# 中聯能源投資集團有限公司
# Sino Union Energy Investment Group Limited

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

INTERIM REPORT 2010

# CORPORATE INFORMATION

## Executive Directors
Dr. Zhuo Ze Fan *(Chairman)*
Dr. William Rakotoarisaina *(Vice Chairman)*
Dr. Wang Tao *(Honorary Chairman)*
Mr. Shen Hao
Mr. Feng Da Wei
Mr. Li Jiangdong
Mr. Hu Zongmin
Ms. Xie Yiping

## Independent Non-Executive Directors
Mr. Ng Wing Ka
Mr. Leung Ting Yuk
Mr. Ng Tang

## Company Secretary
Mr. To Kwan

## Audit Committee
Mr. Leung Ting Yuk *(Chairman)*
Mr. Ng Wing Ka
Mr. Ng Tang

## Remuneration Committee
Mr. Ng Tang *(Chairman)*
Mr. Leung Ting Yuk
Ms. Xie Yiping

## Nomination Committee
Mr. Ng Wing Ka *(Chairman)*
Mr. Ng Tang
Ms. Xie Yiping

## Registered Office
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## Head Office and Principal Place of Business
Suite 1512
15th Floor
One Pacific Place
88 Queensway
Hong Kong

## Authorised Representatives
Dr. Zhuo Ze Fan
Mr. To Kwan

## Principal Bankers
Shenzhen Ping An Bank
DBS Bank (Hong Kong) Limited

## Legal Adviser – Hong Kong
Robertsons
57th Floor, The Centre
99 Queen's Road Central
Hong Kong

## Auditors
HLB Hodgson Impey Cheng
*Chartered Accountants*
*Certified Public Accountants*
31st Floor, Gloucester Tower
The Landmark, 11 Pedder Street
Central
Hong Kong

## Bermuda Principal Share Registrar and Transfer Office
HSBC Bank Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

## Hong Kong Branch Share Registrar and Transfer Office
Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## Stock Code
346

## Website
www.sunpec.com

The board of directors (the "Board") of Sino Union Energy Investment Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2010 together with the unaudited comparative figures for the corresponding six months ended 30 September 2009 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 September 2010*

| | | Six months ended 30 September | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **Turnover** | *4* | **473,225** | 609,382 |
| **Cost of sales** | | **(457,433)** | (582,343) |
| **Gross profit** | | **15,792** | 27,039 |
| **Other revenue** | *4* | **122** | 161 |
| **Other gains** | *5* | **18,684** | 500 |
| **Selling and distribution costs** | | **(5,220)** | (1,219) |
| **Administrative expenses** | | **(14,446)** | (19,625) |
| **Profit from operating activities** | *6* | **14,932** | 6,856 |
| **Finance costs** | *7* | **–** | (1,954) |
| **Profit before taxation** | | **14,932** | 4,902 |
| **Taxation** | *8* | **(1,261)** | (2,522) |
| **Profit for the period** | | **13,671** | 2,380 |
| **Other comprehensive income** | | | |
| Exchange differences arising on translation of foreign operations | | **727** | 251 |
| Other comprehensive income for the period, net of tax | | **727** | 251 |
| **Total comprehensive income for the period** | | **14,398** | 2,631 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

*For the six months ended 30 September 2010*

| | Notes | Six months ended 30 September 2010 (Unaudited) HK$'000 | 2009 (Unaudited) HK$'000 |
|---|---|---|---|
| **Profit attributable to** | | | |
| **— Owners of the Company** | | **13,671** | 2,380 |
| **— Non-controlling interests** | | **—** | — |
| | | **13,671** | 2,380 |
| **Total comprehensive income attributable to** | | | |
| **— Owners of the Company** | | **14,062** | 2,631 |
| **— Non-controlling interests** | | **336** | — |
| | | **14,398** | 2,631 |
| **Earnings per share** | | | |
| — Basic, HK cents | 10 | **0.22** | 0.04 |
| — Diluted, HK cents | 10 | **0.22** | 0.07 |

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 September 2010*

| | Notes | At 30 September 2010 (Unaudited) *HK$'000* | At 31 March 2010 (Audited) *HK$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **1,896** | 2,176 |
| Prepaid lease payments | | **906** | 916 |
| Investment property | 12 | **9,360** | 9,360 |
| Intangible asset | 13 | **43,000** | 43,000 |
| Exploration and evaluation assets | 14 | **8,481,756** | 8,481,756 |
| | | **8,536,918** | 8,537,208 |
| **Current assets** | | | |
| Trade receivables | 15 | **110,519** | 53,921 |
| Prepayments, deposits and other receivables | | **28,947** | 16,162 |
| Amounts due from minority shareholders | 16 | **16,728** | 15,035 |
| Cash and bank balances | | **47,337** | 119,668 |
| | | **203,531** | 204,786 |
| **Total assets** | | **8,740,449** | 8,741,994 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 17 | **122,269** | 122,269 |
| Reserves | | **8,484,147** | 8,470,085 |
| Equity attributable to the owners of the Company | | **8,606,416** | 8,592,354 |
| Non-controlling interests | | **17,077** | 15,035 |
| **Total equity** | | **8,623,493** | 8,607,389 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*At 30 September 2010*

| | Notes | At 30 September 2010 (Unaudited) HK$'000 | At 31 March 2010 (Audited) HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **101,834** | 74,036 |
| Tax payable | | **13,356** | 30,779 |
| Amounts due to related companies | | **–** | 15,700 |
| Amount due to a director | | **–** | 12,324 |
| | | **115,190** | 132,839 |
| **Non-current liability** | | | |
| Deferred taxation | | **1,766** | 1,766 |
| **Total liabilities** | | **116,956** | 134,605 |
| **Total equity and liabilities** | | **8,740,449** | 8,741,994 |
| **Net current assets** | | **88,341** | 71,947 |
| **Total assets less current liabilities** | | **8,625,259** | 8,609,155 |

