



**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



**2010**  
**INTERIM**  
**REPORT**

*\*For identification purposes only*

# Contents

Corporate Information	2
Management Discussion and Analysis	4
Other Information	11
Condensed Consolidated Statement of Comprehensive Income	15
Condensed Consolidated Statement of Financial Position	16
Condensed Consolidated Statement of Changes in Equity	18
Condensed Consolidated Cash Flow Statement	20
Notes to the Condensed Consolidated Financial Statements	21

# 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

## 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

Li & Partners

# 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

Bank of China (Hong Kong) Limited

## WEBSITE

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

## STOCK CODE

852

# Management Discussion and Analysis

## FINANCIAL REVIEW

The Group is principally engaged in the trading of oil products. 66.9% of the Group's revenue is generated from trading of crude oil for the six months ended 30 September 2010 (89.6% for the six months ended 30 September 2009). The revenue generated from trading of petroleum products is approximately 27.2% (6.1% for the six months ended 30 September 2009) and the revenue generated from trading of petrochemical products is approximately 5.9% (4.3% for the six months ended 30 September 2009).

### Revenue

Products	Units	Six months ended 30 September					
		Number of shipment	2010 Sales quantity	2010 Turnover HK\$ million	Number of shipment	2009 Sales quantity	2009 Turnover HK\$ million
Crude oil	BBL	8	4,323,830	2,664.1	13	4,145,574	2,115.3
Petroleum products	BBL	5	2,014,052	1,082.6	1	293,877	144.4
Petrochemical products	MT	10	32,690	236.3	6	16,874	102.3
Total		<u>23</u>		<u>3,983.0</u>	<u>20</u>		<u>2,362.0</u>

Revenue for the six months period ended 30 September 2010 was approximately HK\$3,983.0 million, representing an increase of 68.6% when compared to approximately HK\$2,362.0 million for the same period of last year. The increase of revenue was driven by the increase in trading volume of the products. Despite the volatility of the international oil prices and the uncertainties arising from the European debt crisis as well as the exchange rate fluctuation, the demand for various kind of oil products in PRC remain strong.

# Management Discussion and Analysis

## Cost of Sales

Cost of sales for the six months period ended 30 September 2010 was approximately HK\$3,923.6 million, representing an increase of 85.0% when compared to HK\$2,120.7 million for the same period of last year. Such increase was in line with the increase in revenue.

## Gross Profit

Gross profit for the six months period ended 30 September 2010 was approximately HK\$59.4 million, representing a 75.4% decrease when compared to HK\$241.3 million of profit for the same period of last year.

## Fair Value Changes on Derivative Financial Instruments

For the six months period ended 30 September 2010, the aggregate gain on fair value changes on derivative financial instruments was amounted to approximately HK\$137.3 million (2009: HK\$79.2 million loss). The realized and unrealized gain on fair value changes on derivative financial instruments were approximately HK\$103.3 million and HK\$34.0 million respectively (2009: losses of HK\$65.1 million and HK\$14.1 million).

## Profit for the Period

Profit for the six months period ended 30 September 2010 was approximately HK\$123.4 million, representing an increase of HK\$28.4 million when comparing with HK\$95.0 million in the six months period ended 30 September 2009.

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCE

The bank balances and cash as at 30 September 2010 was amounted to HK\$66.7 million which is decreased by approximately 56.3% when comparing with HK\$152.6 million as at 31 March 2010.

The banking facilities as at 30 September 2010 amounted to US\$350 million (equivalent to HK\$2,730 million). Save for the Group's bank borrowings of approximately HK\$663.4 million, the Group had no bank overdraft as at 30 September 2010.

Net cash used in operating activities for the period ended 30 September 2010 was approximately HK\$268.1 million. Net cash from investing activities was approximately HK\$25.9 million. Net cash from financing activities was approximately HK\$156.2 million and is contributed by the bank borrowings for inventory procurement.

