新時代能源有限公司*
NEW TIMES ENERGY
corporation limited
(incorporated in Bermuda with limited liability)
(Stock code: 00166)

# ANNUAL REPORT 2010

*For identification purpose only

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# CORPORATION INFORMATION

**BOARD OF DIRECTORS**
Executive Directors
Mr. Cheng Kam Chiu, Stewart
Mr. Cheng Ming Kit

Non-executive Directors
Mr. Wong Man Kong, Peter
Mr. Chan Chi Yuen

Independent non-executive Directors
Mr. Fung Chi Kin
Mr. Fung Siu To, Clement
Mr. Chiu Wai On

**AUDIT COMMITTEE**
Mr. Chiu Wai On *(Chairman)*
Mr. Fung Chi Kin
Mr. Fung Siu To, Clement

**REMUNERATION COMMITTEE**
Mr. Fung Chi Kin *(Chairman)*
Mr. Fung Siu To, Clement
Mr. Chiu Wai On

**NOMINATION COMMITTEE**
Mr. Fung Chi Kin *(Chairman)*
Mr. Fung Siu To, Clement
Mr. Chiu Wai On

**COMPANY SECRETARY**
Mr. Yu Wing Cheung

**AUDITOR**
Crowe Horwath (HK) CPA Limited

**LEGAL ADVISERS**
**ON HONG KONG LAW**
Chiu & Partners
Phillips Solicitors

**ON BERMUDA LAW**
Conyers Dill & Perman

**PRINCIPAL BANKERS**
Bank of China (Hong Kong) Limited
ICBC (Asia) Limited

**HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**
Room 1007-08, 10/F, New World Tower I
18 Queen's Road Central
Central
Hong Kong

**REGISTERED OFFICE**
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**
HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM 11
Bermuda

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**
Tricor Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

**WEBSITE**
http://www.166hk.com

**STOCK CODES**
Stock Exchange of Hong Kong
Stock Code: 00166
Warrant Code: 00937

# CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of New Times Energy Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group"), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December 2010.

The Group is engaged in the natural resources business. In 2010, the price of crude oil on the international market showed an upward trend, among which WTI Crude Oil prices climbed to over US$100 per barrel in early 2011. The price of crude oil is expected to remain high due to the unstable political climate in the Middle East and northern Africa. During 2010, the Group recorded sales of approximately HK$57.25 million, representing an increase of 522.6% compared to the previous year. The first successful workover of the old well in the Tartagal Oriental Block in northern Argentina started generating income of approximately HK$196,000 for the Group in late December 2010.

The Group terminated its agreement with Dencorn International Limited to acquire three gold mines in Qinglong Manchu Autonomous County, Hebei, the PRC, in January 2011 as certain conditions were not met, including the possession of all necessary operation permits or licenses and no material adverse change would occur in the operational owner of the three gold mines, in accordance with the terms of the agreement. Termination of the acquisition will thus enable the Group to devote its resources to the development of its oil business.

In 2010, the Group completed the acquisition of 998 line kilometers of 2-D seismic at the Morillo Block and 500 square kilometers of 3-D seismic at the Tartagal Oriental Block. Both blocks are located in the prolific oil and gas producing Noroeste Basin in Salta Province, Argentina. The acquisition program has gone smoothly and data obtained indicates excellent quality. The Group is now interpreting the data to locate exploration wells to be drilled in these blocks. The Group has also successfully completed workover programs for two old wells in the Tartagal Oriental Block. These wells have commenced production of crude oil, generating income for the Group. Success of the workover program has substantiated the oil producing capabilities of this block. Besides drilling exploration wells, the Group will evaluate the crude oil production capability of the remaining shut-in wells in the Tartagal Oriental Block by utilizing the workover process.

Aiming to broaden its business horizon and capture potential growth of its oil and gas properties, the Group will diversify its investment portfolio, which will include setting foot in the United States. The Company will cooperate with TXX Energy Corporation, an oil and gas company based in Texas, to form a new limited liability corporation searching for investment opportunities in eastern Texas and nearby areas. The Company has also entered into a loan agreement with Nordaq Energy Inc. ("Nordaq"), an oil and gas company based in Alaska, providing US$5 million as a maximum line of credit that Nordaq will use for exploration activities in relation to its oil and gas leases in Alaska. The Board sees the above transactions as attractive opportunities to capitalize on rising demand for energy, and to diversify the Group's involvement in the natural resources sector.

Looking toward 2011, demand for crude oil is expected to increase and the price will remain high due to the volatile political climate in the Middle East and northern Africa. The Group will carefully assess investment opportunities to acquire more upstream oil and gas operations. Moreover, the Group will evaluate the feasibility of carrying out workover programs for the remaining shut-in wells in order to increase production volume. The Board and the management are confident that the Group's business will grow steadily in 2011.

Finally, I would like to take this opportunity to express my sincere gratitude to the Board and all staff for their wholehearted efforts. Also, I am much obliged to the shareholders, business partners and acquaintances for their encouragement and support.

# MANAGEMENT DISCUSSION AND ANALYSIS

## GENERAL REVIEW

Consolidated turnover of the Group for the year ended 31 December 2010 was about HK$57.25 million (31 December 2009: HK$9.20 million), representing an encouraging increase of 522.6%. However, the Group recorded a loss attributable to shareholders of approximately HK$66.06 million (31 December 2009: HK$31.93 million), resulting mainly from administrative expenses related to the development of energy and natural resources projects of the Group, and necessary costs incurred in searching for and critically evaluating projects in the natural resources sector.

Administrative expenses of the Group for the year amounted to approximately HK$64.43 million (31 December 2009: HK$28.50 million), representing an increase of approximately HK$35.93 million from the previous year. Administrative expenses mainly consist of legal and professional expenses, staff's costs, and business trip related expenses.

Loss per share for the year was HK0.81 cents (31 December 2009: HK1.10 cents). The Board does not recommend any final dividend for this financial year (31 December 2009: Nil).

