



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

(Incorporated in Bermuda with limited liability)
Stock Code: 346

SINO UNION PETROLEUM & CHEMICAL INTERNATIONAL LIMITED



Interim Report
2008

CORPORATE INFORMATION

Executive Directors

Dr. Wang Tao (*Honorary Chairman*)
 Dr. Hui Chi Ming, G.B.S., PhD, J.P.
(Chairman)
 Mr. Cheung Shing (*Deputy Chairman*)
 Dr. Chui Say Hoe
 Dr. Ching Men Ky, Carl
 Mr. Tsang Kwok Man
(retired on 25 September 2008)
 Mr. Cui Yeng Xu

Non-Executive Directors

Dr. Fok Chun Wan, Ian
 Mr. Chow Charn Ki, Kenneth

Independent Non-Executive Directors

Dr. Yu Sun Say, S.B.S., J.P.
 Mr. Ng Wing Ka
 Mr. Edmund Siu

Company Secretary

Mr. Fu Wing Kwok, Ewing

Registered Office

Clarendon House
 2 Church Street
 Hamilton HM11
 Bermuda

Head Office and Principal Place of Business

Units 10–12, 19th Floor
 China Merchants Tower
 Shun Tak Centre
 168–200 Connaught Road Central
 Sheung Wan
 Hong Kong

Authorised Representative

Mr. Fu Wing Kwok, Ewing

Principal Bankers

Shenzhen Ping An Bank
 DBS Bank (Hong Kong) Limited

Legal Adviser – Hong Kong

Robertsons
 57th Floor, The Center
 99 Queen's Road Central
 Hong Kong

Auditors

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
 31st Floor, Gloucester Tower
 The Landmark, 11 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

Tricor Tengis Limited
 26/F Tesbury Centre
 28 Queen's Road East
 Hong Kong

Stock Code

346

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 (hereinafter collectively referred to as the "Group") for the six months ended 30 September 2008 together with the unaudited comparative figures for the corresponding six months ended 30 September 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2008

		Six months ended 30 September	
	Notes	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Turnover	3	741,119	829,225
Cost of sales		(707,219)	(794,378)
Gross profit		33,900	34,847
Other revenue	4	274	371
Other income	4	761	–
Excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost	14	2,103,419	1,904,858
Impairment loss recognised in respect of exploration and evaluation assets	9	(190,212)	–
Impairment loss recognised in respect of intangible asset		(1,339)	–
Selling and distribution costs		(7,165)	(2,400)
Administrative expenses		(19,713)	(15,329)
Profit from operating activities	4	1,919,925	1,922,347
Finance costs	5	–	(1,921)
Profit before taxation		1,919,925	1,920,426
Taxation	6	(3,198)	(4,935)
Profit for the period		1,916,727	1,915,491
Net profit from ordinary activities attributable to			
– shareholders of the Company		1,917,060	1,915,491
– minority interests		(333)	–
		1,916,727	1,915,491
Dividend	7	–	–
Earnings per share			
– Basic, HK cents	8	34.94	115.44
– Diluted, HK cents	8	34.68	112.26

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

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

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2008

Notes	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
ASSETS		
Non-Current Assets		
	2,234	1,175
Property, plant and equipment	12,285	12,285
Investment property	248,503	249,842
Intangible asset	965	–
Prepaid lease payment	12,026,686	5,615,126
Exploration and evaluation assets	2,364	2,364
Goodwill		
	12,293,037	5,880,792
Current Assets		
Trade receivables	124,311	144,121
Prepayments, deposits and other receivables	27,030	162,767
Cash and bank balances	244,184	228,457
	395,525	535,345
Total Assets	12,688,562	6,416,137
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	114,049	92,835
Reserves	11,699,939	6,084,199
	11,813,988	6,177,034
Minority interests	657,403	–
Total Equity	12,471,391	6,177,034
LIABILITIES		
Current Liabilities		
Trade payables	107,933	145,573
Tax payable	40,817	37,619
Other payables and accruals	43,774	28,036
Amount due to the holding company	2,911	2,911
Amounts due to related parties	18,231	22,314
Bank overdraft	855	–
	214,521	236,453
Non-Current Liability		
Deferred taxation	2,650	2,650
Total Liabilities	217,171	239,103
Total Equity and Liabilities	12,688,562	6,416,137
Net Current Assets	181,004	298,892
Total Assets Less Current Liabilities	12,474,041	6,179,684

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007 (Unaudited)

