# PetroAsian Energy Holdings Limited
# 中亞能源控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 850 & Warrant code: 344)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2010

The board of directors (the "Board") of PetroAsian Energy Holdings Limited (the "Company") announces that the audited consolidated results for the year ended 31 March 2010 of the Company and its subsidiaries (the "Group") together with the 2009 comparative figures are as follows:

### CONSOLIDATED INCOME STATEMENT
*For the year ended 31 March 2010*

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Revenue | 3 | **307,982** | 399,409 |
| Cost of sales | | **(290,733)** | (378,570) |
| Gross profit | | **17,249** | 20,839 |
| Other income | 4 | **5,129** | 7,233 |
| Other gains and losses | 5 | **(153,110)** | 190,034 |
| Selling and distribution costs | | **(12,770)** | (18,498) |
| Administrative expenses | | **(80,793)** | (67,355) |
| Share-based payments | | **(31,459)** | (13,362) |
| Amortisation of other intangible assets | | **(1,344)** | (102,009) |
| Share of result of an associate | | **(1,075)** | — |
| Finance costs | 6 | **(2,625)** | (5,429) |
| (Loss) profit before income tax | | **(260,798)** | 11,453 |
| Income tax expense | 7 | **(1,739)** | (717) |
| (Loss) profit for the year | 8 | **(262,537)** | 10,736 |
| (Loss) profit for the year attributable to: | | | |
| Owners of the Company | | **(262,348)** | 55,143 |
| Non-controlling interests | | **(189)** | (44,407) |
| | | **(262,537)** | 10,736 |
| (Loss) earnings per share | 9 | | |
| Basic | | **HK(9.65) cents** | HK3.01 cents |
| Diluted | | **HK(9.65) cents** | HK2.98 cents |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the year ended 31 March 2010*

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) profit for the year | **(262,537)** | 10,736 |
| Other comprehensive (expense) income | **(4,335)** | 3,197 |
| Total comprehensive (expense) income for the year | **(266,872)** | 13,933 |
| Total comprehensive (expense) income attributable to: | | |
| Owners of the Company | **(267,176)** | 56,641 |
| Non-controlling interests | **304** | (42,708) |
| | **(266,872)** | 13,933 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2010*

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **99,901** | 216,351 |
| Prepaid lease payments | | **2,748** | 34,551 |
| Investment properties | | **38,415** | 14 |
| Goodwill | | **—** | — |
| Other intangible assets | | **2,043,397** | 2,044,741 |
| Interest in an associate | | **71,846** | — |
| Deposits paid for a jointly controlled operation | | **53,515** | — |
| Deposits paid for long-term assets | | **4,966** | 10,000 |
| Other receivables | | **—** | 9,409 |
| | | **2,314,788** | 2,315,066 |
| **Current assets** | | | |
| Inventories | | **21,033** | 32,625 |
| Prepaid lease payments | | **652** | 1,123 |
| Trade and other receivables | 10 | **117,147** | 112,950 |
| Held-for-trading investments | | **33,334** | 17,720 |
| Derivative financial assets | | **1,318** | 30,385 |
| Tax recoverable | | **8,038** | 6,257 |
| Bank balances and cash | | **393,225** | 30,585 |
| | | **574,747** | 231,645 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **90,767** | 88,758 |
| Derivative financial liabilities | | **70,416** | 94,295 |
| Tax liabilities | | **2,379** | 863 |
| Bank borrowings | | **24,615** | 16,567 |
| | | **188,177** | 200,483 |
| **Net current assets** | | **386,570** | 31,162 |
| **Total assets less current liabilities** | | **2,701,358** | 2,346,228 |

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | HK$'000 |
| **Capital and reserves** | | |
| Share capital | **36,261** | 19,857 |
| Reserves | **2,591,736** | 1,449,924 |
| **Equity attributable to owners of the Company** | **2,627,997** | 1,469,781 |
| **Non-controlling interests** | **4,137** | 820,454 |
| **Total equity** | **2,632,134** | 2,290,235 |
| **Non-current liabilities** | | |
| Bank borrowings | **68,754** | 55,523 |
| Convertible bonds | **—** | — |
| Deferred tax liabilities | **470** | 470 |
| | **69,224** | 55,993 |
| | **2,701,358** | 2,346,228 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

In prior years, the Company's functional currency was Hong Kong dollars ("HK$"). Due to the continuing expansion of the Group's business operations in the PRC and the foreseeable reduction in business operations in Hong Kong, the management reassessed the functional currency of the Company and changed the functional currency from HK$ to Renminbi ("RMB") during the year.

The consolidated financial statements are presented in HK$ as the directors consider that HK$ is the appropriate presentation currency as the management of the Company control and monitor the performance and financial position of the Group by using HK$.

The Company is an investment holding company. The principal activities of its subsidiaries are mainly investment holding, provision of painting service, manufacture and sale of paints, blended solvents and plastic colorants, trading of chemical materials, and exploitation and sales of crude oil.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) — Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) — Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) — Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) — Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) — Int 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that was early adopted for annual periods beginning or after 1 April 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS — Continued

**New and revised HKFRSs affecting presentation and disclosure only**

*HKAS 1 (Revised 2007) Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

*HKFRS 8 Operating Segments*

HKFRS 8 requires the presentation of operating segments in a manner consistent with the internal reports that are regularly reviewed by the Group's chief operating decision maker (see note 3 for details). HKFRS 8 replaces HKAS 14 Segment Reporting which required an entity to identify two sets of segments (business and geographical). The adoption of HKFRS 8 has not resulted in a redesignation of the Group's operating segments.

*Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)*

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[3] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendment) | Classification of Rights Issues[5] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[6] |
| HKFRS 1 (Amendment) | Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters[7] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[6] |
| HKFRS 9 | Financial Instruments[8] |
| HK(IFRIC) — Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC) — Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) — Int 19 | Extinguishing Financial Liabilities with Equity Instruments[7] |

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 February 2010
6 Effective for annual periods beginning on or after 1 January 2010
7 Effective for annual periods beginning on or after 1 July 2010
8 Effective for annual periods beginning on or after 1 January 2013

2. **APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS — Continued**

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

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with early application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and present it as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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

3. **REVENUE AND SEGMENT INFORMATION**

**(a) Segment revenue and results**

The following is an analysis of the Group's revenue and results by operating segments.

*For the year ended 31 March 2010*

| | Paints, blended solvents, chemical materials and plastic colorants | Service contract | Crude oil | Property investment | Segment total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenue | | | | | | | |
| External sales | 271,811 | 20,500 | 6,461 | 9,210 | 307,982 | — | 307,982 |
| Inter-segment sales | 25,764 | 4,418 | — | — | 30,182 | (30,182) | — |
| Total | 297,575 | 24,918 | 6,461 | 9,210 | 338,164 | | 307,982 |
| Segment result | | | | | | | |
| Segment (loss) profit | (122,631) | 1,436 | (16,938) | 2,058 | | | (136,075) |
| Unallocated other income | | | | | | | 440 |
| Unallocated expenses | | | | | | | (121,463) |
| Share of result of an associate | | | | | | | (1,075) |
| Finance costs | | | | | | | (2,625) |
| Loss before income tax | | | | | | | (260,798) |

