



SINO UNION PETROLEUM & CHEMICAL INTERNATIONAL LIMITED  
中聯石油化工有限公司\*

*(Incorporated in Bermuda with limited liability)*

Interim Report **2004**

\* For identification purposes only

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Dr. Hui Chi Ming, G.B.S., PhD, J.P.

*(Chairman)*

Mr. Chen Hua *(Deputy Chairman)*

Mr. Chui Say Hoe

Mr. Cheung Wai Yin Wilson

### NON-EXECUTIVE DIRECTOR

Mr. Chow Charn Ki Kenneth

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wai Dune

Mr. Wong Hing Tat

Mr. Kwong Chi Ho

### AUDIT COMMITTEE

Mr. Chan Wai Dune

Mr. Wong Hing Tat

Mr. Kwong Chi Ho

### COMPANY SECRETARY

Mr. Fu Wing Kwok Ewing

### REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 4605-7, 46th Floor

Far East Finance Centre

16 Harcourt Road

Admiralty

Hong Kong

### AUTHORISED REPRESENTATIVES

Mr. Cheung Wai Yin Wilson

Mr. Fu Wing Kwok Ewing

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

DBS Kwong On Bank Limited

### LEGAL ADVISER

Tsun & Partners, Solicitors

Suite 1002, Aon China Building

29 Queen's Road Central

Central

Hong Kong

### AUDITORS

HLB Hodgson Impey Cheng

*Chartered Accountants*

*Certified Public Accountants*

6th Floor, Wheelock House

20 Pedder Street

Central

Hong Kong

### BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM 11

Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

**INTERIM RESULTS**

The board of directors (the “Board”) of Sino Union Petroleum & Chemical International Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2004 together with comparative figures as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 September 2004*

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2004</b>	2003
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>248,164</b>	180,033
Cost of sales		<b>(237,723)</b>	(171,564)
Gross profit		<b>10,441</b>	8,469
Other revenue		<b>2,219</b>	426
Selling and distribution costs		<b>(1,584)</b>	(1,022)
Administrative expenses		<b>(8,677)</b>	(5,018)
PROFIT FROM OPERATING ACTIVITIES	2,3	<b>2,399</b>	2,855
Finance costs	4	<b>(789)</b>	(82)
PROFIT BEFORE TAX		<b>1,610</b>	2,773
Tax	5	<b>(1,155)</b>	(716)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>455</b>	2,057
EARNINGS PER SHARE – Basic, HK cent	7	<b>0.04</b>	0.21

**CONDENSED CONSOLIDATED BALANCE SHEET***As at 30 September 2004*

	<i>Notes</i>	<b>As at 30 September 2004 (Unaudited) HK\$'000</b>	As at 31 March 2004 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	8	127,522	1,163
Goodwill		17,690	–
Investment in securities		7,967	–
		<u>153,179</u>	<u>1,163</u>
<b>CURRENT ASSETS</b>			
Inventories		49,721	30,891
Trade receivables	9	136,004	153,220
Prepayment, deposits and other receivables		64,208	26,014
Pledged bank deposits		8,301	8,207
Cash and bank balances		17,883	40,087
		<u>276,117</u>	<u>258,419</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	71,577	66,908
Tax payable		38,877	23,607
Other payables and accruals		59,657	4,552
Short-term bank loan		94,566	–
Amount due to holding company		–	1,866
Obligations under finance leases		530	193
		<u>265,207</u>	<u>97,126</u>
<b>NET CURRENT ASSETS</b>		<u>10,910</u>	161,293
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>164,089</u>	162,456
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance leases		1,327	149
Deferred tax		83	83
		<u>1,410</u>	232
<b>NET ASSETS</b>		<u>162,679</u>	162,224
<b>CAPITAL AND RESERVES</b>			
Share capital	11	23,940	23,940
Reserves		138,739	138,284
<b>SHAREHOLDERS' FUNDS</b>		<u>162,679</u>	162,224

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2004*

	<b>Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash outflow from operating activities	<b>(8,559)</b>	(3,632)
Net cash (outflow)/inflow from investing activities	<b>(14,371)</b>	18,105
Net cash inflow/(outflow) from financing activities	<b>726</b>	(196)
	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	<b>(22,204)</b>	14,277
Cash and cash equivalents at beginning of period	<b>40,087</b>	29,676
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>17,883</b>	43,953
	<hr/>	<hr/>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>17,883</b>	43,953
	<hr/>	<hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 September 2004*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Total equity at 1 April	<b>162,224</b>	109,942
Net profit for the period	<b>455</b>	2,057
Total equity at 30 September	<b>162,679</b>	111,999

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The principal accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31 March 2004.

These unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee of the Company and were approved by the Board on 29 December 2004.

### 2. SEGMENTAL INFORMATION

The Group’s operating business is the trading of polyurethane (“PU”) materials, such as isocyanate, polyols and various kinds of PU catalysts and manufacture and sale of petrochemical fuel products.

During the period ended 30 September 2004, the Group had acquired 100% equity interest of Liaoning Xinmin Petroleum & Chemical Limited (formerly known as Shenyang Xinmin Chemical Factory), a factory located in the PRC, and the Group commenced its petrochemical manufacturing business.

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

## 2. SEGMENTAL INFORMATION (Continued)

## (a) Business segments

The following tables present revenue and results for the Group's business segments.

	PU materials		Petrochemical products		Consolidated	
	Six months ended 30 September					
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	<u>242,432</u>	180,033	<u>5,732</u>	–	<u>248,164</u>	180,033
Total revenue	<u>242,432</u>	<u>180,033</u>	<u>5,732</u>	–	<u>248,164</u>	<u>180,033</u>
Segment results	<u>7,787</u>	<u>6,371</u>	<u>1,224</u>	–	<u>9,011</u>	6,371
Interest income					<u>46</u>	29
Unallocated expenses					<u>(6,658)</u>	<u>(3,545)</u>
Profit from operating activities					<u>2,399</u>	2,855
Finance costs					<u>(789)</u>	<u>(82)</u>
Profit before tax					<u>1,610</u>	2,773
Tax					<u>(1,155)</u>	<u>(716)</u>
Net profit from ordinary activities attributable to shareholders					<u>455</u>	<u>2,057</u>

There are no sales or other transactions between the business segments.



## 2. SEGMENTAL INFORMATION (Continued)

## (b) Geographical segments

The following tables present revenue and results for the Group's geographical segments.

	PRC		Hong Kong		Consolidated	
	Six months ended 30 September					
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	<u>242,383</u>	<u>134,236</u>	<u>5,781</u>	<u>45,797</u>	<u>248,164</u>	<u>180,033</u>
Segment results	<u>8,993</u>	<u>5,719</u>	<u>18</u>	<u>652</u>	<u>9,011</u>	<u>6,371</u>

There are no sales between the geographical segments.

## 3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived after charging / (crediting):

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation	1,122	336
Amortisation of goodwill	74	-
Interest income	<u>(46)</u>	<u>(29)</u>

## 4. FINANCE COSTS

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on:		
Trust receipt loans wholly repayable within five years	35	42
Bank loans wholly repayable within five years	704	-
Finance leases	<u>50</u>	<u>40</u>
	<u>789</u>	<u>82</u>

## 5. TAX

**Current Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong for the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Six months ended 30 September</b>	
	<b>2004 (Unaudited) HK\$'000</b>	2003 (Unaudited) HK\$'000
Current period provision:		
Hong Kong	<b>116</b>	150
Elsewhere	<b>1,039</b>	566
	<hr/>	<hr/>
Tax charge for the period	<b>1,155</b>	716
	<hr/>	<hr/>

**Deferred Taxation**

No provision for deferred taxation has been made as the Company and its subsidiaries had no significant unprovided temporary differences at each of the balance sheet dates.

## 6. INTERIM DIVIDEND

The Directors resolved not to declare any interim dividend in respect of the six months ended 30 September 2004 (2003: Nil).

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 September 2004 was based on the Group's net profit from ordinary activities attributable to shareholders for the period of approximately HK\$455,000 (2003: HK\$2,057,000) and 1,197,000,000 (2003: 1,000,000,000) shares currently in issue.

The diluted earnings per share for the periods ended 30 September 2003 and 2004 have not been presented as there were no potential dilutive ordinary shares in existence during either of the periods.

