



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

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



**2009**  
**INTERIM**  
**REPORT**

*\*For identification purposes only*

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. WANG Jian Sheng  
Mr. YAO Guoliang  
Mr. WONG Wing

### Independent Non-executive Directors

Mr. ZHU Yao Bin  
Mr. LAU Hon Kee  
Ms. LIN Yan

## BOARD COMMITTEES

### Audit Committee

Mr. LAU Hon Kee  
(Committee Chairperson)  
Mr. ZHU Yao Bin  
Ms. LIN Yan

### Remuneration Committee

Ms. LIN Yan (Committee Chairperson)  
Mr. LAU Hon Kee  
Mr. WANG Jian Sheng

## COMPANY SECRETARY

Mr. PANG Man Chun Manson, CPA

## AUTHORISED REPRESENTATIVES

Mr. WONG Wing  
Mr. PANG Man Chun Manson

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1604, 16th Floor,  
Far East Finance Centre  
16 Harcourt Road  
Admiralty  
Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu

## LEGAL ADVISOR

Sidley Austin

## COMPLIANCE ADVISOR

China Everbright Capital Limited

# Corporate Information

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman)  
Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
Grand Cayman  
KY1-007  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
26/F, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## PRINCIPAL BANKERS

The Bank of Tokyo-Mitsubishi UFJ Ltd.  
Singapore Branch

China Construction Bank (Macau)  
Corporation Ltd.

Société Générale  
Singapore Branch

Standard Chartered Bank (Hong Kong)  
Limited

Rabobank International  
Singapore Branch

## WEBSITE

[www.strongpetrochem.com](http://www.strongpetrochem.com)

## STOCK CODE

852

# Management Discussion and Analysis

## BUSINESS REVIEW

The Group is principally engaged in the trading of oil products. 89.6% of the Group's revenue is generated from trading of crude oil for the six months ended 30 September 2009 (84.6% for the six months ended 30 September 2008). The remaining revenue is generated from trading of petroleum products and petrochemical products.

### Demand in PRC

Aiming at preventing the economy from the recessive impact of the global financial crisis, the PRC Government had launched stimulus packages at the beginning of this year. The prime objective of the packages is to maintain the GDP at a 8% growth for 2009. Induced by the packages, the domestic demand for oil products has been steadily increasing in the months forward. However, the recent raise in the price of petroleum product has, to some extent, neutralized such increasing trend on the domestic demand of oil products.

### Acquisition of Vessel

Pursuant to a vessel purchase agreement dated 20 April 2009, the Group completed the acquisition of an oil tanker (the "Vessel") from an independent third party on 29 June 2009. During the period, a total of US\$14.4 million has been paid. The remaining balance of US\$9.6 million is payable by the end of December 2009. The Vessel is a single hulled oil tanker built in 1988 with a gross tonnage of approximately 142,639 metric tons and deadweight of approximately 265,243 metrics tons. Currently, approximately 2/3 of the capacity is for self storage of oil products. The remaining 1/3 of capacity is sublet to an external customer charging at a competitive market rate. The self storage facility provided by the Vessel is in line with our strategy on the expansion of our principal trading activity, it also broadened the revenue base and strengthening customers' relationships with value added services.

### Bank Facilities

After the completion of the acquisition of the Vessel, a new banking facility of US\$80 million has been granted to finance the inventory procurement. During the period, the total credit facilities granted has increased by approximately HK\$624 million from HK\$1,927 million to HK\$2,551 million. The increase of credit facilities of the Group has elevated our trading capacity and loosened our cash on margin requirement.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

Products	Units	2009			2008		
		Number of shipment	Sales quantity	Turnover HK\$ million	Number of shipment	Sales quantity	Turnover HK\$ million
Crude oil	BBL	13	4,145,574	2,115.3	9	4,442,321	3,869.7
Petroleum products	BBL	1	293,877	144.4	3	497,740	629.7
Petrochemical products	MT	6	16,874	102.3	3	8,751	75.0
Total		<u>20</u>		<u>2,362.0</u>	<u>15</u>		<u>4,574.4</u>

Revenue for the six months period ended 30 September 2009 was approximately HK\$2,362.0 million, representing a decrease of 48.4% when compared to approximately HK\$4,574.4 million for the same period of last year. The decrease of revenue was contributed by the fall in international crude oil price. In the 2nd and 3rd quarters of 2008, the international crude oil was trading at the highest price which is over US\$100 per barrel. However, in the same period of 2009, the international crude oil price was trading at around US\$70 per barrel. The average price difference is in the range of US\$40 to US\$50 per barrel.