## 3. REVENUE AND SEGMENT INFORMATION — Continued

### (a) Segment revenue and results — Continued

*For the year ended 31 March 2009*

| | Paints, blended solvents, chemical materials and plastic colorants *HK$'000* | Service contract *HK$'000* | Crude oil *HK$'000* | Property investment *HK$'000* | Segment total *HK$'000* | Eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|---|
| Segment revenue | | | | | | | |
| External sales | 354,722 | 32,685 | 7,722 | 4,280 | 399,409 | — | 399,409 |
| Inter-segment sales | 30,476 | — | — | — | 30,476 | (30,476) | — |
| Total | 385,198 | 32,685 | 7,722 | 4,280 | 429,885 | | 399,409 |
| Segment result | | | | | | | |
| Segment (loss) profit | (63,268) | 4,423 | (156,861) | (2,065) | | | (217,771) |
| Unallocated other income | | | | | | | 262,396 |
| Unallocated expenses | | | | | | | (27,743) |
| Finance costs | | | | | | | (5,429) |
| Profit before income tax | | | | | | | 11,453 |

Segment (loss) profit represents the loss made or profit earned by each segment without allocation of incomes or expenses which are not recurring in nature and unrelated to the Group's operating performance, bank interest income, central administration costs, directors' emoluments, share of result of an associate, changes in fair value of held-for-trading investments and derivative financial instruments and finance costs. This is the measure reported to the chief operating decision maker that is the directors of the Company for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

### (b) Segment assets and liabilities

*Segment assets*

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

| | **2010** ***HK$'000*** | 2009 *HK$'000* |
|---|---|---|
| **Segment assets** | | |
| Paints, blended solvents, chemical materials and plastic colorants | **138,337** | 324,087 |
| Service contract | **14,403** | 22,075 |
| Crude oil | **2,119,872** | 2,088,062 |
| Property investment | **46,197** | 16,596 |
| Total segment assets | **2,318,809** | 2,450,820 |
| Unallocated | **570,726** | 95,891 |
| Consolidated assets | **2,889,535** | 2,546,711 |

## 3. REVENUE AND SEGMENT INFORMATION — Continued

### (b) Segment assets and liabilities — Continued

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments other than, interest in an associate, deposits paid for a jointly controlled operation, deposits paid for long-term assets, held-for-trading investments, derivative financial assets, tax recoverable, bank balances and cash and other corporate assets.

The chief operating decision maker mainly reviews the segment assets for the purposes of resource allocation and performance assessment. An analysis of the Group's liabilities is not regularly reviewed by the chief operating decision maker and hence, the relevant information is not presented accordingly.

### (c) Other segment information

*For the year ended 31 March 2010*

| | Paints, blended solvents, chemical materials and plastic colorants *HK$'000* | Service contract *HK$'000* | Crude oil *HK$'000* | Property investment *HK$'000* |
|---|---|---|---|---|
| Amount included in the measure of segment profit or loss or segment assets: | | | | |
| Additions to non-current assets* | **6,178** | **82** | **18,866** | **126** |
| Depreciation and amortisation | **(13,875)** | **(105)** | **(1,165)** | **(1,159)** |
| Property, plant and equipment written off | **(45,786)** | **—** | **—** | **—** |
| Impairment loss recognised on investment properties | **—** | **—** | **—** | **(14,393)** |
| Impairment loss on trade and other receivables | **(13,725)** | **(1,433)** | **(6,936)** | **—** |
| Loss on disposal of property, plant and equipment | **(122)** | **—** | **(21)** | **—** |

### 3. REVENUE AND SEGMENT INFORMATION — Continued

#### (c) Other segment information — Continued

*For the year ended 31 March 2009*

| | Paints, blended solvents, chemical materials and plastic colorants *HK$'000* | Service contract *HK$'000* | Crude oil *HK$'000* | Property investment *HK$'000* |
|---|---|---|---|---|
| Amount included in the measure of segment profit or loss or segment assets: | | | | |
| Additions to non-current assets* | 23,037 | 556 | 404,024 | 781 |
| Depreciation and amortisation | (15,017) | (120) | (104,390) | — |
| Impairment loss recognised on other intangible assets | (9,340) | — | — | — |
| Impairment loss recognised on goodwill | (929) | — | — | — |
| Impairment loss recognised on trade and other receivables | (11,046) | — | — | — |
| Impairment loss recognised on properties held-for-trading | — | — | — | (411) |
| Loss on disposal of property, plant and equipment | (447) | — | — | — |

* Capital additions include additions to property, plant and equipment during 2010, while it also included other intangible assets in 2009.

#### (d) Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

| | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|
| Paints | **61,181** | 107,038 |
| Blended solvents | **207,806** | 245,529 |
| Plastic colorants | **1,009** | 1,523 |
| Other chemical materials | **1,815** | 632 |
| Service contract | **20,500** | 32,685 |
| Crude oil | **6,461** | 7,722 |
| Property investment | **9,210** | 4,280 |
| | **307,982** | 399,409 |

3. **REVENUE AND SEGMENT INFORMATION — Continued**

(e) **Geographical information**

The Group's operations are mainly located on PRC and Hong Kong. The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location of the assets are detailed below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | Year ended | | Year ended | |
| | **31.3.2010** | 31.3.2009 | **31.3.2010** | 31.3.2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| PRC | **195,188** | 198,716 | **2,165,676** | 2,264,427 |
| Hong Kong | **112,794** | 200,693 | **79,124** | 41,230 |
| Others | **—** | — | **69,988** | — |
| | **307,982** | 399,409 | **2,314,788** | 2,305,637 |

The Group's non-current assets above exclude financial instruments and deferred tax asset, if any.

**(f)** In the operating segment of paints, blended solvents, chemical materials and plastic colorants, revenue contribution from one customer of HK$68,000,000 during the year ended 31 March 2010 and revenue contributions from two individual customers of HK$93,000,000 and HK$40,000,000 each during the year ended 31 March 2009 were more than 10% of the Group's total revenue.

4. **OTHER INCOME**

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other income comprises: | | |
| Rental income | **4,579** | 3,152 |
| Bank interest income | **325** | 934 |
| Other interest income | **131** | 1,538 |
| Other income | **94** | 1,609 |
| | **5,129** | 7,233 |

## 5. OTHER GAINS AND LOSSES

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Exchange loss, net | **(139)** | (5,327) |
| Gain on bargain purchase arising from a business combination | **—** | 259,924 |
| Fair value adjustment on warrants classified as derivative financial instruments at issue date | **(21,729)** | — |
| Impairment loss recognised on trade and other receivables, net | **(22,094)** | (11,046) |
| Impairment loss recognised on investment properties | **(14,393)** | — |
| Impairment loss recognised on other intangible assets | **—** | (9,340) |
| Impairment loss recognised on goodwill | **—** | (929) |
| Allowance for write-down of properties held-for-trading | **—** | (411) |
| Property, plant and equipment written off | **(45,786)** | — |
| Loss on disposal of subsidiaries | **(24,695)** | (2,101) |
| Loss on disposal of an associate | **(4,467)** | — |
| Loss on disposal of property, plant and equipment | **(143)** | (447) |
| Loss on early redemption of convertible bonds | **—** | (1,663) |
| Loss from changes in fair value of derivative financial instruments | **(40,214)** | (23,265) |
| Gain (loss) from change in fair value of held-for-trading investments | **19,322** | (14,806) |
| Others | **1,228** | (555) |
| | **(153,110)** | 190,034 |

## 6. FINANCE COSTS

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on: | | |
| Bank loans and overdrafts wholly repayable within 5 years | **2,625** | 1,627 |
| Convertible bonds wholly repayable within 5 years | **—** | 3,802 |
| | **2,625** | 5,429 |

## 7. INCOME TAX EXPENSE

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Hong Kong Profits Tax | | |
| — Underprovision in prior years | **—** | 4 |
| PRC Enterprise Income Tax | | |
| — Current year | **196** | 1,217 |
| — Underprovision in prior years | **1,543** | 2 |
| | **1,739** | 1,219 |
| Deferred tax | | |
| Current year credit | **—** | (506) |
| Income tax expense for the year | **1,739** | 717 |

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit.