	Attributable to equity holders of the Company																					
	Reserves										Minority interests	Total										
	Share capital	Share premium	Special reserve	Contributed surplus	Convertible note reserve	Exchange reserve	Revaluation reserve	Reserve on acquisition of additional interests in a subsidiary	Retained profits	Sub-total												
														HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(note i)														(note ii)	(note iii)	(note iv)	(note v)	(note vi)	(restated)			
At 1 April 2007	26,334	78,264	-	3,156	-	51	-	-	104,280	185,751	-	212,085										
Net profit for the period	-	-	-	-	-	-	-	-	1,915,491	1,915,491	-	1,915,491										
Total recognised income and expense for the period	-	-	-	-	-	-	-	-	1,915,491	1,915,491	-	1,915,491										
Equity component of convertible bonds	-	-	-	-	3,598,748	-	-	-	-	3,598,748	-	3,598,748										
Deferred tax liabilities on convertible note	-	-	-	-	(18,284)	-	-	-	-	(18,284)	-	(18,284)										
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(6)	-	-	-	(6)	-	(6)										
Conversion of convertible notes	33,334	256,118	-	-	(3,580,464)	-	-	-	(3,324,346)	-	-	(3,291,012)										
Issue of subscription shares	1,390	98,690	-	-	-	-	-	-	98,690	-	-	100,080										
Consideration shares	25,000	275,000	2,525,000	-	-	-	-	-	2,800,000	-	-	2,825,000										
Fair value changes recognised from further acquisition	-	-	-	-	-	385,000	-	-	385,000	-	-	385,000										
At 30 September 2007	86,058	708,072	2,525,000	3,156	-	45	385,000	-	2,019,771	5,641,044	-	5,727,102										

For the six months ended 30 September 2008 (Unaudited)

At 1 April 2008	92,835	1,127,318	2,520,833	3,156	-	14,243	385,000	-	2,033,649	6,084,199	-	6,177,034
Net profit for the period	-	-	-	-	-	-	-	-	1,917,060	1,917,060	(333)	1,916,727
Total recognised income and expense for the period	-	-	-	-	-	-	-	-	1,917,060	1,917,060	(333)	1,916,727
Equity component of convertible bonds	-	-	-	-	277,587	-	-	-	-	277,587	-	277,587
Deferred tax liabilities on convertible bonds	-	-	-	-	(8,140)	-	-	-	-	(8,140)	-	(8,140)
Acquisition of subsidiaries (Note 14)	-	-	-	-	-	-	-	-	-	3,024,612	-	3,024,612
Acquisition of additional interests in a subsidiary (Note 15)	-	-	-	-	-	-	-	1,977,805	-	1,977,805	(2,366,876)	(389,071)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	7,087	-	-	-	7,087	-	7,087
Conversion of convertible notes	6,667	701,588	-	-	(269,447)	-	-	-	432,141	-	-	438,808
Issue of subscription shares	714	99,302	-	-	-	-	-	-	99,302	-	-	100,016
Consideration shares	13,613	1,311,387	(399,575)	-	-	-	-	-	911,812	-	-	925,425
Issue of shares on exercise of share option	220	1,236	-	-	-	-	-	-	1,236	-	-	1,456
Issue share expenses	-	(150)	-	-	-	-	-	-	(150)	-	-	(150)
At 30 September 2008	114,049	3,240,681	2,121,258	3,156	-	21,330	385,000	1,977,805	3,950,709	11,699,939	657,403	12,471,391

Notes:

- (i) The share premium account of the Group include shares issued at premium.
- (ii) The special reserve amounting to approximately HK\$2,121,258,000 of the Group represent the difference between the consideration share price of the shares issued by the Company and the quoted market price of the consideration share on acquisition of subsidiaries in prior financial periods.
- (iii) The contribution surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a reorganisation scheme ("the Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 30 March 2001, over the nominal value of the shares of the Company issued in exchange therefore.
- (iv) The convertible notes reserve represents the equity components of convertible note. Convertible note issued are split into their liability and equity component at initial recognition. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. The value of the equity component was calculated with reference to valuation carried by an independent valuer not connected to the Group.
- (v) Included in the revaluation reserve, amount of approximately HK\$385,000,000 represents the adjustment on changes in fair value of Madagascar Energy International Limited for an initial acquisition of 7% equity interest on 20 June 2006 and further acquisition of 93% equity interest on 4 June 2007.
- (vi) The reserve on acquisition of additional interests in a subsidiary represents the difference the fair value of the consideration paid and the carrying amounts of the underlying assets and liabilities attributable to the additional interest in a subsidiary acquired during the year (Please see details to Note 15 to the condensed consolidated financial statements).

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2008

	Six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	15,626	(23,300)
Net cash outflow from investing activities	(102,226)	(9,983)
Net cash inflow from financing activities	101,472	100,697
Increase in cash and cash equivalents	14,872	67,414
Cash and cash equivalents at beginning of the period	228,457	96,477
Cash and cash equivalents at end of the period	243,329	163,891
Analysis of balances of cash and cash equivalents		
Cash and bank balances	244,184	164,390
Bank overdrafts	(855)	(499)
	243,329	163,891

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 September 2008

1. BASIS OF PREPARATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention except for certain investment property, financial assets and liabilities, exploration and evaluation assets and intangible assets have been carried at fair value. The principal accounting policies and methods of computations used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those applied in the Group’s annual financial statements for the year ended 31 March 2008 except that during the current period the Group has applied for the first time an accounting policy for acquisition of additional interests in a subsidiary.