### Gearing Ratio

As at 30 September 2010, current ratio of the Group was 1.61 times (1.47 times as at 31 March 2010) and the gearing ratio was 0.77 times (0.60 times as at 31 March 2010). Gearing ratio is equal to bank borrowing divided by total equity. Increase in gearing ratio is mainly due to the increase in bank borrowings for inventory procurement.

### Charges of Assets and Contingent Liabilities

As at 30 September 2010, the Group's banking facilities were secured by pledged deposits of approximately HK\$70.7 million, pledged inventories of approximately HK\$521.7 million and properties owned by the Group.

As at 30 September 2010, the Group had no significant contingent liabilities.

### Foreign Exchange Exposure

The functional currency of the Group is denominated in US dollars, while the reporting currency is 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.

# Management Discussion and Analysis

## Capital Commitments

The Group had authorized but not contracted for the capital expenditure of approximately RMB93.0 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.

The Group is required to pay the committed registered capital contribution of an associate, Tianjin Port Sinochem Petrochemical Dock Co., Ltd of approximately RMB11.5 million by the end of November 2010.

## Projects' Status

Nantong Project is the development of storage of petrochemical and petroleum products business in Nantong City, Jiangsu Province, the PRC. It is carried out by Strong Petrochemical (Nantong) Logistics Co., Ltd., an indirect wholly owned subsidiary of the Company. As at 30 September 2010, the review and assessment on the Nantong Project was about to be concluded and the construction progress will soon be resumed. The management will closely monitor the development on Nantong Project. Up to 30 September 2010, the total capital expenditure is amounted to RMB26.8 million. The unutilized IPO proceeds for Nantong Project is amounted to HK\$106.2 million.

The Tianjin Storage 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 Group's total investment in the Tianjin project up to 30 September 2010 was RMB94.2 million. As at 30 September 2010, civil construction works of Phase 1 of the project, including major buildings of administrative office, dormitory and control centre, were about to be completed. About 80% of the fitting out of the buildings have been completed, including the thermal control systems of 14 crude oil tanks, water supply and drainage systems and fire fighting and prevention facilities. Construction of the roads within and outside the storage area and the surrounding have commenced. Civil works of Phase 2 of the project including the construction of crude and refined oil storage areas have commenced. Foundation works of Phase 2 have been completed and construction of roads is underway.



# Management Discussion and Analysis

The Tianjin Dock Project is the establishment and operation of logistic facilities for crude oil, petroleum products and petrochemical products and it is adjacent to the Tianjin Storage Project. It aims to enhance the logistic of our oil storage operations in the area. The Group hold 15% equity interest through an wholly owned subsidiary. As at 30 September 2010, the major construction works of the wharf have been completed, including the supporting pillars for oil pipes, D-share, double drum-plate and DA-shape vessel protection devices and other foundation works. 87% of the super structures of the wharf was completed. Finishing of the internal walls of the office complex and workshop, heat insulation roofs as well as the beams and pillars for the 50,000 DWT berth oil pump operation area were completed. 90% of the surrounding walls was completed. Installation of iron bars and supporting boards for the construction of the 10,000 DWT berth oil pump operation area was completed. Installation of 4 sinking wells and pumping pipes was completed. 70% of the construction of land pipe lines and pipe lines on the eastern side of the 50,000 DWT berth was completed. 65% of the pipe lines on the eastern side of the bridge of 50,000 DWT berth was completed.

## 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 year ending 31 March 2011. Annual report on the result of assessment and recommendations will be provided to the management, the Audit Committee and subsequently the Board.

# Management Discussion and Analysis

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.

## BUSINESS REVIEW AND OUTLOOK

Since the second half of 2009, the Group had successfully registered with a few state-owned oil and gas companies in Asia as crude and petrochemical products buyer to further strengthen our trading businesses. In October 2010 the Group entered into an exclusive marketing agreement with Eurocontrol Technics Inc., a Canadian public company specializing in energy security, authentication, and verification technologies, to market and sell the authentication system to customers in Asia. It is envisaged that this agreement can bring value added services to existing customers and further broaden the customer base.