## 7. INCOME TAX EXPENSE — Continued

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007 respectively, for those subsidiaries without preferential tax rate, the new tax rate for domestic and foreign enterprises was unified at 25% and had become effective from 1 January 2008. For those subsidiaries enjoying a preferential tax rate, the new tax rate would increase from 15% over 5 years to 25% as a result of the grandfathering provisions.

Taxation on PRC profits has been calculated on the estimated assessable profit for both years at the rates of taxation prevailing in the PRC in which the Group operates.

In considering the majority of income tax expenses is sourced from the profits earned in the PRC, where the operation of the Group is substantially based, the directors during the year considered the PRC Enterprise Income Tax rate of 25% as the domestic tax rate, which is the most appropriate applicable tax rate used for tax reconciliation purposes.

The income tax expense for the year can be reconciled to the (loss) profit before income tax per the consolidated income statement as follows:

| | **2010**<br>***HK$'000*** | 2009<br>*HK$'000* |
|---|---|---|
| (Loss) profit before income tax | **(260,798)** | 11,453 |
| Tax at domestic income tax rate of 25% (2009: 16.5%) | **(65,200)** | 1,890 |
| Tax effect of share of result of an associate | **268** | — |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | **3,906** | (4,282) |
| Tax effect of deductible temporary differences not recognised | **21,854** | 6,307 |
| Tax effect of tax losses not recognised | **12,003** | 1,485 |
| Tax effect of income not taxable for tax purpose | **(23,358)** | (46,256) |
| Tax effect of expenses not deductible for tax purpose | **49,417** | 40,475 |
| Underprovision in prior years | **1,543** | 6 |
| Others | **1,306** | 1,092 |
| Income tax expense for the year | **1,739** | 717 |

## 8. (LOSS) PROFIT FOR THE YEAR

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) profit for the year has been arrived at after charging: | | |
| Directors' emoluments | | |
| — Fees | **770** | 940 |
| — Salaries and other emoluments (including share-based payment) | **18,804** | 7,144 |
| Other staff costs | | |
| — Salaries, wages and other benefits | **24,094** | 34,655 |
| — Share-based payments (excluding the amount included in directors' emoluments) | **19,832** | 12,057 |
| — Contribution to defined contribution retirement plan (excluding amount included in directors' emoluments) | **2,008** | 1,640 |
| Total staff costs | **65,508** | 56,436 |
| Auditors' remuneration | **2,587** | 2,766 |
| Cost of inventories | **272,126** | 363,405 |
| Release of prepaid lease payment | **652** | 1,123 |
| Depreciation | | |
| — Owned property, plant and equipment | **13,813** | 14,188 |
| — Oil properties | **21** | 2,269 |
| — Investment properties | **1,159** | — |
| Allowance for write-down of inventories (included in cost of inventories) | **185** | 188 |
| Research and development costs | **—** | 92 |

## 9. (LOSS) EARNINGS PER SHARE

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(Loss) earnings** | | |
| (Loss) earnings for the purpose of calculating basic and diluted (loss) earnings per share | **(262,348)** | 55,143 |

| | **2010** | 2009 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of calculating basic (loss) earnings per share | **2,719,395** | 1,833,877 |
| Effect of dilutive potential ordinary shares on share options | **—** | 15,635 |
| Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share | **2,719,395** | 1,849,512 |

*Notes:*

(i) No diluted losses per share have been presented for the year because the share options and warrants outstanding had an anti-dilutive effect in the calculation of diluted loss per share.

(ii) The computation of diluted earnings per share for 2009 did not assume the exercise of the Company's outstanding warrants as the exercise price of those warrants was higher than the average market prices of shares in 2009.

## 10. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of the reporting period:

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade receivables | **64,269** | 75,744 |
| Less: allowance for doubtful debts | **(6,132)** | (7,176) |
| | **58,137** | 68,568 |
| Bills receivable | **2,326** | 6,172 |
| Other receivables, deposits and prepayments | **72,984** | 52,885 |
| Less: allowance for doubtful debts | **(16,300)** | (5,266) |
| | **56,684** | 47,619 |
| | **117,147** | 122,359 |
| Less: non-current other receivables | **—** | (9,409) |
| | **117,147** | 112,950 |

Trade receivables and bills receivable are due within 30 to 90 days (2009: 30 to 90 days) from the date of invoicing or billing. The following is an aged analysis of trade receivables and bills receivable net of impairment presented based on the invoice date and date of the bills at the end of the reporting period:

**Aged analysis of trade receivables net of impairment**

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Less than 1 month | **23,355** | 25,866 |
| 1 month to 3 months | **15,782** | 16,471 |
| More than 3 months but less than 1 year | **15,821** | 20,550 |
| Over 1 year | **3,179** | 5,681 |
| | **58,137** | 68,568 |

**Aged analysis of bills receivable net of impairment**

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Less than 1 month | **2,326** | 1,453 |
| 1 month to 3 months | **—** | 3,687 |
| More than 3 months but less than 1 year | **—** | 1,032 |
| | **2,326** | 6,172 |

## 11. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables at the end of the reporting date:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **12,710** | 11,968 |
| Bills payable | **33,744** | 39,164 |
| Other payables and accruals | **44,313** | 28,698 |
| Amount due to a non-controlling interest | **—** | 8,928 |
| | **90,767** | 88,758 |

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

**Aged analysis of trade payables**

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Less than 1 month | **8,510** | 6,214 |
| 1 month to 3 months | **998** | 2,994 |
| More than 3 months but less than 1 year | **549** | 2,760 |
| Over 1 year | **2,653** | — |
| | **12,710** | 11,968 |

**Aged analysis of bills payable**

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Less than 1 month | **—** | 39,164 |
| 1 month to 3 months | **33,744** | — |
| | **33,744** | 39,164 |

## EXTRACT FROM INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report issued by Deloitte Touche Tohmatsu and Lau & Au Yeung C.P.A. Limited (the "Joint Auditors") on the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2010:

**Basis for disclaimer of opinion**

Included in the consolidated statement of financial position as at 31 March 2010 are other intangible assets with a combined carrying value of HK$2,043,397,000 (2009: HK$2,044,541,000) in relation to two exploitation rights for oil exploitation in the People's Republic of China. As detailed in note 21 to the consolidated financial statements, the directors of the Company appointed an independent valuer to perform a valuation for each of the oil exploitation rights to estimate their recoverable amounts for impairment assessment purposes as at 31 March 2010 and 2009. The valuer estimated the combined value of the exploitation rights as at 31 March 2010 and 2009 to be RMB2,264,000,000 (equivalent to HK$2,575,010,000) and RMB1,874,000,000 (equivalent to HK$2,124,643,000) respectively, using discounted cash flow analysis. The valuer's reports were based on information about the proven reserves extracted from technical reports and assumptions as to the Group's ability to exploit the crude oil. These oil exploitation rights were originally recognised on acquisition at fair values of RMB1,591,000,000 (equivalent to HK$1,763,975,000) and RMB341,000,000 (equivalent to HK$389,924,000), using equivalent valuation methodology, resulting in the recognition of excess of fair value of net assets acquired over the cost of acquisition of a subsidiary/ gains from a bargain purchase of HK$849,627,000 and HK$259,924,000 during the years ended 31 March 2008 and 2009 respectively.