Acquisition of additional interests in a subsidiary

Changes in the Company’s ownership interests in a subsidiary that do not result in loss of control are accounted for as equity transactions (i.e. transactions with the Company in the capacity as owners).

In such circumstances the carrying amounts of the controlling interest and minority interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which minority interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Company.

In the current six-month period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are effective for the Group’s accounting periods beginning on 1 April 2008. The new HKFRSs adopted by the Group in the financial statements are set out as follows:

HKAS 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above new standard and interpretations did not results in substantial changes to the Group’s accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

HKFRSs (Amendment)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items ²
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combination ²
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³
HK(IFRIC)-Int 15	Agreements for Construction of Real Estate ¹
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ⁴
HK(IFRIC)-Int 17	Distribution of Non-Cash Assets to Owners ²

¹ Effective for annual periods beginning on or after 1 January 2009

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

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

⁴ Effective for annual periods beginning on or after 1 October 2008

3. SEGMENT INFORMATION

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

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

Summary details of the business segments are as follows:

- (a) the polyurethane ("PU") materials segment involves the trading of PU materials, such as isocyanate, polyols and various kinds of PU catalysts;
- (b) the fuel oil segment involves trading of fuel products with model no. 180CST; and
- (c) oil, gas exploration and exploitation and operation segment involves oil, gas exploration and exploitation and operation in Madagascar. During the six-month period, this segment did not generate any revenue or profit to the Group.

3. SEGMENT INFORMATION (CONTINUED)

Business Segments

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

	Six months ended 30 September							
	PU materials		Fuel products		Oil, gas exploration, exploration and operation		Consolidation	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	50,005	285,730	691,114	543,495	-	-	741,119	829,225
Total revenue	50,005	285,730	691,114	543,495	-	-	741,119	829,225
Segment results	1,243	17,387	32,657	17,460	-	-	33,900	34,847
Interest income							267	371
Unallocated income							7	-
Excess of acquirer's in fair value of acquiree's identifiable net assets over costs	-	-	-	-	2,103,419	1,904,858	2,103,419	1,904,858
Impairment loss recognised in respect of exploration and evaluation assets	-	-	-	-	(190,212)	-	(190,212)	-
Impairment loss recognised in respect of intangible asset	-	-	-	-	(1,339)	-	(1,339)	-
Unallocated expenses							(26,117)	(17,729)
Profit from operating activities							1,919,925	1,922,347
Finance costs							-	(1,921)
Profit before taxation							1,919,925	1,920,426
Taxation							(3,198)	(4,935)
Profit for the period							1,916,727	1,915,491

4. PROFIT FROM OPERATING ACTIVITIES

	Six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Profit from operating activities has been arrived at after charging:		
Amortisation of prepaid lease payments	10	–
Depreciation	311	134
and after crediting:		
Other revenue:		
Interest income	267	371
Others	7	–
Other income:		
Exchange difference	761	–

5. FINANCE COSTS

	Six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on:		
Bond wholly repayable within five years	–	1,921

6. TAXATION

Current Taxation

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the six-month period. Taxation on assessable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Current period provision:		
Hong Kong	–	–
Elsewhere	3,198	4,935
	3,198	4,935

6. TAXATION (CONTINUED)

Deferred Taxation

	Convertible notes HK\$'000	Investment property HK\$'000	Total HK\$'000
At 1 April 2007	–	–	–
Charged to equity for the year	18,284	–	18,284
Credited from equity for the year	(18,284)	–	(18,284)
Acquisition of subsidiaries	–	2,650	2,650
At 31 March 2008 and 1 April 2008	–	2,650	2,650
Charged to equity for the period	8,140	–	8,140
Credited from equity for the period	(8,140)	–	(8,140)
At 30 September 2008	–	2,650	2,650

The Group and the Company did not have any significant unprovided deferred tax liabilities at 30 September 2008 (2007: Nil).

7. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the six months ended 30 September 2008 (2007: Nil).

8. EARNINGS PER SHARE

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

	Six months ended 30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Earnings		
Earnings attributable to the equity holders of the Company for the purpose of basic and diluted earnings per share	1,917,060	1,915,491

8. EARNINGS PER SHARE (CONTINUED)

	Number of shares Six months ended 30 September	
	2008 '000	2007 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,486,250	1,659,230
Effect of dilutive potential ordinary shares: Share Options	41,081	47,094
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,527,331	1,706,324

9. EXPLORATION AND EVALUATION ASSETS

	Exploration rights HK\$'000 (note i)	Evaluation costs HK\$'000 (note ii)	Total HK\$'000
Cost			
At 1 April 2008	5,507,575	107,551	5,615,126
Acquisition of subsidiaries (Note 14)	6,589,484	12,105	6,601,589
Additions	–	183	183
At 30 September 2008	12,097,059	119,839	12,216,898
Accumulated impairment			
At 1 April 2008	–	–	–
Provided for the period	190,212	–	190,212
At 30 September 2008	190,212	–	190,212
Carrying amount			
At 30 September 2008	11,906,847	119,839	12,026,686
At 31 March 2008	5,507,575	107,551	5,615,126

9. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Notes:

- i. The exploration rights represent the oil, gas exploration, exploitation and operations rights and profit sharing rights at Madagascar Oilfield Block 2104 and Madagascar Oilfield Block 3113, onshore sites for oil and gas exploration, exploitation and operation in Madagascar ("Oilfield Block 2104" and "Oilfield Block 3113").
- ii. The exploration costs represents expenditure paid for provision of services on activities relating to evaluation of the technical feasibility and commercial viability of extracting oil and gas in Oilfield Block 2104 and Oilfield Block 3113.
- iii. The recoverable amounts of the exploration and evaluation assets have been determined on the basis of their fair value less costs to sell. The fair value less costs to sell of the exploration and evaluation assets has been arrived at on the basis of a valuation carried out on that date by Messers. Ascent Partners Group Limited, an independent valuer not connected to the Group. Ascent Partners Group Limited has appropriate qualifications and recent experiences to valuation of similar assets. The valuation which confirms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar assets.

10. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days, are recognised and carried at the original invoiced amount less provision for accumulated impairment loss. It is the Group's policy to provide full impairment loss for all receivables over 1 year because historical experience is such that receivables that are past due beyond 1 year are generally not recoverable.

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

	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
Current to 30 days	102,632	120,139
31 days to 90 days	21,679	23,982
	124,311	144,121

11. SHARE CAPITAL

	Number of Ordinary Shares '000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.02 each		
At 1 April 2008 and 30 September 2008	10,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
At 1 April 2008	4,641,756	92,835
Issue of subscription shares (Note i)	35,720	714
Consideration shares (Note ii)	680,655	13,613
Conversion of convertible note (Note iii)	333,333	6,667
Exercise of share option (Note iv)	11,000	220
At 30 September 2008	5,702,464	114,049

Notes:

- (i) On 17 April 2008, the Company entered into a subscription agreement with an independent third party, pursuant to which the independent third party has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 35,720,000 shares in cash at the subscription price of HK\$2.8 per share. For details, please refer to the Company's announcement dated 22 April 2008.
- (ii) (a) On 3 November 2007, the Company entered into a sale and purchase agreement to acquire from Sukapeak Holdings Limited ("Sukapeak") the entire issued share capital of Better Step Group Limited ("Better Step") for a total consideration of HK\$1,215 million. The conditional sale and purchase agreement was completed on 8 April 2008. The consideration for the acquisition was satisfied by (i) HK\$120 million in cash; (ii) HK\$615 million by issue of 427,083,333 new shares at HK\$1.44 per share; and (iii) HK\$480 million by issue of convertible note (the "Convertible Note") at a conversion price of HK\$1.44 per conversion. For further details, please refer to the Company's circular dated 12 March 2008.
- (b) On 17 April 2008, the Group entered into a sale and purchase agreement with Smart Rich Energy Finance (Holdings) Limited and Dorson Group Limited ("Dorson") pursuant to which the Group has conditionally agreed to acquire, and Smart Rich Energy has conditionally agreed to procure Dorson, and Dorson has agreed to sell 36% equity interest in MPIL at a total consideration of HK\$810 million. The acquisition was completed on 7 August 2008. The consideration for the acquisition was satisfied by (i) HK\$100 million in cash; (ii) HK\$710 million by issue of 253,571,428 new shares at HK\$2.8 per share. For further details, please refer to the Company's circular dated 16 May 2008.
- (iii) On 8 April 2008, Sukapeak, the holder of the Convertible Note as mentioned in Note 2(a) above, has converted HK\$480 million of the principal of the Convertible Note, representing the whole principal amount of the Convertible Note, at conversion price of HK\$1.44 per share. As a result of the conversion, a total of 333,333,333 ordinary shares have been allotted and duly issued and the aggregate outstanding principal of the Convertible Note has been reduced to HK\$Nil. For further details, please refer to Note 13 to the condensed consolidated financial statement and the Company's circular dated 12 March 2008.

11. SHARE CAPITAL (CONTINUED)

Notes: (Continued)

- (iv) During the six months ended 30 September 2008, the Company issued 11,000,000 shares of HK\$0.02 each at an issue price of HK\$0.1324 per share on exercise of share options which were granted on 8 November 2004. These shares issued rank pari passu in all respects with the existing shares.