**8. FIXED ASSETS**

The changes in the net book value of fixed assets for the six months ended 30 September 2004 are analysed as follows:

	<i>HK\$'000</i>
At 1 April 2004 (Audited)	1,163
Additions	11,428
Additions attributable to acquisition of a subsidiary	116,600
Disposal	(547)
Depreciation	(1,122)
	<hr/>
<b>At 30 September 2004 (Unaudited)</b>	<b>127,522</b>
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**9. TRADE RECEIVABLES**

The ages of the Group's trade receivables are analysed as follows:

	<b>As at 30 September 2004 (Unaudited) HK\$'000</b>	<b>As at 31 March 2004 (Audited) HK\$'000</b>
Current to 30 days	<b>80,828</b>	129,810
31 days to 90 days	<b>49,152</b>	19,423
91 days to 180 days	<b>6,024</b>	3,987
	<hr/>	<hr/>
	<b>136,004</b>	153,220
	<hr/> <hr/>	<hr/> <hr/>

**10. TRADE AND BILLS PAYABLES**

	<b>As at 30 September 2004 (Unaudited) HK\$'000</b>	<b>As at 31 March 2004 (Audited) HK\$'000</b>
Trade payables	<b>37,908</b>	39,613
Bills payables	<b>33,669</b>	27,295
	<hr/>	<hr/>
	<b>71,577</b>	66,908
	<hr/> <hr/>	<hr/> <hr/>

**10. TRADE AND BILLS PAYABLES** (Continued)

The ages of the Group's trade and bills payables are analysed as follows:

	<b>As at 30 September 2004 (Unaudited) HK\$'000</b>	<b>As at 31 March 2004 (Audited) HK\$'000</b>
Current to 30 days	<b>50,589</b>	12,453
31 days to 90 days	<b>14,571</b>	47,634
Over 90 days	<b>6,417</b>	6,821
	<b><u>71,577</u></b>	<b><u>66,908</u></b>

**11. SHARE CAPITAL**

	<b>As at 30 September 2004 (Unaudited) HK\$'000</b>	<b>As at 31 March 2004 (Audited) HK\$'000</b>
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.02 each (31 March 2004: 10,000,000,000 ordinary shares of HK\$0.02 each)	<b><u>200,000</u></b>	<b><u>200,000</u></b>
<i>Issued and fully paid:</i>		
1,197,000,000 ordinary shares of HK\$0.02 each (31 March 2004: 1,197,000,000 ordinary shares of HK\$0.02 each)	<b><u>23,940</u></b>	<b><u>23,940</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS

The Group's unaudited condensed consolidated turnover and net profit from ordinary activities attributable to shareholders for the six months ended 30 September 2004 were approximately HK\$248 million and approximately HK\$0.5 million respectively, representing an increase of approximately 37.8% and a decrease of approximately 77.9% respectively as compared to the same period last year. The Group's gross profit margin decreased by approximately 10.6% as compared to the corresponding period last year.

The principal market of the Group remained in PRC which accounted for approximately 97.7% of the Group's turnover. Sales to Hong Kong market accounted to approximately 2.3% of the Group's turnover.

### CHANGE OF THE COMPANY'S NAME

The name of the Company was changed from Minglun Group (Hong Kong) Limited to Sino Union Petroleum & Chemical International Limited with effect from 19 November 2004. The change of name was intended to better identify the change in controlling shareholder and management of the Company during the period under review.

### BUSINESS REVIEW

#### *Distribution business*

During the period under review, revenue from the distribution of PU materials was approximately HK\$242 million, increase from approximately HK\$180 million of the same period last year. The distribution business contributed approximately HK\$8 million to the Group's net profit from operating activities for the period, representing an increase of approximately 22% in comparison to the corresponding period in 2003. The competition on the market of PU material is continuously rigorous. The Group has still adopted a selective approach in accepting PU trading orders by ensuring that these transactions will meet the minimum profit criteria in order to reduce the risk exposure in the competitive environment.