The upstream sector is another area the Group is keen to develop for future major growth and value adding to the shareholders. In November 2010, the Group entered into a subscription agreement with The Sixth Energy Limited and Asia Sixth Energy Resources Limited ("Asia Sixth") allowing the Group to effectively own 24% in Aral Petroleum Capital LLP which was granted an exploration licence and production licence of crude oil in North Block in Aktobe Oblast in the Republic of Kazakhstan. The exploration licence covers an area of 3,449 km<sup>2</sup> with a series of exploration structures, the low, best and high estimate prospective recoverable resources are approximately 72.78 million barrels, 217.70 million barrels and 708.21 million barrels respectively. Meanwhile, the production licence covers a producing oil field, East Zhagabulak ("EZ field"), with 2 producing wells (EZ213 and EZ301). The estimated proved plus probable reserves (2P) for EZ field are approximately 6.23 million barrels. Given their plans on maintenance and additional pumps installation, the target aggregate daily production capacity of EZ213 and EZ301 will reach to 1,000 barrels. Details of the investment are disclosed in the announcement by the Group on 18 November 2010.

## Management Discussion and Analysis

Given China demonstrates robust growth, the Group remains optimistic toward the core business development despite the uncertainties in the recent complicated economic environment. The management is confident that the Group is capable to maintain a sustainable growth by integrating the upstream, trading and downstream businesses in broadening the revenue base and to become a competitive energy conglomerate in the region.

### INTERIM DIVIDENDS

The Board has resolved that no interim dividend for the six months ended 30 September 2010 was paid, declared or proposed during the reported period (30 September 2009: HK3 cents per share).

### EMPLOYMENT AND REMUNERATION POLICY

At 30 September 2010, the Group had 35 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

### 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 2010.

### SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, 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 International Ltd.	Beneficial Owner	1,041,446,000(L)	64.57

Note: (L) Long 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. ("Forever Winner"). 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..

On September 2010, Forever Winner further acquired a total of 878,000 shares through 5 transactions. The total number of share hold by Forever Winner was increased from 1,040,000,000 shares to 1,040,878,000 shares.

Subsequently on October 2010, Forever Winner further acquired a total of 568,000 shares through 6 transactions. The total number of share hold by Forever Winner was increased from 1,040,878,000 shares to 1,041,446,000 shares.

Saved as disclosed above, the register required to be kept under section 336 of the SFO shows that as at 30 September 2010, 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 2010, 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	1,041,446,000 (L)	64.57
Mr. Yao Gaoliang (Note)	Interest of a controlled corporation	1,041,446,000 (L)	64.57
Mr. Wong Wing	Beneficial owner	2,640,000 (L)	0.16
Ms. Lin Yan	Beneficial owner	840,000 (L)	0.05
Mr. Zhu Yao Bin	Beneficial owner	840,000 (L)	0.05

Note: (L) Long position

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

On September 2010, Forever Winner further acquired a total of 878,000 shares through 5 transactions. The total number of share hold by Forever Winner was increased from 1,040,000,000 shares to 1,040,878,000 shares.

Subsequently on October 2010, Forever Winner further acquired a total of 568,000 shares through 6 transactions. The total number of share hold by Forever Winner was increased from 1,040,878,000 shares to 1,041,446,000 shares.

## 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 price HK\$	Number of share options outstanding at 1/4/2010	Reclassification	Number of share options exercised during the period	Number of share options outstanding at 30/9/2010
<b>Executive director</b>						
Mr. Wong Wing	7/5/2009	0.645	6,400,000	—	2,600,000	3,800,000
<b>Independent non-executive directors</b>						
Mr. Lau Hon Kee	7/5/2009	0.645	1,200,000	—	—	1,200,000
Ms. Lin Yan	7/5/2009	0.645	720,000	—	360,000	360,000
Mr. Zhu Yao Bin	7/5/2009	0.645	720,000	—	360,000	360,000
<b>Subtotal of directors</b>			9,040,000	—	3,320,000	5,720,000
<b>Employees</b>	7/5/2009	0.645	11,840,000	(1,440,000)	2,460,000	7,940,000
<b>Others (Note b)</b>	7/5/2009	0.645	133,260,000	1,440,000	1,310,000	133,390,000
<b>Total</b>			154,140,000	—	7,090,000	147,050,000

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 2010 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.

