



Interim Report 2008



China Oil Resources Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Unaudited interim results

The Board of Directors (the "Board") of China Oil Resources Holdings Limited (the "Company") is pleased to present the unaudited interim results for the six months ended 30 September 2008 of the Company and its subsidiaries (collectively referred to as the "Group"), together with the comparative figures for the last corresponding period.

Condensed consolidated income statement

(Expressed in Hong Kong dollars)

		(Unaudited) Six months ended 30 September	
	Note	2008 HK\$'000	2007 HK\$'000
Turnover	3	233,571	169,703
Cost of sales		(214,008)	(137,146)
Gross profit		19,563	32,557
Other revenue		4,885	7,604
Other net expenses		(64,710)	(1,855)
Distribution costs		(9,636)	(8,719)
Administrative expenses		(71,843)	(19,639)
Share-based payments		(6,801)	(13,452)
Loss from operations	4	(128,542)	(3,504)
Finance costs		(2,971)	(2,337)
Loss before income tax		(131,513)	(5,841)
Income tax	5	(1,104)	(763)
Loss for the period		(132,617)	(6,604)
Attributable to:			
Equity holders of the Company		(110,593)	(7,626)
Minority interests		(22,024)	1,022
		(132,617)	(6,604)
Dividends	6	-	-
Loss per share attributable to the ordinary equity holders of the Company during the period	7		
- Basic		HK(6.44) cent	HK(0.80) cent
- Diluted		N/A	N/A

Condensed consolidated balance sheet

(Expressed in Hong Kong dollars)

	Note	(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Non-current assets			
Property, plant and equipment	8	198,233	163,123
Exploration and evaluation assets		9,792	14,152
Prepaid land lease payments		36,407	36,033
Investment properties		14	14
Goodwill		1,058	–
Other intangible assets		1,712,527	1,756,626
Available-for-sale financial assets		130,445	439
Deposits paid for acquisition of long-term assets		19,500	13,000
		2,107,976	1,983,387
Current assets			
Inventories		51,965	43,945
Trade and other receivables	9	178,623	165,962
Trading securities		28,413	37,652
Derivative financial assets		18,564	19,210
Income tax recoverable		6,258	2,735
Cash and cash equivalents		72,464	87,334
		356,287	356,838
Current liabilities			
Trade and other payables	10	124,449	47,326
Derivative financial liabilities		153,385	138,344
Convertible bonds		22,394	–
Income tax payable		242	58
Bank borrowings		2,757	43,293
		303,227	229,021
Net current assets		53,060	127,817
Total assets less current liabilities		2,161,036	2,111,204

	Note	(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Non-current liabilities			
Bank borrowings		19,258	10,394
Convertible bonds		–	20,101
Deferred tax liabilities		974	964
		20,232	31,459
Net assets			
		2,140,804	2,079,745
Capital and reserves			
Share capital	11	19,427	12,952
Reserves		1,276,048	1,203,608
Total equity attributable to shareholders of the Company			
		1,295,475	1,216,560
Minority interests			
		845,329	863,185
Total equity			
		2,140,804	2,079,745

Condensed consolidated cash flow statement

(Expressed in Hong Kong dollars)

	(Unaudited) Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Net cash generated from/(used in) operating activities	19,092	(42,578)
Net cash used in investing activities	(182,217)	(162,507)
Net cash generated from financing activities	147,433	261,550
Net increase in cash and cash equivalents	(15,692)	56,465
Cash and cash equivalents at 1 April	87,334	34,212
Effect of foreign exchange rate changes	822	–
Cash and cash equivalents at 30 September	72,464	90,677
Analysis of balances of cash and cash equivalents		
Cash and bank balances, having maturity within three months	72,464	90,677

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

(Unaudited)											
Attributable to equity holders of the Company											
		Share	Share	Merger	Share	Warrant	Exchange	Retained		Minority	Total
	Notes	capital	premium	reserve	option	reserve	reserve	earnings	Total	interests	equity
		HK\$'000	HK\$'000	(Note a)	reserve	reserve	(Note c)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 31 March 2007		8,727	149,875	3,248	7,553	-	-	66,268	235,671	-	235,671
Employee share option benefit:	(b)										
- value of services provided		-	-	-	13,452	-	-	-	13,452	-	13,452
- share option exercised		-	8,460	-	(8,460)	-	-	-	-	-	-
- proceeds from shares issued		565	18,333	-	-	-	-	-	18,898	-	18,898
Shares issued for acquisition of subsidiaries		649	41,751	-	-	-	-	-	42,400	-	42,400
Shares issued for Convertible Bonds		1,778	132,326	-	-	-	-	-	134,104	-	134,104
Share issued for Warrants		256	17,655	-	-	-	-	-	17,911	-	17,911
Convertible Bonds share portion at fair value		-	-	-	-	17,210	-	-	17,210	-	17,210
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	3,463	3,463
Loss for the period		-	-	-	-	-	-	(7,626)	(7,626)	1,022	(6,604)
Balance at 30 September 2007		11,975	368,400	3,248	12,545	17,210	-	58,642	472,020	4,485	476,505
Balance at 31 March 2008		12,952	449,870	3,248	42,478	1,869	16,100	690,043	1,216,560	863,185	2,079,745
Employee share option benefit:											
- value of services provided	(d)	-	-	-	6,801	-	-	-	6,801	-	6,801
Issue of new shares by Open Offer	(e)	6,475	173,003	-	-	-	-	-	179,478	-	179,478
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	976	976
Translation of foreign currency		-	-	-	-	-	3,229	-	3,229	3,192	6,421
Loss for the period		-	-	-	-	-	-	(110,593)	(110,593)	(22,024)	(132,617)
Balance at 30 September 2008		19,427	622,873	3,248	49,279	1,869	19,329	579,450	1,295,475	845,329	2,140,804

