延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 00346

INTERIM REPORT 2012

CORPORATE INFORMATION

Executive Directors
Mr. Zhang Kaiyong *(Chairman)*
Dr. William Rakotoarisaina *(Vice Chairman)*
Mr. Ren Yansheng *(Chief Executive Officer)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Da Wei
Mr. Yang Jie
Mr. To Kwan

Independent Non-executive Directors
Mr. Ng Wing Ka
Mr. Leung Ting Yuk
Mr. Sun Liming

Company Secretary
Mr. Law Hing Lam

Audit Committee
Mr. Leung Ting Yuk *(Chairman)*
Mr. Ng Wing Ka
Mr. Sun Liming

Remuneration Committee
Mr. Sun Liming *(Chairman)*
Mr. Leung Ting Yuk
Mr. Hui Bo

Nomination Committee
Mr. Ng Wing Ka *(Chairman)*
Mr. Sun Liming
Mr. Hui Bo

Authorised Representatives
Mr. Hui Bo
Mr. Law Hing Lam

Auditors
HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants
31/F., Gloucester Tower
The Landmark, 11 Pedder Street
Central
Hong Kong

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Bermuda Principal Share Registrar and Transfer Office
HSBC Securities Services (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 Center
28 Queen's Road East
Hong Kong

Principal Bankers
Bank of China
Shanghai Pudong Development Bank
China Minsheng Bank Corporation Limited
DBS Bank (Hong Kong) Limited

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Stock Code
00346

Website
www.yanchangpetroleum.com

The board of directors (the "Board") of Yanchang Petroleum International Limited (formerly known as Sino Union Energy Investment Group Limited) (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012 together with the unaudited comparative figures for the six months ended 30 September 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 (Unaudited) *HK$'000*	Six months ended 30 September 2011 (Unaudited) *HK$'000*
Turnover	*4*	**647,302**	321,869
Cost of sales		**(641,931)**	(314,581)
Gross profit		**5,371**	7,288
Other revenue	*4*	**1,002**	244
Other gains and losses	*5*	**(30,279)**	2,790
Selling and distribution costs		**(1,642)**	(3,862)
Administrative expenses		**(24,198)**	(20,802)
Equity-settled share option expenses		**(97)**	(152,643)
Loss from operating activities		**(49,843)**	(166,985)
Finance costs	*6*	**(8,517)**	—
Loss before taxation	*7*	**(58,360)**	(166,985)
Taxation	*8*	**—**	(391)
Loss for the period		**(58,360)**	(167,376)
Other comprehensive (loss)/income			
Exchange differences arising on translation of foreign operations		**(427)**	2,881
Other comprehensive (loss)/income for the period, net of tax		**(427)**	2,881
Total comprehensive loss for the period		**(58,787)**	(164,495)
Loss attributable to			
— Owners of the Company		**(54,116)**	(167,376)
— Non-controlling interests		**(4,244)**	—
		(58,360)	(167,376)
Total comprehensive loss attributable to			
— Owners of the Company		**(53,734)**	(164,495)
— Non-controlling interests		**(5,053)**	—
		(58,787)	(164,495)
Loss per share			
— Basic, HK cents	*10*	**(0.80)**	(2.65)
— Diluted, HK cents	*10*	**(0.80)**	(2.65)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**140,299**	143,875
Prepaid lease payments		**20,818**	21,247
Investment properties	12	**35,467**	39,652
Intangible assets	13	**314,288**	316,693
Exploration and evaluation assets	14	**8,561,850**	8,546,675
Available-for-sale investment	15	**196,072**	73,950
Goodwill		**51,418**	51,418
		9,320,212	9,193,510
Current assets			
Inventories	16	**109,098**	106,054
Trade receivables	17	**218**	46
Prepayments, deposits and other receivables	18	**118,036**	31,643
Pledged deposits	19	**76,986**	49,300
Cash and bank balances	19	**23,889**	29,485
		328,227	216,528
Total assets		**9,648,439**	9,410,038
EQUITY			
Capital and reserves			
Share capital	20	**136,911**	130,911
Reserves		**8,830,577**	8,741,714
Equity attributable to owners of the Company		**8,967,488**	8,872,625
Non-controlling interests		**88,684**	93,737
Total equity		**9,056,172**	8,966,362
LIABILITIES			
Current liabilities			
Trade, bills and other payables	21	**289,734**	120,288
Tax payable		**22,666**	23,314
Promissory note	22	**84,654**	84,654
Borrowings	23	**110,506**	129,995
		507,560	358,251
Non-current liability			
Deferred taxation		**84,707**	85,425
Total liabilities		**592,267**	443,676
Total equity and liabilities		**9,648,439**	9,410,038
Net current liabilities		**(179,333)**	(141,723)
Total assets less current liabilities		**9,140,879**	9,051,787