### Cost of Sales

Cost of sales for the six months period ended 30 September 2009 was approximately HK\$2,120.7 million, representing a decrease of 54.2% when compared to HK\$4,630.6 million for the same period of last year. Such decrease was in line with the decrease in revenue.

# Management Discussion and Analysis

## Gross Profit

Gross profit for the six months period ended 30 September 2009 was approximately HK\$241.3 million, representing a 528.6% increase when compared to HK\$56.3 million of loss for the same period of last year. The Group had suffered losses on three physical cargoes during the same period of last year as the international oil price fell sharply after peaking at US\$147 per barrel.

## Fair Value Changes on Derivative Financial Instruments

During the period, the aggregate loss on fair value changes on derivative financial instruments was amounted to approximately HK\$79.2 million. For the same period in 2008, there was an aggregate gain of HK\$89.1 million.

## Profit for the Period

Profit for the six months period ended 30 September 2009 was approximately HK\$95.0 million, representing an increase of HK\$86.8 million when comparing with HK\$8.2 million in the six months period ended 30 September 2008.

## LIQUIDITY AND FINANCIAL RESOURCE

The bank balances and cash as at 30 September 2009 was amounted to HK\$299.8 million which is increased by approximately 31.4% when comparing with HK\$228.1 million as at 31 March 2009.

The banking facilities as at 30 September 2009 amounted to US\$327 million (equivalent to HK\$2,551 million), which was increased by US\$80 million when comparing with US\$247 million (equivalent to HK\$1,927 million) as at 31 March 2009. Save for the Group's bank borrowings of approximately HK\$507.8 million, the Group had no bank overdraft as at 30 September 2009.

Net cash used in operating activities for the period ended 30 September 2009 was approximately HK\$209.7 million. Net cash used in investing activities was approximately HK\$229.4 million and was used as acquisition of the Vessel, pledged bank deposit and deposits placed with brokers. The main financing activity is the bank borrowings for inventory procurement.

# Management Discussion and Analysis

## Gearing Ratio

As at 30 September 2009, the current ratio of the Group was 1.32 (2.41 as at 31 March 2009) and the gearing ratio was 0.73 (Nil as at 31 March 2009). The calculation of gearing ratio was based on the total bank borrowings over the total equity. The increase in gearing ratio is mainly contributed by the increase in bank borrowings for inventory procurement.

## Charges of Assets and Contingent Liabilities

As at 30 September 2009, the Group's banking facilities were secured by pledged deposits of approximately HK\$97.0 million, pledged inventories of approximately HK\$472.7 million and properties with carrying value of approximately HK\$1.3 million. As at 30 September 2009, the Group had no significant contingent liabilities.

## Foreign Exchange Exposure

The functional currencies of the Group are denominated in US dollars. The reporting currencies are denominated in Hong Kong Dollars. Since the exchange rate of US dollars against Hong Kong dollars is relatively stable during the period, the exposure on foreign exchange is minimal.

## Capital Commitments

The Group had authorized but not contracted for the capital expenditure of approximately RMB94.3 million in respect of the construction of the petroleum and petrochemical products storage facilities on the two leasehold land parcel acquired in Nantong, Jiangsu Province, the PRC.

Pursuant to minutes of the board of directors of Sinochem Tianjin Port Petrochemical Terminal Co., Ltd. dated 28 February 2008, the shareholders of this Group's associate agreed to increase the total registered share capital of this Group's associate from RMB300 million to RMB628 million. The Group will pay an additional contribution of approximately RMB49.2 million. During the period, a contribution of approximately RMB29.5 million has been paid. As at 30 September 2009, the outstanding contribution is amounted to RMB19.7 million.



# Management Discussion and Analysis

## Use of IPO Proceeds

Nantong project is the development of storage of petrochemical and petroleum products business in Nantong City, Jiangsu Province, the PRC. Nantong project is carried out by Strong Petrochemical (Nantong) Logistics Co., Ltd., an indirect wholly owned subsidiary of the Company. As at 30 September 2009, the improvements on the foundation and ground works of the Nantong project have been completed and the schedule of the Nantong project is being reviewed and reassessed by the management. The management saw that revisions of the project could make more comprehensive storage service provision to potential customers and higher future cash inflow possible. Up to 30 September 2009, the total capital expenditure is amounted to RMB26.2 million. The application for petroleum products storage operation licence will be submitted upon the completion of the entire Nantong project.