## REVIEW OF BUSINESS OPERATIONS

### Trading business

During 2010, the Group executed its plan to improve and strengthen its involvement in the resources sector. The Board's strategy focused on resources-related strategic investment businesses, in order to provide stronger and steadier income for the Group. During the year under review, the Group recorded sales of approximately HK$57.25 million (31 December 2009: HK$9.20 million), with gross profit of approximately HK$0.50 million (31 December 2009: HK$0.05 million). Increase in sales was due to the transformation and expansion of the resources-related trading operations, having sought to broaden the earnings base and growth potential of the business.

### Oilfield exploration and exploitation business

It has been more than a year since the Group completed acquiring 60% interest in the exploration and potential exploitation concessions granted by the Government of Argentina regarding the Tartagal and Morillo blocks. The Group fully recognized the strategic importance of advancing the projects into development and exploitation stages. During 2010, the Group continued to build its oil exploration and exploitation properties in Argentina, and provided all the required funding, human resources, and access to advanced technology for the projects. The Group is pleased to report that exploration activities in its oil and gas properties are proceeding satisfactorily. The seismic acquisition programs at Tartagal and Morillo have gone smoothly and data obtained indicates excellent quality.

## EXPLORATION, DEVELOPMENT AND PRODUCTION

### Overview

The Tartagal concession and Morillo concession (collectively the "Concessions") pertain to exploration permits and potential exploitation permits for oil and development of hydrocarbons in the province of Salta in northern Argentina, covering a total surface area of approximately 7,065 and 3,518 square kilometers respectively. It is one of the largest oil exploration land parcels open for tender in Argentina. The Company holds interest in the Concessions through an indirect wholly-owned subsidiary, and is responsible for carrying out duties in regard to all legal acts, contracts, and operations of the exploration works at the Concessions.

## EXPLORATION, DEVELOPMENT AND PRODUCTION *(CONTINUED)*

### Exploration

In 2010, the Group achieved fruitful progress in exploring the Concessions. The Group carried out exploration activities for crude oil and natural gas, focusing on 3D seismic acquisition at the Tartagal concession and 2D seismic acquisition at the Morillo concession. Seismic acquisition is a process used to create and record seismic data with the aid of equipment. W.I.C.A.P. S.A., the Group's contractor in Argentina, first used surveying equipment to level and survey points on the cleared lines, then used vibrators to generate seismic signals along the lines. The signals were subsequently recorded by geophones, a type of receiver used for collecting data. Seismic data recorded at the Concessions will be analyzed by the Group's own experts and external technical consultants before the drilling of oil wells commences and subsequent exploration works.

Pursuant to the obligations imposed in the exploration permits granted by the Secretariat of Energy of the Province of Salta, the Company was required to perform 3D seismic data acquisition covering a total surface area of 500 square kilometers and 2D seismic data acquisition covering lines of 997.74 kilometers at the Tartagal and Morillo concessions respectively. In the last quarter of 2010, both 3D seismic data acquisition in Tartagal and 2D seismic data acquisition in Morillo were fully completed. Interpretation of the seismic data is now in progress, which will be followed by a drilling program at the Concessions.

In July 2010, the Secretariat of Energy of the Province of Salta granted an extension on the exploration permits of fourteen additional months – now applicable until February 2012, thus allowing High Luck to design and develop additional exploration programs pertaining to the Tartagal and Morillo blocks.

During the year, the Group successfully completed the workover of the CA x-1002 well and CA x-1 well located at the Tartagal concession. These wells have commenced production of crude oil, generating income for the Group. The success of the workover program substantiates the oil producing capabilities of the Concessions. For the year ended 31 December 2010, the Group produced 839 barrels of crude oil under trial production, thus generating income for the Group. Aside from drilling exploration wells, the Group will evaluate the remaining shut-in wells at the Concessions for additional production by utilizing the workover process.

A summary of expenditures incurred from these activities for the year ended 31 December 2010 are as follows:

**SUMMARY OF EXPENDITURES INCURRED**

| **Nature of Expenditure** | **Amount** HK$'000 |
|---|---|
| Exploration rights | 8,455 |
| Geological studies | 214,585 |
| Exploratory drilling | 6,259 |
| Others | 28,957 |
| Total | 258,256 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## EXPLORATION, DEVELOPMENT AND PRODUCTION *(CONTINUED)*

### Development and Production

During the year, as the Concessions were under exploration permits and the explorations of the projects were in progress, no development or production activity has taken place at this stage. Development and production activities will commence once the relevant exploration works in the Concessions are completed.

## UPDATE OF RESOURCES

Based on the technical report dated 9 February 2009 ("Technical Report") issued by Netherland, Sewell & Associates, Inc., the independent qualified technical adviser, the assessment of the Unrisked Potential Original Hydrocarbons-in-Place and Gross (100 Percent) Prospective Resources for the Tartagal and Morillo license areas located in the Chaco-Parana´ and Chaco-Tarija Basins, Salta Province, Argentina and the unrisked gross (100 percent) prospective oil and gas resources for the oilfield are as follows:

| | Oil | | | Gas | | |
|---|---|---|---|---|---|---|
| **Prospect** (1) | **Low Estimate** | **Best Estimate** | **High Estimate** | **Low Estimate** | **Best Estimate** | **High Estimate** |
| | (Million of Barrels) | | | (Million of Cubic Feet) | | |
| EM Deep 1 | 0.4 | 2.6 | 16.2 | 22,162 | 135,654 | 820,614 |
| EM Deep 2 | 1.8 | 8.9 | 44.3 | 91,755 | 459,065 | 2,281,286 |
| EM Deep 3 | 1.7 | 6.8 | 24.4 | 88,461 | 351,294 | 1,214,154 |
| EM Deep 4 | 1.6 | 6.3 | 24.8 | 81,431 | 322,479 | 1,222,638 |
| PET North | 0.7 | 3.5 | 16.1 | 38,527 | 175,296 | 817,560 |
| ZH South | 13.7 | 39.2 | 107.3 | 11,246 | 34,281 | 101,999 |
| EQ East | 16.6 | 41.1 | 100.7 | 13,190 | 35,470 | 90,762 |
| Probabilistic Total (2) | 83.6 | 144.5 | 256.5 | 1,115,954 | 2,342,209 | 5,089,858 |

Notes:

(1) The 2007 Petroleum Resources Management System defines a prospect as a project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target. The chance of geologic success for the seven identified prospects ranges from 5 to 16 percent, which equals 84 to 95 percent chance of failure and therefore represents moderate risk to very high risk exploration.