### 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 2010.

By the order the Board  
**Wang Jian Sheng**  
*Chairman*

Hong Kong, 26 November 2010

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2010

	NOTES	Six months ended 30 September	
		2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Revenue		3,982,978	2,362,047
Cost of sales		(3,923,571)	(2,120,710)
Gross profit		59,407	241,337
Other income		3,915	13,223
Fair value changes on derivative financial instruments		137,261	(79,216)
Distribution and selling expenses		(42,161)	(46,437)
Administrative expenses		(20,794)	(19,247)
Other expenses		(1,376)	(10,477)
Finance costs	4	(12,451)	(4,091)
Share of loss of an associate		(449)	(129)
Profit before taxation		123,352	94,963
Taxation	5	—	—
Profit for the period	6	123,352	94,963
Other comprehensive income			
Exchange differences arising on translation		2,750	375
Total comprehensive income for the period		126,102	95,338
Earnings per share	8		
– basic (HK\$)		0.08	0.06
– diluted (HK\$)		0.07	0.06



# Condensed Consolidated Statement of Financial Position

At 30 September 2010

	NOTES	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment		168,845	180,028
Prepaid lease payments		20,818	20,666
Available-for-sale investments		392	392
Bank structured deposit		19,129	19,014
Interests in associates		118,771	110,950
Deferred tax asset		4,358	4,358
		<b>332,313</b>	<b>335,408</b>
<b>Current assets</b>			
Inventories		627,998	366,757
Prepaid lease payments		448	440
Trade receivables	10	520,098	632,238
Other receivables, deposits and prepayments		14,140	10,935
Tax recoverable		3,650	2,738
Deposits placed with brokers		83,404	128,936
Pledged bank deposits		70,658	57,642
Bank balances and cash		66,703	152,605
		<b>1,387,099</b>	<b>1,352,291</b>
<b>Current liabilities</b>			
Trade and bills payables	11	166,083	369,353
Other payables and accruals		6,900	25,425
Bank borrowings	12	663,405	463,414
Derivative financial instruments		16,858	50,824
Tax payable		9,540	9,540
		<b>862,786</b>	<b>918,556</b>

# Condensed Consolidated Statement of Financial Position

At 30 September 2010

	NOTE	<b>30 September 2010 HK\$'000 (unaudited)</b>	31 March 2010 HK\$'000 (audited)
<b>Net current assets</b>		<b>524,313</b>	433,735
<b>Total assets less current liabilities</b>		<b>856,626</b>	769,143
<b>Equity</b>			
Share capital	13	40,324	40,147
Reserves		816,302	728,996
<b>Total equity</b>		<b>856,626</b>	769,143

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2010

	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 option reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April								
2009 (audited)	40,000	197,216	(1,922)	49	—	2,717	336,049	574,109
Exchange differences arising on translation	—	—	—	—	—	375	—	375
Profit for the period	—	—	—	—	—	—	94,963	94,963
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
	112	4,632	—	—	24,627	—	—	29,371
At 30 September								
2009 (unaudited)	40,112	201,848	(1,922)	49	24,627	3,092	431,012	698,818