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company										
		Reserves									
	Share capital HK$'000	Share premium HK$'000 (Note i)	Contributed surplus HK$'000 (Note ii)	Exchange reserve HK$'000	Revaluation reserve HK$'000 (Note iii)	Reserve on acquisition of additional interests in a subsidiary HK$'000	Share option reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2011 (Audited)	126,389	5,739,931	3,156	26,626	385,000	2,286,365	1,877	188,900	8,631,855	1,778	8,760,022
Loss for the period	–	–	–	–	–	–	–	(167,376)	(167,376)	–	(167,376)
Other comprehensive income for the period	–	–	–	2,881	–	–	–	–	2,881	–	2,881
Total comprehensive income/(loss) for the period	–	–	–	2,881	–	–	–	(167,376)	(164,495)	–	(164,495)
Acquisition of additional interest in a subsidiary	–	–	–	(57)	–	(1,100)	–	–	(1,157)	(1,778)	(2,935)
Release upon disposal of subsidiaries	–	–	–	68	–	–	–	–	68	–	68
Equity-settled share option expenses	–	–	–	–	–	–	152,643	–	152,643	–	152,643
At 30 September 2011 (Unaudited)	126,389	5,739,931	3,156	29,518	385,000	2,285,265	154,520	21,524	8,618,914	–	8,745,303
At 1 January 2012 (Audited)	**130,911**	**5,859,769**	**3,156**	**9,896**	**385,000**	**2,285,265**	**159,063**	**39,565**	**8,741,714**	**93,737**	**8,966,362**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(54,116)**	**(54,116)**	**(4,244)**	**(58,360)**
Other comprehensive loss for the period	**–**	**–**	**–**	**382**	**–**	**–**	**–**	**–**	**382**	**(809)**	**(427)**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**382**	**–**	**–**	**–**	**(54,116)**	**(53,734)**	**(5,053)**	**(58,787)**
Acquisition of additional interests in available-for-sale investment	**6,000**	**142,500**	**–**	**–**	**–**	**–**	**–**	**–**	**142,500**	**–**	**148,500**
Equity-settled share option expenses	**–**	**–**	**–**	**–**	**–**	**–**	**97**	**–**	**97**	**–**	**97**
At 30 June 2012 (Unaudited)	**136,911**	**6,002,269**	**3,156**	**10,278**	**385,000**	**2,285,265**	**159,160**	**(14,551)**	**8,830,577**	**88,684**	**9,056,172**

Notes:

(i) The share premium account of the Group includes (i) shares issued at premium of HK$4,239,210,000 (31 December 2011: HK$4,030,410,000); and (ii) special reserve of HK$1,763,059,000 (31 December 2011: HK$1,829,359,000). Included in the share premium debited amount of HK$66,300,000 represents the difference between the fair value and the contracted value of the consideration shares paid for acquisition of additional interests in available-for-sale investment during the period ended 30 June 2012.

(ii) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a reorganisation scheme ("the Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

(iii) 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 interests during the year ended 31 March 2008.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended	
	30 June 2012 (Unaudited)	30 September 2011 (Unaudited)
	HK$'000	*HK$'000*
Net cash generated from operating activities	**20,666**	15,221
Net cash used in investing activities	**(1,798)**	(2,159)
Net cash used in financing activities	**(26,897)**	—
Net (decrease)/increase in cash and cash equivalents	**(8,029)**	13,062
Cash and cash equivalents at beginning of the period	**29,485**	103,000
Effect of exchange rate changes on the balance of cash held in foreign currencies	**2,433**	2,835
Cash and cash equivalents at end of the period	**23,889**	118,897
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**23,889**	118,897

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2011 as contained in the Company's annual report 2011 (the "Annual Report 2011"), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs").

These unaudited condensed consolidated financial statements are presented in HK dollars ("HK$"). All values are rounded to the nearest thousand, unless otherwise stated. These unaudited condensed consolidated financial statements were approved for issue on 30 August 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies adopted in the unaudited condensed consolidated financial statements for the period from 1 January 2012 to 30 June 2012 are consistent with those followed in the preparation of the Annual Report 2011 except for the impact of the adoption of the new and revised standards, amendments and interpretations (the "new HKFRSs").

In the current period, the Group has applied, for the first time, a number of the new HKFRSs issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2012. A summary of the new HKFRSs are set out as below:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets

The application of the above new HKFRSs had no material effect on the results and financial positions of the Group for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements 2009–2011 Cycle[2]
HKFRS 1 (Amendments)	Government Loans[2]
HKFRS 7 (Amendments)	Disclosure — Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 9 & HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 10, HKFRS 11 & HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities — Transition Guidance[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of assessing the potential impact of the above new HKFRSs upon initial application but is not yet in a position to state whether the above new HKFRSs will have a significant impact on the Group's result of operations and financial position.

3. SEGMENT INFORMATION

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

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

(b) the oil and gas exploration, exploitation and operation segment involves oil and gas exploration, exploitation and operation. During the six months ended 30 June 2012 and 30 September 2011, this segment did not generate any revenue or profit to the Group.

3. SEGMENT INFORMATION (CONTINUED)

Segments revenue and results

	Supply and procurement operation For the six months ended		Oil and gas exploration, exploitation and operation For the six months ended		Consolidated For the six months ended	
	30 June 2012	30 September 2011	**30 June 2012**	30 September 2011	**30 June 2012**	30 September 2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue:						
Sales to external customers	**647,302**	321,869	**—**	—	**647,302**	321,869
Segment results	**(6,964)**	3,165	**(1,725)**	(5,129)	**(8,689)**	(1,964)
Other revenue					**1,002**	244
Equity-settled share option expenses					**(97)**	(152,643)
Loss on disposal of subsidiaries					**—**	(210)
Loss on sale of available-for-sale investment					**(26,378)**	—
Reimbursement of share option expenses					**—**	3,000
Written off of investment property					**(3,901)**	—
Unallocated corporate expenses					**(11,780)**	(15,412)
Loss from operating activities					**(49,843)**	(166,985)
Finance costs					**(8,517)**	—
Loss before taxation					**(58,360)**	(166,985)
Taxation					**—**	(391)
Loss for the period					**(58,360)**	(167,376)

Revenue reported was generated from external customers. There were no inter-segment sales for the six months ended 30 June 2012 and 30 September 2011.

Segment loss represents the loss incurred by each segment without allocation of other revenue and corporate expenses including staff costs, finance costs, equity-settled share option expenses, written off of investment property and loss on sale of available-for-sale investment. 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 assets and liabilities

	Supply and procurement operation		Oil and gas exploration, exploitation and operation		Consolidated	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment assets	**812,052**	692,828	**8,830,673**	8,709,141	**9,642,725**	9,401,969
Unallocated assets					**5,714**	8,069
Total assets					**9,648,439**	9,410,038
Segment liabilities	**479,925**	343,754	**6,707**	1,672	**486,632**	345,426
Unallocated liabilities					**105,635**	98,250
Total liabilities					**592,267**	443,676

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than other corporate financial assets; and goodwill is allocated to the supply and procurement operation segment.
- all liabilities are allocated to reportable segments other than other corporate financial liabilities.