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

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2010 (Unaudited)*

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | | | | | |
| | Share capital<br>*HK$'000* | Share premium<br>*HK$'000* | Contributed surplus<br>*HK$'000*<br>*(Note i)* | Convertible note reserve<br>*HK$'000* | Exchange reserve<br>*HK$'000* | Revaluation reserve<br>*HK$'000*<br>*(Note ii)* | Reserve on acquisition of additional interests in a subsidiary<br>*HK$'000* | Share option reserve<br>*HK$'000* | Retained profits<br>*HK$'000* | Subtotal<br>*HK$'000* | Non-controlling interests<br>*HK$'000* | Total<br>*HK$'000* |
| At 1 April 2009 (Audited) | 120,449 | 5,504,160 | 3,156 | 3,555 | 20,093 | 385,000 | 2,286,365 | – | 195,230 | 8,397,559 | – | 8,518,008 |
| Net profit for the period | – | – | – | – | – | – | – | – | 2,380 | 2,380 | – | 2,380 |
| Other comprehensive income for the period | – | – | – | – | 251 | – | – | – | – | 251 | – | 251 |
| Total comprehensive income for the period | – | – | – | – | 251 | | – | – | 2,380 | 2,631 | – | 2,631 |
| Incorporation of a subsidiary | – | – | – | – | – | – | – | – | – | – | 14,981 | 14,981 |
| Conversion of convertible notes | 1,600 | 99,604 | – | (3,555) | | – | – | – | – | 96,049 | – | 97,649 |
| Issue of ordinary shares on exercise of share option | 220 | 1,236 | – | – | – | – | – | – | – | 1,236 | – | 1,456 |
| At 30 September 2009 (Unaudited) | 122,269 | 5,605,000 | 3,156 | – | 20,344 | 385,000 | 2,286,365 | – | 197,610 | 8,497,475 | 14,981 | 8,634,725 |
| At 1 April 2010 (Audited) | 122,269 | 5,605,001 | 3,156 | – | 24,676 | 385,000 | 2,286,365 | 18,000 | 147,887 | 8,470,085 | 15,035 | 8,607,389 |
| Net profit for the period | – | – | – | – | – | – | – | – | 13,671 | 13,671 | – | 13,671 |
| Other comprehensive income for the period | – | – | – | – | 391 | – | – | – | – | 391 | 336 | 727 |
| Total comprehensive income for the period | – | – | – | – | 391 | – | – | – | 13,671 | 14,062 | 336 | 14,398 |
| Incorporation of a subsidiary | – | – | – | – | – | – | – | – | – | – | 1,706 | 1,706 |
| At 30 September 2010 (Unaudited) | 122,269 | 5,605,001 | 3,156 | – | 25,067 | 385,000 | 2,286,365 | 18,000 | 161,558 | 8,484,147 | 17,077 | 8,623,493 |

*Note:*

(i) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a reorganization scheme ("the Group Reorganisation") to rationalize the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 30 March 2001, over the nominal value of the shares of the Company issued in exchange therefor.

(ii) The revaluation reserve represents the fair value adjustment relating to previous acquisition of 7% equity interests of Madagascar Energy International Limited ("MEIL"). The Group has acquired the remaining 93% equity interest during the year ended 31 March 2008.

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

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 September 2010*

| | Six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Net cash outflow from operating activities** | **(73,174)** | (17,053) |
| **Net cash inflow from investing activities** | **116** | 17 |
| **Net cash outflow from financing activities** | **–** | (1,455) |
| **Decrease in cash and cash equivalents** | **(73,058)** | (18,491) |
| Cash and cash equivalents at beginning of the period | **119,668** | 121,168 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | **727** | 251 |
| **Cash and cash equivalents at end of the period** | **47,337** | 102,928 |
| **Analysis of balances of cash and cash equivalents** | | |
| Cash and bank balances | **47,337** | 102,928 |

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the period ended 30 September 2010*

## 1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2010, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

These unaudited condensed consolidated financial statements are presented in HK dollars, unless otherwise stated. These unaudited condensed consolidated financial statements was approved for issue on 30 November 2010.

This condensed consolidated financial statements has not been audited.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for investment property and certain financial assets and liabilities that are measured at fair values.

The accounting policies used in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in the Group's annual financial statements for the year ended 31 March 2010, except for the impact of the adoption of the new and revised HKASs, HKFRSs and interpretations described below.

In the current interim period, the Group has applied for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's accounting period beginning on 1 April 2010.

| | |
|---|---|
| HKFRSs (Amendment) | Amendment to HKFRS 5 as part of Improvements to HKFRS 2008 |
| HKFRSs (Amendment) | 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 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards |
| HKFRS 1 (Amendment) | Additional Exemptions for First-Time Adopters |
| HKFRS 2 (Amendment) | Group Cash-settled Shared-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC) – Int 17 | Distribution of Non-cash Assets to Owners |

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HKFRS 3 (Revised) Business Combinations continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has adopted HKFRS 3 (Revised), it is required to adopt HKAS 27 (Revised) "Consolidated and Separated Financial Statements" at the same time. HKAS 27 (Revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions with no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

Save as described above, the new HKFRSs which are effective in this accounting period are not relevant to the Group's operation.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impact of new and revised HKFRSs not yet effective

| | |
|---|---|
| HKFRSs (Amendment) | Improvements to HKFRSs 2010[1] |
| HKAS 24 (Revised) | Related Party Disclosures[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2] |
| HKFRS 7 (Amendment) | Financial Instruments: Disclosures[4] |
| HKFRS 9 | Financial Instruments[5] |
| HK(IFRIC) — Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[3] |
| HK(IFRIC) — Int 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

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. Specially, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows 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 fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impact of new and revised HKFRSs not yet effective (Continued)

The management is in the process of making an assessment of the impact of these new and revised, standards, amendments and interpretations to existing standards. The directors of the Company so far has concluded that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SEGMENT INFORMATION

The Group's operating and reportable segments under HKFRS 8 are as follows:

(a) the supply and procurement operation segment involves trading of oil related products and other mineral resources products; and

(b) the oil, gas exploration, exploitation and operation segment involves oil, gas exploration, exploitation and operation in Madagascar. During the periods ended 30 September 2010 and 2009, this segment did not generate any revenue or profit to the Group.