#### *Manufacturing business*

During the period ended 30 September 2004, the Group had commenced the manufacture and sale of petrochemical fuel products. The manufacturing business contributed approximately HK\$1 million to the Group's net profit from operating activities for the period.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2004, the Group held cash and bank balances of approximately HK\$18 million with outstanding bank borrowings of HK\$95 million and available trade finance facilities of approximately HK\$38 million. HK\$81 million of the Group's assets was pledged to secure the bank borrowings and general banking facilities. As at 30 September 2004, the net book value of the Group's fixed assets held under finance leases amounted to approximately HK\$1.5 million. Finance lease payables of approximately HK\$0.5 million were repayable within one year. The remaining finance lease payables of approximately HK\$1 million were repayable within five years. The Group's bank borrowings are made in Hong Kong dollars and Renminbi, all repayable within one year. As at 30 September 2004, the Group had a current ratio of approximately 1.0 (2003: 1.9) and gearing ratio of approximately 0.6 (2003: Nil) (defined as short term bank borrowings over shareholder's equity). As the Group's transactions are mostly settled by Hong Kong dollars, Renminbi or Hong Kong dollars pegged currencies, the exposure to foreign exchange fluctuation is minimal, therefore no use of financial instruments for hedging purposes is considered necessary.

Pursuant to the ordinary resolutions passed in a special general meeting of the Company on 24 December 2004, the Company issued a convertible bond in the principal of HK\$26,812,800 (the "Convertible Bond") to Wisdom On Holdings Limited (the "Bondholder"), the controlling shareholder of the Company. The Bondholder may at any time after the expiry of the period of six months from the date of issue of the Convertible Bond up to the second anniversary of the issue of the Convertible Bond convert the whole or part of the principal amount of the Convertible Bond into shares of HK\$0.02 each in the share capital of the Company, at the conversion price of HK\$0.112 per share. The Bondholder may at any time after the period of six months from the date of issue of the Convertible Bond and while the Convertible Bond is still outstanding require the Company to redeem the principal amount outstanding under the Convertible Bond. The Convertible Bond may be assigned or transferred to any third party and interest of 1% per annum will be accrued from the date of issue on a day to day basis on the principal amount of the Convertible Bond outstanding, payable semi-annually in arrears. For further details of the Convertible Bond, please refer to the Company's circular dated 8 December 2004.

With the available resources and the proceeds from the new issue and placing of shares of the Company, the Group has adequate working capital to finance its business operations.

## CHARGES ON THE GROUP'S ASSETS

As at 30 September 2004, the facilities of the Group were supported by certain of the Group's fixed assets with net book value of approximately HK\$73 million (2003: Nil), time deposits of approximately HK\$8 million (2003: HK\$5 million) and unlimited corporate guarantees executed by the Company and certain subsidiaries of the Company.

## COMMITMENT AND CONTINGENT LIABILITIES

The Company had executed several guarantees, with unlimited limit, in favour of banks in respect of general banking facilities granted to certain subsidiaries. As at 30 September 2004, all of the facilities had been utilised.

As at 30 September 2004, the Group had capital expenditure contracted for but not provided in the financial statements of approximately HK\$14 million in respect of a subsidiary's improvement project for certain plant and machineries.

## INTERIM DIVIDEND

The Directors resolved not to declare any interim dividend for the six months ended 30 September 2004.

## MATERIAL ACQUISITIONS AND DISPOSALS

In May 2004, the Group entered into acquisition and purchase agreements to acquire an aggregate of 100% equity interest in Liaoning Xinmin Petroleum & Chemical Limited (the "Acquisition") which is principally engaged in the manufacture and sale of petrochemical fuel products in Shenyang, Liaoning Province, the PRC. The Acquisition was completed in August 2004.

## CHANGES IN DIRECTORS AND MANAGEMENT SUBSEQUENT TO 31 MARCH 2004

On 27 August 2004, Wisdom On Holdings Limited purchased 750,000,000 shares in the Company and became the substantial shareholder of the Company. On 14 September 2004, Grand Vinco Capital Limited, on behalf of Wisdom On Holdings Limited, made mandatory unconditional cash offers to acquire all the issued shares in the Company and all the outstanding options of the Company (the "Offers"). The following changes to the directors and management of the Company occurred as a result of the Offers:

- (a) On 5 October 2004, upon dispatch of the offer document, Dr. Hui Chi Ming, Mr. Chen Hua, Mr. Chui Say Hoe were appointed as executive directors, Mr. Chow Charn Ki Kenneth as non-executive director and Mr. Chan Wai Dune as independent non-executive director of the Company; and
- (b) On 2 November 2004, upon the close of the Offers, Mr. Zhou Yiming, Mr. Lu Zhiming and Mr. Qin Gang resigned as directors of the Company.

