</u>	<u>78,000</u>	<u>109,200</u>	<u>54,600</u>	<u>—</u>
Earnings per share						
- basic (HK\$)	13	<u>0.27</u>	<u>0.45</u>	<u>0.31</u>	<u>0.13</u>	<u>0.37</u>

Combined balance sheets

	Notes	As at 31 March			As at 31
		2006	2007	2008	October
		HK\$'000	HK\$'000	HK\$'000	2008
					HK\$'000
Non-current assets					
Property, plant and equipment	14	21,432	19,703	19,731	22,358
Prepaid lease payments	15	—	—	21,302	21,019
Available-for-sale investments	16	1,592	1,592	1,592	1,592
Bank structured deposit	17	—	—	17,271	16,597
Interest in an associate	18	—	—	49,789	50,489
		<u>23,024</u>	<u>21,295</u>	<u>109,685</u>	<u>112,055</u>
Current assets					
Prepaid lease payments	15	—	—	—	434
Trade receivables	19	382,052	—	63,027	234,238
Other receivables, deposits and prepayments		2,471	5,971	6,003	4,539
Amounts due from brokers and other oil trading company	20	—	—	—	151,274
Tax recoverable		—	—	4,565	2,289
Held for trading investments	21	—	—	9,327	7,622
Deposits placed with brokers	22	17,202	35,084	22,606	29,360
Pledged bank deposits	23	98,482	23,475	15,677	49,225
Bank balances and cash	23	<u>122,269</u>	<u>187,036</u>	<u>80,996</u>	<u>52,128</u>
		<u>622,476</u>	<u>251,566</u>	<u>202,201</u>	<u>531,109</u>
Current liabilities					
Trade and bills payables	24	371,709	—	3,928	158,788
Other payables and accruals	25	1,454	7,494	10,500	74,935
Derivative financial instruments	26	—	—	—	310
Amounts due to shareholders	27	68,361	1,990	—	—
Dividend payable		—	—	53,313	53,313
Tax payable		<u>12,336</u>	<u>13,966</u>	<u>9,540</u>	<u>9,570</u>
		<u>453,860</u>	<u>23,450</u>	<u>77,281</u>	<u>296,916</u>
Net current assets		<u>168,616</u>	<u>228,116</u>	<u>124,920</u>	<u>234,193</u>
Total assets less current liabilities		<u>191,640</u>	<u>249,411</u>	<u>234,605</u>	<u>346,248</u>
Equity					
Share capital	28	78	78	78	78
Reserves		<u>191,562</u>	<u>249,333</u>	<u>234,527</u>	<u>346,170</u>
Total equity		<u>191,640</u>	<u>249,411</u>	<u>234,605</u>	<u>346,248</u>

Combined statements of changes in equity

	Share capital HK\$'000	Legal reserve HK\$'000 (note)	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2005	78	—	—	110,293	110,371
Profit for the year and total recognised income for the year	—	—	—	81,269	81,269
Transfer to legal reserve	—	49	—	(49)	—
At 31 March 2006	78	49	—	191,513	191,640
Profit for the year and total recognised income for the year	—	—	—	135,771	135,771
Interim dividend recognised as distribution	—	—	—	(78,000)	(78,000)
At 31 March 2007	78	49	—	249,284	249,411
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	1,703	—	1,703
Profit for the year	—	—	—	92,691	92,691
Total recognised income for the year	—	—	1,703	92,691	94,394
Interim dividends recognised as distribution	—	—	—	(109,200)	(109,200)
At 31 March 2008	78	49	1,703	232,775	234,605
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	1,093	—	1,093
Profit for the period	—	—	—	110,550	110,550
Total recognised income for the period	—	—	1,093	110,550	111,643
At 31 October 2008	78	49	2,796	343,325	346,248
At 1 April 2007	78	49	—	249,284	249,411
Exchange differences arising on translation of foreign operations recognised directly in equity (unaudited)	—	—	(37)	—	(37)
Profit for the period (unaudited)	—	—	—	37,915	37,915
Total recognised expense and income for the period (unaudited)	—	—	(37)	37,915	37,878
Interim dividend recognised as distribution (unaudited)	—	—	—	(54,600)	(54,600)
At 31 October 2007 (unaudited)	78	49	(37)	232,599	232,689

Note: According to the laws and regulations of Macao Special Administrative Region, a legal reserve is required to be established up to a minimum of 50% of the company's paid up capital and is established in any year in which a dividend is appropriated. Strong Petrochemical (Macao) appropriated a final dividend for the year ended 31 March 2006 to its shareholder, Santron Holdings, as a result, 50% of the issued capital MOP100,000 was transferred to the legal reserve.

Combined cash flow statements

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)				
OPERATING ACTIVITIES					
Profit before taxation	85,043	143,261	93,502	38,579	114,624
Adjustments for:					
Bank interest income	(6,399)	(10,863)	(12,627)	(7,734)	(3,189)
Finance costs	5,964	4,782	2,985	2,040	2,940
Depreciation	1,796	1,759	1,031	787	375
Amortisation of prepaid lease payments	—	—	—	—	254
Loss on disposal of property, plant and equipment	4	—	3	1	4
Changes in fair value on bank structured deposit	—	—	(1,671)	(1,247)	674
Change in fair value of derivative financial instruments	—	—	—	3,697	310
Share of loss of an associate	—	—	—	—	45
Operating cash flows before movements in working capital	86,408	138,939	83,223	36,123	116,037
(Increase) decrease in trade receivables	(101,012)	382,052	(63,027)	(89,805)	(171,211)
Decrease (increase) in other receivables, deposits and prepayments	6,362	(3,500)	(32)	2,967	1,464
Increase in amounts due from brokers and other oil trading company	—	—	—	—	(151,274)
Increase in held for trading investments	—	—	(9,327)	—	1,705
Increase (decrease) in trade and bills payables	99,926	(371,709)	3,928	84,971	154,860
Increase (decrease) in other payables and accruals	16	6,040	3,006	(437)	64,435
Decrease in derivative financial instruments	(3,869)	—	—	—	—
Cash generated from operations	87,831	151,822	17,771	33,819	16,016
Interest paid and bank charges	(5,964)	(4,782)	(2,985)	(2,040)	(2,940)
Income tax paid	(242)	(6,182)	(9,802)	(882)	(1,768)
Income tax refunded	22	322	—	—	—
NET CASH FROM OPERATING ACTIVITIES	81,647	141,180	4,984	30,897	11,308

	Year ended 31 March			Seven months ended 31 October	
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000
					(unaudited)
INVESTING ACTIVITIES					
Bank interest received	6,399	10,863	12,627	7,734	3,189
Purchase of property, plant and equipment	(7)	(30)	(1,062)	(29)	(2,992)
Proceeds from disposal of property, plant and equipment	2	—	—	—	1
Increase in prepaid leases payments	—	—	(21,302)	(10,977)	—
Increase in bank structured deposit	—	—	(15,600)	(15,600)	—
Increase in available-for-sale investments	(392)	—	—	—	—
Investment in an associate	—	—	(49,319)	—	—
(Increase) decrease in pledged bank deposit	(51,531)	75,007	7,798	(70,202)	(33,548)
Decrease (increase) in deposits placed with brokers	<u>10,907</u>	<u>(17,882)</u>	<u>12,478</u>	<u>17,623</u>	<u>(6,754)</u>
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(34,622)</u>	<u>67,958</u>	<u>(54,380)</u>	<u>(71,451)</u>	<u>(40,104)</u>
FINANCING ACTIVITIES					
Repayment to shareholders	(45,277)	(66,371)	(1,990)	(1,222)	—
Dividends paid	<u>—</u>	<u>(78,000)</u>	<u>(55,887)</u>	<u>(13,000)</u>	<u>—</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(45,277)</u>	<u>(144,371)</u>	<u>(57,877)</u>	<u>(14,222)</u>	<u>—</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,748	64,767	(107,273)	(54,776)	(28,796)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	120,521	122,269	187,036	187,036	80,996
Effect of foreign exchange rate changes	<u>—</u>	<u>—</u>	<u>1,233</u>	<u>(37)</u>	<u>(72)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	<u>122,269</u>	<u>187,036</u>	<u>80,996</u>	<u>132,223</u>	<u>52,128</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Bank balances and cash	<u>122,269</u>	<u>187,036</u>	<u>80,996</u>	<u>132,223</u>	<u>52,128</u>

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

The address of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Room 1604, Far East Finance Centre, 16 Harcourt Road, Hong Kong respectively.

The combined income statements, combined statements of changes in equity and combined cash flow statements are prepared as if the current group structure had been in existence throughout the Relevant Periods, or since the respective dates of incorporation/establishment of the relevant entity, where this is a shorter period. The combined balance sheets as at 31 March 2006, 2007, 2008 and 31 October 2008 present the assets and liabilities of the companies now comprising the Group which had been incorporated/established as at the relevant balance sheet dates as if the current group structure had been in existence at those dates. The Group was under the control of Mr. Wang Jian Sheng ("Mr. Wang") and Mr. Yao Guoliang ("Mr. Yao") prior to and after the Reorganisation. The Reorganisation completed on 28 November 2008 was to intersperse the Company and Wide Sea between Forever Winner International Limited, the immediate holding company wholly owned by Mr. Wang and Mr. Yao, and Santron Holdings, the then holding company of the Group. Accordingly, the Financial Information has been prepared as if the Company had been always the holding company of the Group throughout the Relevant Period.

On 26 November 2008, as part of the Reorganisation, Santron Holdings, the then holding company of the Group, disposed of its entire interest in Strong Property and assigned the loan due from Strong Property, to Active Tools Group Limited, a related company in which each of Mr. Wang and Mr. Yao has 50% beneficial interests, at a cash consideration of approximately HK\$32,032,000 which was determined by reference to the net asset value of Strong Property as at 31 October 2008. The following assets and liabilities of Strong Property are included in the combined balance sheets of the Group as at 31 March 2006, 2007, 2008 and 31 October 2008.

	As at 31 March			As at
	2006	2007	2008	31 October
	HK\$'000	HK\$'000	HK\$'000	2008
				HK\$'000
Property, plant and equipment	18,855	17,755	17,148	16,886
Available-for-sale investments	1,200	1,200	1,200	1,200
Other receivables, deposits and prepayments	52	52	53	50
Tax recoverable	—	—	69	—
Held for trading investments	—	—	9,327	7,622
Deposits placed with brokers	—	—	6,137	4,303
Bank balances and cash	2,171	28	1,120	2,358
Other payables and accruals	(7)	(7)	(365)	(358)
Tax payable	—	—	—	(29)
	<u>22,271</u>	<u>19,028</u>	<u>34,689</u>	<u>32,032</u>

The Group's principal operations are conducted in the Hong Kong and Macao. The functional currency of the Company and most of its subsidiaries is United States Dollar ("US\$") as the Group entities mainly trade in US\$ with its customers and suppliers. However, for the purpose of this prospectus, the Financial Information is presented in Hong Kong Dollar ("HK\$").

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

For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently adopted all new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the financial year beginning on 1 April 2008.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective up to the date of this report.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of financial statements ²
HKAS 23 (Revised)	Borrowing costs ²
HKAS 27 (Revised)	Consolidated and separate financial statements ³
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ²
HKAS 39 (Amendments)	Eligible hedged items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of investment in a subsidiary, jointly controlled entities or associates ²
HKFRS 2 (Amendment)	Vesting conditions and cancellations ²
HKFRS 3 (Revised)	Business combinations ³
HKFRS 8	Operating segments ²
HK(IFRIC) - Int 13	Customer loyalty programmes ⁴
HK(IFRIC) - Int 15	Agreements for the construction of real estate ²
HK(IFRIC) - Int 16	Hedges of a net investment in a foreign operation ⁵
HK(IFRIC) - Int 17	Distributions of non-cash assets to owners ³

¹ Effective for financial years beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for financial years beginning on or after 1 July 2009.

² Effective for financial years beginning on or after 1 January 2009.

³ Effective for financial years beginning on or after 1 July 2009.

⁴ Effective for financial years beginning on or after 1 July 2008.

⁵ Effective for financial years beginning on or after 1 October 2008.

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values and in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of combination

The Financial Information incorporates the financial information 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 Relevant Periods are included in the combined 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 combination.

Investment in associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these combined financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the combined balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has been 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.

Property, plant and equipment

Property, plant and equipment including building for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 combined income statement in the year/period in which the item is derecognised.

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.

Prepaid lease payments represent leasehold interests in land under operating lease arrangements and are amortised over the lease terms on a straight-line basis.

The Group as lessor

Rental income from operating leases is recognised in the combined income statement on a straight-line basis over the term of relevant lease.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme"), Macao Social Security Fund and PRC state-managed retirement benefit scheme are charged as an expense when employees have rendered services entitling them to the contributions.