(2) The probabilistic total is based on combined portfolio sampling for all prospects and is not equal to the sum of the individual prospects.

There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Resource estimates are updated at least annually and take into account recent production and technical information about the Concessions.

# MANAGEMENT DISCUSSION AND ANALYSIS

**PROSPECTS**

As resources are irreplaceable and scarce in general, the Board believes that the rising demand for energy and natural resources is sustainable. In order to better position itself in the industry to grasp emerging opportunities, the Group's strategy will be to assess the feasibility of carrying out further workover programs at the Concessions, expand its trading business in order to increase sales volume and search for strategic investment opportunities in natural resources. The Board believes that the revenue contributions from the wells currently in production and trading operations are crucial to the Group, offering steady cash inflow to offset a portion of exploration expenses incurred from the Tartagal and Morillo oilfield projects.

The Group will continue to support the needs of its oilfield exploration and potential exploitation projects in Argentina, in terms of finance and operation. Working closely with its business partners, technical advisors and contractors, the Group will seek to bolster its exploration activities at the Tartagal and Morillo concessions, aiming to turn prospective oil and gas reserves into proved reserves with substantial potential for commercial production.

In January 2011, the Group terminated its agreement with Dencorn International Limited to acquire three gold mines in Qinglong Manchu Autonomous County, Hebei, the PRC, as certain conditions had not been satisfied, including the possession of all necessary operation permits or licenses and that no material adverse change would occur in the operational owner of the three gold mines, in accordance with the terms of the agreement. Termination of the acquisition will thus enable the Group to devote its resources to the development of its oil business.

Aiming to broaden its business horizon and capture potential growth in its oil and gas properties, the Group will diversify its investment portfolio, which will include setting foot in the United States. In 2011, the Company will cooperate with TXX Energy Corporation, an oil and gas company based in Texas, to form a new limited liability corporation searching for investment opportunities in east Texas and nearby areas. In December 2010, the Company entered into a loan agreement with Nordaq Energy Inc. ("Nordaq"), an oil and gas company based in Alaska, to provide a maximum line of credit of US$5 million for Nordaq's exploration activities in relation to its oil and gas leases in Alaska. In 2011, the aforementioned line of credit had already been fully utilized by Nordaq. At the option of the Company, the outstanding principal amount of this loan may be converted into shares of Nordaq. The Board sees the above transactions as attractive opportunities to capitalize on rising demand for energy, and to diversify the Group's involvement in the natural resources sector.

As a consolidated natural resources company, the Group's strategy goes beyond gold and oil exploration and exploitation, to monitoring trends in natural resources and actively evaluating strategic investment opportunities in resources-related projects around the world. The Group remains focused on developing its existing operations while concurrently pursue potentially lucrative business opportunities around the globe. This approach is motivated by the management's dedication to delivering maximum returns to the Group's shareholders.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

### Capital structure, liquidity and financial resources

On 4 May 2009, the Company issued convertible notes for an aggregate principal amount of HK$1,832.4 million at a conversion price of HK$0.32 per share, pursuant to an agreement to acquire 100% interest in Jade Honest Limited. As at 31 December 2010, the said convertible notes were exercised in full, and were converted into 5,726,250,000 shares of the Company.

On 28 January 2010, the Company issued 743,100,000 new shares at HK$0.10 each, pursuant to a placing agreement to place the said shares with independent third parties at a price of HK$0.31 per share. Net proceeds of approximately HK$221.4 million were used for general working capital and financing future investment opportunities identified by the Group.

On 26 February 2010, the Company issued 322,582,000 new shares at HK$0.10 each, pursuant to a subscription agreement and a special mandate approved at the special general meeting held on 24 February 2010, to allot and issue the said shares to Max Sun Enterprises Limited at a price of HK$0.31 per share. Net proceeds of approximately HK$99.9 million were used for general working capital and financing future investment opportunities identified by the Group.

On 25 June 2010, a total of 1,152,521,860 bonus warrants were issued by the Company on the basis of one bonus warrant for every seven existing shares of the Company held by the shareholders registered on the register of members of the Company on 18 June 2010. The holders of these bonus warrants are entitled to subscribe in cash for 1,152,521,860 new shares at an initial exercise price of HK$0.27 per share at any time from 25 June 2010 to 24 June 2011 (both days inclusive). Assuming the full exercise of subscription rights as attached to the bonus warrants, net proceeds of approximately HK$310.9 million will be raised, which will be used for general working capital and financing future business development of the Group. As at 31 December 2010, 1,152,489,861 units of bonus warrants remained outstanding.

On 10 September 2010, the Company issued 187,500,000 new shares at HK$0.10 each, pursuant to an agreement to acquire 100% interest in Jade Honest Limited.

As at 31 December 2010, the total equity of the Group was HK$3,670.83 million (31 December 2009: HK$3,429.53 million) and the net asset value per share was HK$0.44 (31 December 2009: HK$0.62). The debt ratio, calculated by total liabilities divided by total assets, was 6.11% as at 31 December 2010 (As at 31 December 2009: 3.02%).

As at 31 December 2010, the total asset value of the Group was approximately HK$3,909.52 million (31 December 2009: HK$3,536.38 million) and total cash and bank balances were approximately HK$114.06 million (31 December 2009: HK$201.37 million).

As at 31 December 2010, working capital, calculated by current assets minus current liabilities, was HK$67.71 million (As at 31 December 2009: HK$136.97 million).

## LIQUIDITY AND FINANCIAL RESOURCES *(CONTINUED)*

### Capital structure, liquidity and financial resources *(continued)*

The Group's borrowings as at 31 December 2010 comprised an other borrowing of HK$41.40 million, bearing interest at 3.5% per annum, and two other borrowings of approximately HK$117.95 million and HK$0.94 million, denominated in Renminbi, bearing interest at 5.31% per annum and interest free respectively. As at 31 December 2010, the gearing ratio, calculated on the basis of interest bearing borrowings divided by total equity, was 4.34% (31 December 2009: 2.49%).