## 3. SEGMENT INFORMATION

### Segments revenue and results

| | Six months ended 30 September | | | | | |
|---|---|---|---|---|---|---|
| | Supply and procurement operation | | Oil, gas exploration, exploitation and operation | | Consolidated | |
| | **2010 HK$'000 (Unaudited)** | 2009 HK$'000 (Unaudited) | **2010 HK$'000 (Unaudited)** | 2009 HK$'000 (Unaudited) | **2010 HK$'000 (Unaudited)** | 2009 HK$'000 (Unaudited) |
| Segment revenue: Sales to external customers | **473,225** | 609,382 | **–** | – | **473,225** | 609,382 |
| Segment results | **10,578** | 18,771 | **(1,680)** | (2,633) | **8,898** | 16,138 |
| Other revenue | | | | | **122** | 161 |
| Fair value change on investment property | | | | | **–** | 500 |
| Gain on disposal of subsidiaries | | | | | **18,684** | – |
| Unallocated expenses | | | | | **(12,772)** | (9,943) |
| Profit from operating activities | | | | | **14,932** | 6,856 |
| Finance costs | | | | | **–** | (1,954) |
| Profit before taxation | | | | | **14,932** | 4,902 |
| Taxation | | | | | **(1,261)** | (2,522) |
| Profit for the period | | | | | **13,671** | 2,380 |

Revenue reported above represents generated from external customers. There were no intersegment sales during the periods ended 30 September 2010 and 2009.

Segment profit represents the profit earned by each segment without allocation of interest income and corporate expenses including directors' salaries, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

## 3. SEGMENT INFORMATION (CONTINUED)

### Segments total assets

| | Supply and procurement operation | | Oil, gas exploration, exploitation and operation | | Consolidated | |
|---|---|---|---|---|---|---|
| | **30 September 2010 HK$'000 (Unaudited)** | 31 March 2010 HK$'000 (Audited) | **30 September 2010 HK$'000 (Unaudited)** | 31 March 2010 HK$'000 (Audited) | **30 September 2010 HK$'000 (Unaudited)** | 31 March 2010 HK$'000 (Audited) |
| **Segment assets** | **137,691** | 168,914 | **8,526,956** | 8,528,008 | **8,664,647** | 8,696,922 |
| Unallocated assets | | | | | **75,802** | 45,072 |
| Total assets | | | | | **8,740,449** | 8,741,994 |

For the purpose of monitoring segment performance and allocating resources between segments, all assets are allocated to reportable segments other than investment property, amounts due from minority shareholders and other financial assets.

## 4. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intercompany transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue are as follows:

| | Six months ended 30 September | |
|---|---|---|
| | **2010 HK$'000 (Unaudited)** | 2009 HK$'000 (Unaudited) |
| **Turnover** | | |
| Sale of fuel oil related products and other products | **473,225** | 609,382 |
| **Other revenue** | | |
| Bank interest income | **122** | 161 |

## 5. OTHER GAINS

| | Six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Gain on disposal of subsidiaries *(Note 19)* | **18,684** | – |
| Fair value change on investment property | **–** | 500 |
| | **18,684** | 500 |

## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

| | Six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **457,433** | 582,343 |
| Depreciation of property, plant and equipment | **280** | 348 |
| Amortisation of prepaid lease payments | **10** | 10 |
| Minimum lease payments under operating lease in respect of rented premises | **1,396** | 814 |
| Staff costs (including directors' remuneration): | | |
| Salaries and wages | **7,879** | 7,207 |
| Mandatory provident fund contributions | **140** | 101 |

## 7. FINANCE COSTS

| | Six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest expenses on convertible notes wholly repayable within five years | **–** | 1,954 |

## 8. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits for the period (30 September 2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Current taxation** | | |
| Charge for the period — Overseas | **1,261** | 2,550 |
| **Deferred taxation** | | |
| Convertible note | **–** | (148) |
| Revaluation of investment property | **–** | 120 |
| Total tax charged for the period | **1,261** | 2,522 |

## 9. INTERIM DIVIDEND

The directors resolved not to declare the payment of any interim dividend in respect of the six months ended 30 September 2010 (30 September 2009: Nil).

## 10. 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:

| | **Six months ended 30 September** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Earnings** | | |
| Earnings attributable to the owners of the Company for the purposes of basic earnings per share | **13,671** | 2,380 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible note (net of tax) | **–** | 1,806 |
| Adjusted earnings attributable to the owners of the Company for the purpose of diluted earnings per share | **13,671** | 4,186 |

| | **Six months ended 30 September** | |
|---|---|---|
| | **2010** | 2009 |
| | ***'000*** | *'000* |
| | **(Unaudited)** | (Unaudited) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **6,113,464** | 6,075,852 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible note | **–** | 33,224 |
| Share options | **29,000** | 14,068 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **6,142,464** | 6,123,144 |

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Furniture, fixtures and office equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2010 (Audited) and 30 September 2010 (Unaudited) | 1,399 | 2,425 | 3,824 |
| **Accumulated depreciation** | | | |
| At 1 April 2010 (Audited) | 705 | 943 | 1,648 |
| Charged for the period | 46 | 234 | 280 |
| At 30 September 2010 (Unaudited) | 751 | 1,177 | 1,928 |
| **Net book value** | | | |
| **At 30 September 2010 (Unaudited)** | **648** | **1,248** | **1,896** |
| At 31 March 2010 (Audited) | 694 | 1,482 | 2,176 |

## 12. INVESTMENT PROPERTY

The directors of the Company consider that the carrying amount of the investment property is fairly stated as at 30 September 2010.