12. TRADE PAYABLES

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

	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
Current to 30 days	99,022	100,889
31 days to 90 days	8,911	44,684
	107,933	145,573

The average credit period on purchases is three months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

13. CONVERTIBLE NOTES

Pursuant to the conditional sale and purchase agreement entered between the Company and Sukapeak in respect of acquisition of the entire equity interest in Better Step, the Company issued a convertible note in the principal of HK\$480,000,000 (the "Convertible Note") to Sukapeak. Sukapeak has the right to convert the whole or part of the principal amount of the Convertible Note into shares of HK\$0.02 each in the share capital of the Company, at the conversion price of HK\$1.44 per share. Sukapeak may at any time from the date of issue of the Convertible Note to the maturity date of the Convertible Note to redeem the principal amount outstanding under the Convertible Note. The Convertible Note may be assigned or transferred in whole or in part to third parties, subject to written approval of the Company and the conditions, approvals, requirements and any other provisions under the Listing Rules and all applicable laws and regulations.

On 8 April 2008, Sukapeak has converted the Convertible Note into ordinary shares of the Company.

The Convertible Note contains two components, liability and equity elements. The equity element is presented in equity heading "convertible note reserve". The effective interest rate of the liability component is 3.68%.

13. CONVERTIBLE NOTES (CONTINUED)

The movement of the liability component of the Convertible Note for the period is set out below:

	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
Proceeds of issue	–	–
Fair value of Convertible Note issued on 8 April 2008/4 June 2007	708,255	289,186
Equity component	(277,587)	(3,598,748)
Derivative financial instruments	–	3,598,748
Liability component on initial recognition on 8 April 2008/4 June 2007	430,668	289,186
Conversion of Convertible Note	(430,668)	(289,186)
Amortised cost at 30 September/31 March	–	–

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

14. ACQUISITION OF SUBSIDIARIES

Acquisition of Better Step Group Limited (“Better Step”)

On 3 November 2007, the Company entered into a sale and purchase agreement to acquire from Sukapeak the entire issued share capital of Better Step, which holds 54% equity interest in Madagascar Petroleum International Limited (“MPIL”) (collectively referred to “Better Step Group”), at a total consideration of HK\$1,215 million. The acquisition was completed on 8 April 2008. As at the date of completion of the acquisition, the fair value of the cost of the acquisition was approximately HK\$1,465,625,000.

The net assets acquired in the transaction and the excess of acquirer’s interest in fair value of acquiree’s identifiable net assets over cost arising are as follows:

	Acquiree's carrying amount HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
Net assets acquired:			
Property, plant and equipment	748	–	748
Prepayment	415	–	415
Other deposits	2	–	2
Cash and bank balances	97	–	97
Amount due from related companies	4,113	–	4,113
Amount due to related companies	(14)	–	(14)
Accruals	(13,294)	–	(13,294)
Exploration and evaluation assets	5,012,105	1,589,484	6,601,589
	5,004,172	1,589,484	6,593,656
Minority interests			(3,024,612)
Excess of acquirer’s interest in fair value of acquiree’s identifiable net assets over cost (note i)			(2,103,419)
			1,465,625
Total consideration satisfied by:			
Cash consideration			120,000
Issue of shares (note iii)			636,354
Issue of Convertible Note (note iv)			708,255
Acquisition-related costs			1,016
Total consideration			1,465,625
Net cash outflow arising on acquisition:			
			HK\$'000
Cash and bank balances acquired			97
Cash consideration			(120,000)
Acquisition-related costs			(1,016)
			(120,919)

14. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Notes:

- (i) In the opinion of the directors of the Company, the excess of acquirer's interest in fair value of acquiree's identifiable net assets over cost arose in the business combination is mainly attributable to the increase in the fair value of the right in exploration, exploitation and operation in the oilfield block 2104 in Madagascar as a result of increase in the international crude oil price subsequent to entering into the sales and purchases agreement. The excess were recognised in the consolidated income statement immediately.
- (ii) Better Step Group acquired during the period ended 30 September 2008 attributed loss of approximately HK\$1,211,000 to the Group's profit after taxation respectively. None of these subsidiaries acquired during the period contribute any revenue to the Group.
- (iii) The share considerations for acquisition of Better Step Group were settled through issue of 427,083,333 shares. The fair values of the share consideration was determined in accordance with the quoted market price of the Company's share as at the completion date of the acquisition.
- (iv) The fair value of the convertible notes issued has been arrived at on the basis of a valuation carried out on the completion date of the acquisition by Ascent Partners Group Limited, an independent qualified professional valuers not connected with the Group. The valuation was arrived at by reference to discounted cash flow method and Black-Scholes method.
- (v) If the acquisitions had been completed on 1 April 2008, the Group's profit attributable to shareholders of the Company for the period would have been approximately HK\$1,917,048,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2008, nor is it intended to be a projection of future results.

15. ACQUISITION OF ADDITIONAL INTERESTS IN A SUBSIDIARY

On 17 April 2008, the Group entered into a sale and purchase agreement with Smart Rich Energy Finance (Holdings) Limited ("Smart Rich") and Dorson Group Limited ("Dorson") pursuant to which the Group has conditionally agreed to acquire, and Smart Rich has conditionally agreed to procure Dorson, and Dorson has agreed to sell 36% equity interest in MPIL at a total consideration of HK\$810 million. The acquisition was completed on 7 August 2008. As at the date of completion of the acquisition, the fair value of the cost of the acquisition was approximately HK\$389,071,000 and the carrying amount of the underlying assets and liabilities attributable to the additional interest was approximately HK\$2,366,876,000. A difference of approximately HK\$1,977,805,000 between the amount by which the minority interests are adjusted and the fair value of the consideration paid was recognised in the equity.