We were unable to assess the reliability of the valuations for financial reporting purposes as we were not provided with sufficient information to verify certain assumptions with respect to the underlying technical information or the feasibility of the business plan and oil extraction method which underpin the valuation calculations. Accordingly we were unable to assess whether (i) the fair values of the oil exploitation rights at the dates of acquisition were reliably measured in accordance with the relevant requirements of Hong Kong Financial Reporting Standard 3 "Business Combinations" issued by the HKICPA and therefore whether the carrying values of the oil exploitation rights and the retained profits as at 31 March 2010 and 2009, and non-controlling interests as at 31 March 2009 were free from material misstatement; (ii) any impairment loss should be recognised in respect of these intangible assets during the years ended 31 March 2010 or 2009 in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" issued by the HKICPA; (iii) the related amortisation recognised in respect of these intangible assets for the years ended 31 March 2010 and 2009 was free from material misstatement; and (iv) recognition of other reserve (the "Other Reserve") amounting to HK$552,132,000 for the year ended 31 March 2010, as further described in note 38(a) to the consolidated financial statements, resulting from acquisition of additional interest in a subsidiary which in turn held one of the exploitation rights was free from material misstatement.

In addition, the Group has not recognised any deferred tax liabilities as at the dates of acquisition of the oil exploitation rights arising from the business combinations in accordance with Hong Kong Accounting Standard 12 "Income Taxes" issued by the HKICPA. It is not practicable for us to quantify the effects of the departure from this requirement in respect of (i) the carrying values of the deferred tax liabilities as at 31 March 2010 and 2009; (ii) the corresponding deferred tax credit recognised during the years then ended; and (iii) the Other Reserve as at 31 March 2010.

Any adjustments found to be necessary in respect of the above matters would affect the Group's net assets as at 31 March 2010 and 2009 and 1 April 2008, and the Group's loss/profit for the years ended 31 March 2010 and 2009.

**Disclaimer of opinion**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 March 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidation financial statements have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

For details of the note 21 to the consolidated financial statements, please refer to the relevant section of annual report of the Company. In order to address the concerns of the Joint Auditors as mentioned in their qualified opinions above, the Company has already engaged APEX Reservoir Service, Inc., an international independent valuer of the Company, to conduct a valuation (the "Valuation") for each of the two exploitation rights for oil exploitation of the Group in Qiqihar, PRC (the "Intangible Assets") to estimate the recoverable amounts for the impairment assessment purpose as at 31 March 2010.

The Company will also engage the Joint Auditors to perform a special review on the Intangible Assets based on the results of the Valuation in order to re-assess, among other things, (i) the reliability of the valuations on the abovementioned Intangible Assets for the year ended 31 March 2010 for the financial reporting purpose; and (ii) if necessary, whether sufficient provision had been made for the deferred tax liabilities in respect of the Intangible Assets for the year ended 31 March 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

During the fiscal year under review, the global economy had experienced a remarkable recovery from the financial tsunami. Notwithstanding turmoil which happened from time to time during the period, interbank lending rates have returned to close-to-normal levels; stock markets in high-income and emerging economies have recovered much of the value they lost, and most currencies in developing countries have regained their pre-crisis levels against the dollar. The real-side of the global economy, as indicated by various indicators, is also recovering. While the downturn of the global economy during fiscal year 2008–2009 and recovery during fiscal year 2009–2010 was remarkable in terms of both depth and coverage across countries, the recovery which is now more than a year old is moving into a more mature phase characterized by significant headwinds. Rebound factors including in particular the growth impetus from crisis-related fiscal and monetary stimulus measures that contributed to rapid growth rates during the current period under examination are now fading. The recovery is expected to lose momentum in the coming months but annual growth rates should continue to strengthen especially amongst developing countries.

Market nervousness concerning the fiscal positions of several European countries (especially the "EU-5") poses a new challenge for the world economy. A crisis of confidence, a default or major restructuring of the EU-5 debt could have serious consequences for the global economy, both because of the large-scale recession that the directly affected countries are likely to enter into, but also because of the potential knock-on effects of the default on the financial health of creditor banks elsewhere in the globe. There is the challenge to tighten fiscal policies as well as to unwind the stimulus measures that were put into place. This is a problem for many high-income countries, where fiscal deficits and debt-to-GDP ratios have reached unsustainable levels. Commodity prices started to rebound in early 2009 and into 2010 as the global recovery intensified. Increased demand from China, significant production cuts, and some weather-related factors contributed to higher prices. In accordance with a research report issued by the World Bank in June 2010, energy prices by the end of April 2010 were up 80 percent from the lows in February 2009, while metal prices more than doubled. After 5 consecutive quarters of decline, world oil demand rose in the final quarter of 2009, led by strong demand in China (up 1.3 million barrel per day or 17% year-on-year). It is estimated that while prices are expected to average USD70 per barrel, they are likely to remain volatile, reflecting the inherent difficulties associated with OPEC's efforts to guide global prices through supply management. In the United States, the tragic oil spill in the Gulf of Mexico has not affected oil production, but will likely have a long-term impact on the oil and gas industry in terms of regulatory compliance and the related costs.

In view of the above, economic outlook around the world remains fragile and significant challenges stand in the way of a smooth recovery. The Company will continue to exercise care in structuring its investment portfolio as well as in managing its existing business and operations.

## BUSINESS REVIEW

### Business Overview

In the financial year of 2009–2010, the Group recorded a consolidated turnover of approximately HK$307,982,000 (2009: HK$399,409,000), representing a decrease of 22.89% when compared with last year (2009: an increase of 13.62%). Loss attributable to shareholders was approximately HK$262,348,000 (2009: profit of HK$55,143,000). The loss was attributable to a number of factors as follows: (1) property, plant and equipment written off, (2) loss on disposal of subsidiaries, (3) fair value adjustment on warrants classified as financial instruments at issue date, (4) charging of fair value of the share-based payments to the employees of the Group arising from newly granted share options under the share option scheme of the Company, and (5) loss from changes in fair value of derivative financial instruments.

### Tunisia Operations

On 8 June 2009, the Group entered into a farm-in agreement with both Petroceltic Ksar Hadada Limited (a wholly owned subsidiary of Petroceltic International plc) and Independent Resources (Ksar Hadada) Limited (a wholly owned subsidiary of Independent Resources plc), regarding the sale and purchase of 51% Participating Interests and 52.96% Paying Interests in Ksar Hadada Permit (the "Permit"), onshore Tunisia, North Africa. As part of the farm-in agreement, the Group is required to acquire and process 100 kilometers of 2D seismic data, and to drill and test two new exploration wells. Drilling of the first of the two new exploration wells (the "Oryx-1 exploration well") on the Permit has started in mid-July 2010. The well is one of a two-well drilling programme that forms part of the US$14.5 million work programme that was agreed when the Group farmed into the Permit.