Note:

- (a) The merger reserve represents the difference between the aggregate of the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation completed on 26 October 2002 over the nominal value of share capital of the Company issued in exchange there for.
- (b) The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments.
- (c) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations.
- (d) During the period under review, the Company granted 78,800,000 share options, the exercise price of which is HK\$0.31 per share to certain directors and employees. According to HKFRS2, the fair value of these options, amounting to approximately HK\$6,801,000, is accounted for in the share option reserve.
- (e) On 10 June 2008, the Company finished issuing 647,577,349 Offer Shares offered under the Open Offer proposed on 20 May 2008. The new shares for the Open Offer was offered on the basis of one offer share for every two shares held on the record date at HK\$0.288 per offer share. The related expenses for the Open Offer, approximately HK\$7,023,000, were capitalised.

Notes to the condensed unaudited consolidated financial statements

1 CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of its principal place of business is Suite 1006, 10/F, Ocean Centre, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong.

The principal activities of the Group are manufacturing and sale of paints, blended solvents and plastic colorants, trading of chemical materials, provision of painting service, property investment and exploitation and sale of crude oil.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group ("Interim Accounts") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretation, the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2008. The accounting policies and methods of computation adopted are consistent with those followed in preparation of the Group's annual financial statements for the year ended 31 March 2008.

As at the date of this report, the following standards and interpretations have been issued but not yet effective:

HKFRS 2 (Amendment)	Note (a)	Share-based payment – vesting conditions and cancellations
HKFRS 3 (Revised)	Note (c)	Business combinations
HKFRS 8	Note (a)	Operating segments
HKAS 1 (Revised)	Note (a)	Presentation of financial statements
HKAS 23 (Revised)	Note (a)	Borrowing costs
HKAS 27 (Revised)	Note (c)	Consolidated and separate financial statements
HKAS 32 and HKAS 1 (Amendment)	Note (a)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 and HKFRS 7 (Amendment)	Note (d)	Reclassification of financial assets
HK(IFRIC) – Int 13	Note (b)	Customer loyalty programmes
HK(IFRIC) – Int 15	Note (a)	Agreements for the construction of Real Estates
HK(IFRIC) – Int 16	Note (d)	Hedges of a Net Investment in a Foreign Operation

Note (a): effective for annual periods beginning on or after 1 January 2009

Note (b): effective for annual periods beginning on or after 1 July 2008

Note (c): effective for annual periods beginning on or after 1 July 2009

Note (d): effective for annual periods beginning on or after 1 October 2008

The Group is currently assessing the impact of the adoption of the other new standards, amendments to standards and interpretations above that are applicable to the Group in future periods, but are not yet in a position to state whether they would have material financial impact on the financial status. Should the management decide to early adopt any of the above new standards, amendments to standards and interpretations, there will be new or amended disclosures in the coming annual financial statements.

The condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK\$") unless otherwise stated.

3 SEGMENTAL INFORMATION

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

(a) Primary report format – business segments

	(Unaudited)						
	Six months ended 30 September 2008						
	Paints, blended solvents and chemical materials	Plastic colorants	Service contract	Property investment	Crude oil	Eliminations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue							
Revenue from external customers	215,586	1,523	12,721	405	3,336	-	233,571
Inter-segment revenue	30,476	-	-	-	-	(30,476)	-
Other revenue from external customers	3,688	15	28	(379)	737	-	4,089
Total revenue	249,750	1,538	12,749	26	4,073	(30,476)	237,660
Segment results	3,712	(1,001)	338	(3,147)	(114,092)		(114,190)
Unallocated expenses							(15,148)
Unallocated income							33
Interest income							763
Loss from operations							(128,542)
Finance costs							(2,971)
Loss before income tax							(131,513)

3 SEGMENTAL INFORMATION (Continued)

(a) Primary report format – business segments (Continued)

	(Unaudited)				
	Six months ended 30 September 2007				
	Paints, blended solvents and chemical materials HK\$'000	Plastic colorants HK\$'000	Service contract HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenue					
Revenue from external customers	156,501	7,680	5,522	–	169,703
Inter-segment revenue	26	–	–	(26)	–
Other revenue from external customers	4,140	1	–	–	4,141
Total revenue	160,667	7,681	5,522	(26)	173,844
Segment results	11,773	544	1,703		14,020
Unallocated expenses					(20,990)
Unallocated income					2,048
Interest income					1,418
Loss from operations					(3,504)
Finance costs					(2,337)
Loss before income tax					(5,841)

(b) Secondary report format – geographical segments

No geographical segment analysis is presented as less than 10% of the Group's turnover and contribution to operating profit is attributable to customers located outside the People's Republic of China ("PRC").