16. COMMITMENTS

On 5 September 2008, the Company entered into a sale and purchase agreement (“Proposed Acquisition”) to acquire from Right Up Holdings Limited (“Right Up”) the entire equity interest in Double High Group Limited (“Double High”) at a total consideration of HK\$600 million. Upon signing of the agreement, HK\$100 million was paid in cash as refundable deposit.

At 30 September 2008, the Group and the Company had a commitment in respect of the Proposed Acquisition, which will be financed by the Group’s issues of Convertible Note and the Company’s new shares.

17. CONNECTED TRANSACTIONS

During the six months ended 30 September 2008, the Group had entered into the following transactions which constitute connected transactions under Listing Rules.

- (i) On 3 January 2007, the Company entered into a sale and purchase agreement to acquire from Golden Nova Holdings Limited (“Golden Nova”) 93% issued share capital of Madagascar Energy International Limited (“MEIL”) for a total consideration of HK\$800 million. The acquisition was completed on 4 June 2007.
- (ii) On 3 November 2007, the Company entered into a sale and purchase agreement to acquire from Sukapeak the entire issued share capital of Better Step, which holds 54% equity interest in MPIL at a total consideration of HK\$1,215 million. The acquisition was completed on 8 April 2008.
- (iii) On 17 April 2008, the Group entered into a sale and purchase agreement with Smart Rich and Dorson pursuant to which the Group has conditionally agreed to acquire, and Smart Rich has conditionally agreed to procure Dorson, and Dorson has agreed to sell 36% equity interest in MPIL at a total consideration of HK\$810 million. The acquisition was completed on 7 August 2008.
- (iv) On 5 September 2008, the Company entered into a sale and purchase agreement (“Proposed Acquisition”) to acquire from Right Up Holdings Limited (“Right Up”) the entire equity interest in Double High Group Limited (“Double High”) at a total consideration of HK\$600 million. Upon signing of the agreement, HK\$100 million was paid in cash as refundable deposit.

As Dr. Hui Chi Ming, the beneficial owner of Golden Nova, Sukapeak, Smart Rich, Dorson and Right Up is a connected person of the Company under the Listing Rules, entering into these acquisition agreements constitutes connected transactions for the Group under the Listing Rules.

18. MATERIAL RELATED PARTIES TRANSACTIONS

Saved as disclosed in Note 17 above, the Group has entered into the following material related parties transactions as follows:

Key management personnel

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employee are as follows:

	2008 HK\$'000	2007 HK\$'000
Salaries and allowance	2,777	2,038
Mandatory provident fund	26	21
	2,803	2,059

19. SUBSEQUENT EVENTS

- (i) On 5 September 2008, the Company entered into a sale and purchase agreement to acquire from Right Up the entire equity interest in Double High at a total consideration of HK\$600 million. The consideration will be satisfied by (i) HK\$100 million in cash, payable upon signing of the agreement; (ii) HK\$100 million in cash upon completion of the acquisition; and (iii) HK\$400 million by the issue of 320,000,000 new shares at HK\$1.25 per consideration share. The acquisition was completed on 5 December 2008, for which the fair value of the share consideration as mentioned in (iii) above at that day is approximately HK\$150,400,000, which was determined in accordance with the quoted market price of the Company's share as at 5 December 2008.

The fair value of the net assets of Double High is still under progress of valuation by independent qualified professional valuers. It is therefore considered not practicable to disclose the fair value of net assets of Double High for recognition in the unaudited condensed consolidated financial statements and also any charge or credit to the equity.

For further details, please refer to the Company's announcement and circular dated on 18 September 2008 and 7 November 2008 respectively.

- (ii) Subsequent to the balance sheet date, there was a significant decline in international crude oil price due to economic recession. The directors of the Company considered that such decline may have a material impact in relation to the valuation of the exploration and evaluation assets in the next financial period. Subject to the fluctuation of market crude oil price, the Group currently is not yet in a position to quantify the financial effect reliably. The Group will engage independent valuer to estimate the value of the exploration and evaluation assets in subsequent financial periods.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's unaudited condensed consolidated turnover and net profit from ordinary activities attributable to shareholders for the six months ended 30 September 2008 were approximately HK\$741 million and approximately HK\$1,917 million respectively, representing decrease/increase of approximately 10.63% and 0.08% respectively as compared to the same period last year. The Group's gross profit margin decreased by approximately 2.72% as compared to the corresponding period last year. The principal market of the Group remained in the PRC which accounted for 100% of the Group's turnover.