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/period. Taxable profit differs from profit as reported in the combined 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 or deductible. The 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 Information 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 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 other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group 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 profit 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/period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the combined balance sheet when a group entity 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

The Group's financial assets are mainly classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. 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 market place. The accounting policies adopted in respect of financial assets at FVTPL, loans and receivables and available-for-sale financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets at FVTPL have two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loan 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, receivables (including trade receivables, other receivables and deposits, amounts due from brokers and other oil trading company, deposits placed with brokers, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, 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.

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.

Impairment of financial assets

Financial assets, other than those at FVTPL, 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.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, 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 trade receivables, assets 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 Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, 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 a trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. 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.

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.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Income expense is recognised on an effective interest basis other than those financial liability designated as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at FVTPL

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables, amounts due to shareholders and dividend payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the companies now comprising the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives of the Group do not qualify for hedge accounting thus they are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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 or payable is recognised in profit or loss.

Foreign currencies

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 exchange prevailing on the dates of the transactions. At each balance sheet dates, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. 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 year/period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's entities are translated from their functional currency into the presentation currency of the Group (i.e. HK\$) 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/period, unless exchange rates fluctuate significantly during that year/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 year/period in which the foreign operation is disposed of.

Impairment of tangible assets

At each balance sheet dates, the Group reviews the carrying amounts of its 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, such 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 year/period. A reversal of an impairment loss is recognised as income immediately.

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits as disclosed in the combined statements of changes in equity. As at 31 March 2006, 2007, 2008 and 31 October 2008, no external debts are raised by the Group.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 March			As at
	2006	2007	2008	31 October
	HK\$'000	HK\$'000	HK\$'000	2008
				HK\$'000
Financial assts				
FVTPL				
- Designated as at FVTPL	—	—	17,271	16,597
- Held for trading	—	—	9,327	7,622
Loans and receivables (including cash and cash equivalents)	622,463	251,532	182,538	516,660
Available-for-sale financial assets	<u>1,592</u>	<u>1,592</u>	<u>1,592</u>	<u>1,592</u>
Financial liabilities				
FVTPL				
- Held for trading	—	—	—	310
Amortised cost	<u>440,506</u>	<u>2,816</u>	<u>57,306</u>	<u>276,039</u>

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, bank structured deposit, trade receivables, other receivables and deposits, held for trading investments, amounts due from brokers and other oil trading company, deposits placed with brokers, pledged bank deposits, bank balances and cash, trade and bills payables, other payables, derivative financial instruments, dividend payable and amounts due to shareholders. The risks associated with these financial instruments include market risk (interest rate risk, currency risk and other price risk), credit risk and liquidity risk. 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.

The Group's overall financial risk management objectives and policies remain unchanged over the Relevant Periods.

*Market risks**Interest rate risk*

The Group's cash flow interest rate risk primarily relates to its variable-rate bank balances, pledged bank deposits and deposits placed with brokers.

The Group has not used any derivative contracts to hedge its exposure to interest rate risk, however, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The management manages the interest rate exposure based on the interest rate level and outlook as well as potential impact on the Group's results arising from volatility of the interest rate.

The Group's exposure to interest rate on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate bank balances, pledged bank deposits and deposits placed with brokers at each of the balance sheet dates. The analysis is prepared assuming the amount of bank balances, pledge bank deposits and deposits placed with brokers held at the balance dates were held for the whole year/period. A 100 basis points change is used which represents management's assessment of reasonably possible change in interest rates.

If the interest rate on bank balances, pledged bank deposits and deposits placed with brokers increase/decrease by 100 basis points and all other variables were held constant, the profit for the year ended 31 March 2006, 2007, 2008 and the seven months ended 31 October 2008 will increase/decrease by approximately HK\$2,380,000, HK\$2,456,000, HK\$1,193,000 and HK\$1,307,000 respectively.

Currency risk

Majority of the Group's sales and purchases are denominated in the group entity's functional currency. Accordingly, the directors considered that the Group's foreign currency exchange risk is insignificant.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities				Assets			
	As at 31 March			As at 31 October	As at 31 March			As at 31 October
	2006	2007	2008	2008	2006	2007	2008	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Currency of Hong Kong	140	202	65	289	1,824	7,074	535	439
Currency of the United Kingdom	—	—	—	—	4,676	5,434	5,514	4,603
Currency of the PRC	—	—	—	—	19	19	15	—
Others	25	3	1	6	33	63	126	76
	<u>25</u>	<u>3</u>	<u>1</u>	<u>6</u>	<u>33</u>	<u>63</u>	<u>126</u>	<u>76</u>

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The directors considered that the sensitivity of the Group's exposure towards the change in foreign exchange rates is minimal as the assets and liabilities of the Group denominated in currency other than functional currency of a particular group entity were insignificant as at each of the balance sheet dates.

Other price risk(a) *Oil price risk*

The Group is exposed to oil price risk through its trading of petroleum products, crude oil and petrochemical products of which their prices fluctuates directly with the oil price. The oil price is affected by a wide range of global and domestic factors which are beyond the control of the Group. The fluctuation in oil prices may have favourable or unfavourable impacts to the Group. The management manages this exposure by negotiation and confirmation of the terms of the agreements with customers and suppliers simultaneously. In this regard, the Group does not need to maintain any inventory and thus eliminate any price risk arising from fluctuation of international oil price for any inventory on hand.

In addition, the Group has carried out hedging activities to reduce the price risk exposure during the course of trading business. In order to evaluate and monitor the hedging activities, the Group has formulated a risk management policy, documenting the scope of risk management, roles and responsibility and risk tolerance.

The Group's derivative financial instruments as at 31 October 2008 are measured at fair value provided by financial institutions with reference to the quoted crude oil futures prices. Therefore, the Group is exposed to oil price risk and the management monitors the price movements and takes appropriate actions when it is required.

Sensitivity analysis

If the reference oil price had been 10% higher/lower and all other variables were held constant, the Group's profit for the period ended 31 October 2008 would increase/decrease by approximately HK\$467,000.

However, as all derivative financial instruments had been closed before expiry date in early November, 2008 with a net loss of US\$26,520 (equivalent to approximately HK\$207,000), the directors of the Company considered that the sensitivity analysis for the oil price risk related to the derivative financial instruments is not representative.

(b) Equity price risk

The Group's held for trading investments and bank structured deposit as at 31 March and 31 October 2008 are measured at fair value with reference to the quoted market prices and quoted prices provided by financial institutions respectively. Therefore, the Group is exposed to equity price risk and the management monitors the price movements and takes appropriate actions when it is required.

Sensitivity analysis

If the quoted prices of held for trading investments had been 10% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2008 and seven months ended 31 October 2008 would increase/decrease by approximately HK\$933,000 and HK\$762,000 respectively.

If the quoted price of bank structured deposit had been 10% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2008 and seven months ended 31 October 2008 would increase/decrease by approximately HK\$1,727,000 and HK\$1,660,000 respectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of banking facilities and ensures compliance with any covenants. As at 31 March 2006, 2007, 2008 and 31 October 2008, the Group has available unutilised short-term bank loan facilities of approximately US\$110,700,000, US\$112,263,000, US\$161,700,000 and US\$173,810,000 (equivalent to HK\$863,460,000, HK\$875,650,000, HK\$1,261,260,000 and HK\$1,355,718,000) respectively.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. For non-derivative liabilities the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. For derivative instruments settle on a net basis, undiscounted net cash outflow are presented.

	Weighted average effective interest rate	Less than 1 month	1 month to 3 months	3 months to 1 year	Total undiscounted cash flows	Total carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 March 2006						
Non-derivative financial liabilities						
Trade and bills payables	N/A	371,709	—	—	371,709	371,709
Other payables	N/A	162	274	—	436	436
Amounts due to shareholders	N/A	<u>68,361</u>	<u>—</u>	<u>—</u>	<u>68,361</u>	<u>68,361</u>
		<u>440,232</u>	<u>274</u>	<u>—</u>	<u>440,506</u>	<u>440,506</u>
As at 31 March 2007						
Non-derivative financial liabilities						
Trade and bills payables	N/A	—	—	—	—	—
Other payables	N/A	826	—	—	826	826
Amounts due to shareholders	N/A	<u>1,990</u>	<u>—</u>	<u>—</u>	<u>1,990</u>	<u>1,990</u>
		<u>2,816</u>	<u>—</u>	<u>—</u>	<u>2,816</u>	<u>2,816</u>
As at 31 March 2008						
Non-derivative financial liabilities						
Trade and bills payables	N/A	3,928	—	—	3,928	3,928
Other payables	N/A	65	—	—	65	65
Dividend payable	N/A	<u>—</u>	<u>—</u>	<u>53,313</u>	<u>53,313</u>	<u>53,313</u>
		<u>3,993</u>	<u>—</u>	<u>53,313</u>	<u>57,306</u>	<u>57,306</u>
As at 31 October 2008						
Non-derivative financial liabilities						
Trade and bills payables	N/A	156,128	2,660	—	158,788	158,788
Other payables	N/A	63,937	—	1	63,938	63,938
Dividend payable	N/A	<u>—</u>	<u>53,313</u>	<u>—</u>	<u>53,313</u>	<u>53,313</u>
		<u>220,065</u>	<u>55,973</u>	<u>1</u>	<u>276,039</u>	<u>276,039</u>
Derivatives settled net futures						
contracts		<u>310</u>	<u>—</u>	<u>—</u>	<u>310</u>	<u>310</u>

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the combined balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Bank balances, deposit placed with brokers and amounts due from brokers are placed in various authorised financial institutions and the directors of the Company consider the credit risk of such authorised financial institutions is low.

The credit risk on amount due from other oil trading company is limited as the counterparty is a worldwide oil trading company with strong financial background. The balance as at 31 October 2008 was fully settled subsequently.

The Group has concentration of credit risk as the total trade receivables of the Group as at 31 March 2006, 2008 and 31 October 2008 were due from only 2, 1 and 2 customers respectively. These customers are mainly PRC state-owned import agents with strong financial background. The management closely monitors the subsequent settlement of the customers. At the same time, the management endeavours to diversify and expand the customer base in order to mitigate the concentration of credit risk through establishing new business relationship with non state-owned licensed import agents and overseas oil trading companies.

Fair value

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively or quoted prices provided by financial institutions; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

6. REVENUE AND SEGMENTAL INFORMATION

Revenue

Revenue represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Segmental information

The Group's revenue is substantially derived from single segment of sales of petroleum products and crude oil during the Relevant Periods. The directors consider that these activities constitute one business segment since these activities are related and are subject to similar risks and rewards. In addition, the revenue from sales of petrochemical products constituted less than 10% of the total revenue. Accordingly, no analysis by business segment is presented.

The directors of the Company report the geographical segments by location of assets as the Group's primary segment information. The Group's assets are mainly located in Hong Kong, Macao and PRC (excluding Hong Kong and Macao).

The following table provides an analysis of the Group's results, assets and liabilities by geographical segments based on location of assets:

Combined income statement for the year ended 31 March 2006

	Hong Kong	Macao	PRC	Combined
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>1,035,908</u>	<u>4,292,362</u>	<u>—</u>	<u>5,328,270</u>
Result	<u>30,749</u>	<u>68,751</u>	<u>—</u>	99,500
Unallocated corporate expenses				(17,562)
Other income				9,069
Finance costs				<u>(5,964)</u>
Profit before taxation				85,043
Taxation				<u>(3,774)</u>
Profit for the year				<u>81,269</u>

APPENDIX I**ACCOUNTANTS' REPORT****Combined balance sheet as at 31 March 2006**

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Combined <i>HK\$'000</i>
ASSETS				
Segment assets	574	386,475	—	387,049
Unallocated corporate assets				<u>258,451</u>
				<u>645,500</u>
LIABILITIES				
Segment liabilities	839	372,316	—	373,155
Unallocated corporate liabilities				<u>80,705</u>
				<u>453,860</u>

Other information for the year ended 31 March 2006

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Additions of property, plant and equipment	7	—	—	—	7
Depreciation of property, plant and equipment	392	304	—	1,100	1,796
Loss on disposal of property, plant and equipment	<u>4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4</u>

Combined income statement for the year ended 31 March 2007

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue	<u>652,727</u>	<u>4,485,970</u>	<u>—</u>	<u>5,138,697</u>
Result	<u>48,892</u>	<u>107,055</u>	<u>—</u>	155,947
Unallocated corporate expenses				(19,307)
Other income				11,403
Finance costs				<u>(4,782)</u>
Profit before taxation				143,261
Taxation				<u>(7,490)</u>
Profit for the year				<u>135,771</u>

APPENDIX I**ACCOUNTANTS' REPORT****Combined balance sheet as at 31 March 2007**

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Combined <i>HK\$'000</i>
ASSETS				
Segment assets	5,983	1,884	—	7,867
Unallocated corporate assets				<u>264,994</u>
				<u>272,861</u>
LIABILITIES				
Segment liabilities	1,156	6,331	—	7,487
Unallocated corporate liabilities				<u>15,963</u>
				<u>23,450</u>

Other information for the year ended 31 March 2007

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Additions of property, plant and equipment	30	—	—	—	30
Depreciation of property, plant and equipment	<u>355</u>	<u>304</u>	<u>—</u>	<u>1,100</u>	<u>1,759</u>