4 LOSS FROM OPERATIONS

Loss from operations is stated after charging the following items:

	(Unaudited) Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Share-based payments	6,801	13,452
Amortisation	44,733	336
Depreciation	7,669	5,334
Net realised and unrealised loss on derivative financial instruments	44,985	–
Net realised and unrealised loss on trading securities	12,971	–

5 INCOME TAX

	Note	(Unaudited) Six months ended 30 September	
		2008 HK\$'000	2007 HK\$'000
Hong Kong profits tax	(a)	260	316
PRC enterprise income tax	(b) & (c)	844	447
		1,104	763

Note:

- (a) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the period (2007: 17.5%).
- (b) Pursuant to relevant tax rules and regulations in the PRC, Beijing Arch Technology Co., Limited ("Beijing Arch"), a subsidiary of the Group, is subject to an enterprise income tax of 18%. For the period ended 30 September 2007, certain of the Group's PRC subsidiaries are subject to an enterprise income tax of 27% on the estimated assessable profits of the PRC subsidiaries for that period.
- (c) Pursuant to the PRC Enterprise Income Tax Law (the "New Law") passed by the Tenth National People's Congress on 16 March 2007, the new PRC income tax rates for domestic and foreign enterprises are unified at 25% effective from 1 January 2008. The enactment of the New Law is not expected to have any significant financial effect on the amounts accrued in the consolidated balance sheet in respect of taxation payable and deferred taxation.

The Group had no significant unprovided deferred taxation for the period and at 30 September 2008 (2007: Nil).

6 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2008 (2007: Nil).

7 LOSS PER SHARE

The calculation of basic and diluted loss per share for the six months ended 30 September 2008 are based on the consolidated loss attributable to equity holders of approximately HK\$110,593,000 (2007: loss of HK\$7,626,000).

The basis loss per share is based on the weighted average number of 1,718,259,890 shares in issue (2007: 950,765,048 shares) during the period.

Diluted loss per share for the six months ended 30 September 2008 is not presented as the exercise of the outstanding options, warrants and convertible bonds of the Company would have an anti-dilutive effect. The amount of diluted loss per share for the six months ended 30 September 2007 is the same as the basic loss per share as the effects of all potential ordinary shares are anti-dilutive.

8 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group has spent approximately HK\$35,541,000 (2007: HK\$12,006,000) on the acquisition of property, plant and equipment.

9 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Trade and bills receivables	137,751	118,699
Less: allowance for doubtful debts	(7,078)	(7,290)
	130,673	111,409
Other receivables, prepayments and deposits	47,950	54,553
	178,623	165,962

9 TRADE AND OTHER RECEIVABLES *(Continued)*

The Group operates a controlled credit policy and allows an average credit period of 30-120 days to its trade customers who satisfy the credit evaluation. Trade and bills receivables are stated at their nominal value as reduced by appropriate provision for irrecoverable amounts with their ageing analysis at the respective balance sheet dates as follows:

	(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Current	34,424	52,293
Less than 1 month past due	51,059	19,488
1 month to 3 months past due	17,957	21,486
More than 3 months but less than 1 year past due	19,207	15,966
Over 1 year past due	8,026	2,176
Amounts past due	96,249	59,116
	130,673	111,409

10 TRADE AND OTHER PAYABLES

	(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Trade and bills payables	92,396	21,675
Other payables and accruals	22,063	15,661
Amount due to a minority shareholder	9,990	9,990
	124,449	47,326

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

10 TRADE AND OTHER PAYABLES (Continued)

Trade and bills payables are stated at their nominal value with their ageing analysis at the respective balance sheet dates as follows:

	(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Less than 1 month	73,477	10,509
1 month to 3 months	16,848	7,906
More than 3 months but less than 1 year	2,071	3,260
	92,396	21,675

11 SHARE CAPITAL

	(Unaudited) 30 September 2008		Audited 31 March 2008	
	Number of share '000	Nominal value HK\$'000	Number of share '000	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	8,000,000	80,000	2,000,000	20,000
Issued and fully paid:				
Beginning of the period/year	1,295,155	12,952	872,656	8,727
Shares issued under share option scheme	–	–	77,440	775
Shares issued on exercise of warrants	–	–	76,926	769
Conversion of convertible bonds	–	–	203,226	2,032
Shares issued for business combination	–	–	64,907	649
Shares issued for the open offer	647,578	6,475	–	–
End of the period/year	1,942,733	19,427	1,295,155	12,952

12 CAPITAL COMMITMENTS

The Group had capital expenditure commitments in respect of investments in projects, properties under construction and acquisition of properties, plant and equipment as shown below:

	(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Contracted but not provided for		
– construction in progress	5,557	8,314
– property, plant and equipment	–	2,723
– acquisition of oil exploitation development project	–	117,000
	5,557	128,037

13 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following significant related party transactions:

	(Unaudited) Six months ended 30 September 2008 HK\$'000	30 September 2007 HK\$'000
Rental expenses paid to Luen Yat Enterprises Company Limited ("Luen Yat")	498	498
Rental expenses paid to Mr. Poon Sau Tin and Mr. Poon Sum	32	192

Mr. Poon Sau Tin has beneficial interest in the Company. Mr. Poon Sum is the director and has beneficial interest in the Company. Luen Yat is related to the Group by virtue of the interests of Mr. Poon Sau Tin and Poon Sum.