BUSINESS REVIEW

Distribution business of PU Materials

During the period under review, revenue from the distribution of PU materials was approximately HK\$50 million, decrease from approximately HK\$286 million of the same period last year. The distribution business of PU Materials contributed approximately HK\$0.5 million to the Group's net profit from operating activities for the period, representing a decrease of approximately 96.33% in comparison to the corresponding period in 2007. The competition on the market of PU material is continued 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.

Distribution business of Fuel Products

During the period under review, revenue from the distribution of fuel products was approximately HK\$691 million, increased from approximately HK\$543 million of the same period last year. The distribution business of fuel products contributed approximately HK\$23 million to the Group's net profit from operating activities for the period, representing an increase of approximately 83.52% in comparison to the corresponding period in 2007.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2008, the Group held cash and bank balances of approximately HK\$244 million and bank overdraft of approximately HK\$0.1 million. With the available resources and the proceeds from the sale of the Group's subsidiaries during the period, the Group has adequate working capital to finance its business operation.

As at 30 September 2008, the Group had a current ratio of approximately 1.84 (at 31 March 2008: 2.26). 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.

CAPITAL STRUCTURE

The number of issued ordinary shares as at 30 September 2008 was approximately 5,702,464,000 (As at 31 March 2008: 4,641,756,000). As at 30 September 2008, the Group did not have any borrowing (As at 31 March 2008: Nil). Gearing ratio, being total borrowing divided by total asset, is considered not applicable.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES

There was no material disposal of subsidiaries during the six months ended 30 September 2008. Details of the acquisition of subsidiaries of the Company during the period are set in Note 14 above.

CHARGES ON THE GROUP'S ASSETS

At 30 September 2008, none of the Group's assets was pledged.

COMMITMENT AND CONTINGENT LIABILITIES

For details of the Group's commitment, please refer to Note 16 to the condensed financial statements.

At 30 September 2008, the Group did not have any contingent liabilities.

INTERIM DIVIDEND

The Directors resolved not to declare any interim dividend for the six months ended 30 September 2008.

EMPLOYEES

At 30 September 2008, the total number of staff was 40 (At 31 March 2008: 48). 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

During the period under review, the Group had acquired the interest in 90% shareholding in Madagascar Petroleum International Limited ("MPIL") and at 5 December 2008, the Group completed the acquisition of the remaining 10% shareholding of MPIL. MPIL entered into the Production Sharing Contract with Office Des Mines Nationales Et Des Industries Strategiques in respect of oilfield block 2104, an onshore site with total area of 20,100 square kilometers in Madagascar, for oil and gas exploitation and operation and certain transactions pertaining thereto. Pursuant to the Production Sharing Contract, MPIL is vested with all the relevant rights to engage in oil and gas exploration for 8 years, oilfield development for 5 years, and exploitation and operation for oil for 25 years (with 5 years possible extension) and gas for 35 years (with 10 years possible extension) at oilfield block 2104. Depending on the rate of crude oil production of oilfield block 2104, MPIL will share the remaining profit oil after government royalty according to the sharing ratios in the range of 45% to 73% as set out in the Production Sharing Contract. MPIL is responsible for the arrangement of the required capital commitment, human resources and equipment for the project development of oil and gas in oilfield block 2104. As at the date of this report, five wells with depth in the range of 67.5 meters to 2,153 meters have been drilled in oilfield block 2104, and oil and gas were discovered in three wells with depth in the range of 450 meters to 2,153 meters. According to the oil and gas reserve assessment performed by China University of Petroleum and China National Petroleum Corporation BGP, oilfield block 2104 has a prospective resources (遠景資源量) of 496.8 million tons of oil, 66.24 billion m³ of gas.

OUTLOOK (CONTINUED)

During the period, the Company had entered into cooperation agreements with ECO Energy (International) Investment Limited (“ECO”), a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited and Shaanxi Yanchang Petroleum (Group) Limited (“Yanchang Petroleum”) respectively. Pursuant to the cooperation agreement, the Group, Yanchang Petroleum and ECO shall jointly invest and manage the exploration, exploitation and operations of oilfield block 3113 and shall contribute 31%, 40% and 29% of the required capital investment for the development of the oilfield block 3113 respectively and shall be entitled to 43.42%, 32.80% and 23.78% of the Attributable Oil and Gas. The definition of the Attributable Oil and Gas and details of the Cooperation Agreement are set out in the Company’s circular dated 28 May 2008 and 28 July 2008. The oilfield block 3113 at Madagascar has rich oil reserves with developable area of over 8,320 square kilometers at its petroleum plays. In the assessment performed by Netherland Sewell & Associates, Inc., an international reserve consultant, oilfield block 3113 has an unrisks estimated gross original oil-in-place of no less than 2 billion barrels. The Group has already completed drilling of eight wells with depth ranging from 715m to 4,670m. All of them showed the existence of oil and gas.