### Capital expenditure

The Group's capital expenditure during the year amounted to approximately HK$262.58 million (31 December 2009: HK$3,251.89 million).

### Charge on assets

As at 31 December 2009, a fixed deposit of approximately HK$28.36 million, denominated in Renminbi, of an indirect subsidiary of the Company in a PRC bank was pledged to secure banking facilities granted to its supplier. The financial guarantee was subsequently released on 6 April 2010.

### Contingent liability

Details of contingent liabilities of the Group as at 31 December 2010 are set out in note 39 to the consolidated financial statements.

### Capital commitments

Details of capital commitments of the Group as at 31 December 2010 are set out in note 38(a) to the consolidated financial statements.

### Foreign exchange and interest rate exposure

Assets and liabilities of the Group are mainly denominated in Hong Kong dollar, Renminbi, United States dollar, and Argentine peso. The Group currently does not have a foreign currency hedging policy. However, the management will monitor the Group's foreign exchange exposure on an ongoing basis and will consider hedging significant foreign currency exposure should the need arise. Details of the Group's exposure to interest rate risk and currency risk are set out in notes 35(c) and 35(d) to the consolidated financial statements.

### Employees

As at 31 December 2010, the Group employed a total of 56 employees (31 December 2009: 26) in Hong Kong, the PRC, and Argentina. Total employee remuneration (including directors' emoluments and benefits) amounted to HK$13.04 million (2009: HK$4.93 million). The Group provides its employees with competitive remuneration packages which are determined based on personal performance, qualifications, experience, and relevant market conditions with respect to geographical location and type of business that the Group operates.

### Share Option Scheme

Detailed movements of the share option scheme in the year are set out in pages 26 to 27 of the report of the Directors.

## LIQUIDITY AND FINANCIAL RESOURCES *(CONTINUED)*

### Acknowledgement

On behalf of the Board of Directors, I would like to express my heartfelt gratitude to all the shareholders and investors for their unwavering support of the Group. I would also like to extend my sincere appreciation to staff members for their dedication and hard work in 2010.

**Cheng Kam Chiu, Stewart**
*Chairman and Executive Director*
Hong Kong, 29 March 2011

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. Cheng Kam Chiu, Stewart**, aged 57, joined the Group in February 2008 as an executive director. Mr. Cheng holds a Bachelor's Degree in Civil and Environmental Engineering from the University of Wisconsin-Madison; a Master's Degree in Civil Engineering from the University of California, Berkeley, United States; and a degree in Master of Business Administration from the Chinese University of Hong Kong. Being a member of the Hong Kong Institution of Engineers, Mr. Cheng is a professional engineer with extensive experience in property development and construction management. Mr. Cheng is a Member of the Shunde District, Foshan City Committee of the Chinese People's Political Consultative Conference since November 2006.

Mr. Cheng joined Hip Hing Construction Company Limited in 1984 as project manager and had subsequently become a director. From 1993 to 1997, Mr. Cheng was transferred to New World Development (China) Limited as director and assistant general manager, overseeing property development in the PRC. He worked for the NWS Holding Group from 1997 to 2006. Mr. Cheng is now the managing director of Cheung Hung Development (Holdings) Limited, working in property development in both Hong Kong SAR and the PRC. Mr. Cheng is an executive director of International Entertainment Corporation (stock code: 1009) and was an executive director of Grand T G Gold Holdings Limited (stock code: 8299) from November 2008 to May 2009, which shares are listed on the Hong Kong Stock Exchange.

Mr. Cheng is the nephew of Dato' Dr. Cheng Yu-Tung, *DPMS, LLD(Hon), DBA(Hon), DSSc(Hon), GBM*, the ultimate beneficial owner of Max Sun Enterprises Limited and the uncle of Mr. Cheng Ming Kit, an executive director of the Company.

**Mr. Cheng Ming Kit**, aged 37, holds a bachelor degree in Commerce from the University of Alberta, Canada. From 1995 to 2003, Mr. Cheng held various positions which were responsible for corporate finance and property development activities in the PRC. From 2003 to 2008, Mr. Cheng was involved in the investment and operations in the gold mining industry in the PRC and had held senior positions in a mining company listed in the Toronto Stock Exchange Venture Board with mining and exploration operations in the PRC. Mr. Cheng was an executive director of Grand T G Gold Holdings Limited (stock code: 8299) from November 2008 to June 2009, which shares are listed on the Hong Kong Stock Exchange. He is the nephew of Mr. Cheng Kam Chiu, Stewart, the Chairman and an executive director of the Company.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## NON-EXECUTIVE DIRECTORS

**Mr. Wong Man Kong, Peter**, *BBS, JP*, aged 62, was appointed as a non-executive director of the Company in February 2008. Mr. Wong graduated from the University of California at Berkeley in the United States with a Bachelor of Science Degree in Mechanical Engineering (Naval Architecture), was awarded the Bronze Bauhinia Star by the Hong Kong Government, and was an awardee of the "Young Industrialist Award of Hong Kong". Mr. Wong is a Deputy of the 8th, 9th, 10th and 11th National People's Congress. He is also the Executive Vice Chairman of Hong Kong Pei Hua Education Association, a Vice Chairman of Chamber of Tourism, All-China Federation of Industry & Commerce, a director of Ji Nan University, and a founding senior member of The University of Hong Kong Foundation for Educational Development and Research.

Mr. Wong is a non-executive director of Hong Kong Ferry (Holdings) Company Limited (stock code: 50) and an independent non-executive director of Glorious Sun Enterprises Limited (stock code: 393), China Travel International Investment Hong Kong Limited (stock code: 308), Sun Hung Kai & Company Limited (stock code: 86), Sino Hotels (Holdings) Limited (stock code: 1221), Chinney Investments Limited (stock code: 216), and Far East Consortium International Limited (stock code: 35), which shares are listed on the Main Board of the Stock Exchange. He is also the Chairman of the M.K. Corporation Limited and North West Development Limited.