The Tianjin project is the establishment and operation of storage facilities for crude oil, petroleum products and petrochemical products located in Tianjin Nanjiang Port Zone. It is carried out by Sinochem Tianjin Port Petrochemical Terminal Co., Ltd. (the "Tianjin Company"). An indirect wholly owned subsidiary of the Company holds 15% interest of the Tianjin Company. The Tianjin project is still undergoing the first phase construction. A total of 14 storage tanks have been delivered to the construction site. The preparation works on tank base as well as the rust proof work have been completed. All 14 tanks are ready for installation. During the period, a contribution of approximately RMB29.5 million has been injected by the Group to finance the first phase construction. The Group's total investment in the Tianjin project up to 30 September 2009 was RMB74.5 million.

# Management Discussion and Analysis

## Internal Control Review

The Group has conducted periodical review on its internal control system to ensure that it is sound and effective. Appropriate policies and procedures have been established to identify, evaluate and manage the risks in order to safeguard the Group's assets and shareholders' interest, to maintain proper accounts and to ensure compliance with rules and regulations.

During the period, the board of directors (the "Board") conducted a high level review on the effectiveness of the internal control system of the Group and the management is following up with the recommendations.

In addition to the internal control review conducted by the Board, an independent risk advisory consultant (one of the four largest accountancy and professional services firms) is appointed to perform risk assessment procedures in respect of our risk management functions in relating to the policies and procedures of the hedging activities for the six months ended 30 September 2009. Quarterly reports on the results of assessment and recommendations were provided to the management, the Audit Committee and subsequently the Board.

The Audit Committee considered that there was no significant breach of limits or risk management policies that would bring to the attention of the Board. The Board, with the management, is following up the recommendations provided by our review team and independent risk advisory consultant to enhance the risk management frameworks and procedures of the Company.

# Management Discussion and Analysis

## OUTLOOK

Looking ahead, the Group maintains a prudent attitude in development of our core business. Vast experience in the industry and agile responsiveness in trade are our wealth and resource in fulfilling our customers' demand for our reasonable return. The acquisition of the Vessel will further elevate the strengths of the Group in facing challenges emerged from the ever-changing markets and transient opportunities.

## INTERIM DIVIDENDS

On 23 November 2009, the Board declared an interim dividend of HK3 cents per share will be paid to the shareholders of the Company whose names appear in the Register of Members on 11 December 2009.

## EMPLOYMENT AND REMUNERATION POLICY

At 30 September 2009, the Group had 25 employees. The Group implemented its remuneration policy, bonus and share options schemes based on the achievements and performance of employees.

An remuneration committee has been established by the Company to make recommendations on the Company's remuneration policy.

## Other Information

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 to 11 December 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all valid documents in respect of transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share register, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 8 December 2009.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the listed securities of the Company during the six months period ended 30 September 2009.

### SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, the following person (not being a director or a chief executive of the Company) have interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Name of shareholder	Nature of interest	Total Number of shares	Percentage of shareholding %
Forever Winner	Beneficial Owner	1,200,000,000 (L)	74.79
International Ltd		479,840,000 (S)	29.91

Note: (L) Long position  
(S) Short position

Each of Sino Century Holdings Limited and Jin Yao Holdings Ltd holds 50% of the entire issued share capital of Forever Winner International Ltd. Mr. Wang holds the entire issued share capital of Sino Century Holdings Limited. Mr. Yao holds the entire issued share capital of Jin Yao Holdings Ltd.

Saved as disclosed above, the register required to be kept under section 336 of the SFO shows that as at 30 September 2009, the Company had not been notified of any other person who had an interest or short position in the shares and underlying shares of the Company.

## Other Information

### DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES

As at 30 September 2009, the interest and short positions of the directors and chief executives in the shares and underlying shares of the Company its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

#### Ordinary shares of HK\$0.025 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company (%)
Mr. Wang Jian Sheng (Note)	Interest of a controlled corporation	1,200,000,000 (L) 479,840,000 (S)	74.79 29.91
Mr. Yao Gaoliang (Note)	Interest of a controlled corporation	1,200,000,000 (L) 479,840,000 (S)	74.79 29.91
Mr. Wong Wing	Beneficial owner	1,600,000 (L)	0.10
Ms. Lin Yan	Beneficial owner	480,000 (L)	0.03
Mr. Zhu Yao Bin	Beneficial owner	480,000 (L)	0.03

Note: (L) Long position  
(S) Short position

Each of Sino Century Holdings Limited and Jin Yao Holdings Ltd holds 50% of the entire issued share capital of Forever Winner International Ltd. Mr. Wang holds the entire issued share capital of Sino Century Holdings Limited. Mr. Yao holds the entire issued share capital of Jin Yao Holdings Ltd.