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2010

	Share capital	Share premium	Special reserve	Legal reserve	Share option reserve	Translation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)	(Note b)				
At 1 April								
2010 (audited)	40,147	202,496	(1,922)	49	35,428	3,438	489,507	769,143
Exchange differences arising on translation	—	—	—	—	—	2,750	—	2,750
Profit for the period	—	—	—	—	—	—	123,352	123,352
Total comprehensive income for the period	—	—	—	—	—	2,750	123,352	126,102
Recognition of equity-settled share-based payments	—	—	—	—	5,197	—	—	5,197
Issue of shares on exercise of share options	177	6,403	—	—	(2,007)	—	—	4,573
Final dividend recognised as distribution (note 7)	—	—	—	—	—	—	(48,389)	(48,389)
	177	6,403	—	—	3,190	—	(48,389)	(38,619)
At 30 September								
2010 (unaudited)	40,324	208,899	(1,922)	49	38,618	6,188	564,470	856,626

Notes:

- 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 the Company, 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 2010

	<b>Six months ended 30 September</b>	
	<b>2010 HK\$'000 (unaudited)</b>	2009 HK\$'000 (unaudited)
Net cash used in operating activities	<u>(268,130)</u>	<u>(209,710)</u>
Net cash from (used in) investing activities		
Bank interest received	119	150
Purchase of property, plant and equipment	(535)	(113,752)
Proceeds from disposal of property, plant and equipment	—	9
Investments in associates	(6,203)	(33,713)
Increase in pledged bank deposits	(13,016)	(55,553)
Decrease (increase) in deposits placed with brokers	45,532	(26,539)
	<u>25,897</u>	<u>(229,398)</u>
Net cash from financing activities		
Proceeds from exercise of share options	4,573	2,890
New bank loans raised	2,896,699	900,466
Repayment of bank borrowings	(2,696,708)	(392,703)
Dividend paid	(48,389)	—
	<u>156,175</u>	<u>510,653</u>
Net (decrease) increase in cash and cash equivalents	<u>(86,058)</u>	71,545
Cash and cash equivalents at 1 April	152,605	228,149
Effect of foreign exchange rate changes	156	73
Cash and cash equivalents at 30 September, represented by bank balances and cash	<u>66,703</u>	<u>299,767</u>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 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 (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.

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 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 32 (Amendment)	Classification of right issues
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK (IFRIC)-INT 17	Distributions of non-cash assets to owners

The directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the results and financial position of the Group for the current or prior accounting period.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 2. PRINCIPAL ACCOUNTING POLICIES – Continued

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related party disclosures <sup>3</sup>
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adoptors <sup>2</sup>
HKFRS 7 (Amendment)	Disclosures - transfer of financial assets <sup>4</sup>
HKFRS 9	Financial instruments <sup>5</sup>
HK (IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement <sup>3</sup>
HK (IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments <sup>2</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>2</sup> Effective for accounting periods beginning on or after 1 July 2010.

<sup>3</sup> Effective for accounting periods beginning on or after 1 January 2011.

<sup>4</sup> Effective for accounting periods beginning on or after 1 July 2011.

<sup>5</sup> Effective for accounting periods beginning on or after 1 January 2013.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 2. PRINCIPAL ACCOUNTING POLICIES – Continued

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flow that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SEGMENT INFORMATION

Based on the internal information that is regularly reviewed by the executive directors of the Company, the financial information for the single business operation of trading of petroleum products and crude oil (“Trading business”) as a whole, irrespective of the location of oil trading companies, is used for the purposes of assessment of performances. Accordingly, the Trading business as a whole constitutes one operating segment for the purpose of segment information presentation under HKFRS 8.

Though the management plans to develop an oil storage business in the PRC, the storage facilities are still in construction and it has not yet generated any revenue up to 30 September 2010. The Group’s turnover and results are principally derived from the Trading business and management of the Group has been managing the Group as a single operating segment in both periods. The turnover and results are disclosed in the condensed consolidated statement of comprehensive income.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 4. FINANCE COSTS

	Six months ended 30 September	
	2010 <i>HK\$'000</i> <i>(unaudited)</i>	2009 <i>HK\$'000</i> <i>(unaudited)</i>
Interests on short-term borrowings	9,647	1,108
Bank charges on letter of credit facilities	2,804	2,983
	<u>12,451</u>	<u>4,091</u>