**Mr. Chan Chi Yuen**, aged 44, joined the Group in May 2006 as the Chairman and an executive director of the Group and re-designated as a non-executive director in October 2006. Mr. Chan holds a bachelor degree with honours in Business Administration and a Master of Science degree in Corporate Governance and Directorship. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants and is an associate member of The Institute of Chartered Accountants in England and Wales. He is a practicing certified public accountant and has extensive experience in financial management, corporate finance and corporate governance.

Mr. Chan is currently an independent non-executive director of Asia Energy Logistics Group Limited (stock code: 351), China Gogreen Assets Investment Limited (stock code: 397), China Gamma Group Limited (stock code: 164), China Grand Forestry Green Resources Group Limited (stock code: 910), Rojam Entertainment Holdings Limited (stock code: 8075) and U-RIGHT International Holdings Limited (stock code: 627), which shares are listed on the Hong Kong Stock Exchange.

Mr. Chan was also an independent non-executive director of The Hong Kong Building and Loan Agency Limited (stock code: 145) from October 2009 to February 2011, Richly Field China Development Limited (stock code: 313) from February 2009 to August 2010, Superb Summit International Timber Company Limited (stock code: 1228) from April 2007 to June 2010 and an executive director of Kong Sun Holdings Limited (stock code: 295) from February 2007 to November 2009, Amax Holdings Limited (stock code: 959) from August 2005 to January 2009, and China E-Learning Group Limited (stock code: 8055) from July 2007 to September 2008, which shares are listed on the Hong Kong Stock Exchange.

# BIOGRAPHICAL DETAILS OF DIRECTORS

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Mr. Fung Chi Kin**, aged 62, was appointed as an independent non-executive director in October 2006. Mr. Fung is the Permanent Honorary President of The Chinese Gold & Silver Exchange Society and has been an international advisor of Shanghai Gold Exchange. Mr. Fung has over 30 years of experience in banking and finance business. From October 1998 to June 2000, he served as the Council Member of First Legislative Council of the HKSAR. He also held important office in various public organizations, namely President of the Chinese Gold and Silver Exchange Society, Vice Chairman of The Stock Exchange of Hong Kong Limited, director of the Hong Kong Futures Exchanges Limited and Hong Kong Securities Clearing Company Limited, and Hong Kong Affairs Advisor. Mr. Fung is an independent non-executive director of Chaoda Modern Agriculture (Holdings) Limited (stock code: 682) and was an independent non-executive director of Emperor Capital Group Limited (stock code: 717) from March 2007 to May 2010, which shares are listed on the Main Board of the Stock Exchange.

**Mr. Fung Siu To, Clement**, aged 62, was appointed as an independent non-executive director in December 2008. Mr. Fung has over 25 years of experience in project management and construction. He is a holder of a Bachelor of Applied Science (Civil Engineering) degree and is also a fellow member of the Hong Kong Institution of Engineers. Mr. Fung is currently the Chairman and executive director of Asia Orient Holdings Limited (stock code: 214) and Asia Standard International Group Limited (stock code: 129) and is an executive director of Asia Standard Hotel Group Limited (stock code: 292), which shares are listed on the Hong Kong Stock Exchange.

**Mr. Chiu Wai On**, aged 42, was appointed as an independent non-executive director in November 2006. Mr. Chiu is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chiu possesses 12 years of professional experience in accounting and auditing services. Mr. Chiu is an independent non-executive director of Hua Yi Copper Holdings Limited (stock code: 559), which shares are listed on the Main Board of the Stock Exchange.

# CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") believes that good governance is essential to the maintenance of the Group's competitiveness and to its healthy growth. The Company has adopted practices which meet the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. This report describes the Group's corporate governance practices and explains the applications of the principles of the CG Code and deviations, if any. In respect of the year ended 31 December 2010, save as disclosed below, all code provisions set out in the CG Code were met by the Company.

### Code Provision A.2.1

Pursuant to code provision A.2.1 of the CG Code, the roles of Chairman and Managing Director (or chief executive officer ("CEO")) should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. The Company does not presently have any officer with the title of "Managing Director" or "CEO". During the year, Mr. Cheng Kam Chiu, Stewart, being the Chairman and an executive director of the company, was assuming the role of the CEO of the Company and was responsible for the strategic planning and corporate policy of the Group. The Board considers that the current structure facilitates the execution of the Group business strategies and maximizes effectiveness of its organization. The Board shall nevertheless review the structure from time to time to ensure appropriate move being taken should suitable circumstances arise.

### Code Provision A.4.1

Pursuant to code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. All non-executive and independent non-executive directors of the Company are not appointed for a specific term. They are, however, subject to the requirement of retirement and re-election at least once every three years at the annual general meetings of the Company, in accordance with the relevant provisions of the Company's Bye-laws.

As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the code provisions of the CG Code.

# CORPORATE GOVERNANCE REPORT

## THE BOARD OF DIRECTORS

### Composition

The Board currently comprises two executive directors, two non-executive directors and three independent non-executive directors from different business and professional fields. The directors, including non-executive directors and independent non-executive directors, have brought a balance of valuable and diversified business and professional expertise, experiences and independent judgement to the Board for its efficient and effective management of the Company's business.

The Board of the Company comprises the following directors:

*Executive Directors:*
Mr. Cheng Kam Chiu, Stewart *(Chairman)*
Mr. Cheng Ming Kit

*Non-executive Directors:*
Mr. Wong Man Kong, Peter
Mr. Chan Chi Yuen

*Independent non-executive Directors:*
Mr. Fung Chi Kin *(Member of Audit Committee and Chairman of Remuneration and Nomination Committee)*
Mr. Fung Siu To, Clement *(Member of Audit, Remuneration, and Nomination Committee)*
Mr. Chiu Wai On *(Chairman of Audit Committee and Member of Remuneration and Nomination Committee)*

The profiles of each director are set out in the "Biographical Details of Directors" section in this Annual Report.