The Permit, also known as Area 20, lies almost entirely onshore in southeast Tunisia, bounded by the Libyan border to the east and lies within the Ghadames basin which covers an area of 5,609 square kilometers. Primary reservoir targets on block are Cambro-Ordovician quartzites and the Silurian Acacus Sandstone. Several large oil-prone prospects have been mapped; these are sourced by the Silurian Tanezzuft Shale, which is the main source rock for North Africa and the Middle East. These rocks are overlain unconformably by a Permo-Triassic section, which also contains potential reservoir quality rock. There are altogether five prospects and a lead being evaluated in the Ksar Hadada area. Recent light oil discoveries in the Cambro-Ordovician just 20 km to the south of the Permit have now validated the potential of the Ksar Hadada targets. Across the border in Libya very high flow rates have been achieved from multiple Acacus wells, providing added attractiveness to the Acacus play. In addition, infrastructure of the exploration area such as transportation network, pipeline transportation and other ancillary facilities are well developed and close to the Permit so that the cost of oil production will be greatly reduced.

As an additional evaluation on the Permit, on 22 October 2009, the Group entered into a service agreement with BGP Inc. ("BGP"), a wholly owned subsidiary of China National Petroleum Corporation, so as to engage BGP as a technical consultant to provide both evaluation services as well as technical consultancy services; whereas the operator of the Permit had engaged Blackwatch Petroleum Services Limited, an internationally renowned technical consultant, to perform the same for the Permit. BGP is one of the world's leading geophysical service companies based in Beijing, China, providing oil exploration, seismic processing explanation, oil geological research, geophysical prospecting research and other services for global oil companies. BGP has a total of 40 overseas branches and offices in Asia, America, Africa and the Middle East. Evaluation services include but are not limited to the analysis of petroleum geology factors, evaluation of data quality, results of processing and interpretation of previous seismic sections, analysis of the reliability of prospects (traps) in the block, re-interpretation of seismic data of main targets (prospects of traps), reservoir analysis and re-calculation of petroleum volumetric of prospects in the block, suggestion of geophysical survey for new exploration phase, distribution of new seismic lines and well locations to be drilled.

Since March 2010, full scale drilling preparation has been undertaken by the operator of the Permit who has sent out numerous tender invitations to a number of providers of technical services and suppliers of goods and supplies required in the drilling operations covering drilling rig services, downhole equipment, wireline services, well testing, tubular goods and medivacs. All bids were carefully examined and evaluated and qualified vendors were selected after a rigorous tender process based on a scoring of both technical and financial requirements.

On 20 April 2010, the Group received an independent report titled "Seismic Data Interpretation and Exploration Target Evaluation for Ksar Hadada Block in Tunisia" from BGP. Based on this report, the five prospects namely Oryx, Sidi Toui, South Salah, Antelope and Gazelle as covered by the Permit have a maximum of approximately 2.227 billion barrels of stock tank oil initially in place (STOIIP).

The Group along with its partners has selected Compagnie Tunisienne de Forage ("CTF") as its contracted drilling company. CTF was selected amongst a pool of drilling companies because of its local expertise in Tunisia, technical qualifications and favorable drilling rates. CTF plays the role of the national drilling company of Tunisia, and has 30 years of experience of operating in Tunisia, drilling over 260 wells since its incorporation. CTF will employ its CTF06 rig which is a 1,500 HP top drive drilling unit with a depth rating of 15,000 feet, to drill two wells into the Oryx and Sidi Toui prospects in the third quarter of 2010 for the consortium. On 1 August 2010, the Oryx-1 exploration well has reached a total depth of 1,140 meters. Although oil shows were encountered in both the upper and lower Ordovician reservoir units, log analysis indicates that no significant oil saturation is present in these reservoirs at this location. Hence saved from setting production casing and further well testings, the Oryx-1 exploration well is now being plugged and abandoned. The Oryx-1 exploration well has been drilled below budget and without a time losing incident. It is noteworthy that, in the oil industry, encounter of dry wells without commercial value is very common.

The CTF06 rig, our drilling team and equipments, will all be moved 22.5 km away to commence drilling of Sidi Toui-4 ("ST-4"), the second well in the current work programme. The ST-4 well will be drilled at a high deviation angle (70° from vertical) within the reservoir section so as to maximize the potential for fracture interception, with primary recovery expected to be from fracture porosity. It is planned to reach a target vertical depth of 1,047 meters, with the planned total depth reached after drilling a horizontally measured depth of 400 meters within the Bir Ben Tartar sandstone. We remain confident on the drilling prospect of the Sidi Toui structure.

In order to supervise the Tunisia site operations on a daily basis, the Group has hired László Raphaël, a multilingual Mexican national, as operations specialist. Mr Raphaël has been posted on site in Tunisia and reports directly to the Hong Kong headquarters. The operator of the Permit also hired two senior drilling engineers to be in charge of the forthcoming drilling campaign. Upon commercial discovery and approval from the Tunisia government, a 30-year development and production license will be granted to allow for the exploitation and production of hydrocarbon within the permit area.

Completion of the Group's farm-in agreement has taken place on 28 June 2010 whilst the Group has fulfilled all the conditions of the sale & purchase agreement in relation to the farm-in. The Group is working closely with the operator of the Permit to make the drilling operations a success.

**Qiqihar Operations**

During the period under review, the Group continued to move forward with the oil wells in the Fu 710 and Meilisi 723 districts at the Fulaerji district of Qiqihar city, Heilongjiang Province.

Most of the 22 wells are currently at different stages of production. Since August 2009, two rounds of "huff and puff" steam injection have been carried out in the Qiqihar oilfield. Production has been steady but not yet reached target potential. To achieve satisfactory results, a few more rounds of steam injection would be needed, after which steam flooding can be employed. In a steam flood, some wells are used as steam injection wells and other wells are used for oil production. These two mechanisms work together to improve oil recovery.

During the year, the production team visited various PetroChina oilfields and consulted with their research institutes and heavy oil experts for knowledge exchange, investigating and evaluating methods and materials to enhance production.

On 28 October 2009, Merry Boom Investment Limited ("Merry Boom"), a wholly owned subsidiary within the Group, entered into an agreement with Well Lead Group Limited ("Well Lead") pursuant to which Merry Boom had agreed to purchase Well Lead's 49% equity interest in Northeast Oil (China) Development Company Limited which effectively owns interests in the Fu 710 and Meilisi 723 districts. As a result of the transaction, which was satisfactorily completed on 13 January 2010, the Group now effectively owns 95% interests in the Fu 710 and Meilisi 723 districts with the remaining 5% being owned by the local government.

On 21 December 2009, the Group announced the possible acquisition of a 51% interest in a PRC oil technology company which specialises in oil exploitation technology including the development of enzyme-enhanced oil viscosity reducers. Employing the technology allows higher quantities of liquids to be extracted more easily from producing wells. This possible acquisition is in line with the Group's overall strategy regarding energy related businesses. Moreover, it reflects optimism in the market outlook of oilfield-exploitation related products which also helps to diversify revenue and profit base. Furthermore, the technology might also be put into good use at the Qiqihar oilfield. Trial runs are being planned at some of the selected wells and are being carried out in the third quarter of 2010.

The Fu 718 district was also progressing as scheduled. An updated and detailed development plan was finished and presented to city officials and relevant departments for consultation. All parties have shown support in obtaining regulatory approval in acquiring the best sites for drilling. In July, 2010, we have started the drilling of an exploration well ("TC5-1") in the newly developed Fu 718 area of the Fulaerjiqu Oilfield in Qiqihar. The TC5-1 deviated exploration well has reached its total depth of 594 meters on 31 July 2010. Well logging data confirmed an oil layer with a net thickness of 11.4 meters (effective thickness of 8.4 meters). This is the best pay thickness in the whole oilfield so far amongst a total of 137 wells drilled by different companies in its previous 21 years of development history in this general area. PetroChina Great Wall Drilling Downhole Operating Company, our contractor of this multi-wells drilling program, will continue to drill further deviated wells and horizontal wells in Fu 718 subject to favourable drilling outcome.