14 BUSINESS COMBINATIONS

- (a) As disclosed on 17 March 2008, the Group acquired 49% of a subsidiary, Easyrich Group Holdings Limited, from the shareholders. That is a business unit to operate the nano viscosity reducer. The pre-acquisition loss, approximately amounting to HK\$134,000, is accounted for as goodwill.
- (b) On 2 April 2008, the Group acquired the assets and liabilities of the hardener business of 順德市聯固化學工業有限公司(「聯固」) for a cash consideration of approximately RMB9,500,000. This business unit is a manufacturing unit to produce up stream chemical materials for industrial use. The difference between consideration and the fair value of the net assets value, approximately amounting to HK\$929,000, is accounted for as goodwill.

The acquisition had the following effect on the Group's assets and liabilities:
Acquiree's net assets at the acquisition date

	Carrying amount	Fair value
	HK\$'000	HK\$'000
Property, plant and equipment	578	578
Intangible assets	40	40
Inventories	3,707	3,707
Trade and other receivables	9,159	9,159
Cash and cash equivalents	2,879	2,879
Trade and other payables	(6,044)	(6,044)
Income tax payable	(410)	(410)
	<hr/>	<hr/>
Net identifiable assets	9,909	9,909
	<hr/>	<hr/>
Add: Goodwill		929
		<hr/>
Total consideration		10,838
		<hr/>
Satisfied by:		
Cash		10,838
		<hr/>
Net cash outflow arising from acquisition:		
Cash consideration paid		10,838
Less: Cash and cash equivalents acquired		(2,879)
		<hr/>
		7,959
		<hr/>

15 NON-ADJUSTING POST BALANCE SHEET EVENTS

On 25 September 2008 (after trading hours), the Group and Mr. Chan Wan Kim ("the Vendor") entered into a Sale and Purchase Agreement pursuant to which the Group has agreed to acquire 43% effective interest in Profit Success Group Limited and its subsidiaries ("target group") for a consideration of HK\$63,000,000. The target group held 80% interest in an exploration right of a vanadium (V_2O_5) mine that is located on a parcel of land of approximately 6.1 square kilometres in the Yuqing County, Xiaowujiang vanadium mining region. Upon the completion of the reorganisation, the target group will be the holder of the exploration right.

On 16 October 2008, the Group adopted a Share Award Scheme which has taken effect immediately. The purposes and objectives of the Share Award Scheme are to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group.

On 13 November 2008, the Board of Directors of the Company announced that it was proposed to change the English name of the Company from "China Oil Resources Holdings Limited" to "PetroAsian Energy Holdings Limited" and to change the Chinese name of the Company from "中油資源控股有限公司" to "中亞能源控股有限公司". This proposal had been approved by the shareholders at the extraordinary general meeting held on 18 December 2008. The Group is now aiming to develop an international platform in energy sector. The top management believed that the name of the Group should be changed to reflect the expanded scope of business and the business strategy of future development.

On 18 November 2008, the Group received a put notice from the paying agent in relation to the amount of HK\$40 million convertible bonds issued on 4 July 2007 held by Evolution Master Fund Ltd. SPC, Segregated Portfolio M. The bond holder required the Group to redeem the bonds and pay related interest. This payment will be made in January 2009. After that, the convertible bonds will come to an end and the Group will submit an application to the Stock Exchange for cancellation of the convertible bonds.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2008, the Group's turnover amounted to approximately HK\$233,571,000, representing an increase of 37.64% compared to the corresponding period of last year. The increase in turnover was mainly attributable to the acquisition of new customers in respect of the paints and oil solvent business as well as the capturing of revenue in relation to the oil exploitation business.

Notwithstanding the above, the Group has incurred a loss of approximately HK\$132,617,000 during the period under review (Loss for the six months ended 30 September 2007: HK\$6,604,000). Basic loss per share was HK6.44 cent (Loss per share for the six months ended 30 September 2007: HK0.8 cent). The Group's operating losses are mainly a result of the drop in gross profit margin in its manufacturing business as well as the effects of certain unrealized items. The drop in gross profit margin for plastic colorants, paints and solvents business is due to the extremely high oil price during the period under review. Both raw material and production costs increased sharply during the period whereas the Group could not simultaneously pass the increase in costs onto customers by increasing selling price.

During the period under review, the Group had moved its production plant in Dongguan to merge with the one in Zhongshan in order to centralise the paints and solvents business. The removal of plant serves to reduce the administrative and management costs previously incurred by both plants. As the market situation has become unstable and unforeseeable, the Group has tightened up its credit control policies for customers whose amounts outstanding have become long overdue. This is done to reduce the risk of debt recovery and to improve the cash flow position of the Group.

For the oil exploitation business, the joint venture in Qiqihar city is still under development and is continuously extracting oil. During the period under review, the Group had also completed the acquisition of another oil exploitation project in Qiqihar city. This acquisition reflects the objective of the Group to diversify into oil investments and to consolidate its natural and energy resources platform. On the management side, the Group had appointed Professor Kwong Ser Yuen, Albert as vice chairman and chief operating officer with effect from 1 July 2008. Mr. Kwong has over 30 years' experience in oil exploitation business. The Group is confident that Professor Kwong can take the lead in the running and supervision of the Group's existing oil exploitation business as well as all future potential business opportunities.