Combined income statement for the year ended 31 March 2008

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue	<u>1,298,751</u>	<u>2,912,431</u>	<u>—</u>	<u>4,211,182</u>
Result	<u>15,939</u>	<u>93,305</u>	<u>—</u>	109,244
Unallocated corporate expenses				(24,420)
Other income				14,298
Fair value changes on held for trading investments				(2,635)
Finance costs				<u>(2,985)</u>
Profit before taxation				93,502
Taxation				<u>(811)</u>
Profit for the year				<u>92,691</u>

APPENDIX I**ACCOUNTANTS' REPORT****Combined balance sheet as at 31 March 2008**

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Combined <i>HK\$'000</i>
ASSETS				
Segment assets	771	64,606	22,423	87,800
Interest in an associate	—	—	49,789	49,789
Unallocated corporate assets				<u>174,297</u>
				<u>311,886</u>
LIABILITIES				
Segment liabilities	1,173	9,447	1,008	11,628
Unallocated corporate liabilities				<u>65,653</u>
				<u>77,281</u>

Other information for the year ended 31 March 2008

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Additions of property, plants and equipments	24	—	1,038	—	1,062
Depreciation of property, plants and equipments	191	229	4	607	1,031
Loss on disposal of property, plants and equipments	<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3</u>

Combined income statement for the seven months ended 31 October 2008

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue	<u>872,060</u>	<u>3,936,551</u>	<u>—</u>	<u>4,808,611</u>
Result	<u>33,727</u>	<u>109,207</u>	<u>—</u>	142,934
Unallocated corporate expenses				(25,019)
Other income				3,566
Fair value changes on held for trading investments				(3,872)
Finance costs				(2,940)
Share of loss of an associate	—	—	(45)	<u>(45)</u>
Profit before taxation				114,624
Taxation				<u>(4,074)</u>
Profit for the period				<u>110,550</u>

APPENDIX I**ACCOUNTANTS' REPORT****Combined balance sheet as at 31 October 2008**

	Hong Kong	Macao	PRC	Combined
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS				
Segment assets	140,811	247,024	25,875	413,710
Interest in an associate	—	—	50,489	50,489
Unallocated corporate assets				<u>178,965</u>
				<u>643,164</u>
LIABILITIES				
Segment liabilities	79,494	149,392	3,344	232,230
Unallocated corporate liabilities				<u>64,686</u>
				<u>296,916</u>

Other information for the seven months ended 31 October 2008

	Hong Kong	Macao	PRC	Unallocated	Combined
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Additions of property, plants and equipments	52	2	2,938	—	2,992
Amortisation of prepaid lease payments	—	—	254	—	254
Depreciation of property, plants and equipments	19	90	4	262	375
Loss on disposal of property, plants and equipments	<u>2</u>	<u>2</u>	<u>—</u>	<u>—</u>	<u>4</u>

Combined income statement for the seven months ended 31 October 2007 (unaudited)

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Revenue	<u>808,004</u>	<u>1,852,664</u>	<u>—</u>	<u>2,660,668</u>
Result	<u>9,961</u>	<u>33,078</u>	<u>—</u>	43,039
Unallocated corporate expenses				(11,686)
Other income				9,266
Finance costs				<u>(2,040)</u>
Profit before taxation				38,579
Taxation				<u>(664)</u>
Profit for the period				<u>37,915</u>

Other information for the seven months ended 31 October 2007 (unaudited)

	Hong Kong <i>HK\$'000</i>	Macao <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Additions of property, plants and equipments	4	—	25	—	29
Depreciation of property, plants and equipments	178	165	2	442	787
Loss on disposal of property, plants and equipments	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>

The Group has contracted with customers located in different countries but the products sold were substantially delivered to the PRC, the ultimate location of market. Accordingly no analysis of revenue by geographical customers is presented.

7. OTHER INCOME

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Bank interest income	6,399	10,863	12,627	7,734	3,189
Net exchange gain	—	540	—	285	—
Net demurrage charges received	167	—	1,227	1,064	—
Insurance claims received	—	—	3,500	3,500	—
Increase in fair value on bank structured deposit	—	—	1,671	1,247	—
Commission income	2,349	—	—	—	—
Others	2,670	8	15	8	386
	<u>11,585</u>	<u>11,411</u>	<u>19,040</u>	<u>13,838</u>	<u>3,575</u>

8. FINANCE COSTS

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Interests on short-term borrowings	787	354	105	99	507
Bank charges on letter of credit facilities	5,177	4,428	2,880	1,941	2,433
	<u>5,964</u>	<u>4,782</u>	<u>2,985</u>	<u>2,040</u>	<u>2,940</u>

9. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Directors' emoluments					
Fees	—	—	—	—	—
Salaries and allowances	648	672	720	420	500
Discretionary bonus	111	56	60	—	—
Retirement benefit scheme contributions	—	—	—	—	—
	<u>759</u>	<u>728</u>	<u>780</u>	<u>420</u>	<u>500</u>

The discretionary bonus is determined with reference to the involvement and performance of the directors.

The above table represented the emoluments of Mr. Wong Wing, one of the executive directors for the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Group to Mr. Wang and Mr. Yao, the other two executive directors, Mr. Zhu Yao Bin, Mr. Lau Hon Kee and Ms. Lin Yan, Linda, the independent non-executive directors.

The emoluments for the five individuals with the highest emoluments in the Group for each of the Relevant Periods included one executive director of the Group whose emoluments are included in the disclosure set out above. The emoluments of the remaining four individuals were as follows:

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Salaries and allowances	1,747	1,882	2,564	1,495	1,720
Discretionary bonus	141	298	212	—	—
Retirement benefit scheme contributions	35	25	37	21	21
	<u>1,923</u>	<u>2,205</u>	<u>2,813</u>	<u>1,516</u>	<u>1,741</u>

Their emoluments were within the following bands:

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
				(unaudited)	
	<i>No. of employees</i>				
HK\$nil to HK\$1,000,000	4	4	3	4	4
HK\$1,000,001 to HK\$1,500,000	—	—	1	—	—

During the Relevant Periods, no emolument was paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

10. TAXATION

	Year ended 31 March			Seven months ended 31 October	
	2006	2007	2008	2007	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)				
Current tax:					
— Hong Kong Profits Tax	3,532	7,076	811	664	3,976
— PRC Enterprise Income Tax	—	414	—	—	—
Underprovision of Hong Kong Profits Tax in prior years	242	—	—	—	98
	<u>3,774</u>	<u>7,490</u>	<u>811</u>	<u>664</u>	<u>4,074</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit of Strong Petrochemical (HK) and Strong Property for the 3 years ended 31 March 2008 and seven months ended 31 October 2007. On 26 June 2008, the Hong Kong Legislative Council passed Revenue Bill 2008 which included the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008/09. The effect of such decrease has been reflected in measuring the current tax for the seven months ended 31 October 2008.

No provision for PRC Enterprise Income Tax was provided for the Group's PRC subsidiary, as the PRC subsidiary has no assessable profit during the Relevant Periods.

Pursuant to the Decree Law No. 58/99M, Chapter 2, Article 12 dated 18 October 1999, issued by the Macao Special Administrative Region Government, Strong Petrochemical (Macao) is exempted from Macao Complementary Tax.

Pursuant to the Implementation Rules of Foreign Investment Enterprise and Foreign Enterprises Income Tax Law (the "Old FEIT Law") issued by State Administration of Taxation, the PRC dated 30 June 1991, Strong Petrochemical (Macao) may have the potential risk of being deemed to have an establishment in the PRC due to frequent presence of a director of Strong Petrochemical (Macao) in the PRC and the negotiations and ultimately accepting orders in relation to certain oil products trading transactions ("Deemed-PRC-related-transactions") had taken place in the PRC by the director.

For the Relevant Periods, the directors are of the view that there are nil, 1, nil and nil shipments with gross profit of nil, HK\$1,255,000, nil and nil respectively which might be classified as Deemed-PRC-related-transactions. Although signing of all such trade contracts for Strong Petrochemical (Macao) were handled by the staff based in Macao and it does not have any office in the PRC, the directors consider that Strong Petrochemical (Macao) may have higher (i.e. chance of more than 50%) potential risk of being deemed to have an establishment in the PRC due to a high likelihood of significant involvement of the director in the Deemed-PRC-related-transactions. Accordingly, the PRC Enterprise Income Tax provision at a tax rate of 33% on the gross profit attributable to the Deemed-PRC-related-transactions has been made in accordance with Article 2 and Article 3 of the Old FEIT Law.

The taxation for the year/period can be reconciled to the profit before taxation per the combined income statements as follows:

	Year ended 31 March			Seven months ended 31 October	
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000 (unaudited)	2008 HK\$'000
Profit before taxation	<u>85,043</u>	<u>143,261</u>	<u>93,502</u>	<u>38,579</u>	<u>114,624</u>
Tax at applicable Hong Kong Profit tax rate of respective year/period	14,883	25,071	16,363	6,751	18,913
Tax effect of income not taxable for tax purposes	(624)	(960)	(1,327)	(1,160)	(138)
Tax effect of expenses not deductible for tax purposes	160	161	1,209	114	1,099
Effect of tax exemption granted to Macao subsidiary	(10,786)	(16,873)	(15,701)	(5,007)	(16,388)
Effect of different tax rates in other jurisdiction	—	194	—	—	—
Effect of tax losses not recognised	—	—	267	—	483
Utilisation of tax losses previously not recognised	(101)	(103)	—	(34)	—
Tax effect of share of loss of an associate	—	—	—	—	7
Underprovision in respect of prior year/period	<u>242</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>98</u>
Taxation for the year/period	<u>3,774</u>	<u>7,490</u>	<u>811</u>	<u>664</u>	<u>4,074</u>

As at 31 March and 31 October 2008, the Group has unused tax losses of HK\$1,526,000 and HK\$2,929,000 available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

There was no significant unprovided deferred taxation for the years ended 31 March 2006 and 2007 or at 31 March 2006 and 2007.

11. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period is arrived after charging:

	Year ended 31 March			Seven months ended 31 October	
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000 (unaudited)	2008 HK\$'000
Auditor's remuneration	211	267	510	298	571
Amortisation of prepaid lease payments	—	—	—	—	254
Depreciation of property, plant and equipment	1,796	1,759	1,031	787	375
Decrease in fair value of bank structured deposit	—	—	—	—	674
Net foreign exchange losses	311	—	17	—	1,055
Listing expenses	—	—	5,958	—	4,982
Loss on disposals of property, plant and equipment	4	—	3	1	4
Operating lease rentals in respect of rented premises	—	—	19	10	21
Staff costs (including directors' emolument):					
Salaries, bonus and other allowances	3,663	3,719	4,935	2,521	4,019
Retirement benefits scheme contributions	64	55	71	41	51
	<u>3,727</u>	<u>3,774</u>	<u>5,006</u>	<u>2,562</u>	<u>4,070</u>

12. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation.

The dividends for the years ended 31 March 2007 and 2008 and seven months ended 31 October 2007 represent the interim dividends of US\$10,000,000, US\$14,000,000 and US\$7,000,000 (equivalent to HK\$78,000,000, HK\$109,200,000 and HK\$54,600,000), declared by Santron Holdings to its the then shareholder respectively.

The rate of dividends is not presented as such information is not considered meaningful having regard to the purpose of this report.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the Relevant Periods and on the assumption that 300,000,000 shares in issue or to be issued as at the date of this report and pursuant to the capitalisation issue occurred on the first day of the Relevant Periods.

There was no diluted earnings per share for the Relevant Periods as there were no potential shares in issue during the Relevant Periods.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST							
At 1 April 2005	20,754	930	707	703	2,120	—	25,214
Additions	—	—	2	5	—	—	7
Disposals	—	—	(58)	(14)	(3)	—	(75)
At 31 March 2006	20,754	930	651	694	2,117	—	25,146
Additions	—	—	—	30	—	—	30
Disposals	—	—	—	(4)	—	—	(4)
At 31 March 2007	20,754	930	651	720	2,117	—	25,172
Additions	—	—	—	52	—	1,010	1,062
Disposals	—	—	—	(40)	—	—	(40)
At 31 March 2008	20,754	930	651	732	2,117	1,010	26,194
Exchange realignment	—	—	—	—	—	15	15
Additions	—	—	—	72	—	2,920	2,992
Disposals	—	—	(1)	(18)	—	—	(19)
At 31 October 2008	20,754	930	650	786	2,117	3,945	29,182
ACCUMULATED DEPRECIATION							
At 1 April 2005	628	245	253	223	638	—	1,987
Provided for the year	549	270	159	183	635	—	1,796
Eliminated on disposals	—	—	(55)	(11)	(3)	—	(69)
At 31 March 2006	1,177	515	357	395	1,270	—	3,714
Provided for the year	549	270	159	146	635	—	1,759
Eliminated on disposals	—	—	—	(4)	—	—	(4)
At 31 March 2007	1,726	785	516	537	1,905	—	5,469
Provided for the year	480	145	105	89	212	—	1,031
Eliminated on disposals	—	—	—	(37)	—	—	(37)
At 31 March 2008	2,206	930	621	589	2,117	—	6,463
Provided for the period	312	—	15	48	—	—	375
Eliminated on disposals	—	—	(1)	(13)	—	—	(14)
At 31 October 2008	2,518	930	635	624	2,117	—	6,824
CARRYING VALUES							
At 31 March 2006	19,577	415	294	299	847	—	21,432
At 31 March 2007	19,028	145	135	183	212	—	19,703
At 31 March 2008	18,548	—	30	143	—	1,010	19,731
At 31 October 2008	18,236	—	15	162	—	3,945	22,358

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	5%
Leasehold improvements	Over the shorter of the term of the lease or 3-4 years.
Furniture and fixtures	20% - 25%
Office equipment	19% - 33 $\frac{1}{3}$ %
Motor vehicles	30%

As at 31 March 2006, 2007, 2008 and 31 October 2008, all of the Group's buildings were pledged to secure certain banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments at 31 March and 31 October 2008 comprise leasehold land in the PRC with medium-term lease for 50 years.