4. TURNOVER AND OTHER REVENUE

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

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

	Six months ended	
	30 June 2012	30 September 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Turnover		
Sale of fuel oil related products	**647,302**	321,869

4. TURNOVER AND OTHER REVENUE (CONTINUED)

	Six months ended 30 June 2012 HK$'000 (Unaudited)	Six months ended 30 September 2011 HK$'000 (Unaudited)
Other revenue		
Bank interest income	**842**	244
Rental income	**159**	—
Others	**1**	—
	1,002	244

5. OTHER GAINS AND LOSSES

	Six months ended 30 June 2012 HK$'000 (Unaudited)	Six months ended 30 September 2011 HK$'000 (Unaudited)
Loss on sale of available-for-sale investment	**(26,378)**	—
Written off of investment property	**(3,901)**	—
Loss on disposal of subsidiaries	**—**	(210)
Reimbursement of share option expenses	**—**	3,000
	(30,279)	2,790

6. FINANCE COSTS

	Six months ended 30 June 2012 HK$'000 (Unaudited)	Six months ended 30 September 2011 HK$'000 (Unaudited)
Interest expenses on bank borrowings wholly repayable within five years	**5,445**	—
Interest expenses on bills payable	**3,072**	—
	8,517	—

7. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging:

	Six months ended 30 June 2012 HK$'000 (Unaudited)	Six months ended 30 September 2011 HK$'000 (Unaudited)
Cost of inventories sold	**641,931**	314,581
Depreciation of property, plant and equipment	**3,395**	519
Amortisation of prepaid lease payments	**256**	10
Minimum lease payments under operating lease of rented premises	**2,252**	1,933
Staff costs (including directors' remuneration):		
— Salaries and wages	**5,194**	5,307
— Pension scheme contributions	**71**	81
Equity-settled share option expenses	**97**	152,643

8. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits for the period (for the six months ended 30 September 2011: 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 June 2012 HK$'000 (Unaudited)	Six months ended 30 September 2011 HK$'000 (Unaudited)
Current taxation		
Charge for the period — Overseas	—	391

9. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividends in respect of the six months ended 30 June 2012 (for the six months ended 30 September 2011: Nil).

10. LOSS PER SHARE

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

	Six months ended	
	30 June 2012	30 September 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(54,116)**	(167,376)

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share for the six months ended 30 June 2012 was approximately 6,761,507,000 (for the six months ended 30 September 2011: 6,319,464,000).

Diluted loss per share for the six months ended 30 June 2012 and for the six months ended 30 September 2011 were the same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options was anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

	Building HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
At 31 December 2011 and 1 January 2012 (Audited)	132,660	2,999	1,411	5,127	4,925	147,122
Additions	—	10	249	3	1,896	2,158
Disposal	—	—	—	(1,786)	—	(1,786)
Effect of foreign currency exchange differences	(1,139)	161	8	7	(37)	(1,000)
At 30 June 2012 (Unaudited)	131,521	3,170	1,668	3,351	6,784	146,494
Accumulated depreciation						
At 31 December 2011 and 1 January 2012 (Audited)	553	99	313	2,282	—	3,247
Charge for the period	2,262	155	142	836	—	3,395
Eliminated on disposal	—	—	—	(643)	—	(643)
Effect of foreign currency exchange differences	1	186	9	—	—	196
At 30 June 2012 (Unaudited)	2,816	440	464	2,475	—	6,195
Net book value						
At 30 June 2012 (Unaudited)	**128,705**	**2,730**	**1,204**	**876**	**6,784**	**140,299**
At 31 December 2011 (Audited)	132,107	2,900	1,098	2,845	4,925	143,875

12. INVESTMENT PROPERTIES

	HK$'000
Fair value	
At 31 December 2011 and 1 January 2012 (Audited)	39,652
Written off of investment property	(3,901)
Effect of foreign currency exchange differences	(284)
At 30 June 2012 (Unaudited)	**35,467**

The directors of the Company (the "Directors") consider that the carrying amount of the investment properties are fairly stated as at 30 June 2012.

The properties are held for capital appreciation and are measured using the fair value model and are classified and accounted for as investment properties.

The Group's investment properties are situated in Madagascar and the PRC and are held under long term lease and medium term leases respectively.

13. INTANGIBLE ASSETS

	Refined oil supply agreement HK$'000	Petroleum related business licence HK$'000	Total HK$'000
Cost			
At 31 December 2011 and 1 January 2012 (Audited)	282,243	249,842	532,085
Effect of foreign currency exchange differences	(2,405)	—	(2,405)
At 30 June 2012 (Unaudited)	279,838	249,842	529,680
Accumulated impairment			
At 31 December 2011 (Audited) and 30 June 2012 (Unaudited)	—	215,392	215,392
Carrying amount			
At 30 June 2012 (Unaudited)	**279,838**	**34,450**	**314,288**
At 31 December 2011 (Audited)	282,243	34,450	316,693

13. INTANGIBLE ASSETS (CONTINUED)

The intangible assets represent a petroleum related business licence which allows the Group to carry on the business of import, transportation and distribution of petroleum in Madagascar and a refined oil supply agreement which enables the Group to have stable and sufficient supply of refined oil in the PRC.

Petroleum related business licence

The business licence has a remaining legal life of two to four years but is renewable every five to seven years by paying a fee of HK$1,014,000. The Directors are not aware of any expected impediment with respect to the renewal of the licence and consider that the possibility of failing in licence renewal is remote and the licence will generate net cash inflows for the acquiring entity for an indefinite period. Therefore, the licence is treated as having an indefinite useful life.