The property interest is held for capital appreciation and is measured using the fair value model and are classified and accounted for as an investment property.

The carrying amount of investment property shown above comprises:

| | **At 30 September 2010 (Unaudited)** ***HK$'000*** | At 31 March 2010 (Audited) *HK$'000* |
|---|---|---|
| Land outside Hong Kong: | | |
| Long term lease | **9,360** | 9,360 |

## 13. INTANGIBLE ASSET

| | Petroleum related Business license |
|---|---|
| | *HK$'000* |
| **Cost** | |
| At 1 April 2010 (Audited) and 30 September 2010 (Unaudited) | 249,842 |
| **Impairment** | |
| At 1 April 2010 (Audited) and 30 September 2010 (Unaudited) | 206,842 |
| **Carrying amount** | |
| **At 30 September 2010 (Unaudited)** | **43,000** |
| At 31 March 2010 (Audited) | 43,000 |

## 13. INTANGIBLE ASSET (CONTINUED)

The intangible asset represents a petroleum related business license which allows the Group to carry on the business of import, transportation and distribution of petroleum in Madagascar. The business license has a remaining legal life of three to five years but is renewable every five to seven years by paying a fee of approximately HK$2,028,000. The directors of the Company are not aware of any expected impediment with respect to the renewal of the license and consider that the possibility of failing in license renewal is remote and the license will generate net cash inflows for the acquiring entity for an indefinite period. Therefore, the license is treated as having an indefinite useful life.

The directors of the Company are of the opinion that the accumulated impairment provided in prior year is sufficient to reflect the recoverable amount of the intangible asset as at 30 September 2010 and hence no further impairment is required.

As at 31 March 2010, the Group carried out a review of the recoverable amount of its intangible asset, having regard to its petroleum related business license. The recoverable amount of the intangible asset has been determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors of the Company covering a five-year period. Cash flow projections during the budget period are based on the some expected gross margins during the budget period. The discount rate used in measuring value in use was approximately 17%.

## 14. EXPLORATION AND EVALUATION ASSETS

| | Exploration rights HK$'000 (Note i) | Evaluation costs HK$'000 (Note ii) | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2010 (Audited) and 30 September 2010 (Unaudited) | 12,097,059 | 141,756 | 12,238,815 |
| **Impairment** | | | |
| At 1 April 2010 (Audited) and 30 September 2010 (Unaudited) | 3,757,059 | – | 3,757,059 |
| **Carrying Amount** | | | |
| **At 30 September 2010 (Unaudited)** | **8,340,000** | **141,756** | **8,481,756** |
| At 31 March 2010 (Audited) | 8,340,000 | 141,756 | 8,481,756 |

*Note:*

i. The exploration rights represent the oil, gas exploration, exploitation and operations rights and profit sharing rights at Madagascar Oilfield Block 2104 and Madagascar Oilfield Block 3113, onshore sites for oil and gas exploration, exploitation and operation in Madagascar ("Oilfield Block 2104" and "Oilfield Block 3113").

## 14. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

ii. The evaluation costs represents expenditure paid for provision of services on activities relating to evaluation of the technical feasibility and commercial viability of extracting oil and gas in Oilfield Block 2104 and Oilfield Block 3113.

iii. The Group entered into an investment and cooperation agreement with Shaanxi Yanchang Petroleum (Group) Limited ("Yanchang Petroleum") and ECO Energy (International) Investments Limited ("ECO") on exploration, exploitation and operation in Oilfield 3113. Pursuant to the investment and cooperation agreement, the capital investment of Oilfield Block 3113 shall be contributed by Yanchang Petroleum, the Group and ECO in the proportion of 40%, 31% and 29% respectively.

iv. The fair value of the relevant exploration rights and assets were evaluated at 31 March 2010 by BMI Appraisals Limited ("Valuation"), where the core parameters and calculation of the Valuation were reassessed by Cushman & Wakefield Valuation Advisory Services (HK) Limited for its fairness and validity as at 30 September 2010, and the assessment is of the opinion that the Valuation is valid and reasonable as at 30 September 2010.

v. The Group has adopted HKFRS 6 Exploration for and Evaluation of Mineral Resources and HKAS 36 Impairment of Assets which require the Group to assess any impairment at each reporting date.

   The directors of the Company are of the opinion that no further impairment or reversal of impairment of exploration and evaluation assets were required as at 30 September 2010.

## 15. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30 days (31 March 2010: 30 days), are recognised and carried at the original invoiced amount less provision for impairment loss. It is the Group's policy to provide full impairment loss for all receivables over 1 year because historical experience is such that receivables that are past due beyond 1 year are generally not recoverable.

An aged analysis of trade receivables, based on the invoice date, is as follows:

| | **At 30 September 2010** *HK$'000* **(Unaudited)** | At 31 March 2010 *HK$'000* (Audited) |
|---|---|---|
| 0 to 30 days | **110,519** | 53,921 |

Based on past experience, the directors of the Company believe that no impairment loss is necessary in respect of this balance as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

There are no trade debtors which are past due but not impaired at 30 September 2010 (31 March 2010: Nil).

## 16. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

| Name of minority shareholders | Highest balance during the period<br>*HK$'000* | **At 30 September 2010 (Unaudited)**<br>***HK$'000*** | At 31 March 2010 (Audited)<br>*HK$'000* |
|---|---|---|---|
| 河南省桂圓實業有限公司 | 15,334 | **15,334** | 15,035 |
| 陝西僑商投資有限公司 | 1,394 | **1,394** | — |
| | | **16,728** | 15,035 |

The amounts represent the outstanding registered capital to be injected by the minority shareholders to the subsidiaries. The capital should be injected by the minority shareholders within two years since the incorporation date of the subsidiaries.