As at 31 March 2008, the Group has fully settled the contract sum but not yet obtained the land use right certificates. The Group has obtained the Stated-owned Land Use Rights Certificates on 21 April 2008. The prepaid lease payments are commenced to amortise over the lease terms on a straight-line basis since this date.

	As at 31 March			As at
	2006	2007	2008	31 October
	HK\$'000	HK\$'000	HK\$'000	2008
				HK\$'000
Prepaid lease payments of the Group are analysed for reporting purpose as:				
Current asset	—	—	—	434
Non-current asset	—	—	21,302	21,019
	—	—	21,302	21,453

16. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 March			As at
	2006	2007	2008	31 October
	HK\$'000	HK\$'000	HK\$'000	2008
				HK\$'000
Corporate debenture	1,200	1,200	1,200	1,200
A golf club membership	392	392	392	392
	1,592	1,592	1,592	1,592

The directors of the Group are of the opinion that their fair values cannot be measured reliably because the above available-for-sale investments do not have a quoted market price in an active market. Accordingly, they are measured at cost less impairment at each balance sheet dates.

17. BANK STRUCTURED DEPOSIT

The amounts at 31 March and 31 October 2008 represent a principle-protected structured deposit denominated in US\$ amounted to US\$2,000,000 with a maturity date on 9 May 2012. The return on the structured deposit is determined with reference to a foreign exchange yield differential index published by the issuer of the structured deposit, which is a bank with high credit rating assigned by international credit-rating agencies.

At each balance sheet date, there are no significant concentrations of credit risk for financial assets designated at FVTPL. The carrying amount reflected at 31 March and 31 October 2008 represents the Group's maximum exposure to credit risk for such financial assets.

18. INTEREST IN AN ASSOCIATE

	As at 31 March			As at
	2006	2007	2008	31 October
	HK\$'000	HK\$'000	HK\$'000	2008
				HK\$'000
Cost of investment in an associate — unlisted	—	—	49,319	49,319
Share of post-acquisition losses	—	—	—	(45)
Exchange realignment	—	—	470	1,215
	<u>—</u>	<u>—</u>	<u>49,789</u>	<u>50,489</u>

As at 31 March and 31 October 2008, the Group had interest in the following associate:

Name of entity	Form of business structure	Country of incorporation	Fully paid up registered capital	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activity
中化天津港石化倉儲有限公司 (Sinochem Tianjin Port Petrochemical Terminal Co., Ltd.)	Incorporated	PRC	RMB300,000,000	15%	20% (Note)	Provision of petrochemical products storage services (Not yet commence operation)

Note: The Group is able to exercise significant influence over Sinochem Tianjin Port Petrochemical Terminal Co., Ltd. because it has the power to appoint one out of the five directors of this company.

The summarised financial information in respect of the Group's associate is set out below:

	As at 31 March			As at
	2006	2007	2008	31 October
	HK\$'000	HK\$'000	HK\$'000	2008
Total assets	—	—	333,125	341,113
Total liabilities	—	—	(1,193)	(4,519)
Net assets	—	—	331,932	336,594
Group's share of net assets	—	—	49,789	50,489

	Year ended 31 March			Seven months
	2006	2007	2008	ended 31
	HK\$'000	HK\$'000	HK\$'000	October
Revenue	—	—	—	—
Loss for the year/period	—	—	—	(299)
Group's share of result for the year/period	—	—	—	(45)

19. TRADE RECEIVABLES

The aged analysis of trade receivables are stated as follows:

	As at 31 March			As at
	2006	2007	2008	31 October
	HK\$'000	HK\$'000	HK\$'000	2008
0 to 30 days	382,052	—	63,027	234,238

The credit period on sale of goods is 30 days. The Group does not hold any collateral over these balances. All trade receivables are neither past due nor impaired as at the balance sheet dates.

In the opinion of the director, the Group has a well established strong client portfolio where the customers have a strong financial and well established market position. The directors consider that such relationships enable the Group to limit its credit risk exposure. Before accepting any new customers, the Group will assess the potential customer's credit quality by reference to the experience of the management and defines credit limits by customer. Such credit limit is reviewed by the management periodically.

20. AMOUNTS DUE FROM BROKERS AND OTHER OIL TRADING COMPANY

The amounts represented settlement amounts with brokers and an oil trading company for trading in forward and swap contracts. The amounts were unsecured, non-interest bearing and were repayable within 14 days after such contracts were concluded.

21. HELD FOR TRADING INVESTMENTS

The amounts at 31 March and 31 October 2008 represent equity securities listed in Hong Kong, stated at fair value at both balance sheet dates.

22. DEPOSITS PLACED WITH BROKERS

The amounts of HK\$17,202,000, HK\$35,084,000, HK\$16,469,000 and HK\$25,057,000 at 31 March 2006, 2007, 2008 and 31 October 2008 respectively represent margin deposits placed with brokers for trading derivatives carried interest at market rate which range from 0% to 5.74% per annum for the Relevant Periods. The remaining amount of HK\$6,137,000 and HK\$4,303,000 at 31 March and 31 October 2008 respectively represents deposits placed with securities brokers for trading listed securities in Hong Kong and carried interest at market rates which range from 0.25% to 0.77% per annum for the year ended 31 March 2008 and seven months ended 31 October 2008.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent the Group's deposits pledged to banks to secure short-term credit facilities granted to the Group and bears floating interest. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Bank balances and cash comprise cash on hand, balances in saving and current accounts, and short-term bank deposits.

Pledged bank deposits, balance in saving account and short-term bank deposits carried effective interest at market rates which range from 2.15% to 4.565%, 4% to 5.055%, 2.55% to 5.65% and 2.22% to 4.00% per annum for the years ended 31 March 2006, 2007 and 2008 and seven months ended 31 October 2008 respectively.

24. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables is stated as follows:

	As at 31 March			As at 31 October
	2006	2007	2008	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables:				
- within 30 days	6,281	—	3,928	156,128
- 31 days to 60 days	—	—	—	2,660
Bills payables within 30 days	365,428	—	—	—
	<u>371,709</u>	<u>—</u>	<u>3,928</u>	<u>158,788</u>

The credit period on purchases of goods is 30 to 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

25. OTHER PAYABLES AND ACCRUALS

As at 31 October 2008, included in other payables an excess payment received from a customer of approximately HK\$63,649,000. The balance was unsecured, non-interest bearing and repayable within 30 days.

26. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments of the Group at 31 October 2008 comprise of long position in crude oil futures contracts with strike prices ranged from US\$65 to US\$67 and aggregate notional amount of approximately US\$12,511,000 with expiry date on 13 November 2008 and short position in crude oil futures contracts with strike prices ranged from US\$67 to US\$68 and aggregate notional amount of approximately US\$11,475,000 with expiry date on 16 December 2008.

The derivative financial instruments are measured at fair value at 31 October 2008 which are calculated at the market values provided by the financial institutions at the balance sheet date. The Group has closed all crude oil futures contracts in early November 2008 with a net loss of US\$26,520 (equivalent to approximately HK\$207,000) charged to profit or loss subsequently.

Fair value changes on derivative financial instruments during the Relevant Periods represent the fair value changes on trading oil futures, forward, swap and options.

27. AMOUNTS DUE TO SHAREHOLDERS

	As at 31 March			As at
	2006	2007	2008	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Yao	34,181	995	—	—
Sino Century Holdings Limited	<u>34,180</u>	<u>995</u>	<u>—</u>	<u>—</u>
	<u>68,361</u>	<u>1,990</u>	<u>—</u>	<u>—</u>

Sino Century Holdings Limited is an entity wholly owned by Mr. Wang.

The amounts were unsecured, non-interest bearing and repayable on demand.

28. SHARE CAPITAL

For the purpose of the preparation of the combined balance sheets, the balances of the share capital at 31 March 2006, 2007, 2008 and 31 October 2008 respectively, represent the aggregate amount of share capital of the following companies:

The Group

Name of company	As at 31 March			As at
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	31 October 2008 HK\$'000
The Company	—	—	—	—
Santron Holdings (<i>Note</i>)	<u>78</u>	<u>78</u>	<u>78</u>	<u>78</u>
	<u>78</u>	<u>78</u>	<u>78</u>	<u>78</u>

Note: The balance of HK\$78,000 represents the issued and fully paid share capital of 10,000 ordinary shares of US\$1 each (equivalent to HK\$7.8 each). As at each of the balance sheet dates. Santron Holdings had authorised share capital of 50,000 ordinary shares of US\$1 each.

The Company	Number of shares	Amounts HK\$'000
Ordinary shares of HK\$0.1 each authorised:		
On incorporation and as at 31 March and 31 October 2008	<u>3,800,000</u>	<u>380</u>
Issued and fully paid:		
Allotted and issue on the date of incorporation and as at 31 March and 31 October 2008	<u>2</u>	<u>—</u>

The Company was incorporated with an authorised share capital of HK\$380,000, dividend into 3,800,000 ordinary shares of HK\$0.1 each. On the date of incorporation, 2 ordinary shares of HK\$0.1 each was issued at par to Mr. Wang and Mr. Yao, respectively.

29. CAPITAL AND OTHER COMMITMENTS

As at 31 March and 31 October 2008, the Group had authorised but not contracted for capital expenditure of approximately RMB99,505,000 in respect of the construction of the petroleum and petrochemical products storage facilities on the two leasehold land parcel acquired in Nantong City, Jiangsu Province, the PRC.

Pursuant to minutes of the board of directors of Sinochem Tianjin Port Petrochemical Terminal Co., Ltd. dated 28 February 2008, the shareholders of the Group's associate agreed to increase the total registered share capital of the Group's associate from RMB300 million to RMB628 million. Accordingly, the Group is required to pay an additional contributions of approximately RMB49.2 million on pro rata basis by June 2009 or other time approved by the relevant government authorities.

30. OPERATING LEASE COMMITMENTS**The Group as lessee**

As at 31 March and 31 October 2008, the Group had outstanding commitments under non-cancellable operating lease in respect of rented premises of approximately HK\$9,000 and HK\$15,000 respectively, which expire within one year.

No outstanding commitment under non-cancellable operating lease in respect of rented premises as at 31 March 2006 and 2007.

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated and rentals are fixed for an average of one year.

The Group as lessor

Rental income earned from leasing car parking spaces was approximately HK\$10,000, HK\$8,000, HK\$15,000, HK\$8,000 and HK\$9,000 for the years ended 31 March 2006, 2007, 2008 and seven months ended 31 October 2007 and 2008 respectively. All of the car parking spaces held have committed tenants for one month.

At the balance sheet dates, the Group had outstanding commitments under non-cancellable operating leases in respect of car parking spaces as follows:

	As at 31 March			As at
	2006	2007	2008	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2008</i>
				<i>HK\$'000</i>
Operating leases which expire within one year	<u>1</u>	<u>1</u>	<u>2</u>	<u>1</u>

31. RETIREMENT BENEFITS SCHEMES

The Group operates a MPF Scheme under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to combined 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. No forfeited contribution is available to reduce the contribution payable in the future years as at each balance sheet date.

The Group's subsidiary in the Macao, in compliance with the applicable regulations of the Macao, participates in a defined contribution pension scheme operated by the local government. The subsidiary is required to contribute a fixed amount for each employee. The only obligation of the Group with respect to the pension scheme is to make the specified contributions.

The Group's subsidiary in the PRC, in compliance with the applicable regulations of the PRC, participates in social insurance schemes operated by the relevant local government authorities. The insurance premium is borne by the Group on a specified proportion of the employees' salaries laid down under relevant PRC laws.

During the Relevant Periods, the total amounts contributed by the Group to the schemes and cost charged to the combined income statement represents contribution paid or payable to the schemes by the Group at rates or amount specified in the rules of the schemes.

The Group has no significant obligation apart from the contribution as above as at each of the balance sheet dates.

32. RELATED PARTY TRANSACTIONS

There was no related party transactions for the Relevant Periods.