In connection with the contracting services under the paint business, the Archi Group continuously focuses on broadening the market channel in the North East China region. The Archi Group has benefited from various contracting projects associated with the Olympics Game held in Beijing this year. The Archi Group has contributed a satisfactory operating result during the period under review.

On the other hand, a number of realised and unrealised items have been charged to the income statement and these include the amortisation of oil exploitation right in the Qiqihar project amounting to approximately HK\$44,099,000, the grant of share options amounting to approximately HK\$6,801,000, the net realised and unrealised loss on trading securities of HK\$12,971,000 and the net realised and unrealised loss on currency options, fuel contracts and interest rate swaps amounting to HK\$44,985,000. The Group already made full provision on the above items and did not have exposure to other kinds of derivative financial instruments.

To meet tough challenges in the future, the Group continuously premised on the reinforcement of operating cash flow while keeping a close eye on potential investment opportunities.

BUSINESS OUTLOOK

The management understands that the financial turmoil will have a substantial impact on the global economy. It is expected that the global economy will suffer from downturn during the next several years. As a result of this, banks will tighten up credit control and there will unavoidably be a weakening the demand for commodities. The management takes a pessimistic view on both the global economy as well as the business outlook of the Group in the following six months.

The traditional paints and solvents market will be very tough and affected by fluctuations in raw material price and weakening of market demand. Although the Group has recorded a satisfactory turnover growth amounting to approximately HK\$63,868,000, representing a growth of 37.64%, the rate of growth may not be maintained in the following six months.

The newly acquired oil exploitation project in Qiqihar city, which is located in Fu 718 district, is now under the planning stage. It is expected that development of this new project will commence sometime during next year. Based on the positive development of the Fu 710 and Meilisi 723 districts, the management considers that the Group can capitalise on its operational experience in the above districts on the development of the new Joint Development Zone. It is expected that the output associated with the oil exploitation business will continuously increase in the future.

The Group is pleased to appoint Professor Kwong Ser Yuen, Albert as vice chairman and chief operating officer of the Group which took effect on 1 July 2008. Professor Kwong has over 30 years' experience in oil exploitation business. The Group is confident that Professor Kwong can take the lead in the running and supervision of the Group's existing oil exploitation business as well as all future potential business opportunities. The newly acquired oil exploitation project in Qiqihar city is now under the planning stage. It is expected that development of this new project will commence sometime during next year. Based on the positive development of the Fu 710 development zone in last year, the management considers that the Group can extend its operational experience in the region to the development of the new Joint Development Zone. It is expected that the output associated with the oil exploitation business will continuously increase in the future.

With the global oil price dropping continuously over the past several months, the Group is now considering making adjustments to the development plan to fit for the actual business and economic environment. The Group is committed to ensuring that its operation plans in respect of both the Fu 710 and Meilisi 723 districts are being met. At present, the Group has successfully drilled a total of 20 wells. The Group will keep on monitoring the output in respect of these wells in accordance with its

production plan. Additionally, the Group intends to enter into contractual arrangements with state-owned petroleum groups in the sales and distribution of its crude oil extracted from its oilfields. Furthermore, the Group plans to cooperate with these petroleum groups in the exploration and/or exploitation of overseas oilfields.

Going forward, it is expected that the global oil market will keep growing after the downturn. The persistently high and fast growing demand for oil and gas will provide continuous business development opportunities for the Group in the years to come. This emerging business line would not only furnish the Group with another source of income, but also present a good opportunity for it to tap into the oil exploitation industry globally. Based upon the results of a recent survey conducted by the Group, the downward trend in oil price will ultimately come to a halt due to the fact that a certain minimal production costs need to be incurred for oil drilling. For China, the management believes that her domestic economy will be able to keep up with its growth momentum on a continuous basis in the long run. As announced by the central government, funds in the aggregate value of RMB4,000 billion will be injected into the economy to help boost domestic demand. It is expected that demand for natural resources will overcome the threat of a recession. Through the Group's strong network of relationships within the oil industry, it is well positioned to benefit from the recovery of the economy in the foreseeable future.

FINANCIAL REVIEW

Working capital

As at 30 September 2008, the Group's net current assets were kept at approximately HK\$53,060,000 as compared to net current assets approximately HK\$127,817,000 as at 31 March 2008. The current ratio, being the proportion of total current assets against total current liabilities, was 1.17 (31 March 2008: 1.56). The decrease of ratio mainly reflects the outstanding convertible bonds which are expected to be redeemed in current year. The Directors consider that the present working capital level may be affected by the global financial turmoil and conservatively believe that it is sufficient to meet the upcoming operating needs.

Liquidity and Financial Resources

As at 30 September 2008, the Group had total outstanding borrowings of approximately HK\$22,015,000 (31 March 2008: HK\$53,687,000), cash and bank balances of approximately HK\$72,464,000 (31 March 2008: HK\$87,334,000) and total assets of approximately HK\$2,464,263,000 (31 March 2008: HK\$2,340,225,000). Current assets of the Group on the same date amounted to approximately HK\$356,287,000 (31 March 2008: HK\$356,838,000) whilst current liabilities were approximately HK\$303,227,000 (31 March 2008: HK\$229,021,000). The gearing ratio, calculated by dividing the total borrowings by the total assets, was equal to 0.01 as at 30 September 2008 (31 March 2008: 0.02).