Shaanxi Sino Union Energy Limited ("Shaanxi Sino Union") is incorporated and registered as a sino-foreign equity joint venture in the PRC. The registered capital of Shaanxi Sino Union is RMB30,000,000. The registered capital shared by the Group and the minority shareholder is RMB28,500,000 (approximately HK$32,417,000) and RMB1,500,000 (approximately of HK$1,706,000) respectively. The outstanding registered capital was not yet injected by the Group and the minority shareholder is RMB22,750,000 (approximately HK$26,249,000) and RMB1,200,000 (approximately HK$1,394,000) respectively as at 30 September 2010.

## 16. AMOUNTS DUE FROM MINORITY SHAREHOLDERS (CONTINUED)

Zheng Zhou Sino Union Energy Business Development Limited ("Zheng Zhou Sino Union") is incorporated and registered as a sino-foreign equity joint venture in the PRC. The registered capital of Zheng Zhou Sino Union is RMB66,000,000. The registered capital shared by the Group and the minority shareholder is RMB52,800,000 (approximately HK$60,139,000) and RMB13,200,000 (approximately of HK$15,022,000) respectively. The outstanding registered capital was not yet injected by the Group and the minority shareholder is RMB35,250,000 (31 March 2010: RMB35,250,000) (approximately HK$40,950,000 (31 March 2010: approximately HK$40,150,000)) and RMB13,200,000 (31 March 2010: RMB13,200,000) (approximately of HK$15,334,000 (31 March 2010: approximately HK$15,035,000)) respectively as at 30 September 2010.

The Group entered into a termination agreement with Mr. Jing on 20 October 2010 to terminate the coal trading cooperation in Zheng Zhou (the "Termination Agreement"). Given the Zheng Zhou Sino Union shall be deregistered under the Termination Agreement, therefore the Group has no more capital commitment in the Zheng Zhou Sino Union. For further details, please refer to the Company's announcement dated on 20 October 2010.

Shaanxi Sino Union was engaged in the wholesale of agricultural by-products and sale of mining products; development of solar energy technology and sale of solar energy equipment; sale of machinery and equipment; and information consulting for mining projects, high-technology projects and sports projects. The period for the joint venture is ten years.

Zheung Zhou Sino Union was engaged in trading and transportation of coal for a period of ten years from 16 September 2009 to 15 September 2010. Pursuant to the joint venture agreement, Mr. Jing Zhanbin ("Mr. Jing") guaranteed that (i) he shall ensure the conditions in relation to the operation of the coal trading and transportation business of Zheng Zhou Sino Union be fulfilled and (ii) Zheng Zhou Sino Uion shall have an annual coal trading volume of not less than 6 million tones, an annual turnover of not less than RMB4,000 million and an annual net profit after tax not less than RMB200 million. Any shortfall in the guaranteed profits shall be compensated by Mr. Jing to Zheng Zhou Sino Union on a dollar-to-dollar basis. For further details, please refer to the Company's announcement dated on 1 September 2009.

## 17. SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **30 September 2010 '000** | 31 March 2010 '000 | **30 September 2010 HK$'000 (Unaudited)** | 31 March 2010 HK$'000 (Audited) |
| *Authorised:* | | | | |
| Ordinary shares of HK$0.02 each | **10,000,000** | 10,000,000 | **200,000** | 200,000 |
| *Issued and fully paid:* | | | | |
| At beginning of period/year | **6,113,464** | 6,022,464 | **122,269** | 120,449 |
| Conversion of convertible note *(Note i)* | **–** | 80,000 | **–** | 1,600 |
| Exercise of share options *(Note ii)* | **–** | 11,000 | **–** | 220 |
| At end of period/year | **6,113,464** | 6,113,464 | **122,269** | 122,269 |

*Note:*

(i) On 15 June 2009, Mr. Chan Ping Che, the holder of the convertible notes, has converted HK$100,000,000 convertible note, representing the whole principal amount of convertible notes, at conversion price of HK$1.25 per share. As a result of the conversion, a total of 80,000,000 ordinary shares have been allotted and duly issued and the aggregate outstanding principal of the convertible note has been reduced to nil. These shares issued rank pari passu in all respects with the existing shares.

(ii) During the year ended 31 March 2010, the Company issued 11,000,000 shares of HK$0.02 each at an issue price of HK$0.1324 per share on exercise of share options which were granted on 8 November 2004. These shares issued rank pari passu in all respects with the existing shares.

## 17. SHARE CAPITAL (CONTINUED)

### Share Option Scheme

The Company operates a share option scheme ("the Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme included the Company's directors and other employees of the Group. The Scheme was adopted on 1 November 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme. In addition, the maximum number of shares in respect of which share options may be granted to any eligible person within any 12 month period is limited to 1% of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

## 17. SHARE CAPITAL (CONTINUED)

### Share Option Scheme (Continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercise as the directors may at their discretion determine.

(i) The Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in employee share-based payment reserve. The employee share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercise its rights. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 January 2005 were expensed retrospectively in the income statement of the respective periods.

(ii) All share options granted are not expensed as the options were all vested before 1 January 2005 and not subject to the requirements of HKFRS 2.

## 17. SHARE CAPITAL (CONTINUED)

### Share Option Scheme (Continued)

The following table discloses movements in the Company's share options under the Scheme during the period ended 30 September 2010:

| Name or category of participant | Number of share options: At 1 April 2010 | Granted during the period | Exercised during the period | Lapsed during the period | At 30 September 2010 | Date of grant of share options* (dd/mm/yy) | Exercise period of share options (dd/mm/yy) | Exercise price of share options HK$ | Price of Company's share at grant date of share options HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Employees other than directors** | | | | | | | | | |
| In aggregate | **29,000,000** | **-** | **-** | **-** | **29,000,000** | **8/11/2004** | **8/11/2004 to 7/11/2014** | **0.1324** | **0.13** |

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

During the six months ended 30 September 2010, the Company did not grant any options under the Scheme of the Company.