## Other Information

### SHARE OPTIONS

Information in respect to the share option scheme of the Company as required by the Listing Rules is as follows:

Eligible participants	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy) <i>(Note a)</i>	Exercise price HK\$	Number of share options granted during the period	Number of share options exercised during the period	Number of share options outstanding at 30/9/2009
<b>Executive director</b>						
Mr. Wong Wing	7/5/2009	8/5/2009 - 28/11/2018	0.645	8,000,000	1,600,000	6,400,000
<b>Independent non-executive directors</b>						
Mr. Lau Hon Kee	7/5/2009	8/5/2009 - 28/11/2018	0.645	1,200,000	—	1,200,000
Ms. Lin Yan	7/5/2009	8/5/2009 - 28/11/2018	0.645	1,200,000	480,000	720,000
Mr. Zhu Yao Bin	7/5/2009	8/5/2009 - 28/11/2018	0.645	1,200,000	480,000	720,000
<b>Subtotal of directors</b>				<u>11,600,000</u>	<u>2,560,000</u>	<u>9,040,000</u>
<b>Employees</b>	7/5/2009	8/5/2009 - 28/11/2018	0.645	14,000,000	1,280,000	12,720,000
<b>Others (Note b)</b>	7/5/2009	8/5/2009 - 28/11/2018	0.645	<u>134,400,000</u>	<u>640,000</u>	<u>133,760,000</u>
<b>Total</b>				<u><u>160,000,000</u></u>	<u><u>4,480,000</u></u>	<u><u>155,520,000</u></u>

Notes:

- a) The eligible participants shall exercise the share options during the following periods:
  - (i) 40% of the share options from 8 May 2009;
  - (ii) another 30% of the share options from 8 May 2010;
  - (iii) the remaining 30% of the share options from 8 May 2011, and in each case, not later than 28 November 2018.
- b) Others represent individuals associated with suppliers and consultants.

## Other Information

### AUDIT COMMITTEE

The Audit Committee has been established to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises all of the three independent non-executive directors, namely, Mr. Lau Hon Kee (Chairman), Mr. Zhu Yao Bin and Ms. Lin Yin. The unaudited interim results of the Group for the six months ended 30 September 2009 have been reviewed by the Audit Committee.

### COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) for the period.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors of the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code for the period.

### SALE OF EXISTING SHARES

Subsequently on 9 October 2009, Forever Winner International Ltd. (“Forever Winner”) sold a total of 160,000,000 shares of the Company to independent third parties. Each of Sino Century Holdings Limited (“Sino Century”) and Jin Yao Holdings Ltd. (“Jin Yao”) holds 50% of the entire issued share capital of Forever Winner. Mr. Wang Jian Sheng holds the entire issued share capital of Sino Century. Mr. Yao Guoliang holds the entire issued share capital of Jin Yao.

## Other Information

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules during the six months ended 30 September 2009.

By the order the Board

**Wang Jian Sheng**

*Chairman*

Hong Kong, 23 November 2009



# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2009

	NOTES	Six months ended 30 September	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Revenue		2,362,047	4,574,373
Cost of sales		(2,120,710)	(4,630,633)
Gross profit (loss)		241,337	(56,260)
Other income		13,223	3,071
Fair value changes on derivative financial instruments		(79,216)	89,070
Fair value changes on held for trading investments		—	(1,998)
Administrative and other expenses		(76,161)	(22,900)
Finance costs	4	(4,091)	(2,739)
Share of (loss) profit of an associate		(129)	13
Profit before taxation		94,963	8,257
Taxation	5	—	(98)
Profit for the period	6	94,963	8,159
<b>Other Comprehensive income</b>			
Exchange differences arising on translation		375	1,547
Total comprehensive income for the period		95,338	9,706
Earnings per share	8		
Basic (HK cents)		5.93	0.68
Diluted (HK cents)		5.74	0.68

# Condensed Consolidated Statement of Financial Position

At 30 September 2009

	NOTES	30 September 2009 HK\$'000 ( <i>unaudited</i> )	31 March 2009 HK\$'000 ( <i>audited</i> )
<b>Non-current assets</b>			
Property, plant and equipment		191,037	8,348
Prepaid lease payments		20,806	20,876
Available-for-sale investments		392	392
Bank structured deposit		18,376	17,496
Interest in an associate		84,104	50,420
		<u>314,715</u>	<u>97,532</u>
<b>Current assets</b>			
Inventories held for sales		529,374	—
Prepaid lease payments		438	435
Trade and bills receivables	10	539,350	460,747
Other receivables, deposits and prepayments		1,922	3,740
Amount due from an oil trading company		—	5,528
Deposits placed with brokers		101,828	75,289
Pledged bank deposits		97,029	41,476
Bank balances and cash		299,767	228,149
		<u>1,569,708</u>	<u>815,364</u>
<b>Current liabilities</b>			
Trade and bills payables	11	565,712	280,090
Other payables and accruals		85,658	16,656
Bank borrowings	12	507,763	—
Derivative financial instruments		14,067	29,636
Tax payable		12,405	12,405
		<u>1,185,605</u>	<u>338,787</u>
<b>Net current assets</b>		<u>384,103</u>	<u>476,577</u>
<b>Total assets less current liabilities</b>		<u><u>698,818</u></u>	<u><u>574,109</u></u>