### Chairman and Chief Executive Officer

As mentioned above, Mr. Cheng Kam Chiu, Stewart performs both roles of the Chairman and CEO. The directors consider that vesting the roles the Chairman and CEO in Mr. Cheng Kam Chiu, Stewart is presently the most beneficial structure for the Company. Stronger and more consistent leadership allows the Group to plan and implement business strategies more efficiently and therefore, is in the best interest of the Company and its shareholders.

### Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors, of whom Mr. Chiu Wai On has appropriate professional qualifications and related experience in financial matters.

The Company has received written annual confirmation from each independent non-executive director of their independence pursuant to the requirements of Rules 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

## THE BOARD OF DIRECTORS *(CONTINUED)*

### Appointment and Re-election of Directors

The Board retains the functions for the selection and approval of candidates to become Board members. Directors who are appointed by the Board are subject to retirement by rotation in accordance with the Company's Bye-laws. In accordance with the Bye-laws of the Company, any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. At each annual general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation but shall be eligible for re-election, provided that every director shall be subject to retirement at least once every three years. The directors (including those appointed for a special term) to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

### Responsibilities of Directors

The Board is responsible for the leadership and control of the Company and collectively responsible for promoting success of the Company by directing and supervising the Company's affairs. The Board also formulates objectives, overall corporate strategies and business plans, and oversees the financial and management performance of the Group. Day-to-day functions and authorities are delegated to the management, which include the implementation of objectives, strategies and plans adopted by the Board and the day-to-day management of the Group's business.

All directors have full and timely access to all relevant information in relation to the Company as well as the advice and services of the Company Secretary, if and when required, with a view ensuring that the Board procedures and all applicable rules and regulations are followed.

There are established procedures for directors upon reasonable request, to seek independent advice in appropriate circumstances, at the Company's expenses.

The Company has arranged appropriate liability insurance for the directors and the senior management of the Group to indemnify their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

### Responsibilities in Respect of the Financial Statements

The directors acknowledge their responsibility for preparing the Company's accounts. The financial statements for the year ended 31 December 2010 have been prepared in accordance with Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and other applicable regulatory requirements.

The directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquires, they are not aware of any material uncertainty relating to events of conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## THE BOARD OF DIRECTORS *(CONTINUED)*

### Responsibilities in Respect of the Financial Statements *(continued)*

The reporting responsibilities of the external auditors, Crowe Horwath (HK) CPA Limited, are set out in the Independent Auditor's Report on pages 30 to 31.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2010.

The Company has also adopted a code of conduct governing securities transactions by employees who may possess or have access to price sensitive information.

## BOARD AND COMMITTEE MEETINGS

### Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings. For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all directors before each Board meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All directors are given the opportunity to include matters in the agenda for regular Board meetings. The Board and each director also have separate and independent access to senior management whenever necessary.

Apart from the regular board meetings, the Board met on other occasions from time to time when a board-level decision on a particular matter was required.

Minutes of all Board meetings, recording sufficient details of matters considered and decisions reached, are kept by the secretary of the meetings, and are open for inspection by the directors.

## BOARD AND COMMITTEE MEETINGS *(CONTINUED)*

### Number of Meetings and Directors' Attendance *(continued)*

During the year, nineteen board meetings (of which four were regular quarterly meetings) were held and the individual attendance of each director is set out below:

| Director Name | Attendance |
|---|---|
| *Executive directors* | |
| Mr. Cheng Kam Chiu, Stewart *(Chairman)* | 17/19 |
| Mr. Cheng Ming Kit | 17/19 |
| *Non-executive directors* | |
| Mr. Wong Man Kong, Peter | 5/19 |
| Mr. Chan Chi Yuen | 8/19 |
| *Independent non-executive directors* | |
| Mr. Fung Chi Kin | 9/19 |
| Mr. Fung Siu To, Clement | 10/19 |
| Mr. Chiu Wai On | 11/19 |

### Board Committees

The Board has established 3 committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference.

The majority of the members of each Board committees are independent non-executive directors. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

### Audit Committee

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Chiu Wai On, Mr. Fung Chi Kin, and Mr. Fung Siu To, Clement. Mr. Chiu Wai On is the Chairman of the Audit Committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

## BOARD AND COMMITTEE MEETINGS *(CONTINUED)*

### Audit Committee *(continued)*

The main duties of the Audit Committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the issuer's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of management, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

In 2010, the audit committee convened two meetings. Members and their attendance are as follows:

| Director Name | Attendance |
|---|---|
| Mr. Chiu Wai On *(Chairman of Audit Committee)* | 2/2 |
| Mr. Fung Chi Kin | 2/2 |
| Mr. Fung Siu To, Clement | 2/2 |

### Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors of the Company, namely Mr. Fung Chi Kin, Mr. Fung Siu To, Clement and Mr. Chiu Wai On. Mr. Fung Chi Kin is the Chairman of the Remuneration Committee.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

In 2010, the remuneration committee convened one meeting. Members and their attendance are as follows:

| Director Name | Attendance |
|---|---|
| Mr. Fung Chi Kin *(Chairman of Remuneration Committee)* | 1/1 |
| Mr. Fung Siu To, Clement | 1/1 |
| Mr. Chiu Wai On | 1/1 |

## BOARD AND COMMITTEE MEETINGS *(CONTINUED)*

### Nomination Committee

The Nomination Committee comprises three independent non-executive directors of the Company, namely Mr. Fung Chi Kin, Mr. Fung Siu To, Clement and Mr. Chiu Wai On. Mr. Fung Chi Kin is the Chairman of the Nomination Committee.

The main duties of the Nomination Committee include the followings:

(a) To review the criteria and procedures of selection of directors and senior management members, and provide suggestions;

(b) To conduct extensive search for qualified candidates of directors and senior management members; and

(c) To access the candidates for directors and senior management members and provide the relevant recommendations.

The Nomination Committee did not hold any committee meeting during the year of 2010.

## AUDITORS' REMUNERATION

CCIF CPA Limited ("CCIF") had been appointed as the Company's external auditors since 2005 until they retired at the conclusion of the annual general meeting on 9 June 2010, following the merger of business with PCP CPA Limited resulting in Crowe Horwath (HK) CPA Limited ("Crowe Horwath") operating as the merged firm. As a result of these changes, Crowe Horwath were appointed as external auditors of the Company at the same annual general meeting to fill the vacancy following the retirement of CCIF. There have been no other changes of auditors of the Company in the past three years.