At 30 September 2010 and 31 March 2010, the number of shares in respect of which share options had been granted and remained outstanding under the Scheme was 29,000,000, representing 0.47% of the shares of the Company in issue at that date.

### Options pursuant to the general mandate granted on 25 September 2008

In return for the cooperation with Mr. Jing to establish Zheng Zhou Sino Union, the Company granted an option to Mr. Jing to subscribe for 300,000,000 new shares at HK$0.9 per option share ("Jing Option"). The Jing Option is exercisable at any time from the date of grant of the option to the day immediately preceding the first anniversary of grant of the option.

## 17. SHARE CAPITAL (CONTINUED)

### Options pursuant to the general mandate granted on 25 September 2008 (Continued)

The option shares will be issued under the general mandate granted to the directors at the annual general meeting of the Company held on 25 September 2008.

The following table discloses movement in the Jing Option during the period ended 30 September 2010:

| Name or category of participant | Number of share options: At 1 April 2010 | Granted during the period | Exercised during the period | Lapsed during the period | At 30 September 2010 | Date of grant of share options (dd/mm/yy) | Exercise period of share options (dd/mm/yy) | Exercise price of share options HK$ | Price of Company's share at grant date of share options HK$ |
|---|---|---|---|---|---|---|---|---|---|
| Director of a subsidiary | 300,000,000 | – | – | – | 300,000,000 | 11/11/2009 | 11/11/2009 to 10/11/2010 | 0.9 | 0.69 |

At 30 September 2010 and 31 March 2010, the number of shares in respect of which share options had been granted and remained outstanding under the above general mandate was 300,000,000, representing 4.91% of the shares of the Company in issue at that date.

The Group entered into a termination agreement with Mr. Jing on 20 October 2010 to terminate the coal trading cooperation in Zheng Zhou Sino-Union (the "Termination Agreement"). Pursuant to the Termination Agreement, Mr. Jing unconditionally agreed to forfeit his right on the Jing Option granted by the Company to him. For further details, please refer to the Company's announcement dated on 20 October 2010.

## 18. TRADE AND OTHER PAYABLES

| | **At 30 September 2010 *HK$'000* (Unaudited)** | At 31 March 2010 *HK$'000* (Audited) |
|---|---|---|
| Trade payables | **73,108** | 36,989 |
| Other payables | **28,726** | 37,037 |
| | **101,834** | 74,036 |

An aged analysis of the trade payables, based on invoice date, is as follows:

| | **At 30 September 2010 *HK$'000* (Unaudited)** | At 31 March 2010 *HK$'000* (Audited) |
|---|---|---|
| 0 to 30 days | **73,108** | 36,989 |

The average credit period on purchases is 1 to 3 months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 19. DISPOSAL OF SUBSIDIARIES

On 31 August 2010, the Group entered into sale and purchase agreements to disposal of its 100% equity interest in Market Reach Group Limited and its subsidiaries (collectively referred to as the "Market Group") and Harvest Star Investment Limited and its subsidiaries (collectively referred to as the "Harvest Group") to an independent third party for cash consideration of HK$1 respectively. Summary of the effects of the disposal is as follows:

| | Market Group HK$'000 | Harvest Group HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Net assets disposed of:** | | | |
| Other receivables | — | 10 | 10 |
| Cash and bank balances | — | 6 | 6 |
| Other payables | — | (12,169) | (12,169) |
| Tax payable | (6,531) | — | (6,531) |
| | (6,531) | (12,153) | (18,684) |
| Gain on disposal | | | 18,684 |
| Total consideration | | | — |
| **Satisfied by:** | | | |
| Cash | | | — |
| **Net cash outflow arising on disposal:** | | | |
| Cash consideration | | | — |
| Cash and bank balances disposed | | | (6) |
| Net outflow of cash and cash equivalents | | | (6) |

## 20. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

(i) The Group is committed to inject the outstanding capital to the subsidiaries. The outstanding amounts were as shown in Note 16.

(ii) The Group entered into an investment and cooperation agreement (the "3113 Jointly Investment Agreement") with Shannxi Yanchang Petroleum (Group) Limited and ECO Energy (International) Investments Limited to jointly invest and develop the Oilfield Block 3113, and to share the oil and gas therein, hence a management committee was formed for such purpose by the parties (the "3113 Management Committee"). Please refer to the Company's circular dated 28 July 2008 for details.

In September 2010, the 3113 Management Committee had decided to further invest approximately US$45 million in the drilling exploitation of Oilfield Block 3113. Pursuant to the 3113 Jointly Investment Agreement, the Group is committed to invest approximately RMB93,543,000 (approximately of HK$109,470,000).

As at 30 September 2010, neither the Group nor the Company had any contingent liabilities (31 March 2010: Nil).

## 21. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, during the period ended 30 September 2010, the Group had entered into the following transactions with related parties which, in the opinion of the directors, were carried out in the ordinary course of the Group's business.

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

| | Six months ended 30 September | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Key management personnel** | | |
| Salaries and allowance | **4,000** | 2,802 |
| Mandatory provident fund contributions | **32** | 26 |
| | **4,032** | 2,828 |

## 22. EVENTS AFTER THE REPORTING PERIOD

(i) On 20 October 2010, Bestwill Capital Holdings Limited, a wholly-owned subsidiary of the Company, entered into the termination agreement with Henan Gui Yuan Enterprise Limited and Mr. Jing Zhanbin to terminate the supplemental agreements in relation to the establishment of the joint venture in Zhengzhou City, the PRC. For further details, please refer to the Company's announcement dated 20 October 2010.

(ii) The Company entered into the subscription agreement with Reality Virtual Limited (the "Subscriber") on 4 November 2010 for the subscription by the Subscriber of 206,000,000 shares at HK$0.675 per subscription share. The subscription shares were issued under the general mandate granted to the directors by the shareholders at the annual general meeting of the Company held on 3 September 2010. For further details, please refer to the Company's announcement dated 4 November 2010.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in investments in the oil, gas and energy related business, oil and gas exploration and operation, trading of fuel oil.