# Condensed Consolidated Statement of Financial Position

At 30 September 2009

	NOTE	<b>30 September 2009 HK\$'000 (unaudited)</b>	31 March 2009 HK\$'000 (audited)
<b>Equity</b>			
Share capital	13	<b>40,112</b>	40,000
Reserves		<b>658,706</b>	534,109
<b>Total equity</b>		<b>698,818</b>	574,109

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2009

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i> <i>(Note a)</i>	Legal reserve <i>HK\$'000</i> <i>(Note b)</i>	Share options reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2008 (audited)	78	—	—	49	—	1,703	232,775	234,605
Profit for the period	—	—	—	—	—	—	8,159	8,159
Exchange differences arising on translation	—	—	—	—	—	1,547	—	1,547
Total comprehensive income for the period	—	—	—	—	—	1,547	8,159	9,706
Balance at 30 September 2008 (unaudited)	78	—	—	49	—	3,250	240,934	244,311

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2009

	Share capital	Share premium	Special reserve	Legal reserve	Share options reserve	Translation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2009 (audited)	40,000	197,216	(1,922)	49	—	2,717	336,049	574,109
Profit for the period	—	—	—	—	—	—	94,963	94,963
Exchange differences arising on translation	—	—	—	—	—	375	—	375
Total comprehensive income for the period	—	—	—	—	—	375	94,963	95,338
Recognition of equity-settled share-based payments	—	—	—	—	26,481	—	—	26,481
Issue of shares on exercise of share options	112	4,632	—	—	(1,854)	—	—	2,890
<b>Balance at 30 September 2009 (unaudited)</b>	<b>40,112</b>	<b>201,848</b>	<b>(1,922)</b>	<b>49</b>	<b>24,627</b>	<b>3,092</b>	<b>431,012</b>	<b>698,818</b>

Note:

- Special reserve represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the corporate reorganisation to rationalise the Group structure prior to the listing of the Company's share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
- According to the law and regulation of Macao Special Administrative Region, a legal reserve is required to be established up to a minimum of 50% of the company's paid up capital and is established in any year in which a dividend is appropriated. A subsidiary of the Company established in Macao appropriated a final dividend for the year ended 31 March 2006 to its shareholder, as a result, 50% of the issued capital MOP100,000 was transferred to the legal reserve.

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2009

	<b>Six months ended 30 September</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	<i>(unaudited)</i>
Net cash (used in) from operating activities	<b>(209,710)</b>	119,472
Net cash used in investing activities		
Bank interest received	<b>150</b>	2,917
Purchase of property, plant and equipment	<b>(113,752)</b>	(2,971)
Proceeds from disposal of property, plant and equipment	<b>9</b>	—
Prepaid leases payments made	<b>—</b>	(87)
Investment in an associate	<b>(33,713)</b>	—
Increase in pledged bank deposits	<b>(55,553)</b>	(66,421)
Increase in deposits placed with brokers	<b>(26,539)</b>	(4,716)
	<b>(229,398)</b>	(71,278)
Net cash from financing activities		
Proceeds from exercise of share options	<b>2,890</b>	—
Proceeds from bank borrowings	<b>900,466</b>	—
Repayment of bank borrowings	<b>(392,703)</b>	—
	<b>510,653</b>	—
Net increase in cash and cash equivalents	<b>71,545</b>	48,194
Cash and cash equivalents at 1 April	<b>228,149</b>	80,996
Effect of foreign exchange rate changes	<b>73</b>	40
Cash and cash equivalents at 30 September, represented by bank balances and cash	<b>299,767</b>	129,230

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 1. BASIS OF PREPARATION

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

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2009 except for the application of the following accounting policies during the period.

### **Inventories**

Inventories are stated at the lower of cost and net realised value. Cost is calculated using the weighted average method.

### **Equity-settled Share-based Payment Transactions**

#### *Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 2. PRINCIPAL ACCOUNTING POLICIES – Continued

### Equity-settled Share-based Payment Transactions – Continued

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

#### *Share options granted to suppliers/consultants*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 2. PRINCIPAL ACCOUNTING POLICIES – Continued

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2009.