The Group generally financed its operations with internally generated cash flows and general banking facilities. Through proper management of its treasury functions, the Group will continue to maintain sufficient funds to meet its operational requirements as well as future development needs.

Pledge of assets

As at 30 September 2008, certain of the Group's assets with a net book value of approximately HK\$61,945,000 (31 March 2008: HK\$45,385,000) were pledged to secure the banking facilities granted to the Group.

Exposure to foreign exchange risk and interest rate risk

The Group's business transactions are mainly denominated in Hong Kong dollars and Renminbi. Most interest bearing bank borrowings of the Group are on floating rate basis. Foreign currency exposure is monitored closely by management and hedged by forward foreign currency contracts. The Group also uses derivative financial instruments to manage interest rate exposures for hedging purpose only.

DISCLOSURES PURSUANT TO RULES 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of rule 13.21 of the Listing Rules, the Company makes the following disclosures in relation to the details of the Facility Letter (as defined below), which includes conditions relating to specific performance of the controlling shareholder of the Company:-

The Group has accepted a facility letter dated 25 September 2008 (the "Facility Letter") issued by a bank in Hong Kong (the "Bank") in relation to various working capital facilities up to the aggregate amount of HK\$93,440,000 including term loans facility up to HK\$60,440,000 (collectively, the "Facilities") for two subsidiaries. The Facilities are subject to periodic review by the Bank at its sole discretion.

Under the provisions of the Facility Letter, the Company undertakes to secure the liabilities of the subsidiaries covered by the facilities. Other than the assets to be pledged, the key conditions, among other things, that (1) Mr. Poon Sum, Mr. Poon Sau Tin and their family members shall collectively maintain at least 23% of the issued share capital of the Company; (2) Mr. Poon Sum shall remain as Chairman or Chief Executive Officer of the Group and shall be actively involved in the management and business of the Group and 3) Mr. Poon Sum, Mr Poon Sau Tin and their family members shall remain the single largest shareholder of the Company. There is no significant change in conditions that was already disclosed previously. Should there be any breach of such conditions, the Bank shall have the right to demand for repayment of all outstanding amounts due by the Group under the Facilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2008 the Group had an aggregate of 509 employees (30 September 2007: 517) of which about 493 employees located in mainland China while the rest were based in Hong Kong and Macau. Employees' remuneration package includes salary, bonus and share options. Under the Group's remuneration policy, employees are rewarded on the basis of merits and market conditions and in accordance with the statutory requirements of the respective jurisdiction where the employees are engaged.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

At 30 September 2008, the interests of the directors and chief executive and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise 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 Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Name	Capacity	Nature of Interest	Number of Shares held	Equity Derivative	Total Interest	Total % of Issued Shares
Directors:						
Mr. Poon Sum	Beneficial Owner	Personal Interest (Notes 1 & 2)	115,554,453	57,629,537	582,461,427	29.98%
	Founder of a Discretionary Trust	Other Interest (Note 1 & 3)	377,794,558	31,482,879		
Mr. Wong Kwok Leung	Beneficial Owner	Personal Interest (Notes 1 & 4)	16,285	101,357	117,642	0.01%
Mr. Poon Wai Kong	Beneficial Owner	Personal Interest (Note 1 & 5)	1,200,000	13,000,000	14,200,000	0.73%
Mr. Chen Lizhong	Beneficial Owner	Personal Interest (Notes 1 & 6)	5,394,000	5,449,500	10,843,500	0.56%
Ms. Chew Lye Yin	Beneficial Owner	Personal Interest (Note 1 & 7)	10,000,000	833,333	10,833,333	0.56%
Mr. Chan Shu Kin	Beneficial Owner	Personal Interest (Notes 1 & 8)	1,050,000	767,500	1,817,500	0.09%
Mr. Chan Kam Ching, Paul	Beneficial Owner	Personal Interest (Notes 1 & 9)	1,200,000	780,000	1,980,000	0.10%
Mr. Cheung Kwan Hung	Beneficial Owner	Personal Interest (Notes 1 & 8)	1,050,000	767,500	1,817,500	0.09%
Chief Executive:						
Mr. Leung Kam Lung Danny	Beneficial Owner	Personal Interest (Notes 1 & 10)	-	12,950,000	12,950,000	0.67%

Notes:

- All interests in shares and underlying shares of equity derivatives of the Company are long positions.
- All interests in underlying shares of equity derivatives of the Company are interests in warrants of the Company (the "Warrants") which conferred rights to subscribe for 9,629,537 shares at an initial subscription price of HK\$0.48 per share (subject to adjustment) exercisable during the period from 17 October 2008 to 16 October 2011 and interests in share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 14 September 2007 to 13 September 2009 to subscribe for 48,000,000 shares at an adjusted exercise price of HK\$0.933 per share. The grant of the share options was approved by the shareholders at the extraordinary general meeting held on 16 October 2007.