The Directors are of the opinion that the accumulated impairment provided in prior year is sufficient to reflect the recoverable amount of the intangible assets as at 30 June 2012 and hence no further impairment is required.

During the period ended 31 December 2011, the Group carried out a review of the recoverable amount of its petroleum related business licence. The review led to the recognition of an impairment loss of HK$5,550,000 that has been recognised in profit or loss for the period. The recoverable amount of the petroleum related business licence has been determined based on approved cash flow projections covering 12-year period, as the Directors consider that it will take longer period to commence and realise the future economic benefits of the petroleum related business. 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 16.00%.

13. INTANGIBLE ASSETS (CONTINUED)

Refined oil supply agreement

On 26 July 2011 and 1 November 2011, Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum"), the substantial shareholder of the Company, as the supplier has signed a supply agreement and a supplemental agreement respectively (the "Supply Agreement"), agreed to supply and Henan Yanchang Petroleum Sales Co., Limited ("Henan Yangchang"), the indirect non-wholly owned subsidiary of the Company, as the customer has agreed to purchase the refined oil for 3-years starting from 26 July 2011. Details please refer to the announcements dated on 26 July 2011 and 21 November 2011.

The Supply Agreement has a remaining legal life of approximately two years but is renewable another term of every three years under negotiation between both parties, subject to and on the conditions and terms of the Supply Agreement. The Directors are not aware of any expected impediment with respect to the renewal of the Supply Agreement and consider that the possibility of failing in Supply Agreement renewal is remote and the Supply Agreement will generate net cash inflows for the acquiring entity for an indefinite period. Therefore, the Supply Agreement is treated as having an indefinite useful life.

The Directors are of the opinion that no impairment indicator existed as at 30 June 2012 and hence no impairment is needed.

During the period ended 31 December 2011, the Group carried out a review of the recoverable amount of its Supply Agreement. No impairment loss was recognised for the period. The recoverable amount of the Supply Agreement has been determined based on approved cash flow projections covering 7-year period, as the Directors consider that it will reflect more stable growth rate for the refined oil business. Cash flow projections during the budget period are based on the same expected gross margins during the budget period. The discount rate used in measuring value in use was 22.00%.

14. EXPLORATION AND EVALUATION ASSETS

	Total *HK$'000*
Cost	
At 31 December 2011 and 1 January 2012 (Audited)	12,303,734
Additions arising from jointly controlled operation	15,175
At 30 June 2012 (Unaudited)	12,318,909
Accumulated impairment	
At 31 December 2011 and 1 January 2012 (Audited) and 30 June 2012 (Unaudited)	3,757,059
Carrying amount	
At 30 June 2012 (Unaudited)	**8,561,850**
At 31 December 2011 (Audited)	8,546,675

Notes:

i. The exploration and evaluation assets represent the oil and gas exploration, exploitation and operations rights and profit sharing rights (the "Exploration Rights") at the Oilfield Block 2104 and the Oilfield Block 3113 in Madagascar, onshore sites for oil and gas exploration, exploitation and operation, and expenditure paid for provision of services on activities relating to evaluation of the technical feasibility and commercial viability of extracting oil and gas in the Oilfield Block 2104 and the Oilfield Block 3113.

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

iii. 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 are of the opinion that no further impairment of exploration and evaluation assets was required as at 30 June 2012 and 31 December 2011.

iv. The Group is required to assess at each reporting date any indicator that a previously recognised impairment loss no longer exists or has decreased. If there is such an indication, management should estimate the recoverable amount and determine whether any impairment reversal is appropriate.

v. The Directors are of the opinion that the current short-term oil price movements do not result in an impairment or a reversal of impairment for the long-life Exploration Rights in the Oilfield Block 2104 and the Oilfield Block 3113.

15. AVAILABLE-FOR-SALE INVESTMENT

	30 June 2012 **HK$'000** **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
Unlisted investment, equity securities *(Note)*	**196,072**	73,950

Note:

As at 31 December 2011, the Group originally held 10% of the equity interests of Gold Grand Investment Limited ("Gold Grand"), a company established in Madagascar, at cost of HK$73,950,000.

On 6 January 2012, the Group and Jubilee Star Holdings Limited ("Jubilee Star"), an independent third party of the Group, entered into an agreement to acquire further 30% equity interests in Gold Grand. Pursuant to the agreement, the total consideration for the acquisition was HK$333,060,000 which was satisfied by issuing 300,000,000 shares of the Company (the share price of the Company at the completion date was HK$0.495) and a non-interest bearing promissory note (the "Promissory Note") of principal amount of RMB150,000,000 (approximately of HK$184,560,000) with maturity of 6 months. After further acquisition of 30% equity interests in Gold Grand, the Group was beneficially interested in 40% of the equity interests in Gold Grand.

Later on, the Group and Jubilee Star entered into a supplemental agreement on 31 May 2012 and agreed that the Promissory Note of principal amount of RMB150,000,000 should be fully redeemed by the Company while the equity interests acquired by the Group in Gold Grand would be amended from 30% to 11%. The cost of the disposed 19% equity interests in Gold Grand was HK$210,938,000. As a result, there was a loss of HK$26,378,000 arising on sale of available-for-sale investment.

The Board does not believe that the Group is able to exercise significant influence over Gold Grand, as the remaining equity interests were held by one shareholder, who also manages the day-to-day operations of Gold Grand. Therefore, the investment in Gold Grand was not classified as investment in an associate during the period.

16. INVENTORIES

Inventories represented the merchandise of refined oil products at the end of the reporting period.

17. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30 days (31 December 2011: 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 past due beyond 1 year are generally not recoverable. Trade receivables are non-interest-bearing.