### **HKAS 1 (revised 2007) Presentation of Financial Statements**

HKAS 1 (revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

### **HKFRS 8 Operating Segments**

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The application of HKFRS 8 has resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised 2008) may affect the Group’s accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group’s ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The Directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 “Operating Segments” with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14, “Segment Reporting”) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments. In the past, the Group’s primary reporting format was geographical segments by location of the oil trading companies of the Group. The application of HKFRS 8 has resulted in a redesignation of the Group’s reportable segments. Such redesignation will not materially affect the basis of measurement of segment profit for last year.

In previous years, since the Group’s revenue is substantially derived from single business segment of trading of petroleum products and crude oil (“Trading business”), the Directors of the Company report the geographical segment by location of the oil trading companies of the Group, which are mainly located in Hong Kong, Macao and the People Republic of China (the PRC, excluding Hong Kong and Macao), as the Group primary segment. However, based on the internal information that are regularly reviewed by the Directors, only the aggregate financial information for Trading business, irrespective of the location of oil trading companies, will be used for the purposes of assessment of performance. Accordingly, the segment information presentation has to be redesignated by combining the financial information of primary geographical segment of Hong Kong and Macao as determined in accordance with HKAS 14 in the annual financial statements for the year ended 31 March 2009.

The management now considers the Group has two reportable operating segments as follows:

- Trading business.
- Oil storage business in the PRC.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 3. SEGMENT INFORMATION – Continued

Since the oil storage business in the PRC is still in construction, it has not yet generated any revenue up to 30 September 2009, the management has not assessed the performance of oil storage business, but will keep eyes on the cash outflow to the construction of storage facilities.

The Group's revenue is substantially derived from trading of petroleum and crude oil for the period. The Directors consider that these activities constitute one reportable segment since these activities are related and are subject to similar risks and rewards. Accordingly, a single segment of trading business is presented.

Segment profit represents the profit earned by each segment mainly without allocation of central administration costs and directors' salaries, some items of other income, share of result of associate, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

The following tables provide an analysis of the Group's revenue from external customers and reportable segment profit and the reconciliation of reportable segment profit to the profit for the period of the Group under review.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 3. SEGMENT INFORMATION – Continued

Six months ended 30 September 2009

	Trading business HK\$'000	Oil storage business HK\$'000	Consolidated HK\$'000
Revenue from external customers	<u>2,362,047</u>	<u>—</u>	<u>2,362,047</u>
Reportable segment profit	<u>162,143</u>	<u>—</u>	<u>162,143</u>
<b>Unallocated amounts:</b>			
Unallocated corporate expenses			(76,161)
Other income			13,201
Share of loss of an associate			(129)
Finance costs			<u>(4,091)</u>
Profit before taxation			<u>94,963</u>
Taxation			<u>—</u>
Profit for the period			<u>94,963</u>

Note:

No reconciliation of segment revenue is provided as the total revenue for reportable segments is the same as the Group's revenue.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 3. SEGMENT INFORMATION – Continued

Six months ended 30 September 2008

	Trading business <i>HK\$'000</i>	Oil storage business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers	4,574,373	—	4,574,373
Reportable segment profit	32,810	—	32,810
<b>Unallocated amounts:</b>			
Unallocated corporate expenses			(22,900)
Other income			3,071
Share of profit of an associate			13
Fair value changes on held for trading investments			(1,998)
Finance costs			(2,739)
Profit before taxation			8,257
Taxation			(98)
Profit for the period			8,159

Note:

No reconciliation of segment revenue is provided as the total revenue for reportable segments is the same as the Group's revenue.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 3. REVENUE AND SEGMENTAL INFORMATION – Continued

The following is an analysis of the Group's assets:

As at 30 September 2009

	Trading business <i>HK\$'000</i>	Oil storage business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	1,355,502	28,789	1,384,291
Interest in an associate			84,104
Unallocated corporate assets			416,028
			<hr/>
			1,884,423
			<hr/> <hr/>

As at 31 March 2009

	Trading business <i>HK\$'000</i>	Oil storage business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	470,074	28,534	498,608
Interest in an associate			50,420
Unallocated corporate assets			363,868
			<hr/>
			912,896
			<hr/> <hr/>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 4. FINANCE COSTS

	Six months ended 30 September	
	2009 <i>HK\$'000</i> <i>(unaudited)</i>	2008 <i>HK\$'000</i> <i>(unaudited)</i>
Interests on short-term borrowings	1,108	507
Bank charges on letter of credit facilities	2,983	2,232
	<u>4,091</u>	<u>2,739</u>

## 5. TAXATION

	Six months ended 30 September	
	2009 <i>HK\$'000</i> <i>(unaudited)</i>	2008 <i>HK\$'000</i> <i>(unaudited)</i>
Underprovision of Hong Kong Profits Tax in prior year	<u>—</u>	<u>98</u>

No provision for Hong Kong Profits Tax was provided as there were no assessable profit for both periods.