As the Fu 718 district contains deeper oil reservoir, the Group expects that it will complement the Fu 710 and Meilisi 723 districts and contribute to the Group's total integrated oil production revenue.

**Paints, Blended Solvents and Plastic Colorants Business**

On 8 February 2010, the Group announced the disposal of its paint production business at a consideration of HK$30 million. The unaudited consolidated loss after taxation for this business for the two years ended 31 March 2008 and 2009 were approximately HK$7.8 million and HK$26.2 million, respectively. Taking into account of (i) the operating environment of the paint production business which is still under difficult condition due to the price volatility of raw materials, the rising labour costs and the shrinking demands in the market; (ii) the unsatisfactory operating results of the paint business for the past two years; and (iii) the disposal would enable the Group to sell out non-performing business, reduce potential loss to the Group in coming years, avoid further fund injection as required to support future operation of the paint production business and deploy more resources to other investment opportunities with better prospect, the Directors decided that such disposal would be beneficial to the Group and its shareholders as a whole.

The disposal was completed on 18 March 2010. For the period under review up to 18 March 2010, turnover from the production, sales and distribution of downstream oil paint products such as paints, blended solvents and plastic colorants based in Zhongshan, PRC amounted to approximately HK$271,811,000 (2009 (full financial year): HK$354,722,000), representing a decrease of 23.37% over that of last year (2009 (full financial year): an increase of 10.02%).

The decline of the turnover further evidenced that the fierce competition we faced in the paints business, and also the high material costs of paints and solvents which resulted in the decline in the gross profit margins. After the disposal, the Group can concentrate on its healthy businesses, which includes energy business, oil exploration and exploitation. Furthermore, this also allows the Group to free up its capital commitment and management resources which would otherwise be required in the operation of the loss making paints business.

The hardener business will be kept as it is profit making and involves less capital commitment. The management has confidence that this business will has positive impact to the Group continuously.

**Other Businesses**

The Group has an effective 34.4% interest in a vanadium mine in the Xiaowujiang vanadium mining region, Yuqing County, Guizhou Province, PRC. In relation to this mining project, a detailed report, which is in its draft form at the moment, regarding the geo-structure of the mine is being circulated amongst various governmental authorities in the Guizhou Province since July 2010 for vetting, comment and endorsement. In the report, the amount of resources of $V_2O_5$ as well as its quality has been specified therein subject to expert review. The report also pointed out that the vanadium mining region of Yuqing County is of a simple structure and that it would be easy to extract. Upon completion of the verification process by the team of technical experts, the above report will be issued in its final form and we can then proceed to apply for the relevant exploitation permits from various governmental authorities including, in particular, the Land Bureau of Guizhou Province. Extraction process can then be commenced once the relevant permits are available. The day-to-day management of this business is being undertaken by dedicated personnel of the major shareholder with extensive experience in project management as well as financial management. The usage of $V_2O_5$ is extensive. It is one of the most important additives for steel and alloy, and is an essential material for metallurgy, high-speed railways and vanadium battery. With the ever-increasing needs of infrastructure and high-speed railways in the PRC, it is believed that the demand for vanadium will be significant in the coming years.

The construction paints business based in Beijing recorded a turnover of approximately HK$20,500,000 (2009: HK$32,685,000) or a decrease of 37.28% (2009: Increase of 63.06%) for the year under review. Continuous development in the construction market in the PRC, coupled with a careful selection of customers with sound credibility, have contributed to the ongoing development of the line of business.

According to pre-determined business strategy, the Group invested a small portion of its resources on property to tackle the low interest rate. During the year under review, turnover generated from this business was approximately HK$9,210,000 (2009: HK$4,280,000) and an operating profit of approximately HK$2,058,000 (2009: operating loss of HK$2,065,000) was recorded. As property investment business is not the Group's core business, we have no intention to focus on it and it is maintained to provide a stable income to the Group in the foreseeable future.

## BUSINESS OUTLOOK

With the increase in the crude oil prices over the year which have now become more stabilised, the ever-increasing global consumption of oil and other energy, and the recent oil spill in the Gulf of Mexico, it is expected that global oil reserves will continue to decline, if not at an even quicker rate, which eventually would result in inadequate supplies and inflating prices. Hence, the Group firmly believes that the long-term prospect of the oil industry is very optimistic.

Despite global economies having been bottomed out and been recovering gradually, the Group is adamant to spend its best efforts so as to identify good, prosperous and reasonably priced acquisition targets in order to grow and integrate ourselves as one of the elites in the oil industry.

Our proposed acquisition of a 51% of the equity interests in an oil technology company, and a 52% of the participating interests in Modamuji Sag, Hailaer Oilfield, will not only extend our oil resources by an addition of approximately 233.6 million barrels of oil, but also extend our revenue stream outside of the sale of crude oil from the existing exploration and exploitation activities of our existing oilfields in Northeast China and Tunisia.

For the acquisition of the Modamuji Sag, we are now in the midst of carrying out due diligence work; whereas for the acquisition of the 51% of the equity interests in an oil technology company, a legally binding agreement was entered into on 30 July 2010. We are now edging closer to the completion of the acquisition of the oil technology company. If successful, it will be an important step for the Group's further business development in the energy sector in the PRC. The Group also believes that this will provide additional income to strengthen its revenue base. With any further developments, the Group will be making timely announcements to update all our shareholders.

The Group will continue to identify, evaluate and invest in important projects to further strengthen our future prospects, and we believe that the Group is heading in the right direction. With the current expertise and experienced management team the Group is employing and utilising, we are confident that we are in a good position to count on the foundations that we have been building in previous years.

## FINANCIAL REVIEW

### Revenue and operating results

For the year ended 31 March 2010, the Group recorded a turnover of approximately HK$307,982,000 (2009: HK$399,409,000). The Group recorded a loss after tax of approximately HK$262,537,000 (2009: profit of HK$10,736,000) for the year and loss attributable to equity shareholders of the Company of approximately HK$262,348,000 (2009: profit of HK$55,143,000).

The selling and distribution costs of the Group for the financial year amounted to approximately HK$12,770,000 ((2009: HK$18,498,000), representing a decrease of approximately 30.97%. The administrative expenses of the Group for the financial year under review amounted to approximately HK$80,793,000 (2009: HK$67,355,000), representing an increase of approximately 19.95% year-to-year. The increment was mainly due to the increment of professional charges and other one-off administrative charges on projects acquisition.

**Liquidity and financial resources**

During the financial year under review, the Group finances its operations with internal generated cash flow and banking facilities from banks. The Group had cash and bank balances of approximately HK$393,225,000 (2009: HK$30,585,000) and bank borrowings of approximately HK$93,369,000 (2009: HK$72,090,000). Current assets of the Group amounted to approximately HK$574,747,000 (2009: HK$231,645,000) whilst current liabilities were approximately HK$188,177,000 (2009: HK$200,483,000). The net current assets amounted to approximately HK$386,570,000 (2009: HK$31,162,000).

The gearing ratio, calculated by dividing the total borrowing by the total assets, was equal to 3.23% as at 31 March 2010 (2009: 2.83%).