## 5. TAXATION

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 18 October 1999, issued by the Macao Special Administration Region Government, Strong Petrochemical Limited (Macao Commercial Offshore) is exempted from Macao Complementary Tax.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 6. PROFIT FOR THE PERIOD

	Six months ended 30 September	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments (included in other expenses)	221	219
Depreciation of property, plant and equipment		
- Vessel (Note)	11,757	5,878
- Others	106	114
Net foreign exchange losses (gains)	433	(114)
Loss (gain) on disposal of property, plant and equipment	1	(9)
Reversals of write-down of inventories (included in cost of sales)	(1,786)	—
Gross rental income from leasing of storage spaces of vessel	(2,972)	(12,043)

Note:

As one-third of the vessel was leased out for rental income from 29 June 2009 to 30 April 2010, the respective depreciation of vessel amounting to HK\$653,000 (2009: HK\$1,959,000), together with the attributable operating costs of vessel, was included in other expenses. The remaining amount of HK\$11,104,000 (2009: HK\$3,919,000), together with the attributable operating costs of the vessel, was included in distribution and selling expenses.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 7. DIVIDENDS

The dividend recognised as a distribution during the period ended 30 September 2010 represents the final dividend of approximately HK\$48,389,000 declared and paid by the Company to the shareholders.

The Board has resolved that no interim dividend for the six months ended 30 September 2010 was paid, declared or proposed during the reported period (30 September 2009: HK3 cents per share).

## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the period attributable to owners of the Company and on the number of shares as follows:

	<b>six months ended 30 September</b>	
	<b>2010 (unaudited)</b>	2009 (unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>1,608,364,262</b>	1,600,265,793
Effect of dilutive potential ordinary shares:		
Share options	<b>69,405,469</b>	53,246,689
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b><u>1,677,769,731</u></b>	<u>1,653,512,482</u>

Note:

The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share for 30 September 2009 has been adjusted for the share division which took place on 18 August 2009.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2010, the Group incurred expenditure of approximately HK\$535,000 (2009: HK\$188,632,000) on property, plant and equipment. It included HK\$486,000 (2009: HK\$270,000) 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 RECEIVABLES

The following is an analysis of trade receivables by age, presented based on the invoice date at the end of the reporting period:

	<b>30 September 2010 HK\$'000 (unaudited)</b>	31 March 2010 HK\$'000 (audited)
0 to 30 days	<b><u>520,098</u></b>	<u>632,238</u>

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 2010

## 11. TRADE AND BILLS PAYABLES

The following is an analysis of trade and bills payables by age, presented based on the invoice date at the end of the reporting period:

	<b>30 September 2010 HK\$'000 (unaudited)</b>	31 March 2010 HK\$'000 (audited)
Trade payables:		
0 to 30 days	<b>166,083</b>	349,053
Bills payables:		
0 to 30 days	—	20,300
	<hr/> <b>166,083</b> <hr/>	<hr/> 369,353 <hr/>

The credit period on purchases of goods is 30 days.

## 12. BANK BORROWINGS

The bank borrowings at the end of the reporting period represented the trust receipt loans used to purchase inventories and short-term margin loan. The loans carry interest at variable markets rates of range from 0.7269% to 2.9971% (2009:1.55% to 2.23%) per annum and are repayable within 3 months.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 13. SHARE CAPITAL

	Note	Number of shares (unaudited)	Share capital HK\$'000 (unaudited)
Authorised:			
Ordinary shares of HK\$0.1 each at 1 April 2009		1,000,000,000	100,000
Share subdivision	(a)	3,000,000,000	—
Ordinary shares of HK\$0.025 each at 30 September 2009, 31 March 2010 and 30 September 2010		<u>4,000,000,000</u>	<u>100,000</u>
Issued:			
Ordinary shares of HK\$0.1 each at 1 April 2009		400,000,000	40,000
Share subdivision	(a)	1,200,000,000	—
Exercise of share options		<u>4,480,000</u>	<u>112</u>
Ordinary shares of HK\$0.025 each at 30 September 2009		1,604,480,000	40,112
Exercise of share options		<u>1,380,000</u>	<u>35</u>
Ordinary shares of HK\$0.025 each at 31 March 2010		1,605,860,000	40,147
Exercise of share options		<u>7,090,000</u>	<u>177</u>
Ordinary shares of HK\$0.025 each at 30 September 2010		<u>1,612,950,000</u>	<u>40,324</u>