The Company created favorable conditions for the commencement of well drilling and oil exploration projects by building roads, laying pipes and carrying out a series of preliminary construction within the construction zone of oilfield block 3113. In addition, Sino Union has commissioned Yunnan Kaiyuan Petroleum and Natural Gas Exploration Engineering Company Ltd (雲南開元石油天然氣鑽探工程有限公司) (“Kaiyuan Petroleum”/“開元石油”) as the chief contractor responsible for the well drilling project for oil exploitation in oilfield block 3113. In the first quarter of 2009, the Group expects to drill three oil wells which are expected to produce oil very soon.

The Directors consider that the completion of the abovementioned acquisitions and cooperation agreement will further strengthen the Group’s foundation in developing the oil and gas exploration and exploitation business in Madagascar. In consideration of the limited supply and continuous strong demand of oil and gas in the world market, the Directors are optimistic about the further development of oil and gas exploration and exploitation business.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' Interests in Share Capital

At 30 September 2008, the interests and short positions of the directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Security Transactions by Directors of Listed Companies ("the Model Code") were as follows:

Ordinary share of the Company

Name of director	Nature of interest	Number of ordinary shares held	Percentage of issued shares
Dr. Hui Chi Ming (Note)	Corporate	3,427,332,221	60.10%

Note: These shares are beneficially owned by Golden Nova Holdings Limited ("Golden Nova"), Wisdom On Holdings Limited ("Wisdom On"), Barta Holdings Limited ("Barta"), Good Progress Group Limited ("Good Progress") and Sukapeak Holdings Limited ("Sukapeak"), the entire issued share capital of which are wholly-owned by Dr. Hui Chi Ming.

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

SUBSTANTIAL SHAREHOLDERS

At 30 September 2008, the interests of persons, other than a director or chief executive of the Company, in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

Ordinary share of the Company

Name of shareholder		Number of issued shares held	Percentage of holding
Golden Nova	Note 1	2,215,446,666	38.85
Wisdom On	Note 1	213,770,000	3.75
Barta	Note 1	98,810,000	1.73
Good Progress	Note 1	138,888,889	2.44
Sukapeak	Note 1	760,416,666	13.33

Note 1: The entire issued share capital is owned by Dr. Hui Chi Ming.

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	Number of share options				At 30 September 2008	Date of grant of share options* (dd/mm/yy)	Exercise period of share options (dd/mm/yy)	Exercise price of share options HK\$	Price of Company’s share at grant date of share options HK\$
	At 1 April 2008	Granted during the period	Exercised during the period	Lapsed during the period					
Directors									
Mr. Tsang Kwok Man	11,000,000	–	(11,000,000)	–	–	8/11/2004	8/11/2004 to 7/11/2014	0.132	0.13
Employees other than Directors									
In aggregate	40,000,000	–	–	–	40,000,000	8/11/2004	11/11/2004 to 7/11/2014	0.132	0.13
	51,000,000	–	(11,000,000)	–	40,000,000				

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

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.

CORPORATE GOVERNANCE

Compliance with Code Provisions

The Company has complied with the code provisions (the “Code Provisions”) set out in the code on Corporate Governance Practices (the “CCG”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the six months ended 30 September 2008, except for the following deviations:

Code Provision A.4.1

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

All non-executive directors (including executive directors) of the Company do not have a specific term of appointment. However, they are subject to retirement by rotation in accordance with the Company’s bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code Provision A.4.1.

Subsequent Events

- (i) On 5 September 2008, the Company entered into a sale and purchase agreement to acquire from Right Up Holdings Limited the entire equity interest in Double High at a total consideration of HK\$600 million. The consideration will be satisfied by (i) HK\$100 million in cash, payable upon signing of the agreement; (ii) HK\$100 million in cash upon completion of the acquisition; and (iii) HK\$400 million by the issue of 320,000,000 new shares at HK\$1.25 per consideration share. The acquisition was completed on 5 December 2008, for which the fair value of the share consideration as mentioned in (iii) above at that day is approximately HK\$150,400,000, which was determined in accordance with the quoted market price of the Company's share as at 5 December 2008.

For further details, please refer to the Company's announcement and circular dated on 18 September 2008 and 7 November 2008 respectively.

- (ii) Subsequent to the balance sheet date, there was a significant decline in international crude oil price due to economic recession. The directors of the Company considered that such a decline may have a material impact to the valuation of the exploration and evaluation assets in the next financial period. Subject to the amount fluctuation of market crude oil price, the Group currently is not yet in a position to quantify the financial effect reliably. The Group will engage independent valuer to estimate the value of the exploration and evaluation assets in subsequent financial periods.

Audit Committee

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2008 have been reviewed by the Company's audit committee.

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its Code of Ethics and Securities Transactions by directors of the Company.

Having made specific enquiry of all directors of the Company, they have complied with the required standards set out in the Model Code for the six months ended 30 September 2008.

By Order of the Board
Sino Union Petroleum & Chemical International Limited
Dr. Chui Say Hoe
Executive Director

Hong Kong, 29 December 2008