## DIVIDEND

The Board resolved not to declare any dividend for the six months ended 30 September 2010 (30 September 2009: Nil).

## BUSINESS REVIEW AND OUTLOOK

For the financial period ended 30 September 2010, the Group recorded a turnover of approximately HK$473.2 million from the distribution of fuel oil. Turnover for the period had decreased by 22.3% as compared to HK$609.4 million in the last corresponding period ended 30 September 2009. The reason for such decrease is due to the drop in trading volume of the fuel oil where the gross profit margin was decreased to 3.3% (30 September 2009: 4.4%). The Group's profit attributable to equity holders was approximately HK$13.7 million (30 September 2009: HK$2.4 million), increased by 474.4%. The increase was mainly attributable to the gain on disposal of subsidiaries during the period, whereas the Group's trading business of polyurethane materials ("PU materials") lost its competitiveness and was not profitable under the fierce market competition, the Group decided to completely dispose of it. Basic earnings per share for the period is HK cent 0.22 (30 September 2009: HK cent 0.04).

The Group holds two oilfield blocks in Madagascar, namely Oilfield Block 2104 and Oilfield Block 3113. Oilfield Block 2104 is an onshore oilfield site with total area of 20,100 kilometers square in Madagascar. Five wells with depth in the range of 67.5 meters to 2,153 meters were drilled in Oilfield Block 2104, and oil and gas were discovered in three wells with depth in the ranges of 450 meters to 2,153 meters. Oilfield Block 3113 is an onshore oilfield site with total area of 8,320 kilometers square in Madagascar.

The Group entered into an investment and cooperation agreement with Shannxi Yanchang Petroleum (Group) Limited and ECO Energy (International) Investments Limited to jointly invest and develop the Oilfield Block 3113, and to share the oil and gas therein, hence a management committee was formed for such purpose by the parties (the "3113 Management Committee"). The first batch well drilling in the Oilfield Block 3113 had completed and obtained good results where 31 oil reservoirs with total thickness of 85 meters had been discovered after drilling to the depth of 3,286 meters to 3,625.61 meters in the SKL-2 well and the oil in the reservoirs of the SKL-2 well is in the desirable category of light oil. The 3113 Management Committee had decided to further invest approximately US$45 million in the drilling exploitation of Oilfield Block 3113, and Zhongyuan Oilfield Drilling Company of China Petrochemical Corporation was contracted for the second batch 3 wells drilling project in the Oilfield Block 3113. The second batch drilling was commenced in September 2010, and the drilling of first well "SKL-2N" has so far reached over 2,000 meters of depth.

By virtue of the joint venture agreement entered in September 2009 ("JV Agreement") with Mr. Jing Zhanbin ("Mr. Jing") who carries on coal mining business in China, the Group established a Sino-foreign equity joint venture ("Zheng Zhou Joint Venture") with Mr. Jing to operate the coal trading business in Zhengzhou, PRC. Since the Zheng Zhou Joint Venture does not meet the PRC Government's approval requirements for obtaining the coal business licence, the Group entered into a termination agreement with Mr. Jing on 20 October 2010 to terminate the cooperation with Mr. Jing (the "Termination Agreement"). Pursuant to the Termination Agreement, the Zheng Zhou Joint Venture shall be deregistered, and the capital of HK$20 million contributed by the Group shall be returned to the Group after the deregistration. In addition, Mr. Jing and his company (Henan Gui Yuan Enterprise Limited) agreed to pay HK$20 million (or Renminbi equivalent) to the Group for the compensation of the economic loss of, and negative impact on, the failure of running the Zheng Zhou Joint Venture and achieving the profit performance guaranteed. The HK$20 million compensation payment is guaranteed by Mr. Jing personally and shall be paid by 31 December 2010. Mr. Jing also unconditionally agreed to forfeit the share option granted to him in November 2009 under the JV Agreement which enable him to subscribe for 300 million new shares of the Company.

Having disposed of the PU material business and terminated the coal trading cooperation, the Group will focus on its oil and gas business, especially the oil exploitation in Madagascar. The Board is confident and optimistic in the oilfield blocks in Madagascar and will continue to exploit the oilfield blocks. The Board will also seek for other suitable business or investment opportunities for the expansion and growth of the Group's oil and gas business.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2010, the Group's total number of staff was 43 (31 March 2010: 52). Salaries of employees are maintained at a competitive level. The staff costs for the period amounted to approximately HK$8.0 million (30 September 2009: HK$7.3 million). The employees' remuneration, promotion and salary are assessed based on work performance and the prevailing market conditions.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation by its internal cash resources and cash generated from its operating activities. As at 30 September 2010, the Group had total assets of approximately HK$8,740.4 million (31 March 2010: HK$8,742.0 million) and current assets of approximately HK$203.5 million (31 March 2010: HK$204.8 million). Total liabilities of the Group were approximately HK$117.0 million (31 March 2010: HK$134.6 million), and current liabilities were approximately HK$115.2 million (31 March 2010: HK$132.8 million), which mainly represents the trade and other payables of approximately HK$101.8 million. The Group did not have any bank borrowings (31 March 2010: Nil) and the Group has a cash and bank balance of approximately HK$47.3 million (31 March 2010: HK$119.7 million). The Group has adequate working capital to finance its business operation. As at 30 September 2010, the Group's gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was 1.36% (31 March 2010: 1.56%), the current ratio of the Group was 1.77 (31 March 2010: 1.54) and quick ratio was 1.77 (31 March 2010: 1.54).