3. All interests in underlying shares of equity derivatives of the Company are interests in the Warrants. These shares and Warrants are held by Ever Source Enterprises Limited ("Ever Source"). The issued share capital of Ever Source is beneficially owned as to 50% by Time Concord Limited ("Time Concord"), a company incorporated in the British Virgin Islands ("BVI") and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sum, and as to 50% by Guidance Investments Limited ("Guidance"), a company incorporated in the BVI and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sau Tin, the elder brother of Mr. Poon Sum. Accordingly, Mr. Poon Sum will be deemed to be interested in 377,794,558 shares, representing approximately 19.45% of the Company's shares in issue as at 30 September 2008, through his shareholding in Ever Source.
4. All interests in underlying shares of equity derivatives of the Company are interests in the Warrants which conferred rights to subscribe for 1,357 shares and interests in share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 13 August 2004 to 12 August 2014 to subscribe for 100,000 shares at an adjusted exercise price of HK\$0.251 per share.
5. All interests in underlying shares of equity derivatives of the Company are interests in the Warrants which conferred rights to subscribe for 100,000 shares and share options of the Company granted under the share option scheme of the Company which may be exercised in 2 tranches of 50% each during the period from 28 July 2008 and 28 January 2009 to 27 July 2009 to subscribe for 12,900,000 shares at an exercise price of HK\$0.31 per share.
6. All interests in underlying shares of equity derivatives of the Company are interests in the Warrants which conferred rights to subscribe for 449,500 shares and share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 28 July 2008 to 27 July 2009 to subscribe for 5,000,000 shares at an exercise price of HK\$0.31 per share.
7. All interests in underlying shares of equity derivatives of the Company are interests in the Warrants which conferred rights to subscribe for 833,333 shares.
8. All interests in underlying shares of equity derivatives of the Company are interests in the Warrants which conferred rights to subscribe for 87,500 shares and share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 14 September 2007 to 13 September 2009 to subscribe for 680,000 shares at an adjusted exercise price of HK\$0.933 per share.
9. All interests in underlying shares of equity derivatives of the Company are interests in the Warrants which conferred rights to subscribe for 100,000 shares and share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 14 September 2007 to 13 September 2009 to subscribe for 680,000 shares at an adjusted exercise price of HK\$0.933 per share.
10. All interests in underlying shares of equity derivatives of the Company are interests in the share options of the Company granted under the share option scheme of the Company which may be exercised in 2 tranches of 50% each during the period from 28 July 2008 and 28 January 2009 to 27 July 2009 to subscribe for 12,950,000 shares at an exercise price of HK\$0.31 per share.

Save as disclosed above, at 30 September 2008, none of the directors and chief executive of the Company had held any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (as defined in Part XV of the SFO) as recorded in the register 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 Securities Transactions by Directors of Listed Companies.

SHARE OPTIONS

Pursuant to the Company's share option scheme, employees, executive and non-executive directors, officers, advisers and consultants of the Group may be granted options to subscribe for the shares of the Company. Details of the share options outstanding as at 30 September 2008 were as follows:

Participants	Date of grant	Exercise price per share HK\$	Exercise period	Number of options				Price of Company's shares		
				Outstanding at 1 April 2008	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding	For options	
								at 30 September 2008	granted	exercised
								HK\$ (Note 1)	HK\$ (Note 2)	
Directors										
Mr. Poon Sum	14/09/2007	0.933 (adjusted)	14/09/2007 to 13/09/2009	48,000,000	-	-	-	48,000,000	-	-
Mr. Wong Kwok Leung	13/08/2004	0.251 (adjusted)	13/8/2004 to 12/8/2014	100,000	-	-	-	100,000	-	-
Mr. Poon Wai Kong	28/07/2008	0.310	28/07/2008 to 27/07/2009	-	12,900,000	-	-	12,900,000	0.310	-
Non-executive Director										
Mr. Chen Lizhong	28/07/2008	0.310	28/07/2008 to 27/07/2009	-	5,000,000	-	-	5,000,000	0.310	-
Independent Non-executive Directors										
Mr. Chan Shu Kin	14/09/2007	0.933 (adjusted)	14/09/2007 to 13/09/2009	680,000	-	-	-	680,000	-	-
Mr. Chan Kam Ching, Paul	14/09/2007	0.933 (adjusted)	14/09/2007 to 13/09/2009	680,000	-	-	-	680,000	-	-
Mr. Cheung Kwan Hung	14/09/2007	0.933 (adjusted)	14/09/2007 to 13/09/2009	680,000	-	-	-	680,000	-	-
Chief Executive										
Mr. Leung Kam Lung Danny	28/07/2008	0.310	28/07/2008 to 27/07/2009	-	12,950,000	-	-	12,950,000	0.310	-
Employees in Aggregate										
	24/11/2003	0.260 (adjusted)	24/11/2003 to 23/11/2008	1,000,000	-	-	-	1,000,000	-	-
	19/11/2007	1.019 (adjusted)	19/11/2007 to 18/11/2008	37,000,000	-	-	-	37,000,000	-	-
	28/07/2008	0.310	28/07/2008 to 27/07/2009	-	55,950,000	-	-	55,950,000	0.310	-
			Total	88,140,000	86,800,000	-	-	174,940,000		

Notes:

1. The price of the Company's shares disclosed for options granted is the closing price of the shares immediately before the date on which the options were granted.
2. The price of the Company's shares disclosed for options exercised is the weighted average closing price of the shares immediately before the dates on which the options were exercised.
3. The fair value of the share options is calculated by Trinomial Model with reference to similar period and risk free rate of Exchange Fund Bills issued by Hong Kong Monetary Authority. The fair value is calculated with regard to the subjectivity and uncertainty of the value of options to the effect that such values are subject to a number of assumptions and with regard to the limitation of the model.