For further details of the results of the Offers, please refer to the Company's announcement dated 2 November 2004.

## EMPLOYEES

As at 30 September 2004, the total number of staff was 742. Salaries of employees were maintained at competitive level. The Group has encountered no problem with the recruitment of its employees. None of the companies in the Group has experienced any labour disputes during the period and the Directors of the Company consider that the Group has excellent employment relationship.

## OUTLOOK

Subsequent to the change of the controlling shareholder during the period, the new management intends to continue the existing business of the Group of manufacture and sale of petrochemical products and sale and distribution of PU materials. A subsidiary of the Company entered into agreements (the "Acquisition Agreements") to acquire an aggregate of 100% equity interest of Liaoning Xinmin Petroleum & Chemical Limited. The Group has commenced its petrochemical manufacturing business upon the completion of the Acquisition Agreements. The name of Shenyang Xinmin Chemical Factory was also changed to Liaoning Xinmin Petroleum & Chemical Limited to meet the business development on 21 December 2004. The Directors intend to restructure the product mix in order to increase the portion of manufacture and sales of petrochemical products with higher profit margin so as to increase the overall profitability of both Liaoning Xinmin Petroleum & Chemical Limited and the Group. Furthermore, the Directors are of the view that the acquisition of Liaoning Xinmin Petroleum & Chemical Limited will present a good opportunity to the Company to diversify into the manufacturing business of petrochemical products in the PRC, which, in view of the strong demand and earning potential in the medium and long term, will be in the interest of the Company and its shareholders. In the long run, the Group is interested in becoming an efficient and cost effective manufacturing of high quality petrochemical products and a petrochemical related supply chain management service provider. As a result, the Group will explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalization, divertment and/or diversification will be appropriate in order to enhance the long term potential of the Group. Any acquisition or disposal will be made in accordance with the Listing Rules. However, at present no detailed plan has been formulated. With future emphasis being placed on business rationalization and diversification, it is anticipated that these efforts would offer a route to business growth. The Group will then be in a better position to enhance its profitability and shareholder return going forward.



## DISCLOSURE OF ADDITIONAL INFORMATION

### DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 September 2004, the Directors and chief executives did not have any interest or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the interests of persons, other than a director or chief executive of the Company, in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

Name		Number of issued shares held	Percentage of holding
Wisdom On Holdings Limited	<i>Note</i>	750,000,000	62.66%

*Note:* The entire issue share capital of Wisdom On Holdings Limited is owned by Dr. Hui Chi Ming and Mr. Chen Hua as to 55% and 45% respectively.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company as at 30 September 2004.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The following table discloses movements in the Company's share options during the period.

Name or category of Participant	At 1 April 2004	Number of share options			At 30 September 2004	Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options HK\$	Price of Company's share at grant date of share options HK\$
		Granted during the period	Exercised during the period	Lapsed during the period					
<b>Directors</b>									
Mr. Zhou Yiming	10,000,000	-	-	-	10,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Cheung Wai Yin Wilson	10,000,000	-	-	-	10,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Lu Zhiming	10,000,000	-	-	-	10,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Wong Hing Tat	1,000,000	-	-	-	1,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Kwong Chi Ho	1,000,000	-	-	-	1,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Qin Gang	8,000,000	-	-	-	8,000,000	24/09/2003	24/09/2003 to 23/09/2013	0.228	0.228
<b>Employees other than Directors</b>									
In aggregate	33,000,000	-	-	-	33,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
	<u>73,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,000,000</u>				

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

Subsequent to 30 September 2004, all of the above share options were lapsed upon the completion of the Offers as mentioned under the heading "Changes in Directors and Management Subsequent to 31 March 2004" above.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period and up to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules throughout the period covered by this report, except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

During the interim period under review, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Following specific enquiry, the directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the period under review.

## **AUDIT COMMITTEE**

The Audit Committee, comprising three independent non-executive directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2004.

By Order of the Board

**Sino Union Petroleum & Chemical International Limited**

**Cheung Wai Yin Wilson**

*Executive Director*

Hong Kong, 29 December 2004