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

	30 June 2012 ***HK$'000*** **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
0 to 30 days	**218**	46

Based on past experience, the Group believes that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. There are no trade receivables which are past due at the end of the reporting period but not impaired. The Group does not hold any collateral or other credit enhancements over these balances.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012 ***HK$'000*** **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
Prepaid lease payments	**512**	517
Prepayments to suppliers of refined oil products	**93,951**	9,677
Other deposits	**343**	78
Other receivables *(Note)*	**23,230**	24,164
	118,036	34,436
Less: Impairment loss of other receivables	**—**	(2,793)
	118,036	31,643

The amounts were recoverable on demand.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Note:

During the period, the Group carried out a review on recoverable amounts of other receivables. No impairment loss (31 December 2011: Nil) has been recognised in profit or loss for the period.

Movement in the provision for impairment loss recognised in respect of other receivables is summarised as follows:

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
At the beginning of the period	**2,793**	2,793
Written-off during the period	**(2,793)**	—
At the end of the period	**—**	2,793

In determining the recoverability of other receivables, the Group considers any change in credit quality of the other receivables from the date credit was initially granted up to the end of the reporting period. The impairment loss recognised represents the difference between the carrying amount of the specific other receivables and the present value of the expected recoverable amount.

19. PLEDGED DEPOSITS/CASH AND BANK BALANCES

Pledged deposits

At the end of the reporting period, pledged deposits represented deposits required and restricted by banks in respect of the issuance of trade bills to certain suppliers. The pledged deposits would be released upon the maturity of the bill payables for which the deposits were pledged.

Cash and bank balances

Included in the cash and bank balances as at 30 June 2012 were amounts in RMB of HK$16,015,000 (31 December 2011: HK$6,206,000) which are not freely convertible into other currencies.

20. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
	'000	*'000*	***HK$'000***	*HK$'000*
			(Unaudited)	(Audited)
Authorised:				
Ordinary shares of HK$0.02 each	**100,000,000**	100,000,000	**2,000,000**	2,000,000
Issued and fully paid:				
At beginning of the period, ordinary shares of HK$0.02 each	**6,545,573**	6,319,464	**130,911**	126,389
Consideration shares *(Note)*	**300,000**	226,109	**6,000**	4,522
At the end of the period, ordinary shares of HK$0.02 each	**6,845,573**	6,545,573	**136,911**	130,911

Note:

During the period ended 30 June 2012, 300,000,000 shares have been issued by the Group to satisfy part of the consideration of the acquisition of 30% equity interests in Gold Grand. Please refer to Note 15 for details.

Share Options

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.

20. SHARE CAPITAL (CONTINUED)

Share Options (continued)

Share Option Scheme (continued)

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.

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 profit or loss over the vesting period with a corresponding increase being recognised in share option reserve. The share option 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 profit or loss 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.

		Number of share options								
Name or category of participant	Option type	At 1 April 2011	Granted during the period	Exercised during the period	Forfeited during the period	At 31 December 2011	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	2004	29,000,000	—	—	(29,000,000)	—	8/11/2004	8/11/2004 to 7/11/2014	0.132	0.13
Employees other than Directors	2010	1,000,000	—	—	—	1,000,000	10/12/2010	10/12/2011 to 9/12/2015	0.7	0.68
	2010	1,000,000	—	—	—	1,000,000	10/12/2010	10/12/2012 to 9/12/2015	0.7	0.68
Consultant	2010	10,000,000	—	—	—	10,000,000	10/12/2010	10/6/2011 to 9/12/2013	0.7	0.68
		41,000,000	—	—	(29,000,000)	12,000,000				

20. SHARE CAPITAL (CONTINUED)

Share Options (continued)

Share Option Scheme (continued)

There were no movements in the Company's share options under the Scheme during the six months ended 30 June 2012. The Scheme was terminated and replaced by a new scheme as detailed below on 31 May 2012. Option granted prior to such termination will continue to be valid and exercisable in accordance with the rules of the Scheme.

New Share Option Scheme

In view of the termination of the Scheme, the Company has approved for the adoption of a new share option scheme ("the New Scheme") on 31 May 2012.

The New Scheme operates 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 New Scheme included the Directors and other employees of the Group. The New Scheme was adopted on 31 May 2012 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 New Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the New 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.

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 New 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.

No share option was granted under the New Scheme during the six months ended 30 June 2012.

21. TRADE, BILLS AND OTHER PAYABLES

	30 June 2012 *HK$'000* **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
Trade payables	—	264
Bills payables	**183,300**	98,600
Deposit received in advance from fuel oil customers	**90,178**	12,015
Other payables	**16,256**	9,409
	289,734	120,288

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

	30 June 2012 *HK$'000* **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
0 to 30 days	—	264

The trade payables are non-interest bearing and have an average credit period on purchase of one to three months (31 December 2011: one to three months).

The bills payables are with maturity period of six months as at 30 June 2012 (31 December 2011: four to six months). The outstanding bills payables as at 30 June 2012 will be matured in December 2012 (31 December 2011: were matured on February 2012).

At 30 June 2012, bills payables were secured by pledged deposits of HK$76,986,000 (31 December 2011: HK$49,300,000).

22. PROMISSORY NOTE

On 1 November 2011, the Group issued a promissory note in a principal amount of HK$84,654,000 for acquiring the entire issued share capital of Forever Peace Investment Limited. The promissory note is interest-free and was originally matured on 30 April 2012. However, the Group had negotiated with the holder of the promissory note and agreed that the Group was not required to repay the promissory note upon the maturity date and became repayable on demand.

22. PROMISSORY NOTE (CONTINUED)

On 6 January 2012, as part of the consideration for the acquisition of 30% equity interests in Gold Grand, the Group issued another non-interest bearing promissory note of principal amount of RMB150,000,000 (approximately of HK$184,560,000) with maturity of 6 months. Later on, on 31 May 2012, such promissory note was fully redeemed by the Company while the equity interests acquired by the Group in Gold Grand amended from 30% to 11%.