In addition, 446,556,000 share options were exercised by staffs over the year. The net proceeds amount was approximately HK$108,753,298. The management is of the view that the Group's incoming cash flow from the financing activities and business operations together with the available banking facilities will provide sufficient funds for the Group to meet with the requirements of present operation and further business development in the foreseeable future.

**Placing of existing shares and subscription of new shares**

On 20 May 2009, Ever Source Enterprises Limited ("Ever Source") and the Company entered into the share placing agreement (as amended by the supplemental agreement) with Sun Hung Kai International Limited (the "Placing Agent") pursuant to which the Placing Agent agreed to place, on a best efforts basis, the placing shares comprising in aggregate up to 225,000,000 existing shares at the placing price of HK$0.325 per placing share on behalf of Ever Source to not less than six share placees who, and whose ultimate beneficial owners, was independent third parties.

On the same date, Ever Source entered into a subscription agreement with the Company for the subscription of up to 225,000,000 new shares ("subscription shares") at the above placing price. The placing was unconditional. The subscription was conditional upon (i) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the subscription shares; and (ii) the completion of the placing.

The net proceeds of the subscription was approximately HK$71,630,000. The directors used the net proceeds to finance the first payment of acquisition interest of Tunisia project.

The Company placed 220,000,000 new shares at HK$0.51 and raised net proceeds of approximately HK$109,200,000 on 30 December 2009. The directors intend to apply the net proceeds as general working capital and also for future development should suitable opportunities arise.

On 11 February 2010, the Company further placed another 220,000,000 new shares at HK$1.02 and raised net proceeds of approximately HK$218,400,000. The uses of the net proceeds were for the second committed payment of the oil and gas project in Tunisia, North Africa and the balance will be used as funds for any potential acquisition in the future should suitable opportunities arise.

**Warrants placing**

On 20 May 2009, the Company entered into the warrant placing agreement with the Placing Agent in connection with the warrant placing, on a best efforts basis, to place up to 77,000,000 warrants conferring rights to subscribe for up to HK$34,650,000 in aggregate in cash, for up to 77,000,000 new shares at the warrant exercise price of HK$0.45 per share (subject to adjustments as detailed in the warrant placing agreement).

At the extraordinary general meeting held on 21 June 2010, it was approved to issue 250,000,000 warrants conferring rights to subscribe for up to HK$337,500,000 in aggregate in cash, for up to 250,000,000 new shares at the warrant exercise price of HK$1.35 per share (subject to adjustments as detailed in the warrant placing agreement) to Mr. Poon Sum, the Chairman of the Group.

The warrants were placed at a warrant placing price of HK$0.01 per warrant. The warrant placing was conditional upon several conditions as set out in the Company's announcement dated 20 May 2009 and 29 March 2010. The new shares issued upon exercise of the subscription rights attaching to the warrants was issued under the specific mandate.

## PLEDGE OF ASSETS

As of 31 March 2010, the Group's tangible assets and receivables have a net book value of approximately HK$2,445,000 and HK$34,482,000 (2009: HK$51,421,000 and HK$34,322,000) respectively were pledged to secure banking facilities granted to the Group. In addition, a registered all monies first share charge over 51% of all the issued shares in a subsidiary is pledged to secure the facilities.

## VALUATION OF INTANGIBLE ASSETS

During the reporting period, the Group conducted a valuation exercise for the oil related intangible assets. The management appointed Exploration and Development Research Institute of Daqing Oilfield Company Ltd ("大慶油田有限責任公司勘探開發研究院") as professional technical advisor (the "Technical Advisor") to evaluate the estimated oil reserve of Qiqihar oilfield and LCH (Asia-Pacific) Surveyors Limited ("LCH") as professional valuer to provide an opinion on the valuation.

The Technical Advisor was a research institute established directly under Daqing Oilfield of PetroChina Group in 1964 and has over 1,800 employees currently. Most of them focus on oil research and technical development and are actively involved in the China oil & gas industry. The management of the Group has made a background checking and believes that the Technical Advisor has adequate qualification and experience to review the technical data of the Qiqihar project and prepare an Oil Reserve and Technical Feasibility Report ("The Technical Report"). Since undertaking the assignment, the Technical Advisor reassessed the data prepared in 2006 and updated them based on available latest information as well as after making physical site visits. When preparing the report, the Technical Advisor adopted guidelines issued by the People's Republic of China in 2004 under "Classifications for Petroleum Resources/Reserves (GB/T19492-2004)" ("石油天然氣資源/儲量分類 (GB/T19492-2004)") which are commonly adopted by oil & gas industry in China. The authorized person signing this report is also one of the writers of the Classifications for Petroleum Resources/Reserves. The management of the Group understands that there is no substantial difference between China standards and international standards. The Technical Advisor then submitted an updated technical report together with feasibility economic data to LCH for further evaluation. According to the updated technical report, the Fu 710, Meilisi 723 and Fu 718 areas totally have the proved estimated recovery approximately 6.23 million tons (approximately 45.67 million barrels), proved initial reserves of approximately 5.81 million tons (approximately 42.59 million barrels) and proved sub-economic initial reserve of approximately 0.34 million tons (approximately 2.49 million barrels) under US$70 oil price. In addition, the Technical Advisor made reference with Daqing oil field economic benchmark in the report for the feasibility study.

LCH is a professional surveyors firm and has past records signing off mineral resources/ reserve estimation and mining technical reports for public circular purpose according to Chapter 18 of the Hong Kong Listing Rules. The management of the Group has made a background checking and believed that LCH has adequate qualification to prepare the valuation report of Qiqihar project. The valuation of the intangible asset was determined using the discounted cash flow analysis. The analysis uses the operating profits attributable to the 2007 & 2008 Production Sharing Contract ("PSC") as a base updated with latest information.

The valuation of oil exploitation right with a combined value to approximately RMB2,264,000,000 (equivalent to HK$2,575,010,000) determined by LCH was using discounted cash flow analysis and was based on an agreed-upon procedure and adopted information provided by the management and the Technical Advisor.

Although the management of the Group considers the technical report and the valuation report are reasonably authoritative and can be used to form a comfortable basis for the valuation exercise, the newly appointed joint auditors hold a more reserved view. Amongst others, the absence of an international professional expert and the inadequate proven records to support the feasibility of the new extraction methodology are the prime concerns of the newly appointed joint auditors.

In a bid to resolve this situation, the Group agrees to appoint an international independent valuer to prepare another valuation report to meet the requirements of the joint auditors.

In order to avoid further delay of the results announcement, the directors decide that the release of the financial statements with a disclaimer from the joint auditors prior to the completion of the valuation reports is a better option for shareholders. The directors will however appoint the joint auditors to conduct a special review and to have the outstanding accounting issues resolved.

## CONTINGENT LIABILITIES

### (a) Contingencies on Hong Kong Profits Tax

In the prior years, the Hong Kong Inland Revenue Department (the "IRD") had made some enquiries on the taxability of profits of certain subsidiaries of the Company in respect of Hong Kong Profits Tax since the year of assessment 1996/1997. In addition, the IRD had commenced a tax audit on these subsidiaries since 2007 which covers the years of assessment from 1996/97 to 2007/08. The Company had made the response and provided the relevant information to address the IRD's enquires and no conclusion was made by the IRD up to the approval date of the consolidated financial statements. The IRD issued protective assessments to certain subsidiaries with tax payable amounting to approximately HK$28,735,000 (in which approximately HK$7,917,000 are duplications). The Group filed objections against such assessments on the grounds that these assessments were excessive, and that the income under assessment neither arose in, nor was derived from, Hong Kong. The Group had purchased tax reserve certificate of approximately HK$4.7 million (2009: HK$1.8 million) at the IRD's request as of the date of this report.