The remuneration of directors and other members of key management during the Relevant Periods were set out in note 9.

As at 31 March 2006, 2007, 2008 and 31 October 2008, the Group had banking facilities amounting to US\$197,000,000, US\$133,000,000, US\$145,000,000 and US\$172,000,000 (equivalent to HK\$1,536,600,000, HK\$1,037,400,000, HK\$1,131,000,000 and HK\$1,341,600,000) respectively that were secured by assets of and personal guarantee provided by Mr. Wang and Mr. Yao. Such guarantees will be released upon the listing of the Company's share on the Stock Exchange.

33. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 March 2006 and 2007 are not presented as the Company was incorporated on 1 February 2008. As at 31 March 2008 and 31 October 2008, the Company had two issued ordinary shares of HK\$0.1 each and remained inactive.

(B) DISTRIBUTABLE RESERVES

As at 31 October 2008, the Company had no reserves available for distribution to the shareholders.

(C) DIRECTORS' REMUNERATION

Same as disclosed herein, no remuneration has been paid or is payable by the Company to the Company's directors in respect of the Relevant Periods.

Under the arrangement presently in force, the aggregate remuneration of the Company's directors for the year ending 31 March 2009 will be approximately HK\$1,825,000.

(D) SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 October 2008:

(a) Reorganisation

The companies now comprising the Group underwent Reorganisation to facilitate the Group's structure in preparation for the listing of the Company's shares on the Stock Exchange. Details of the Reorganisation are set out in the section headed "Corporate Reorganisation" in Appendix V to the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group on 28 November 2008.

(b) Share Option Scheme

On 28 November 2008, the Company adopted a share option scheme (the "Share Option Scheme") for the purpose of recognising the contribution to the Group by the directors, certain senior management staff and employees of the Group and to retain them whose contribution are important to the long-term growth and profitability of the Group.

Details of the Share Option Scheme are set out in section headed "Share Option Scheme" in Appendix V to the Prospectus.

(c) Disposal of a subsidiary

On 26 November 2008, Santron Holdings disposed of its entire interest in Strong Property and assigned the loan due from Strong Property, to Active Tools Group Limited, a related company in which each of Mr. Wang and Mr. Yao has 50% beneficial interests, at a cash consideration of approximately HK\$32,032,000 which was determined by reference to the net asset value of Strong Property as at 31 October 2008. The assets and liabilities of Strong Property as at 31 October 2008 included in the combined balance sheets of the Group were disclosed in note 1 to Section A.

(d) Declare of Pre-IPO dividend

Pursuant to the minute of the directors' meeting dated 26 November 2008, Santron Holdings declared a Pre-IPO dividend of US\$2,900 per share amounting to US\$29,000,000 (equivalent to HK\$226,200,000). The dividend will be paid before 31 December 2008.

(E) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies comprising the Group have been prepared in respect of any period subsequent to 31 October 2008.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

For illustrative purposes only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out here to provide the prospective investors with further information on how the proposed Share Offer might have affected the financial position of our Group after completion of the Share Offer. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial position of our Group following the completion of the Share Offer or at any future dates.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Share Offer on our net tangible assets as at 31 October 2008 as if it had been taken place on 31 October 2008 and based on the audited combined net tangible assets attributable to the equity holders of the Company as at 31 October 2008 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

Based on an Offer Price of HK\$2.5 per Share ⁽⁵⁾	Audited combined net tangible assets attributable to the equity holders of the Company as at 31 October 2008⁽¹⁾ HK\$'000	Add: Estimated net proceeds from the Share Offer⁽²⁾ HK\$'000	Unaudited pro forma adjusted net tangible assets HK\$'000	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾ HK\$
	346,248	229,190	575,438	1.44

This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial position of our Group following the Share Offer.

Notes:

1. The audited combined net tangible assets attributable to the equity holders of the Company as at 31 October 2008 has been extracted from the accountants' report, the text of which is set forth in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$2.5 per Share and 100,000,000 Offer Shares, after deduction of the underwriting fees and other related expenses payable by the Company after 31 October 2008 and taking into account of the professional fees and other expenses relating to the Listing of approximately HK\$5,958,000 and HK\$4,982,000 which have been recognised as expense in the combined income statements for the year ended 31 March 2008 and the seven months ended 31 October 2008 respectively in accordance with HKAS 32 Financial Instruments: Presentation.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

3. The unaudited pro forma net tangible asset value per Share is based on a total of 400,000,000 Shares expected to be in issue immediately following the completion of the Share Offer and the Capitalisation. It has not taken into account any Shares which may fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme or which may be issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.

4. As at 30 November 2008, the Group's property interests were valued by BMI Appraisals Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III to this prospectus. According to the valuation report, the property interests as at 30 November 2008 amounted to approximately HK\$24,842,000. Comparing this amount with the unaudited net carrying value of the property interests as at 30 November 2008 of approximately HK\$22,761,000, there was a surplus of HK\$2,081,000. In accordance with the Group's accounting policies, such properties are stated at historical cost less accumulated depreciation and amortisation and impairment. As such, the net revaluation surplus will not be included in the Group's consolidated financial information. The adjustment referred to in paragraph 2 does not take into account this revaluation surplus. Had the properties been stated at such revaluation, an additional depreciation of HK\$117,000 per annum would be charged against the consolidated income statement.

5. **The Pre-IPO Dividend of approximately HK\$226.2 million was declared pursuant to the resolution passed at a meeting held on 26 November 2008 and such amount will be paid to our then Shareholders before 31 December 2008. Had it been permissible to include the Pre-IPO Dividend in the above calculation, the unaudited pro forma adjusted net tangible assets per Share would have been reduced to HK\$0.87 per Share based on the Offer Price of HK\$2.5 per Share.**

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma financial information for the purpose of incorporation in this prospectus:

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

23 December 2008

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF STRONG PETROCHEMICAL HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of Strong Petrochemical Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed share offer might have affected the financial information presented, for inclusion in Section A in Appendix II of the prospectus dated 23 December 2008 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out in Section A in Appendix II to the Prospectus.

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 in accordance with paragraph 29 of Chapter 4 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 the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed 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 Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This 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 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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose 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 future and may not be indicative of the financial position of the Group as at 31 October 2008 or any future date.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group so far as such policies relate to net tangible assets; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 30 November 2008 of the properties held by Strong Petrochemical Holdings Limited.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

23 December 2008

The Directors

Strong Petrochemical Holdings Limited

Room 1604, Far East Finance Centre,
No. 16 Harcourt Road,
Admiralty,
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Strong Petrochemical Holdings Limited (the “Company”) for us to value the properties held by the Company and/or its subsidiaries (hereinafter together referred to as the “Group”) located in the People’s Republic of China (the “PRC”), Hong Kong and Macao. We confirm that we have conducted site inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 30 November 2008 (the “date of valuation”).

BASIS OF VALUATION

Our valuations of the concerned properties have been based on the Market Value, which is defined as “the estimated amount for which a property 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.”

PROPERTY CATEGORIZATION

In the course of our valuations, the portfolio of properties of the Group is categorized into the following groups:

- Group I — Property held by the Group for owner-occupation in the PRC
- Group II — Property rented by the Group in the PRC
- Group III — Properties rented by the Group in Hong Kong
- Group IV — Property held by the Group partially for owner-occupation and partially for investment purpose in Macao

VALUATION METHODOLOGIES

In valuing the properties held by the Group, we have valued them on an open market basis by the Comparison Approach assuming sale in their existing states with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the properties and the comparables in terms of age, time, location, floor level and other relevant factors. Whenever applicable, we have also adopted the Investment Approach where appropriate by taking into account the current rents passing of the constituent units of the properties being held under existing tenancies and the reversionary potential of the tenancies if they have been or would be let to tenants.

We have attributed no commercial value to the properties in Groups II and III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

TITLE INVESTIGATIONS

We have been, in some instances, provided by the Group with copies of the title documents relating to the properties in the PRC. Where possible, we have searched the original documents to verify the existing titles to the properties in the PRC and any material encumbrances that might be attached to the properties or any lease amendments, which may not appear on the copies, handed to us. In the course of our valuations, we have relied on the advice and information given by the Group and the legal opinion of the Group's PRC legal advisor, King & Wood PRC Lawyers (金杜律師事務所), regarding the validity of the title concerning the properties in the PRC. All documents have been used for reference only.

For the properties rented by the Group in Hong Kong, we have not searched the titles of the property and have not scrutinised the original title documents to verify ownership or to ascertain the existence of any amendments, which do not appear on the copies handed to us. However, we have been given copies of the tenancy agreements of the properties leased by the Group. All documents have been used for reference only.

For the property located in Macao, we have caused searches to be made at the Macao Conservatória do Registo Predial and have been provided with copies of title documents. We have

been advised by the Group that no further relevant documents have been produced. However, we have neither examined the original documents to verify ownership nor to ascertain the existence of any amendments, which do not appear on the copies handed to us. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the properties are sold in the open market in their existing states without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sales of the properties and no forced sale situation in any manner is assumed in our valuations.

In valuing the properties located in the PRC, we have relied on the advice given by the Group and the legal opinion of the Group's PRC legal advisor, King & Wood PRC Lawyers (金杜律師事務所), that the Group has valid and enforceable titles to the properties which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent / land use fees and all requisite land premium / purchase consideration payable have been fully settled.

VALUATION CONSIDERATIONS

We have inspected the exterior and wherever possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural surveys have been made nor have any tests been carried out on any of the services provided in the properties. We are, therefore, unable to report that the properties are free from rot, infestation or any other structural defects.

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group in such matters as approvals or statutory notices, easements, tenure, particulars of occupancy, site / floor areas, identification of the properties and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site / floor areas in respect of the properties but have assumed that the site / floor areas shown on the documents handed to us are correct.

Except otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore approximations.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group and the Group has also advised us that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) for the PRC properties, Hong Kong Dollars (HK\$) for the Hong Kong properties and Macao Pataca (MOP) for the Macao property and no allowances have been made for any exchange transfers. The exchange rates adopted are the average rates as at the date of valuation being HK\$1=RMB0.88207 and HK\$1=MOP1.05961. There has been no significant fluctuation in the exchange rates between that date and the date of this report.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C.H. Cheng

*BSc, MUD, MBA (Finance), MSc (Eng),
PhD (Econ), MHKIS, MCI Arb, AFA, SCIFM, FCIM,
MASCE, MIET, MIEEE, MASME, MIIE
Director*

Joannau W.F. Chan

*BSc. MSc. MRICS MHKIS RPS(GP)
Director*

Notes:

Dr. Tony C.H. Cheng is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 16 years' experience in valuations of properties in Hong Kong, the People's Republic of China and Macao.

Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 16 years' experience in valuations of properties in Hong Kong and over 10 years' experience in valuations of properties in the People's Republic of China and Macao.

SUMMARY OF VALUES

No. Property	Market Value in existing state as at 30 November 2008 <i>RMB</i>	Interest attributable to the Group	Value attributable to the Group as at 30 November 2008 <i>RMB</i>
<i>Group I — Property held by the Group for owner-occupation in the PRC</i>			
1. Two land parcels (Lot Nos. W0736 and W7224) located on the northern side of Jianghai Oil Depot (“江海石油庫”) and Northern side of Huifeng Shihua Company (“匯豐石化公司”), Economic Technology Development District (“經濟技術開發區”), Nantong City, Jiangsu Province, the PRC	18,500,000	100%	18,500,000
Total:	<u>18,500,000</u>		<u>18,500,000</u>

No. Property	Market Value in existing state as at 30 November 2008 <i>RMB</i>	Interest attributable to the Group	Value attributable to the Group as at 30 November 2008 <i>RMB</i>
<i>Group II — Property rented by the Group in the PRC</i>			
2. Duplex Office Unit Nos. 306 on 3rd Floor and 406 on 4th Floor, Block 9 of a development known as “星湖花園” located at No. 88 Sinwu Main Road (“星湖大道88號”), Economic Technology Development District (“經濟技術開發區”), Nantong City, Jiangsu Province, the PRC	No Commercial Value	100%	No Commercial Value
Total:	<u>Nil</u>		<u>Nil</u>

No. Property	Market Value in existing state as at 30 November 2008 <i>HK\$</i>	Interest attributable to the Group	Value attributable to the Group as at 30 November 2008 <i>HK\$</i>
<i>Group III — Properties rented by the Group in Hong Kong</i>			
3. Flat D, 38th Floor, Nam Fung Court, Harbour Heights, No. 1 Fook Yum Road, North Point, Hong Kong	No Commercial Value	100%	No Commercial Value
4. Flat E, 59th Floor, Tower 8, The Belcher's, No. 89 Pok Fu Lam Road, Sai Ying Pun, Hong Kong	No Commercial Value	100%	No Commercial Value
5. Unit 1604, 16th Floor, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong	No Commercial Value	100%	No Commercial Value
Total:	<u><u>Nil</u></u>		<u><u>Nil</u></u>