23. BORROWINGS

	30 June 2012 ***HK$'000*** **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
Other borrowings	**12,746**	6,746
Bank borrowings	**97,760**	123,249
	110,506	129,995

24. COMMITMENTS

The Group had capital commitments to pay sub-pipeline construction fees under Henan Yanchang amounted to HK$646,000 in total, which were contracted but not provided for as at 30 June 2012 (31 December 2011: HK$788,000).

25. CONTINGENT LIABILITIES

As at 30 June 2012, the Group had no contingent liability (31 December 2011: Nil).

26. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, during the period ended 30 June 2012, the Group had entered into the following transactions with related parties which, in the opinion of the Directors, were carried out in the ordinary and usual course of the Group's business.

Remuneration for key personnel management, including emoluments paid to the Directors and certain highest paid employee, are as follows:

Key management personnel

	Six months ended	
	30 June 2012 *HK$'000* **(Unaudited)**	30 September 2011 *HK$'000* (Unaudited)
Salaries and allowance	**1,149**	1,191
Mandatory provident fund	**5**	6
	1,154	1,197

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECT

In recent years, the Company has been tapping into overseas markets of oil and gas resources for sustainable business growth. The drilling of the 4 exploration wells (namely SKL-2, SKL-2n, BKM-1 and BKM-2) in the Oilfield Block 3113 located onshore in Madagascar had been completed in 2011 and satisfactory oil and gas logging results were obtained. The Company will pick up its pace of exploration and exploitation in the Oilfield Blocks 3113 and 2104 in Madagascar.

Whilst stepping up its efforts in exploring overseas oil and gas assets, the Company will also enhance its refined oil operations in the PRC. Henan Yanchang, which was acquired by the Group last year, secures stable supply of refined oil from the Company's major shareholder — Yanchang Petroleum, with a favorable pricing term. Levering on the continuous support from Yanchang Petroleum, the Board believes that the refined oil business in the PRC can grow rapidly and will soon achieve economy of scale so as to generate stable returns and cash flows for the Group.

During the period under review, the Group further acquired 11% equity interests in Gold Grand from Jubilee Star, an independent third party. Together with the previously acquired 10% equity interests from Jubilee Star in late last year, the Group then holds 21% equity interests in Gold Grand. Gold Grand has a freehold land and also holds a business operation right grant by the government of Madagascar in relation to the development of industrial district for the provision of processing, production and sales of relevant energy and utilities businesses in Madagascar. In view of the rapid development of the oilfields in Madagascar along with pressing demand of energy for its industrial development, the government of Madagascar has been actively supporting the industrial development district and energy utilities projects. The Board is optimistic on the industrial and economic development of Madagascar, and believes the project will provide favorable conditions to facilitate the development of the Group's oilfields in Madagascar and create operating synergy in the long run.

The Company has established a closer strategic relationship with Yanchang Petroleum by appointing the latter's senior management as its executive directors in April 2012. Those senior management staff as recommended by Yanchang Petroleum acquainted with extensive experience in petroleum industry to join the Board will enhance the expertise and capability of the Board to manage and develop the Group's oil and gas business.

Besides, the recent change of the Company's name from Sino Union Energy Investment Group Limited to Yanchang Petroleum International Limited in May 2012 marks an important milestone for the development of international business both for the Company and Yanchang Petroleum. With the strong support from Yanchang Petroleum, the Company will serve as a platform for Yanchang Petroleum to expand its overseas business and acquisition. The Company will strengthen its efforts in search of overseas acquisition opportunities, while oil and gas assets in politically stable zone as well as already commenced production will be the Company's primary target for acquisition. The Company will strive to become an international energy enterprise through dynamic expansion in the overseas business and investment.

FINANCIAL REVIEW

For the period under review, the Group's operating segments comprised (i) storage, transportation, supply and procurement of fuel oil and (ii) oil and gas exploration, exploitation and operation. Due to the change of financial year end date from 31 March to 31 December for the Group, current period covered six months from 1 January to 30 June 2012 as compared to that of last period covered six months from 1 April to 30 September 2011.

All the turnover of the Group was derived from fuel oil trading and distribution business in the PRC during the six months ended 30 June 2012. Sales doubled from the last period of HK$321,869,000 to HK$647,302,000 for the period under review. The increase mainly came from the refined oil business in Henan Province of the PRC acquired by the Group in last year. Under the circumstances of high volume sales with slim margin, despite the higher sales volume, the overall gross profit margin for trading and distribution of fuel oil dropped from the last period of 2.3% to the current period of 0.8% and gross profit of HK$5,371,000 recorded for the period under review (for the six months ended 30 September 2011: HK$7,288,000).

In addition to the profit from trading and distribution of fuel oil, there were other net loss of HK$30,279,000 recorded for the period under review which represented mainly the one-off loss on disposal of 19% interests in the industrial development district project in Madagascar held by the Group.

Selling and distribution costs had been reduced from the last period of HK$3,862,000 to the current period of HK$1,642,000 due to mainly the saving on commission and handling expenses.

The increase in administrative expenses amounted to HK$3,396,000 during the period under review was mainly attributable to the inclusion of administrative expenses incurred by the refined oil business in Henan Province acquired by the Group last year.

Equity-settled share option expenses had been significantly decreased by HK$152,546,000 to HK$97,000. The huge share option expenses of the last period, which was merely an one-off non-cash accounting charge, incurred mainly in respect of 1 billion share options granted to Yanchang Petroleum in June 2011.

Finance costs of about HK$8,517,000 were interest expenses incurred for bills and bank borrowings from Henan Yanchang in support of running the refine oil business in the PRC.

In the absence of the huge share option expenses, the loss of the Group had been substantially reduced from the last period of HK$167,376,000 to the current period of HK$58,360,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by bank borrowings together with its internal resources for the six months ended 30 June 2012.