No provision for PRC Enterprise Income Tax was provided for the Group's PRC subsidiary as the PRC subsidiary has no assessable profit for both periods.

Pursuant to the Decree Law No. 58/99M, Chapter 2, Article 12 dated 18th October, 1999, issued by the Macao Special Administration Region Government, Strong Petrochemical Limited (Macao Commercial Offshore), a subsidiary established in Macao, is exempted from Macao Complementary Tax.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 6. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Profit for the period is arrived after charging (crediting):		
Amortisation of prepaid lease payments	219	218
Depreciation of property, plant and equipment	5,992	321
Net foreign exchange (gains) losses	(114)	611
Listing expenses	—	4,809
(Gain) loss on disposal of property, plant and equipment	(9)	2
Gross rental income from leasing of storage spaces of vessel	(12,043)	—

## 7. DIVIDENDS

On 23 November 2009, the Board declared an interim dividend of HK3 cents per share will be paid to the shareholders of the Company whose names appear in the Register of Members on 11 December 2009.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 8. EARNINGS PER SHARE

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

	<b>For the six months ended 30 September</b>	
	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to the owners of the Company)	<b>94,963</b>	8,159
	<b>Number of shares (unaudited)</b>	Number of shares (unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,600,265,793</b>	1,200,000,000
Effect of dilutive potential ordinary shares in respect of share options	<b>53,246,689</b>	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,653,512,482</b>	1,200,000,000

Notes:

- (a) The weighted average number of shares for the purpose of calculating basic earnings per share for the period ended 30 September 2008 is based on the assumption that the 20,000,000 shares issued and outstanding upon the Corporate Reorganisation had been in issue as at beginning of the period.
- (b) The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share for each of the two periods ended 30 September 2009 and 2008 has been adjusted for the share division which took effect on 18 August 2009.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2009, the Group incurred expenditure of approximately HK\$188,632,000 (2008: HK\$2,971,000) on property, plant and equipment. It included HK\$188,105,000 for the acquisition of an oil tanker and HK\$270,000 (2008: HK\$2,915,000) in respect of the construction of the petroleum and petrochemical products storage facilities on the two leasehold land parcel acquired in Nantong City, Jiangsu Province, the PRC.

## 10. TRADE AND BILLS RECEIVABLES

The following is an aged analysis of trade and bills receivables at the balance sheet date:

	<b>30 September 2009 HK\$'000 (unaudited)</b>	31 March 2009 HK\$'000 (audited)
Trade receivables:		
0 to 30 days	<b>490,798</b>	373,866
31 to 60 days	—	50,797
61 to 90 days	—	26,317
	<hr/> <b>490,798</b>	<hr/> 450,980
Bills receivables:		
31 to 60 days	<b>48,552</b>	9,767
	<hr/> <b>539,350</b> <hr/> <hr/>	<hr/> 460,747 <hr/> <hr/>

The credit period on sale of goods is 30 to 90 days.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 11. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables is stated as follows:

	<b>30 September 2009 HK\$'000 (unaudited)</b>	31 March 2009 HK\$'000 (audited)
Trade payables:		
0 to 30 days	<b>528,860</b>	160,517
31 days to 60 days	<b>36,852</b>	—
61 days to 90 days	—	29,140
91 days to 180 days	—	464
	<hr/> <b>565,712</b>	<hr/> 190,121
Bills payables:		
0 to 30 days	—	89,969
	<hr/> <b>565,712</b> <hr/>	<hr/> 280,090 <hr/>

The credit period on purchases of goods is 30 to 90 days.

## 12. BANK BORROWINGS

As at 30 September 2009, the bank borrowings represented the trust receipt loan used to purchase inventories and short-term margin loan. The loans carry interest at variable markets rates of range from 1.55% to 2.23% and are repayable within 3 months.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 13. SHARE CAPITAL

	Notes	Number of shares ( <i>unaudited</i> )	Share capital HK\$'000 ( <i>unaudited</i> )
Authorised:			
Ordinary shares of HK\$0.1 each at 1 April 2009		1,000,000,000	100,000
Share sub-division	(a)	3,000,000,000	—
		<hr/>	<hr/>
Ordinary shares of HK\$0.025 each at 30 September 2009		4,000,000,000	100,000
		<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:			
Ordinary shares of HK\$0.1 each at 1 April 2009		400,000,000	40,000
Share sub-division	(a)	1,200,000,000	—
Share options exercised	(b)	4,480,000	112
		<hr/>	<hr/>
Ordinary shares of HK\$0.025 each at 30 September 2009		1,604,480,000	40,112
		<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) Pursuant to the approval in the extraordinary general meeting held on 18 August 2009, the issued and unissued shares of HK\$0.10 each be subdivided into four subdivided shares of HK\$0.025 each. ("Share Subdivision").
- (b) On 19 August 2009, 4,480,000 share options after Share Subdivision were exercised at the exercise price of HK\$0.645.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 14. SHARE-BASED PAYMENTS