No. Property	Market Value in existing state as at 30 November 2008 <i>MOP</i>	Interest attributable to the Group	Value attributable to the Group as at 30 November 2008 <i>MOP</i>
<i>Group IV — Property held by the Group partially for owner-occupation and partially for investment purpose in Macao</i>			
6. Office Units B and C on 17th Floor together with two Car Parking Spaces Nos. 68 and 69 on B3 Level, Centro Financeiro (“澳門金融中心”), Nos. 202A — 246 Rua de Pequim, No. 619A-627 Alameda Dr. Carlos D’ Assumpcao (“宋玉生廣場”), Outer Harbour Zone, Macao City, Macao	4,100,000	100%	4,100,000
Total:	<u><u>4,100,000</u></u>		<u><u>4,100,000</u></u>

VALUATION CERTIFICATE

Group I — Property held by the Group for owner-occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2008 RMB
1.	Two land parcels (Lot Nos. W0736 and W7224) located on the northern side of Jianghai Oil Depot (“江海石油庫”) and Northern side of Huifeng Shihua Company (“匯豐石化公司”), Economic Technology Development District (“經濟技術開發區”), Nantong City, Jiangsu Province, the PRC	The property comprises two land parcels (Lot No. W7224 and Lot No. W0736) with a total site area of approximately 55,095.46 m ² (or about 593,048 ft ²). The land use rights of the property have been granted for a term of 50 years for storage use.	The property is vacant.	18,500,000 (100% interest attributable to the Group: 18,500,000)

Notes:

- Pursuant to a Construction Land Permit (建設用地批准書), Nan Tong Shi (2007) Tong Di Jian Chu Zi Di No. 209 (南通市(2007)通地建出字第209號), issued by Nantong City Housing and Land Resources Administration Bureau (南通市國土資源局) dated 3 December 2007, Strong Petrochemical (Nantong) Logistics Co., Ltd. (南通潤德石油化工有限公司) (“Strong Petrochemical Nantong”) was permitted to develop the Lot No. W0736 of the property.
- Pursuant to a Construction Land Permit (建設用地批准書), Nan Tong Shi (2007) Tong Di Jian Chu Zi Di No. 224 (南通市[2007]通地建出字第224號), issued by Nantong City Housing and Land Resources Administration Bureau (南通市國土資源局) dated 30 January 2008, Strong Petrochemical Nantong was permitted to develop the Lot No. W7224 of the property.
- Pursuant to a Tender Transaction Notification (掛牌成交通知書), Tong Di Gua Cheng Zi (2007) Di No. 64 (通地掛成字(2007)第64號), issued by the Nantong City Housing and Land Resources Administration Bureau (南通市國土資源局) dated 12 December 2007, the land use rights of Lot No. W7224 of the property with a site area of approximately 24,728.46 m² have been successfully bidden by Strong Petrochemical Nantong for a term of 50 years for storage use.
- Pursuant to a Tender Transaction Notification (掛牌成交通知書), Tong Di Gua Cheng Zi (2007) Di No. 41 (通地掛成字(2007)第41號), issued by the Nantong City Housing and Land Resources Administration Bureau (南通市國土資源局) dated 5 September 2007, the land use rights of Lot No. W0736 of the property with a site area of approximately 30,367 m² have been successfully bidden by Strong Petrochemical Nantong for a term of 50 years for storage use.
- Pursuant to a Land Transaction Contract — W0736 (土地交付合同 — W0736), entered into between Nantong City Economic Technology Development District Committee (南通市經濟技術開發區管委會) and Strong Petrochemical Nantong dated 5 September 2007, the land use rights of W0736 of the property with a site area of approximately 30,367 m² have been successfully transacted to Strong Petrochemical Nantong at a consideration of RMB336 per m².

6. Pursuant to a State-owned Land Use Rights Grant Contract (國有土地使用權出讓合同), Tong Di Chu Zi (2007) No. 209 (通地出字(2007)209號), entered into between Nantong City Housing and Land Resources Administration Bureau (南通市國土資源局) and Strong Petrochemical Nantong dated 5 September 2007, the former has agreed to grant the land use rights of the Lot No. W0736 of the property to the latter at a consideration of RMB336 per m².
7. Pursuant to a State-owned Land Use Rights Grant Contract (國有土地使用權出讓合同), Tong Di Chu Zi (2007) No. 224 (通地出字(2007)224號), entered into between Nantong City Housing and Land Resources Administration Bureau (南通市國土資源局) and Strong Petrochemical Nantong dated 12 December 2007, the former has agreed to grant the land use rights of the Lot No. W7224 with a site area of 24,728.46 m² to the latter at a consideration of RMB8,308,762.56 for a term of 50 years for storage purpose.
8. Pursuant to a State-owned Land Use Rights Certificate (國有土地使用權證), Tong Kai Guo Yong (2008) Di No. 0305013 (通開國用(2008)第0305013號), issued by Nantong City Housing and Land Resources Administration Bureau (南通市國土資源局) dated 22 April 2008, the land use rights of Lot No.W7224 of the property with a site area of 24,728.46 m² are legally owned by Strong Petrochemical Nantong for a term expiring on 22 April 2058 for storage use.
9. Pursuant to a State-owned Land Use Rights Certificate (國有土地使用權證), Tong Kai Guo Yong (2008) Di No. 0305014 (通開國用(2008)第0305014號), issued by Nantong City Housing and Land Resources Administration Bureau (南通市國土資源局) dated 22 April 2008, the land use rights of Lot No.W0736 of the property with a site area of 30,367 m² are legally owned by Strong Petrochemical Nantong for a term expiring on 22 April 2058 for storage use.
10. The status of title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:
- | | |
|--|-----|
| Tender Transaction Notifications | Yes |
| Land Transaction Contract | Yes |
| Land Use Rights Grant Contract | Yes |
| State-owned Land Use Rights Certificates | Yes |
| Construction Land Permits | Yes |
11. The opinion of the PRC legal advisor to the Group contains, inter alia, the following:
- a. The property is legally vested in Strong Petrochemical Nantong;
 - b. All land premium has been settled in full;
 - c. The property is not subject to mortgage or restriction from any other third party's interest; and
 - d. Strong Petrochemical Nantong is legally entitled to occupy, use, transfer, lease or dispose of the property within the term of the land use rights of the property.
12. Strong Petrochemical Nantong is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group II — Property rented by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2008 RMB
2.	Duplex Office Unit Nos. 306 on 3rd Floor and 406 on 4th Floor, Block 9 of a development, known as “星湖花園” located at No. 88 Sinwu Main Road (“星湖大道88號”), Economic Technology Development District (“經濟技術開發區”), Nantong City, Jiangsu Province, the PRC	<p>The property comprises a duplex office units of an office building of a development, which is known as “星湖花園” completed in about 2002.</p> <p>The total gross floor area of the property is approximately 247 m² (or about 2,659 ft²).</p> <p>The property was rented by Strong Petrochemical (Nantong) Logistics Co., Ltd. (南通潤德石油化工有限公司) (“Strong Petrochemical Nantong”) from an independent third party under a tenancy agreement and its supplementary agreement both dated 11 July 2008 for a term of 1 year commencing on 11 July 2008 and expiring on 10 July 2009 at a monthly rent of RMB2,700 for office use.</p>	The property is occupied by Strong Petrochemical Nantong for office use.	No Commercial Value

Notes:

- The property is rented by Strong Petrochemical Nantong from an independent third party under a tenancy agreement and its supplementary agreement both dated 11 July 2008 for a term of 1 year commencing on 11 July 2008 and expiring on 10 July 2009 at a monthly rent of RMB2,700 for office use.

2. The opinion of the PRC legal advisor to the Group contains, inter alia, the following:
 - a. The property is legally vested in the lessor and the lessor has the rights to lease the property;
 - b. The tenancy agreement has been registered with the relevant government authority;
 - c. The existing use of the property does not violate the permitted use of the property;
 - d. The tenancy is legal and valid; and
 - e. Strong Petrochemical Nantong has the rights to use the property.
3. Strong Petrochemical Nantong is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group III — Properties rented by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2008 HK\$
3.	Flat D, 38th Floor, Nam Fung Court, Harbour Heights, No. 1 Fook Yum Road, North Point, Hong Kong	<p>The property comprises a residential unit on 38th Floor of a residential development known as “Harbour Heights” which was completed in 1988.</p> <p>The gross floor area of the property is approximately 69.12 m² (or about 744 ft²) and its saleable area is approximately 60.12 m² (or about 647 ft²).</p> <p>The property is rented by Strong Petrochemical Limited (海峡石油化工有限公司) from Strong Property Limited under a tenancy agreement dated 5 May 2008 for a term of 1 year commencing on 1 April 2008 and expiring on 31 March 2009 at a monthly rent of HK\$16,400 for residential use, exclusive of government rates and building management fee.</p>	The property is occupied by the Group as staff-quarter.	No Commercial Value

Notes:

1. The property is owned by Strong Property Limited vide Memorial No. UB9392248 dated 28 March 2003.
2. The property is rented by Strong Petrochemical Limited from Strong Property Limited under a tenancy agreement dated 5 May 2008 for a term of 1 year commencing on 1 April 2008 and expiring on 31 March 2009 at a monthly rent of HK\$16,400 for residential use, exclusive of government rates and building management fee.
3. The property is subject to a Mortgage in favour of the Bank of America (Macau) Limited vide Memorial No. UB9399562 dated 5 November 2004. Bank of America (Macau) Limited is now a wholly-owned subsidiary of China Construction Bank Corporation and has adopted a new name “China Construction Bank (Macau) Corporation Limited”.
4. Strong Petrochemical Limited is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2008 HK\$
4.	Flat E, 59th Floor, Tower 8, The Belcher's, No. 89 Pok Fu Lam Road, Sai Ying Pun, Hong Kong	The property comprises a residential unit on 59th floor of Tower 8 of a residential development known as "The Belcher's" which was completed in about 2001. The gross floor area of the property is approximately 135.82 m ² (or about 1,462 ft ²). The property is rented by Strong Petrochemical Limited (海峽石油化工有限公司) from Strong Property Limited under a tenancy agreement dated 5 May 2008 for a term of 1 year commencing on 1 April 2008 and expiring on 31 March 2009 at a monthly rent of HK\$58,500 for residential use, exclusive of government rates and building management fee.	The property is occupied by the Group as staff-quarters.	No Commercial Value

Notes:

1. The property is owned by Strong Property Limited vide Memorial No. UB9220975 dated 30 April 2004 at a consideration of HK\$8,684,200.
2. The property is rented by Strong Petrochemical Limited from Strong Property Limited under a tenancy agreement dated 5 May 2008 for a term of 1 year commencing on 1 April 2008 and expiring on 31 March 2009 at a monthly rent of HK\$58,500 for residential use, exclusive of government rates and building management fee.
3. The property is subject to a Mortgage in favour of the Bank of America (Macau) Limited vide Memorial No. UB9399563 dated 5 November 2004. Bank of America (Macau) Limited is now a wholly-owned subsidiary of China Construction Bank Corporation and has adopted a new name "China Construction Bank (Macau) Corporation Limited".
4. Strong Petrochemical Limited is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2008 HK\$
5.	Unit 1604, 16th Floor, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong	<p>The property comprises an office unit on 16th floor of Far East Finance Centre, which was completed in about 1982.</p> <p>The gross floor area of the property is approximately 236.81 m² (or about 2,549 ft²) and its saleable area is approximately 160.54 m² (or about 1,728 ft²).</p> <p>The property is rented by Strong Petrochemical Limited (海峽石油化工有限公司) from Strong Property Limited under a tenancy agreement dated 5 May 2008 for a term of 1 year commencing on 1 April 2008 and expiring on 31 March 2009 at a monthly rent of HK\$104,000 for office use, exclusive of government rates and building management fee.</p>	The property is occupied by the Group for office purpose.	No Commercial Value

Notes:

1. The property is owned by Strong Property Limited vide Memorial No. UB8986467 dated 25 July 2003 at a consideration of HK\$7,498,000.
2. The property is rented by Strong Petrochemical Limited from Strong Property Limited under a tenancy agreement dated 5 May 2008 for a term of 1 year commencing on 1 April 2008 and expiring on 31 March 2009 at a monthly rent of HK\$104,000 for office use, exclusive of government rates and building management fee.
3. The property is subject to a Mortgage in favour of the Bank of America (Macau) Limited vide Memorial No. UB9399564 dated 5 November 2004. Bank of America (Macau) Limited is now a wholly-owned subsidiary of China Construction Bank Corporation and has adopted a new name "China Construction Bank (Macau) Corporation Limited".
4. Strong Petrochemical Limited is an indirect wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group IV — Property held by the Group partially for owner-occupation and partially for investment purpose in Macao

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2008 MOP
6.	Office Units B and C on 17th Floor together with two Car Parking Spaces Nos. 68 and 69 on B3 Level, Centro Financeiro (“澳門金融中心”), Nos. 202A-246 Rua de Pequim, No. 619A-627 Alameda Dr. Carlos D’ Assumpcao (“宋玉生廣場”), Outer Harbour Zone, Macao City, Macao	<p>The property comprises two office units on 17th floor and two car parking spaces on B3 Level of a 17-storey office building, known as Centro Financeiro (“澳門金融中心”), which was completed in about 1994.</p> <p>The total saleable area of the property (exclusive of the car parking spaces) is approximately 180.26 m² (or about 1,940 ft²).</p> <p>The property is held by the Macao Government for a term of 25 years commencing on 12 April 1991.</p>	<p>The office units of the property are occupied by the Group for office use.</p> <p>Car Parking Space No. 69 has been leased out to an independent third party under a tenancy agreement at a monthly rent of HK\$800 inclusive of management fee on monthly basis.</p> <p>Car Parking Space No. 68 is vacant.</p>	<p>4,100,000</p> <p>(100% interest attributable to the Group: 4,100,000)</p>

Notes:

- The owner of the property is Strong Petrochemical Limited (Macao Commercial Offshore) (海峽石油化工有限公司 (澳門離岸商業服務)).
- The property is subject to two legal charges in favour of the China Construction Bank (Macau) Corporation Limited dated 30 September 2004 and 4 December 2008 for considerations of HK\$2,150,000 and HK\$3,850,000 respectively.
- Strong Petrochemical Limited (Macao Commercial Offshore) is an indirect wholly-owned subsidiary of the Company.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 1 February 2008 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 28 November 2008. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 per cent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii)

any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised 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 equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange (as defined in the Articles), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in

the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any

member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 12 February 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the Court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is

appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 1 February 2008. The Company has established a place of business in Hong Kong at Room 1604, 16/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 29 April 2008. Each of Mr. Wong Wing and Mr. Pang Man Chun Manson has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution, which comprises a memorandum of association and the articles of association. A summary of certain provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Change in share capital

The authorised share capital of the Company as at the date of its incorporation was HK\$380,000 divided into 3,800,000 Shares of HK\$0.10 each.