Save as disclosed above, none of the directors, or their spouse or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30 September 2008, the interests of the shareholders, not being a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Nature of Interests	Number of Shares held	Equity Derivative	Total Interest	Total Interest as Percentage Of Issued Shares
BNP Paribas Jersey Trust Corporation Limited ("BNP Paribas Jersey")	Trustee	Other Interest (Notes 1,2,3&4)	377,794,558	31,482,879	409,277,437	21.07%
Ground Point Limited ("Ground Point")	Interest of Controlled Corporation	Corporate Interest (Notes 1,2,3&4)	377,794,558	31,482,879	409,277,437	21.07%
Red Tiles Limited	Interest of Controlled Corporation	Corporate Interest (Notes 1,2,3&4)	377,794,558	31,482,879	409,277,437	21.07%
Guidance	Interest of Controlled Corporation	Corporate Interest (Notes 1,2,3&4)	377,794,558	31,482,879	409,277,437	21.07%
Time Concord	Interest of Controlled Corporation	Corporate Interest (Notes 1,2,3&4)	377,794,558	31,482,879	409,277,437	21.07%
Ever Source	Beneficial Owner	Corporate Interest (Notes 1,2,3&4)	377,794,558	31,482,879	409,277,437	21.07%
Mr. Poon Sau Tin	Beneficial Owner	Personal Interest (Notes 1)	46,224,453	3,852,037	459,353,927	23.64%
	Founder of a Discretionary Trust	Other Interest (Notes 1,2,3&4)	377,794,558	31,482,879	-	
Mr. Chan Wan Kim	Beneficial Owner	Personal Interest	238,888,888	-	238,888,888	12.30%

Notes:

- All interests in shares and underlying shares of equity derivatives of the Company are long position. All interest in underlying shares of equity derivatives of the Company are interests in Warrants.
- All interests of BNP Paribas Jersey, Ground Point, Red Tiles, Guidance, Time Concord and Ever Source and the other interest of Mr. Poon Sau Tin were duplicated.
- BNP Paribas Jersey is deemed to be interested in the shares and Warrants in the capacity of a trust through interests of corporations controlled by it as follows:-

Name of Controlled Corporation	Name of Controlling Shareholders	Percentage Control
Ground Point	BNP Paribas Jersey	100%
Red Tiles	BNP Paribas Jersey	100%
Guidance	Ground Point	100%
Time Concord	Red Tiles	100%
Ever Source	Guidance	50%
Ever Source	Time Concord	50%

4. These shares and Warrants are held by Ever Source. The issued share capital of Ever Source is beneficially owned as to 50% by Time Concord, a company incorporated in the BVI and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sum, and as to 50% by Guidance, a company incorporated in the BVI and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sau Tin, the elder brother of Mr. Poon Sum. Accordingly, each of Mr. Poon Sum and Mr. Poon Sau Tin will be deemed to be interested in 377,794,558 shares, representing approximately 19.45% of the Company's shares in issue as at 30 September 2008, because each of them is the respective founder of the aforesaid two discretionary trusts which indirectly own 50% beneficial interest in Ever Source respectively.

Save as disclosed above, there was no person known to the directors of the Company, other than a director of the Company, who as at 30 September 2008 had an interest or short position in the shares or underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors has an interest in a business which competes or may compete with the business of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2008.

CORPORATE GOVERNANCE

The Group has adopted the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules which came into effect on 1 January 2005. During the period, the Code had been duly complied except for the deviation as follows:

Code Provision A4.1 requires that the non-executive directors should be appointed for a specific term and subject to re-election. The Company does not fully comply with the code that the Non-executive Directors and the Independent Non-executive Directors ("INEDs") of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Grant Thornton Specialist Services Limited has been engaged by the Board of Directors of the Company to carry out a risk assessment of the Group and establish a 3-years' internal audit plan. The Group has been diversified into difference business segments. The objectives of the risk assessment are: (1) to identify and analyse the critical business risks that may pose threat to the Company as a whole; (2) to assess the significance and likelihood of the risks qualitatively and quantitatively; and (3) to prioritize those risks and develop the 3-years' Internal Audit Plan that stipulates the scope of work and schedule in managing these risks.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Chan Shu Kin, Mr. Chan Kam Ching, Paul, and Mr. Cheung Kwan Hung, the INED of the Company. The objectives of the Audit Committee are to review and oversee the Group's financial reporting and internal control systems.

During the period under review, the Audit Committee has reviewed with the Company's management the unaudited interim report before it was approved by the Board.

COMPLIANCE WITH THE MODEL CODE

The Group 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. All Directors have confirmed, following specific enquiry by the Group that they have fully complied with the required standard set out in the Model Code throughout the review period.

By Order of the Board

Poon Sum
Chairman

Hong Kong, 23 December 2008

As at the date of this report, the board comprises Mr. Poon Sum, Mr. Wong Kwok Leung and Mr. Poon Wai Kong as executive Directors; Mr. Chen Lizhong and Ms. Chew, Lye Yin, Ruth as non-executive Directors; Mr. Chan Shu Kin, Mr. Chan Kam Ching, Paul and Mr. Cheung Kwan Hung as independent non-executive Directors.