Note:

- (a) Pursuant to the approval in the extraordinary general meeting held on 18 August 2009, each of the issued and unissued shares of par value HK\$0.1 were subdivided into four subdivided shares of par value HK\$0.025 each ("Share Subdivision").

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 14. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible employees, directors of the Group and some individuals associated with suppliers and consultants. Details of the share options outstanding during the current period are as follows:

	<b>Number of share options</b>
Outstanding at 1 April 2010	154,140,000
Exercised during the period	(7,090,000)
	<hr/>
Outstanding at 30 September 2010	147,050,000
	<hr/> <hr/>

No options were granted during the current interim period. The closing price of the Company's shares immediately before 7 May 2009, the date of options granted, was HK\$0.645 per share.

The fair value of the options granted, measured at the date of grant on 7 May 2009 was approximately HK\$46,836,000. The following significant assumptions were used to derive the fair value, using the binominal model:

	<b>Date of grant 7 May 2009</b>
Spot price (closing price of grant date, after adjusting for the Share Subdivision)	0.645
Exercise price	0.645
Expected volatility	43.285%
Dividend yield	0%
Risk-free 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. The value of an option varies with different variables of certain subjective assumptions.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 14. SHARE-BASED PAYMENTS – Continued

During the current period, an amount of share option expense of HK\$5,197,000 (six months ended 30 September 2009: HK\$26,481,000) has been recognised in the statement of comprehensive income.

In respect of the share options exercised during the period, the weighted average share price at the dates of exercise is HK\$1.511.

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 profit and loss, with a corresponding adjustment to the share options reserve.

## 15. CAPITAL AND OTHER COMMITMENTS

As at 30 September 2010, the Group had authorised but not contracted for capital expenditure of approximately RMB92,961,000 (equivalent to approximately HK\$107,657,000) (2009: RMB94,287,000 (equivalent to approximately HK\$106,072,000)) 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.

At 27 October 2010, the total registered capital of an associate, Tianjin Port Sinochem Petrochemical Dock Co., Ltd has been adjusted from RMB180,000,000 to RMB139,388,000. The adjusted committed registered capital contribution by the Group was reduced to RMB11,458,200. The Group is required to pay the adjusted committed registered capital contribution by the end of November 2010.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2010

## 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\$521,709,000 and properties with carrying value of approximately HK\$1,189,000 respectively at 30 September 2010 to secure the short term bank loans granted to the Group.

## 17. RELATED PARTY TRANSACTIONS

During the six months ended 30 September 2010, the Group paid the rental expenses of approximately HK\$499,000 (2009: HK\$898,000) to Strong Property Limited, a company in which the controlling shareholders have beneficial interest, for the use of office premises and staff quarters.

## 18. EVENTS AFTER THE END OF INTERIM PERIOD

On 18 November 2010, a wholly-owned subsidiary of the Company subscribed 67 new shares, representing 40% of the enlarged issued share capital of a joint venture enterprise incorporated in British Virgin Island (“BVI”) in the consideration of US\$67. As part of the transaction under the Subscription Agreement, the Group has agreed to provide the shareholders loan of approximately US\$11.24 million to Asia Sixth. The shareholder loan is granted to Asia Sixth for the purpose of enabling Asia Sixth to fulfill its payment obligation for the acquisition of 60% of Aral Petroleum Capital LLP (“Aral”), an entity incorporated in the Republic of Kazakhstan. The principal activities of Aral are production and exploration of crude oil. Details of the investment are disclosed in the announcement issued by the Group on 18 November 2010.