On 1 February 2008, 1 subscriber share with the par value of HK\$0.10 of the Company, which was issued nil-paid, was transferred to Mr. Yao. On 1 February 2008, another 1 share was issued nil-paid to Mr. Wang. On 3 March 2008, these shares were transferred to Forever Winner.

Pursuant to resolutions in writing of the sole shareholder of the Company passed on 28 November 2008, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of additional 996,200,000 Shares.

On 28 November 2008, pursuant to the Reorganisation:

- (a) the Company allotted and issued the following Shares, all credited as fully paid:

Name of shareholder	Number of Shares
Forever Winner	19,999,998

- (b) the Company credited as fully paid at par the 2 nil-paid Shares held by Forever Winner.

Immediately following completion of the Share Offer and the Capitalisation Issue but not taking into account any options which may be granted under the Share Option Scheme, the issued share capital of the Company will be HK\$40,000,000 divided into 400,000,000 Shares, all fully paid or credited as fully paid and 600,000,000 Shares will remain unissued.

Save for aforesaid and as mentioned in the paragraph headed “Resolutions in writing of the sole shareholder of the Company passed on 28 November 2008” below, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions in writing of the sole shareholder of the Company passed on 28 November 2008

Pursuant to the written resolutions passed by the sole shareholder of the Company on 28 November 2008:

- (a) the Company approved and adopted the Articles of Association;
- (b) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the Capitalisation Issue and the Shares to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Share Offer was approved and the Directors were authorised to allot and issue the Offer Shares;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” under the section headed “Other information” in this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme; and
 - (iii) conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares by the Company pursuant to the Share Offer, the Directors were authorised to capitalise an amount of HK\$28,000,000 standing to the credit of the share premium account of the Company by applying such sum to pay up in full at par 280,000,000 Shares. Such Shares to be allotted and issued to our sole shareholder as of 28 November 2008.
- (c) a general unconditional mandate was given to the Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by the shareholders of the Company in general meeting, unissued Shares with a total nominal

value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and Capitalisation Issue, such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first;

- (d) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first; and
- (e) the general unconditional mandate mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above.

4. Corporate reorganisation

The companies comprising the Group underwent a reorganisation in preparation for the listing of the Shares on the Stock Exchange. The Reorganisation involved the following:

- (a) The Company was incorporated in the Cayman Islands on 1 February 2008 to act as the holding company of the Group. The initial authorised share capital of the Company is HK\$380,000 divided into 3,800,000 Shares. Upon incorporation, the share capital of the Company was held as to 2 Shares, constituting the entire issued share capital of the Company, by Mr. Wang and Mr. Yao.
- (b) Wide Sea was incorporated in the BVI on 2 January 2008 to act as the intermediate holding company of the Group. The initial authorised share capital of Wide Sea is US\$50,000 divided into 50,000 shares of US\$1.00 each. Upon incorporation, the share capital of Wide Sea was held as to 1 share by Forever Winner constituting the entire issued share capital of Wide Sea.

- (c) On 26 November 2008, Santron Holdings transferred its entire equity interest and shareholders' loan in Strong Property to Active Tools at a consideration of HK\$32,031,625.66 which was determined by reference to the retained earnings and shareholder's loan in Strong Property. Active Tools is held indirectly as to 50% by Mr. Wang and as to 50% by Mr. Yao.

- (d) (i) On 26 November 2008, Sino Century and Mr. Yao transferred their entire equity interest in Santron Holdings to Wide Sea at a consideration of HK\$120,110,900.20 which was determined with reference to the net asset value of Santron Holdings as at 26 November 2008.

(ii) On 28 November 2008, Wide Sea issued 1 share of US\$1.00 each to Forever Winner at the direction of Sino Century and Mr. Yao to capitalise a sum of HK\$120,110,900.20 owed to them by Wide Sea pursuant to the Reorganisation.

- (e) On 26 November 2008, Santron Holdings (with its nominee Mr. Yao holding 1 share on its behalf) transferred its entire equity interest in Strong Petrochemical (HK) to Keen Star at a consideration of HK\$30,091,484 which was determined with reference to the net asset value of Strong Petrochemical (HK) as at 10 November 2008.

- (f) On 26 November 2008, Santron Holdings transferred its entire equity interest in Charming Energy to Wide Sea at a consideration of HK\$1,137,270.80 which was determined with reference to the net asset value of Charming Energy as at 31 October 2008.

- (g) On 26 November 2008, Strong Petrochemical (HK) transferred its entire equity interest in Teamskill Investments to Wide Sea at a consideration of HK\$409,209.70 which was determined with reference to the net asset value of Teamskill Investments as at 31 October 2008.

- (h) On 1 February 2008, 1 subscriber share with the par value of HK\$0.10 of the Company, which was issued nil-paid, was transferred to Mr. Yao. On 1 February 2008, another 1 share was issued nil-paid to Mr. Wang. These shares were subsequently paid up on 28 November 2008. On 28 November 2008, each of Mr. Wang and Mr. Yao transferred their 1 share being 100% equity interest in Strait Petrochemical to Wide Sea at a consideration of HK\$0.10 respectively).

- (i) On 28 November 2008, the Company increased its authorised share capital from HK\$380,000 to HK\$100,000,000 by the creation of 996,200,000 additional Shares.

- (j) On 28 November, 2008, the Company acquired 2 shares of US\$1.00 each which represented the entire issued share capital of Wide Sea from its existing shareholder, namely Forever Winner. The consideration for the acquisition was satisfied by the allotment and issue of 19,999,998 Shares by the Company to Forever Winner, credited as fully paid and crediting by the Company as fully paid at par the 2 nil-paid Shares held by Forever Winner.

5. Changes in share capital of subsidiaries

The Company's subsidiaries are referred to in the Accountants' Report in Appendix I to this prospectus. The following sets out the changes to the share capital made by the subsidiary of the Company during the two years preceding the date of this prospectus:

Wide Sea was established on 2 January 2008 with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 3 November 2008, Wide Sea issued 1 share of US\$1.00 each to Forever Winner. On 28 November 2008, Wide Sea issued 1 share of US\$1.00 each to Forever Winner at the direction of Sino Century and Mr. Yao to capitalise a sum of HK\$120,110,900.20 owed to them by Wide Sea pursuant to the Reorganisation.

Keen Star was established on 11 December 2007 with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 25 November 2008, Keen Star issued 1 share of US\$1.00 each to Wide Sea.

Strong Petrochemical (Nantong) was established on 29 June 2007. Its registered capital was US\$5,000,000 of which US\$2,999,980 was paid up.

Strait Petrochemical was established on 3 April 2008. Its registered capital was HK\$380,000 of HK\$0.10 each.

Save for the subsidiaries mentioned in the Accountants' Report in Appendix I to this prospectus, the Company has no other subsidiaries.

Save as set out above, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Particulars of PRC subsidiary

The Group has interests in the following PRC subsidiary.

Set out below is a summary of the corporate information of this PRC subsidiary:

Strong Petrochemical (Nantong)

Date of Establishment	:	29 June 2007
Place of Establishment	:	Nantong
Nature	:	wholly foreign owned enterprise
Number of Directors	:	3
Registered Capital	:	US\$5 million
Shareholder	:	Teamskill Investments
Nature of Business	:	Consultancy on storage of petrochemical products (excluding storage)

7. Repurchase by the Company of Shares

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholder's approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

(Note: Pursuant to resolutions passed by the sole shareholder of the Company on 28 November 2008, a general unconditional mandate (the "Buyback Mandate") was granted to the Directors authorising the repurchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein, at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by applicable law or the Articles of Association to be held or when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest.)

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and its shareholder for the Directors to have a general authority from shareholder to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and its member(s). Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of the Company or the proceeds of a fresh issue of shares made for the purpose of the purchase or, if authorised by the Articles of Association and subject to the Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by the Articles of Association and subject to the Companies Law, out of capital.

The Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

(d) *Share capital*

Exercise in full of the Buyback Mandate, on the basis of 400,000,000 Shares in issue immediately after the listing of the Shares (but taking no account of Shares which may be allotted and issued pursuant to the exercise of any option to be granted under the Share Option Scheme), could accordingly result in up to 40,000,000 Shares being repurchased by the Company during the period until:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association to be held; or
- (iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of the shareholders in general meeting,

whichever occurs first.

(e) *General*

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of Cayman Islands. The Company has not repurchased any Shares in the previous six months.

No connected person (as defined in the Listing Rules) has notified the Company that he or she or it has present intention to sell Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of the shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. The Directors are not aware of any other consequences which may arise under the Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following completion of the Share Offer and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the any options which may be granted under the Share Option Scheme, the total number of Shares which will be repurchased pursuant to the Buyback Mandate shall be 40,000,000 Shares (being 10% of the issued share capital of the Company based on the aforesaid assumptions). The percentage shareholding of the Controlling Shareholders will be increased to approximately 83.33% of the issued share capital of the Company immediately following the full exercise of the Buyback Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, the Directors have no present intention to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:


- (a) the sale and purchase agreement dated 28 November 2008 between Forever Winner as vendor, Mr. Wang, Mr. Yao and Forever Winner as warrantors, and the Company as purchaser pursuant to which the Company acquired 2 shares of US\$1.00 each which represented the entire issued share capital of Wide Sea which was satisfied by the allotment and issue of 19,999,998 Shares by the Company to Forever Winner, credited as fully paid and the crediting by the Company as fully paid at par the 2 nil-paid Shares held by Forever Winner;
- (b) the deed of indemnity dated 28 November 2008 entered into between the Controlling Shareholders and the Company, pursuant to which the Controlling Shareholders agreed to provide the Group with certain indemnities in respect of, amongst others, Hong Kong estate duty, taxation and other indemnities referred to in the sub-section headed "Estate duty, tax and other indemnities" in this Appendix;

- (c) the Deed of Non-competition dated 28 November 2008 entered into between the Controlling Shareholders and the Company pursuant to which that in consideration of HK\$100 paid by the Company to the Controlling Shareholders, the Controlling Shareholders have undertaken to the Company that they will not directly or indirectly participate in, hold any right or interest in, or otherwise be involved in, any restricted activities stated in this deed and which may be in competition with the business carried out by the Group;
- (d) two instruments of transfer both dated 26 November 2008 entered into between Sino Century and Mr. Yao as transferors and Wide Sea as transferee pursuant to which Sino Century and Mr. Yao transferred their respective 5,000 shares of US\$1.00 each in Santron Holdings to Wide Sea at a consideration of HK\$60,055,450.10 each respectively;
- (e)
 - (i) two instruments of transfer both dated 26 November 2008 entered into between Santron Holdings and Mr. Yao as transferors and Keen Star as transferee pursuant to which Santron Holdings and Mr. Yao transferred 19,999,999 shares and 1 share respectively of HK\$1.00 each in Strong Petrochemical (HK) to Keen Star at a consideration of HK\$30,091,482.50 and HK\$1.50 respectively;
 - (ii) two bought and sold notes both dated 26 November 2008 entered into between Santron Holdings and Mr. Yao as transferors and Keen Star as transferee pursuant to which Santron Holdings and Mr. Yao transferred 19,999,999 shares and 1 share respectively of HK\$1.00 each in Strong Petrochemical (HK) to Keen Star at a consideration of HK\$30,091,482.50 and HK\$1.50 respectively;
- (f) an instrument of transfer dated 26 November 2008 entered into between Santron Holdings as transferor and Wide Sea as transferee pursuant to which Santron Holdings transferred its 2 shares of US\$1.00 each in Charming Energy to Wide Sea at a consideration of HK\$1,137,270.80;
- (g) an instrument of transfer dated 26 November 2008 entered into between Strong Petrochemical (HK) as transferor and Wide Sea as transferee pursuant to which Strong Petrochemical (HK) transferred its 1 share of US\$1.00 each in Teamskill Investments to Wide Sea at a consideration of HK\$409,209.70;
- (h) two instruments of transfer both dated 28 November 2008 entered into between Mr. Wang and Mr. Yao as transferors and Wide Sea as transferee pursuant to which Mr. Wang and Mr. Yao transferred their respective 1 share of HK\$0.10 each in Strait Petrochemical to Wide Sea at a consideration of HK\$0.10 each respectively;
- (i) the sale and purchase agreement dated 26 November 2008 between Santron Holdings as vendor and Active Tools as purchaser pursuant to which Santron Holdings transferred its entire equity interest and shareholders' loan in Strong Property to Active Tools which was satisfied by a consideration of HK\$32,031,625.66; and
- (j) the Hong Kong Underwriting Agreement.