On 28 November 2008, a share option scheme (“Share Option Scheme”) was approved by the resolution of the sole shareholder, and was adopted by the Company. Pursuant to the Share Option Scheme, the Company may grant option to the directors, employees of the Company and its subsidiaries and qualifying grantees to subscribe for shares of the Company.

Options granted are exercisable during the period starting from 8 May 2009 to 28 November 2018.

The options granted under the Share Option Scheme has exercisable period in three tranches of 40%, 30% and 30% of its options granted from the grant date to 8 May 2009, 8 May 2010 and 8 May 2011, respectively.

Movement of options granted under the Share Option Scheme is as follows:

Eligible participants	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price HK\$	Number of share options granted during the period	Number of share options exercised during the period	Number of share options outstanding at 30/9/2009
Directors	7/5/2009	8/5/2009 - 28/11/2018	0.645	11,600,000	2,560,000	9,040,000
Employees	7/5/2009	8/5/2009 - 28/11/2018	0.645	14,000,000	1,280,000	12,720,000
Others (Note)	7/5/2009	8/5/2009 - 28/11/2018	0.645	134,400,000	640,000	133,760,000
Total				<u>160,000,000</u>	<u>4,480,000</u>	<u>155,520,000</u>

Note:

Others represent individuals associated with suppliers and consultants.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 14. SHARE-BASED PAYMENTS – Continued

The closing price of the Company's shares immediately before 7 May 2009, the date of options granted were HK\$0.645 per share.

The fair value of the options granted in the current period, measured at the date of grant on 7 May 2009 was approximately HK\$0.323 per share option. The following significant assumptions were used to derive the fair value, using the Binominal model:

	<b>7 May 2009</b>
Spot price (closing price of grant date)	0.645
Exercise price	0.645
Expected volatility	43.285%
Dividend yield	0%
Risk-free interest rate	2.092%
Exercise multiple	2 to 2.8

The Binominal model has been used to estimate the fair value of the options. The variables and assumptions used in estimating the fair value of the share options are based on the Directors' best estimate. Change in variables and assumptions may result in changes in the fair value of the options.

During the current period, an amount of share option expense of HK\$26,481,000 (six months ended 30 September 2008: Nil) has been recognised in the statement of comprehensive income.

The weighted average closing price of the Company's shares at dates on which the options were exercised during the period were HK\$1.238 and HK\$1.295 per share.

At each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in statement of comprehensive income, with a corresponding adjustment to the share options reserve.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2009

## 15. CAPITAL AND OTHER COMMITMENTS

As at 30 September 2009, the Group had authorised but not contracted for capital expenditure of approximately RMB94,287,000 (equivalent to approximately HK\$106,072,000) (2008: RMB99,505,000 (equivalent to approximately HK\$110,096,000)) in respect of the construction of the petroleum and petrochemical products storage facilities on the two leasehold land parcel acquired in Nantong City, Jiangsu Province, the PRC.

Pursuant to minute of the board of directors of Sinochem Tianjin Port Petrochemical Terminal Co., Ltd. dated 28th February, 2008, the shareholders of the Group's associate agreed to increase the total registered share capital of the Group's associate from RMB300,000,000 to RMB628,000,000 (equivalent to approximately HK\$337,000,000 to HK\$706,000,000). The Group required to pay additional contribution of approximately RMB49,200,000. As at 30 September 2009, the outstanding contribution is amounted to RMB19,700,000.

## 16. PLEDGE OF ASSETS

Apart from the pledged bank deposits as disclosed in the condensed consolidated statement of financial position, the Group has pledged inventories of approximately HK\$472,663,000 and properties with carrying value of approximately HK\$1,274,000 respectively at 30 September 2009 to secure the short term bank loans granted to the Group.

## 17. RELATED PARTY TRANSACTIONS

During the six months ended 30 September 2009, the Group paid the rental expenses of approximately HK\$898,000 to Strong Property Limited, an entity in which Mr. Wang Jian Sheng and Mr. Yao Guoliang have beneficial interest, for the use of office premises and staff quarters.

## 18. POST BALANCE SHEET EVENTS

The Group did not have material post balance sheet event.