Subsequent to 30 September 2010, the Company entered into a subscription agreement with an investment fund on 4 November 2010 for the subscription of 206,000,000 shares of the Company at HK$0.675 for each subscription share ("Share Subscription"). The Share Subscription was completed in November 2010, as a result, (i) 206,000,000 new shares of the Company were issued to the investment fund at HK$0.675 each ("Subscription Shares") under the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 3 September 2010, and (ii) the Company raised approximately HK$139 million which are to be used on the oil and gas business and the exploitation of the oil blocks in Madagascar. The Subscription Shares are subject to a lock-up period of six months from the date of issue.

## CAPITAL COMMITMENT

Given the Group had terminated the coal trading cooperation with Mr. Jing, the Zheng Zhou Joint Venture will be deregistered and the Group has no more capital commitment in the Zheng Zhou Joint Venture.

For the exploitation of the Oilfield Block 3113, the 3113 Management Committee further invested approximately US$45 million in the drilling exploitation, and in November 2010, the Group had contributed approximately HK$109.5 million for its part.

Save for the abovementioned, the Group has no other material commitment as at 30 September 2010.

## PLEDGE OF ASSETS

As at 30 September 2010, none of the Group's asset was pledged (31 March 2010: Nil).

## CONTINGENT LIABILITY

As at 30 September 2010, the Group did not have any contingent liabilities (31 March 2010: Nil)

## FOREIGN EXCHANGE AND INTEREST RATE EXPOSURE

Since the Group's transactions and investment are mostly denominated in Hong Kong Dollars, United Stated Dollars, and Renminbi, the Group does not anticipate material foreign exchange exposure and risk, and no foreign exchange and interest rate risk management or related hedges were made, proper policy will be in place when the Board considers appropriate.

## LITIGATION

As at 30 September 2010, the Group has no litigation.

## MATERIAL ACQUISITION

The Group entered into an agreement in April 2010 for the acquisition of certain patents ("Patents Acquisition") in respect of the solar power pest control products at a total consideration of HK$140 million, while the Group later on noticed potential legal risk in associate with the Patents Acquisition, and the Group entered into a supplemental agreement on 16 June 2010 with the vendor to terminate the Patents Acquisition.

On 22 September 2010, the Group entered into a non-legally binding framework agreement with Taiyuan City Cheng Cheng Petroleum Limited（太原市誠成石油有限公司）("Cheng Cheng Petroleum") for a possible investment of 65% equity interest in Cheng Cheng Petroleum by way of capital injection of RMB200 million. Detail terms of the investment is still in negotiation and no definitive agreement has been reached.

# OTHER INFORMATION

## DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 September 2010, the interests and short positions of the Directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### Interests and short positions in shares, underlying shares and debentures of the Company

| Name of Director | Nature of Interest | Long position/ Short position | Number of ordinary shares of the Company held | Approximate percentage of the issued ordinary share capital of the Company |
|---|---|---|---|---|
| Dr. Zhuo Ze Fan | Interest of controlled corporation *(Note)* | Long position | 1,308,892,355 | 21.41% |

*Note:* These shares are held through by Shaanxi Daqinling Energy and Investment Group Limited, a company wholly and beneficially owned by Dr. Zhuo Ze Fan.

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

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, the interests of persons, other than a Director or chief executive of the Company, in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

| Name | Capacity | Long position/ Short position | Number of ordinary shares of the Company held | Approximate percentage of the issued ordinary share capital of the Company |
|---|---|---|---|---|
| Shaanxi Yanchang Petroleum (Group) Limited | Beneficial Interest | Long position | 917,019,547 | 15.00% |
| Yunnan Kaiyuan Oil & Gas Drilling Engineering Co., Limited | Beneficial Interest | Long position | 305,673,200 | 5.00% |

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company as at 30 September 2010.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"), further details of which are set out in Note 17 to the consolidated financial statements.

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

During the six months ended 30 September 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE PRACTICE

The Board is committed to achieve a high standard of corporate governance with a view to enhance the management of the Company as well as to safeguard the interests of the shareholders as a whole in terms of transparency, independence, accountability, responsibilities and fairness. In the opinion of the Board, the Company had complied with the code provision set out in the Code on Corporate Governance Practices ("CG Code") in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six months ended 30 September 2010, except for the following:

1. code provision A.2.1 of the CG Code provides that the roles and responsibilities of chairman and chief executive officer should be divided. As Dr. Zhuo Ze Fan, Chairman of the Company, was only appointed as Chief Executive Officer of the Company on 25 November 2010, the roles and functions of the chief executive officer have been performed by the Board collectively prior to his appointment;

2. code provision A.4.1 of the CG Code provides that the non-executive directors should be appointed for a specific term. Messrs. Leung Ting Yuk and Ng Wing Ka, the non-executive Directors of the Company, are not appointed for a specific term but they are subject to retirement by rotation at least once every three years in accordance with the Bye-Laws; and

3. code provision A.3 of the CG Code provides that the Board should include a balanced composition of executive and non-executive directors. Following the retirement of Dr. Yu Sun Say, an independent non-executive Director, on 3 September 2010, the Board has only two independent non-executive Directors which fell below the minimum number required under Rule 3.10(1) of the Listing Rules. The Company has appointed Mr. Ng Tang as an independent non-executive Director on 25 November 2010 to meet the above requirement.

Save as mentioned above, in the opinion of the Directors, the Company had met with the CG Code during the six months ended 30 September 2010.

## AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which comprises three independent non-executive Directors, namely, Mr. Leung Ting Yuk (as chairman), Mr. Ng Wing Ka and Mr. Ng Tang and was established in accordance with the requirements of the CG Code for the purposes of reviewing and provide supervision over the Group's financial reporting process and internal controls.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2010 have been reviewed by the Audit Committee.

## MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

Having made specific enquiry of all Directors of the Company, they confirmed that they have complied with the required standards as set out in the Model Code as its code of conduct regarding directors' securities transactions with the Company for the six months ended 30 September 2010.

By Order of the Board
**Sino Union Energy Investment Group Limited**
**Dr. Zhou Ze Fan**
*Chairman*

Hong Kong, 30 November 2010