In the opinion of the management, the IRD's enquiries are still at the stage of collation of evidence and the Company has reasonable ground to justify its position as the management considers that the subsidiaries were not carrying on business in Hong Kong or the profits were derived by the subsidiaries outside Hong Kong.

In the event that all the relevant profits at this stage would be treated by the IRD as chargeable to Hong Kong Profits Tax, the estimated tax liabilities without considering penalty arising from the tax audit in respect of such circumstances would be approximately HK$21 million (2009: HK$21 million), HK$11 million (2009: HK$11 million) out of which had been indemnified by Mr. Poon Sum, the director, for those potential liabilities incurred prior to the listing of the Company in 2003. If there is additional tax payable upon the settlement of the tax audit, the IRD may also impose a penalty of maximum three times of the tax undercharged. After taking into account of the professional advice from its tax representative, the management considers that there is no reasonable basis to determine the accurate amount of additional tax and penalty at this stage under the tax audit. Accordingly, no provision for such potential liabilities has been made in the consolidated financial statements. Management is considering various approaches in the best interest of the Group to resolve the dispute with the IRD.

**(b) The Company had contingent liabilities as follows:**

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Guarantee for banking facilities of subsidiaries | **127,113** | 322,221 |

In the opinion of the Directors of the Company, the fair value of the financial guarantee contracts of the Company is insignificant at initial recognition and the Directors consider the possibility of default of the parties involved is remote, accordingly, no value has been recognised in the balance sheet.

**(c) Environmental contingencies**

Due to the underground oil exploitation method adopted by the Group, the Group has not incurred any significant expenditure on environmental rehabilitation since its establishment. There is, however, no assurance that stringent environmental policies and/or standard on environmental rehabilitation will not be implemented by the relevant authorities in the PRC in the future which require the Group to undertake environment measures. The financial position of the Group may be adversely affected by any environment liabilities, which may be imposed under such new environment policies and/or standards.

## EXPOSURE TO FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

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

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2010, the Group had an aggregate of 136 (2009: 376) employees of which about 114 (2009: 361) were located in mainland China while the rest were based in Hong Kong and Macau. The employee's remuneration package includes salary, bonus and share options. Pursuant to the Group's remuneration policy, employees are rewarded on the basis of merit and market conditions and in accordance with the statutory requirements of the respective jurisdiction where the employees located.

## CHANGE OF EXTERNAL AUDITORS

Pursuant to the announcement on 24 May 2010, 28 May 2010, 11 June 2010 & 19 July 2010, the shareholders passed a special resolution to change one of the external auditors from Baker Tilly Hong Kong Limited ("Baker Tilly") to Deloitte Touche Tohmatsu ("Deloitte").

The reason for the change of joint auditors of the Group is that the Group has over the past years been increasing its investments in natural resource projects.

In view of the growing significance of natural resource projects in the Group's business activities since late April 2009, in order to leverage on their geographical advantage and expertise in the energy market, as well as to meet the general expectation of the financial investment community, the management of the Group considers it is imperative to engage an audit firm which has relatively greater exposure in the natural resource industry and wider geographical coverage and international network as the auditors of the Group.

The management of the Group also considered and have weighed the respective strengths of Baker Tilly, Deloitte and Lau & Au Yeung CPA Limited ("LAY") in respect of, amongst other matters, the human resources availability both globally and locally, the depth of their experience and exposure in the industry which the Group is currently engaged in, the range of and the strength in other services which the Group can draw upon as well as the fee proposals, the Board (including the members of the audit committee) resolved to propose that Deloitte and LAY shall be appointed as the new joint auditors of the Group.

LAY is retained as one of the joint auditors due to their experiences and familiarity with the Group's business in the paints, blended solvents and plastic colorants business and at the same time achieves an overall efficacy on the cost and changeover of the joint auditors of the Group. The directors consider that such decision would be in the best interests of the Company and the Shareholders as a whole and could facilitate the future development plans to meet its medium to long-term business strategies.

## DISCLOSURES PURSUANT TO RULES 13.21 OF THE LISTING RULES

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

On 14 October 2009, the Group had accepted the renewal of the Banking Facilities Letter (the "Facility Letter") offered by a Bank in Hong Kong (the "Bank") in relation to various working capital facilities up to a revised amount of HK$134,846,852. The terms included corporate guarantees on subsidiaries, an all money first share charge(s) over 51% of all issued shares of a subsidiary and financial covenants on the financial statements of the Group. In addition, it is required that (1) Mr. Poon Sum, Mr. Poon Sau Tin and their family shall collectively maintain at least 23% of the issued share capital of the Group; (2) Mr. Poon Sum shall remain as Chairman or Chief Executive Officer of the Group and shall be actively involved in the management and business of the Group; (3) Mr. Poon Sum, Mr. Poon Sau Tin and their family members shall remain the single largest shareholder of the Group. Other terms and conditions have no material different with the information disclosed previously. As at the date of this announcement, one of the financial covenants was not satisfied with the requirement but it was waived unconditionally by the Bank accordingly.

On 25 November 2009, a subsidiary of the Group accepted a special loan guarantee scheme with amount of HK$6,000,000 offered by the Bank. The facility is non-revolving nature with 60 months period and for the sole purpose of meeting the needs of general business uses. The major terms and conditions are similar with above disclosure. There are no special terms and conditions required to further disclose.

The above banking facilities are subject to periodic review by the relevant banks at its sole discretion.

## DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 March 2010 (2009: Nil).

## CLOSURE OF REGISTERS OF MEMBERS AND WARRANTHOLDERS

The registers of members and warrantholders of the Company will be closed from 20 September 2010 to 22 September 2010, both days inclusive, during which period no transfer of shares will be effected and no transfer or exercise of non-listed warrants and listed warrants will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates and all completed subscription forms in relation to the exercise of the listed warrants accompanied by the appropriate subscription monies and the relevant warrant certificates must be lodged with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 17 September 2010. All completed subscription forms in relation to the exercise of the non-listed warrants accompanied by the appropriate subscription monies and the relevant warrant certificates must be lodged with the Company in accordance with the terms and conditions of the non-listed warrants not later than 4:30 p.m. on 17 September 2010.

## CORPORATE GOVERNANCE

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

The non-executive director and the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

## PURCHASES, SALE OR REDEMPTION OF SECURITIES

Neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any of its securities during the year.

## REVIEW OF ACCOUNTS

The Group's final results for the year ended 31 March 2010 have been reviewed by the Company's Audit Committee which comprises three independent non-executive directors.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The electronic version of this announcement is published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and on the Company's website (http://www.cor.hk). The annual report for the year ended 31 March 2010, containing all the information required by Appendix 16 to the Listing Rules, will be dispatched to shareholders of the Company and published on the Hong Kong Stock Exchange's website and the Company's website in due course.

By order of the Board
**PetroAsian Energy Holdings Limited**
**Poon Sum**
*Chairman*

Hong Kong, 17 August 2010

*As at the date of this announcement, the Board comprises (i) three executive directors, namely Mr. Poon Sum, Mr. Wong Kwok Leung and Mr. Poon Wai Kong; and (ii) three independent non-executive directors, namely Mr. Chan Kam Ching, Paul, Mr. Chan Shu Kin and Mr. Cheung Kwan Hung.*