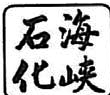
2. Intellectual property rights of the Group

(a) Trademarks

- (i) As at the Latest Practicable Date, the Group is a registered proprietor of the following trade mark in Hong Kong:

No.	Trademark	Registrant	Registration Number	Class	Date of Registration	Products or services covered
1.		Strong Petrochemical (HK)	301046772	35, 39	05.02.2008	Note 1

- (ii) As at the Latest Practicable Date, the Group has applied for the registration of the following trademarks:

No.	Trademark	Applicant	Application number	Class	Date of application	Place of application	Products or services covered
1.		Strong Petrochemical (HK)	6564501 & 6564503	35 & 39	25.02.2008	PRC	Note 2
2.		Strong Petrochemical (HK)	N/033772(869) and N/033771(086)	35 & 39	30.01.2008	Macao	Note 1

Note 1: Class 35: Import and export trading services; import and export agency services; trading company services; import and export services of crude oil, petroleum product, and petrochemical product; information, management and advisory services relating to the aforesaid services;

Class 39: Transport; packaging and storage of goods; travel arrangement; transportation, collection and delivery of all by land, water and air; storage of crude oil, petroleum product, and petrochemical product.

Note 2: 類別35：1.商業管理輔助；2.商業詢價；3.商業行情代理；4.商業管理和組織諮詢；5.商業管理諮詢；6.市場分析；7.商業信息；8.進出口代理；9.替他人推銷；10.替他人採購(替它企業購買商品或服務)。

類別39：1.貨物遞送；2.貨送；3.運輸；4.駁船運輸；5.渡船運輸；6.船運貨物；7.船隻運輸；8.海上運輸；9.碼頭裝卸；10.汽車運輸；11.有軌電車運輸；12.鐵路運輸；13.貨物貯存；14.貯藏；15.倉庫出租。

(b) *Domain Names*

As at the Latest Practicable Date, the Group is a registered proprietor of the following domain names in Hong Kong:

Domain Name	Name of proprietor	Date of registration	Expiry date
strongpetrochem.hk	Strong Petrochemical (HK)	15 January 2008	14 January 2011
海峽石化.公司.hk	Strong Petrochemical (HK)	25 January 2008	24 January 2011
海峽石化.hk	Strong Petrochemical (HK)	25 January 2008	24 January 2011

As at the Latest Practicable Date, the Group is a registered proprietor of the following domain names in PRC:

Domain Name	Name of proprietor	Date of registration	Expiry date
strongpetrochem.com.cn	Strong Petrochemical (HK)	15 January 2008	14 January 2011
strongpetrochem.cn	Strong Petrochemical (HK)	15 January 2008	14 January 2011
海峽石化.公司	Strong Petrochemical (HK)	17 January 2008	16 January 2011
海峽石化	Strong Petrochemical (HK)	5 February 2008	4 January 2011

As at the Latest Practicable Date, the Group is a registered proprietor of the following domain names in Macao:

Domain Name	Name of proprietor	Date of registration	Expiry date
strongpetrochem.com.mo	Strong Petrochemical (HK)	17 January 2008	16 January 2009
strongpetrochem.mo	Strong Petrochemical (HK)	21 January 2008	20 January 2009

C. FURTHER INFORMATION ABOUT DIRECTORS, AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) *Disclosure of interest — interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations*

Immediately following completion of the Share Offer and the Capitalisation Issue, the interest or short position of Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed are as follows.

(i) *Interest in the Company*

Name of Director	Company/ Associated Corporation	Nature of Interest	Number of Securities	Approximate Percentage of Shareholding
Mr. Wang	Company	Interest of a controlled corporation	300,000,000	75%
Mr. Yao	Company	Interest of a controlled corporation	300,000,000	75%

Note:

Each of Sino Century and Jin Yao holds 50% of the entire issued share capital of Forever Winner. Mr. Wang holds the entire issued share capital of Sino Century. Mr. Yao holds the entire issued share capital of Jin Yao.

(b) *Particulars of service contracts*

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 28 November 2008, which may be terminated by not less than three months' notice in writing served by either party on the other.

(c) *Directors' remuneration*

Each of the executive Directors is entitled to a director's fee. Each executive Director shall be paid a remuneration on the basis of twelve months in a year. In addition, each of the executive Directors for each completed year of service, is also entitled to a discretionary bonus as may be decided by the Board and its absolute discretion having regard to the suggestion of the remuneration committee adopted by the Company and payment of such bonus shall be made on such date as the Board may resolve. An executive Director may not vote on any resolution of the Directors regarding the amount of the bonus payable to him. The current annual director's fees and remuneration of the executive Directors for the year ending 31 March 2009 are as follows.

Name	Annual Director's Fee (HK\$)
Mr. Wang	1,000,000
Mr. Yao	1,000,000
Mr. Wong Wing	1,018,100

The independent non-executive Directors have been appointed for a term of one year. The Company intends to pay an aggregate amount of HK\$420,000 per annum (including the directors' fees) to all the independent non-executive Directors as remuneration.

Under the arrangement currently in force, the aggregate amount of emoluments payable by the Group to the Directors for the year ending 31 March 2009 will be approximately HK\$1,825,000.

Further details of the terms of the above service contracts are set out in the paragraph headed "Particulars of service contracts" in the subsection headed "Directors" in this Appendix.

2. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the following persons (other than the Directors and chief executives of the Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of Shares	Percentage of Shareholding
Forever Winner	Beneficial owner	300,000,000 (Note)	75%

Note:

Each of Sino Century and Jin Yao holds 50% of the entire issued share capital of Forever Winner. Mr. Wang holds the entire issued share capital of Sino Century. Mr. Yao holds the entire issued share capital of Jin Yao.

3. Agency fees or commissions received

No commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

4. Disclaimers

Save as disclosed herein:

- (a) none of the Directors or chief executives of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;
- (b) none of the Directors or experts referred to under the heading "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

- (c) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Share Offer, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Share Offer, have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;
- (f) none of the experts referred to under the heading “Consents of experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (g) none of the Directors, their respective associates (as defined under the Listing Rules) or shareholders of the Company who are interested in more than 5% of the issued share capital of the Company has any interests in the five largest customers or the five largest suppliers of the Group.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the resolutions in writing of the sole shareholder of the Company passed on 28 November 2008.

(a) Purpose

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) *Who may join*

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below to:

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue, being 40,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the shareholders in general meeting; and/or

- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(d) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and
- (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine.

(e) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(f) *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a substantial shareholder or independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

(g) ***Restrictions on the times of grant of Options***

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's annual results half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of its annual results or half year, or quarterly or other interim period (whether or not required under the Listing Rules)

and ending on the date of actual publication of the results announcement.

(h) ***Rights are personal to grantee***

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do.

(i) *Time of exercise of Option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(j) *Performance target*

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(k) *Rights on ceasing employment or death*

If the grantee of an option ceases to be an employee of the Company or any of its subsidiaries

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (l) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation,

which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(l) *Rights on dismissal*

If the grantee of an option ceases to be an employee of the Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of the Group (if so determined by the Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, or has been convicted of any criminal offence involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

(m) *Rights on takeover*

If a general offer is made to all the shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(n) *Rights on winding-up*

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

(o) *Rights on compromise or arrangement between the Company and its members or creditors*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(p) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise.

(q) *Effect of alterations to capital*

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of the Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option shall be in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time as the auditors of the Company or an independent financial adviser shall certify in writing to the Board such adjustments to be in their/his opinion fair and reasonable.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of the Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(r) *Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n) or (o);
- (iii) the date on which the scheme of arrangement of the Company referred to in paragraph (o) becomes effective;
- (iv) subject to paragraph (n), the date of commencement of the winding-up of the Company;

- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or have no reasonable prospect of being able to pay his debts or has become insolvent or has made arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty, or in relation to an employee of the Group (if so determined by the Board) or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

- (vi) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.

(s) ***Alteration of the Share Option Scheme***

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; or

- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted; or

- (iii) any change to the authority of the Board in relation to any alteration to the terms of the scheme.

shall first be approved by the shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders in general meeting.

(t) ***Cancellation of Options***

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing.

(u) *Termination of the Share Option Scheme*

The Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) *Administration of the Board*

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(w) *Condition of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

(x) *Disclosure in annual and interim reports*

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(y) *Present status of the Share Option Scheme*

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 40,000,000 Shares in total.

2. Estate duty, tax and other indemnities

The Controlling Shareholders have entered into a deed of indemnity dated 28 November 2008 with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (b) of the sub-section headed “Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, Hong Kong estate duty which might be payable by any member of the Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance 2005), to any member of the Group on or before the date on which the Share Offer becomes unconditional (the “Effective Date”).

The said deed of indemnity also contains indemnities given by the Controlling Shareholders in respect of taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which the Company may be subject on or before the Effective Date which might be payable by any member of the Group.

3. Litigation

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of the Group.

4. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme).

The Sponsor has declared pursuant to Rule 3A.08 of the Listing Rules that it is independent pursuant to Rule 3A.07 of the Listing Rules.

5. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US\$5,500 and are payable by the Company.

6. Promoter

There are no promoters of the Company. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Share Offer and the related transactions described in this prospectus.

7. Taxation of holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of Shares registered with the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after 11 February 2006.

(b) *Cayman Islands*

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

(c) *Consultation with professional advisers*

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

8. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
China Everbright Capital	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities as defined therein
Deloitte Touche Tohmatsu	Certified Public Accountants
King & Wood	Qualified PRC lawyers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
BMI Appraisals Limited	Professional property surveyors and valuers

9. Consents of experts

Each of China Everbright Capital, Deloitte Touche Tohmatsu, King and Wood, Conyers Dill & Pearman and BMI Appraisals Limited has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

11. Miscellaneous

- (a) Within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries;
- (b) there are no founder, management or deferred shares nor any debentures in the Company or any of its subsidiaries;
- (c) none of the persons named in the sub-paragraph headed “Consents of experts” in this Appendix is interested beneficially or otherwise in any shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group;
- (d) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 October 2008 (being the date to which the latest audited combined financial statements of the Group were made up);

- (e) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus;
- (f) the principal register of members of the Company will be maintained in the Cayman Islands by Butterfield Fulcrum Group (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Company's branch register of members in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (g) no company within the Group is presently listed on any stock exchange or traded on any trading system; and
- (h) the Directors have been advised that, under Cayman Islands law, the use of a Chinese name by the Company does not contravene Cayman Islands law.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** Application Forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix V to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Sidley Austin at Level 39, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including 12 January 2009:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the accountants’ report prepared by Deloitte Touche Tohmatsu, the text of which is set forth in Appendix I to this prospectus;
- (c) the audited financial statements of companies now comprising the Group for the three years ended 31 March 2008 and the seven months ended 31 October 2008;
- (d) the letter on unaudited pro forma financial information received from Deloitte Touche Tohmatsu, the text of which is set forth in Appendix II to this prospectus;
- (e) the letter, summary of valuation and valuation certificate relating to the property interests of the Group prepared by BMI Appraisals Limited, the text of which are set forth in Appendix III to this prospectus;
- (f) a copy of the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
- (g) the rules of the Share Option Scheme;
- (h) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V to this prospectus;
- (i) the service contracts and appointment letters referred to in the paragraph headed “Particulars of Directors’ service agreements” in Appendix V to this prospectus;

- (j) the written consents referred to in the paragraph headed “Consents of experts” in Appendix V to this prospectus;
- (k) the Companies Law;
- (l) the PRC legal opinion issued by King & Wood, relating to, among others, the legality of Strong Petrochemical (Nantong)’s incorporation and business; and
- (m) the Macao legal opinion issued by Artur dos Santos Robarts, relating to, among others, the legality of Strong Petrochemical (Macao)’s incorporation and business.