The Group had outstanding bank borrowings of HK$97,760,000 under Henan Yanchang as at 30 June 2012 (31 December 2011: HK$123,249,000). As at 30 June 2012, the Group had cash and bank balances of HK$23,889,000 (31 December 2011: HK$29,485,000) and pledged deposits of HK$76,986,000 (31 December 2011: HK$49,300,000). With the available bank facilities, the Group has sufficient working capital to finance its business operation.

As at 30 June 2012, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, remained in a low and healthy ratio of 6.5% (31 December 2011: 4.9%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities, was higher than 60% as at 31 December 2011 and stood at 65% as at 30 June 2012.

TREASURY MANAGEMENT AND POLICIES

The Group adopts a prudent approach for its cash management and risk control. The objective of the Group's treasury policies is to minimise risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates.

Cash has been generally placed in short-term deposits denominated in Hong Kong dollar, US dollar and Renminbi. The Group has obtained bank facilities and borrowings with a stable interest rate, though on floating basis. The Group does not foresee any significant interest rate risks. Since the Group's transactions and investment are mostly denominated in Hong Kong dollar, United Stated dollar and Renminbi, of which the exchange rates are relatively stable, and hence the Group does not anticipate any material foreign exchange exposures and risks.

During the period under review, no hedging transactions related to foreign exchange had been made, proper steps will be taken when the management considers appropriate.

MATERIAL ACQUISITIONS AND DISPOSALS

On 6 January 2012, the Group and Jubilee Star, an independent third party, entered into an agreement for the acquisition of 30% equity interests in Gold Grand. Pursuant to the agreement, 300,000,000 shares of the Company at HK$0.716 each and the promissory note in the principal amount of RMB150,000,000 have been issued to satisfy the consideration. Later on, the Group and Jubilee Star entered into a supplemental agreement on 31 May 2012 and agreed that the said promissory note should be fully redeemed by the Company while the equity interests acquired by the Group in Gold Grand would be amended from 30% to 11%. Together with the previously acquired 10% equity interests from Jubilee Star in December 2011, the Group then holds 21% equity interests in Gold Grand. Gold Grand has a freehold land and also holds a business operation right grant by the government of Madagascar in relation to the development of industrial district for the provision of processing, production and sales of relevant energy and utilities businesses in Madagascar.

Save as the aforesaid, the Group had no other material acquisitions and disposals for the six months ended 30 June 2012.

SIGNIFICANT INVESTMENTS

Save as the investment in Gold Grand mentioned above, the Group did not hold any significant investments during the six months ended 30 June 2012.

CAPITAL COMMITMENT

As at 30 June 2012, the Group had committed to pay the balances of a sub-pipeline construction fees amounted to HK$646,000 (31 December 2011: HK$788,000).

Save as the aforesaid, the Group did not have any other material commitments as at 30 June 2012.

PLEDGE OF ASSETS

As at 30 June 2012, certain cash held by Henan Yanchang had been pledged in favour of banks in the PRC against the bill payables amounted to HK$183,300,000 (31 December 2011: HK$98,600,000).

CONTINGENT LIABILITY

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

LITIGATION

As at 30 June 2012, the Group had no litigation.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, the Group's total number of staff was around 80 (31 December 2011: 90). Salaries of employees are maintained at a competitive level with total staff costs (excluding the equity-settled share-based expenses) for the six months ended 30 June 2012 amounted to HK$5,265,000 (for the six months ended 30 September 2011: HK$5,388,000). Remuneration policy is based on principle of equality, motivation, performance and prevailing market practice and remuneration packages are normally reviewed on an annual basis. Other staff benefits including provident fund, medical insurance coverage and share option scheme are offered to the employees. No share options were granted to the eligible participants under the Company's share option scheme during the period under review and there were outstanding share options of 12,000,000 as at 30 June 2012 (31 December 2011: 12,000,000).

INTERIM DIVIDEND

The Board resolved not to declare the payment of interim dividend for the six months ended 30 June 2012 (for the six months ended 30 September 2011: Nil).

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 June 2012, 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 (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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the period for the six months ended 30 June 2012 was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, 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:

Interests and short positions of substantial shareholders in shares and underlying shares of the Company

Name	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Yanchang Petroleum *(Note 1)*	Interest of controlled corporation	Long position	2,118,149,547	30.94%
Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") *(Note 1)*	Directly beneficially owned	Long position	1,118,149,547	16.33%
Shaanxi Daqinling Energy and Investment Group Limited *(Note 2)*	Directly beneficially owned	Long position	1,636,575,555	23.91%
Dr. Zhuo Ze Fan *(Note 2)*	Interest of controlled corporation/ beneficially owned	Long position	1,640,605,555	23.97%
Golden Soar Investments Limited ("Golden Soar") *(Note 3)*	Directly beneficially owned	Long position	436,109,400	6.37%

Note 1: Included in the shareholding in which Yanchang Petroleum is interested, Yanchang Petroleum is beneficially interested in 1,118,149,547 Shares (which held these Shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK) and is deemed to be interested in 1,000,000,000 Shares under the SFO by virtue of the share option agreement under which the Company has granted to Yanchang Petroleum the right to subscribe for up to a maximum of 1,000,000,000 Shares at the exercise price of HK$0.716 each within the exercise period as stated in the share option agreement.

Note 2: These 1,636,575,555 Shares are held through by Shaanxi Daqinling Energy and Investment Group Limited, a company wholly and beneficially owned by Dr. Zhuo Ze Fan ("Dr. Zhuo") who is deemed to be interested in these Shares under the SFO. Besides, Dr. Zhuo is personally and beneficially interested in 4,030,000 Shares.

Note 3: Pursuant to a sale and purchase agreement dated 26 July 2011 (the "Acquisition Agreement") entered into between Sino Union Energy International Limited (a wholly-owned subsidiary of the Company) (as the purchaser) and Golden Soar (as the vendor), the Company has issued and allotted 226,109,400 consideration Shares to Golden Soar at the issue price of HK$0.73 per consideration Share; and granted to Golden Soar the right to subscribe for up to a maximum of 210,000,000 option Shares at the exercise price of HK$0.73 per option Share within the exercise period as stipulated in the Acquisition Agreement on completion. As such, Golden Soar is accordingly interested and deemed to be interested in these Shares and underlying Shares under the SFO.

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 June 2012.

SHARE OPTION SCHEME

The Company operates a share option scheme, further details of which are set out in Note 20.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

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 provisions set out in the Code on Corporate Governance Practices (the "Former CG Code") in Appendix 14 of the Listing Rules throughout the period from 1 January 2012 to 31 March 2012, except for the following deviations:

1. code provision A.2.1 of the Former CG Code provides that the roles and responsibilities of chairman ("Chairman") and chief executive officer ("CEO") should be separate. During the three months ended 31 March 2012, Dr. Zhuo assumed the roles of both the Chairman of the Board and the CEO of the Company. Dr. Zhuo has substantial experience in commerce, investments, mergers and acquisitions covering a wide range of businesses which include petroleum, chemical and metal mining, and owns several patents of device and was granted various awards and prizes in the PRC that is essential to fulfilling the role of the Chairman. At the same time, Dr. Zhuo has the appropriate management skills and business acumen that are the pre-requisites for assuming the

role of the CEO in the day-to-day management of the Group. During the three months ended 31 March 2012, the Board was composed of eight executive Directors (including the Chairman) and three independent non-executive Directors with a balance of skills and experience appropriate for the requirements of the Group. The Board considered that there was no need to segregate the roles of the Chairman and the CEO as the balance of power and authority was already ensured by the said Board structure. The Board at that time considered that the combination of the roles of the Chairman and the CEO which were performed by the same individual i.e. Dr. Zhuo, would be beneficial to the overall corporate performance of the Group.

2. code provision A.4.1 of the Former CG Code provides that the non-executive directors should be appointed for a specific term. Messrs. Leung Ting Yuk and Ng Wing Ka, the independent non-executive Directors, were 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 of the Company.

3. code provision A.4.2 of the Former CG Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. In accordance with the Bye-laws of the Company, any Director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting ("AGM") of the Company and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom happens and duration between appointment to fill casual vacancy and the immediate following AGM of the Company is less than one year and is considered to be short.

The Company had also complied with the code provisions set out in the Corporate Governance Code (the "Revised CG Code") (which amended the Former CG Code and took effect on 1 April 2012) in Appendix 14 of the Listing Rules throughout the period from 1 April 2012 to 30 June 2012, except for the following deviations:

1. code provision A.2.1 of the Revised CG Code provides that the roles and responsibilities of chairman ("Chairman") and chief executive officer ("CEO") should be separate. On 1 April 2012, Dr. Zhuo resigned from the positions of both the Chairman of the Board and the CEO of the Company whereas Mr. Zhang Kaiyong was appointed as an executive Director and the Chairman of the Board, but no CEO was being appointed to fill the position pending the appointment of a suitable candidate. On 10 April 2012, Mr. Ren Yansheng was appointed as an executive Director and the CEO of the Company, and the said code provision A.2.1 has been complied with since then.

2. code provision A.4.1 of the Revised CG Code provides that the non-executive directors should be appointed for a specific term. Mr. Ng Wing Ka, an independent non-executive Director, was not appointed for a specific term but he is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

Following the execution of a formal appointment letter as independent non-executive Director between the Company and Mr. Leung Ting Yuk ("Mr. Leung") on 1 April 2012, Mr. Leung was appointed for a terms of two years commencing from 1 April 2012 but is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

3. code provision A.4.2 of the Revised CG Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Details and reasons of the deviation of the said code provision are the same as disclosed above regarding the deviation of the code provision A.4.2 of the Former CG Code.

4. code provision A.6.7 of the Revised CG Code provides that independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Mr. Leung Ting Yuk, was unable to attend the annual general meeting of the Company held on 25 May 2012 due to other ad hoc business engagements.

AUDIT COMMITTEE

The Audit Committee currently comprises the three independent non-executive Directors, namely Mr. Leung Ting Yuk, Mr. Ng Wing Ka and Mr. Sun Liming. Mr. Leung Ting Yuk is the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control and financial reporting matters. The Audit Committee has reviewed the unaudited condensed interim financial statements of the Group for the six months ended 30 June 2012.

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 June 2012.

DISCLOSURE ON CHANGE OF INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

1. With effect from 10 April 2012, Mr. Ren Yansheng (an executive Director and the CEO of the Company), Mr. Hui Bo and Mr. Yang Jie (both executive Directors) were appointed as directors of the Company's subsidiary, Henan Yanchang Petroleum Sales Co., Limited.

2. With effect from 15 May 2012, Mr. Ren Yansheng and Mr. To Kwan (executive Director) were appointed as directors of the following Company's subsidiaries:

    (i) Active Sino Group Limited

    (ii) Allied Harvest Holdings Limited

    (iii) Asia Victory Group Limited

    (iv) Better Step Group Limited

    (v) Deno Group Limited

    (vi) Dolaway Group Limited

    (vii) Double High Group Limited

    (viii) Forever Mind Limited

    (ix) Forever Peace Investment Limited

    (x) Metro City Group Limited

    (xi) Rich Theme Holdings Limited

    (xii) Sino Union Energy International Limited

    (xiii) Sino Union Energy (H.K.) Limited

3. With effect from 15 May 2012, Mr. Ren Yansheng and Mr. Hui Bo were appointed as directors of the Company's subsidiaries, Madagascar Energy International Limited and Madagascar Petroleum International Limited.

4. With effect from 23 April 2012, Mr. Ren Yansheng has been provided quarter with monthly rental value amounted to HK$35,000.

By Order of the Board
Yanchang Petroleum International Limited
Mr. Zhang Kaiyong
Chairman

Hong Kong, 30 August 2012