The Audit Committee has been notified of the nature and service charges of the non-audit services to be performed by Crowe Horwath and considered that such services have no adverse effect on the independence of their audit works.

A summary of audit and non-audit services provided by the external auditors for the year ended 31 December 2010 and their corresponding remunerations is as follows:

| **Nature of services** | Note | **Amount** (HK$) |
|---|---|---|
| Audit services for the year ended 31 December 2010 | 1 | 1,070,000 |
| Review of preliminary announcement for the year ended 31 December 2010 | 1 | 10,000 |
| Review of interim result | 1 | 65,000 |
| Tax review | 2 | 20,000 |
| Services relating to the Company's circular of Acquisition of Fortune Ease Holdings Limited | 2 | 250,000 |

### AUDITORS' REMUNERATION *(CONTINUED)*

Note:

(1) Services rendered by Crowe Horwath

(2) Services rendered by CCIF

### INTERNAL CONTROL

The Board, recognizing its overall responsibility in ensuring the system of internal controls of the Company and in reviewing its effectiveness, is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group. Procedures have been designed to safeguard assets against unauthorized used or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with applicable law, rules and regulations. The procedures provide a reasonable, but not absolute, assurance that material untrue statements or losses are prevented, potential interruption of the Group's management system is detected, and risks existing in the course of arriving at the Group's objectives are properly managed.

During the year, the Board, through the Audit Committee, has been assessing and improving the effectiveness of the Group's internal control system continuously, which covers financial, operational, and compliance controls as well as risk management function, in order to cope with the changing business environment.

### COMMUNICATIONS WITH SHAREHOLDERS

The Board recognizes the importance of continuing communications with the Company's shareholders and investors, and maintains ongoing dialogues with them through various channels. The primary communication channel between the Company and its shareholders is through the publication of its interim and annual reports. The Company's Registrars serve the shareholders with respect to all share registration matters.

The Company's annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Board members and management of the Company are available to answer shareholders' questions and explain the procedures for demanding and conducting a poll, if necessary. Any relevant information and documents on proposed resolutions are normally sent to all shareholders at least 20 clear business days before the annual general meeting.

All shareholders' communications, including interim and annual reports, announcements, and press releases, are available on the Company's website at www.166hk.com. The latest business developments and core strategies of the Company can also be found on the website, keeping the communications with investors open and transparent.

# REPORT OF THE DIRECTORS

The directors submit herewith their annual report together with the audited financial statements of New Times Energy Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

## PRINCIPAL PLACE OF BUSINESS

The Company is a limited liability company incorporated in Bermuda and its registered office and principal place of business are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Room 1007-8, 10/F, New World Tower I, 16-18 Queen's Road Central, Hong Kong respectively. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities and other particulars of its principal subsidiaries are set out in note 17 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out on pages 32 to 36. The directors do not recommend the payment of any dividend in respect of the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the past five financial years/periods are set out on page 134.

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the consolidated financial statements.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2010 are set out in note 29 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 34(a) to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2010, the Company had no retained profits available for cash distribution and/or distribution in specie, under the Company Act 1981 of Bermuda (as amended) the Company's contribution surplus of approximately HK$122,864,000 is currently not available for distribution. In addition, the Company's share premium account of HK$3,083,591,000 as at 31 December 2010, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for approximately 100.0% and the largest customer accounted for approximately 71.0% of the Group's total turnover for the year. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 99.6% and the largest suppliers accounted for approximately 70.6% of the Group's total purchases for the year.

At no time during the year have the directors, their associates or any shareholders of the Company (which to the best knowledge of the directors owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The transactions as set out in notes 37(a)(i), (ii), (iii) and (c)(v) to the consolidated financial statements were continuing connected transactions which were exempt from any disclosure and shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions as set out in notes 37(a)(iv), (c)(i) and (ii) to the consolidated financial statements were connected transactions which were exempt from any disclosure and shareholders' approval requirements under Chapter 14A of the Listing Rules.

As far as the transactions set out in note 37(b) to the consolidated financial statements are concerned, the remuneration of the directors as determined pursuant to the service contracts entered into between the directors and the Group were connected transactions which were exempt from any disclosure and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The remaining transactions which took place during the year as set out in note 37 to the consolidated financial statements under the heading of "Material Related Party Transactions" did not constitute connected transactions under the Listing Rules.

# REPORT OF THE DIRECTORS

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

*Executive directors*
Mr. Cheng Kam Chiu, Stewart *(Chairman)*
Mr. Cheng Ming Kit

*Non-executive director*
Mr. Wong Man Kong, Peter
Mr. Chan Chi Yuen

*Independent non-executive directors*
Mr. Fung Chi Kin
Mr. Fung Siu To, Clement
Mr. Chiu Wai On

In accordance with the Company's bye-law no. 87(1), Mr. Chan Chi Yuen, Mr. Fung Chi Kin, and Mr. Fung Siu To, Clement shall retire by rotation from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors to be independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the directors of the Company of the Group are set out on pages 11 to 13 of this report.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTOR INTEREST IN CONTRACTS

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2010, the interests and short positions of the directors and or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for the Securities Transactions by Directors of Listed Companies were as follows:

Long positions of directors' interests in shares and underlying shares of the Company

| Name of directors | Nature of interest | Number of ordinary shares held | Number of warrants held | Approximate percentage of the total issued share capital |
|---|---|---|---|---|
| Mr. Cheng Ming Kit | Beneficial owner | 20,000 | 2,857 | 0.0003% |
| Mr. Fung Siu To, Clement | Beneficial owner | 600,000 | 85,714 | 0.008% |

Save as disclosed above, as at 31 December 2010, none of the directors or chief executives of the Company and their associates had any personal, family, corporate or other interests had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

## DIRECTORS' RIGHT TO ACQUIRE SHARE OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors or the initial management shareholders had an interest in any business that competes with or is likely to compete with the business of the Group.

## DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUAL'S EMOLUMENTS

Particulars of the directors' remuneration and highest paid individual's emoluments are set out in notes 8 and 9 to the consolidated financial statements respectively.

## RETIREMENT SCHEME

The Group operates a Mandatory Provident Fund (the "MPF") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for the employees under the jurisdiction of the Hong Kong Employment Ordnance. The MPF scheme is a defined contribution retirement plan administrated by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

## 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 include any director, or proposed director, including independent non-executive director, employee or proposed employee, secondee, any holder of securities issued by any member of the Group, any business or joint venture partner, contractor, agent or representative, any person or entity that provides research, development or other technology support or advisory, consultancy, professional or other services to the Group, any supplier, producer or licensor of goods or services to the Group, any customer, licensee or distributor of goods or services of the Group, or any landlord or tenant of the Group or any substantial shareholder or company controlled by a substantial shareholder, or any company controlled by one or more persons belonging to any of the above classes of participants. The Scheme became effective on 30 August 2002 and, unless otherwise terminated earlier by shareholders in a general meeting, will remain in force for a period of 10 years from that date.

Pursuant to the Scheme, the maximum number of share options may be granted under the scheme and any other share option schemes of the Company is an amount equivalent to, upon their exercise, in aggregate not exceeding 30% of the issued share capital of the Company from time to time, excluding any shares issued on the exercise of share options. As at 31 December 2010, the number of share issuable under the Scheme was 43,330,200. The maximum number of shares issuable under the Scheme to each eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Pursuant to the Scheme, Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any grant of share options to a substantial shareholder or an independent non-executive director, or any of their associates, which will result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the New Scheme and any other share option schemes of the Company, including options exercised, cancelled and outstanding, in any 12-month period up to and including the date of grant representing in aggregate over 0.1% of the shares in issue, and having an aggregate value, based on the closing price of the Company shares at each date of grant, in excess of $5 million, such further grant of share options is required to be approved by shareholders in a general meeting in accordance with the Listing Rules.

**SHARE OPTION SCHEME** ***(CONTINUED)***

The offer of a grant of share options under the Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of $1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier. The exercise price of the share options under the Scheme is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The following share options were outstanding under the Scheme during the year:

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

| | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Category of grantees | Date of grant | Exercisable period | Exercisable price | Balance at beginning of the year | Granted during the year | Exercised/ transferred during the year | Transfer from/ (to) other category during the year | Lapsed during the year | Balance at the end of the year |
| Employees in aggregate | 8.5.2007 | 8.5.2007 – 7.5.2012 | HK$0.60 | 8,666,000 | – | – | – | 4,333,000 | 4,333,000 |
| Other participants in aggregate | 8.5.2007 | 8.5.2007 – 7.5.2012 | HK$0.60 | 25,998,000 | – | – | – | 8,666,000 | 17,332,000 |
| | | | | 34,664,000 | – | – | – | 12,999,000 | 21,665,000 |

## DISCLOSABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2010, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to any directors of chief executive of the Company, the following persons had, or were deemed or taken to have, an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

**Long positions:**

| **Name of shareholders** | Notes | **Capacity and Nature of Interest** | **Number of ordinary shares held** | **Number of warrants held** | **Percentage of the Company's issued share capital** |
|---|---|---|---|---|---|
| Max Sun Enterprises Limited | (i) | Beneficially owned | 868,605,530 | 124,086,504 | 12.03% |
| Chow Tai Fook Nominee Limited | (ii) | Interest in a controlled corporation | 868,605,530 | 124,086,504 | 12.03% |

Notes:

(i) Max Sun Enterprises Limited is wholly owned by Chow Tai Fook Nominee Limited.

(ii) So far is known to the directors, Chow Tai Fook Nominee Limited is wholly owned by Dato' Dr. Cheng Yu Tung.

Save as disclosed above, the directors are not aware of any person had or were deemed or taken to have, an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is sufficient public float throughout the year ended 31 December 2010.

# REPORT OF THE DIRECTORS

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the year except under the Code Provision A.2.1 and A.4.1. The full details of corporate governance practices adopted by the Company during the year ended 31 December 2010, or where applicable, up to the date of this report, are set out in pages 14 to 21 of this report.

## AUDITORS

CCIF CPA Limited ("CCIF") had been appointed as the Company's external auditors since 2005 until they retired at the conclusion of the annual general meeting on 9 June 2010, following the merger of business with PCP CPA Limited resulting in Crowe Horwath (HK) CPA Limited ("Crowe Horwath") operating as the merged firm. As a result of these changes, Crowe Horwath were appointed as external auditors of the Company at the same annual general meeting to fill the vacancy following the retirement of CCIF. There have been no other change of auditors of the Company in the past three years.

The financial statements for the year ended 31 December 2010 were audited by Crowe Horwath who retire and, being eligible, shall offer themselves for reappointment at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Cheng Kam Chiu, Stewart**
*Chairman and Executive Director*

Hong Kong, 29 March 2011

# INDEPENDENT AUDITOR'S REPORT

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF**
**NEW TIMES ENERGY CORPORATION LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of New Times Energy Corporation Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 32 to 133, which comprise the consolidated and Company statements of financial positions as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

## AUDITOR'S RESPONSIBILITY *(CONTINUED)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Crowe Horwath (HK) CPA Limited**
*Certified Public Accountants*
Hong Kong, 29 March 2011

**Sze Chor Chun, Yvonne**
Practising Certificate Number P05049

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 4 & 13 | **57,252** | 9,196 |
| **Cost of sales** | | **(56,751)** | (9,150) |
| **Gross profit** | | **501** | 46 |
| Other revenue | 5(a) | **9,908** | 2,111 |
| Other net income | 5(b) | **5,391** | 8,055 |
| Other operating income | 5(c) | **–** | 476 |
| Administrative expenses | | **(64,429)** | (28,501) |
| Other operating expenses | | **(14,036)** | (10,819) |
| **Loss from operations** | | **(62,665)** | (28,632) |
| Finance costs | 6(a) | **(8,514)** | (1,847) |
| Share of loss of a jointly controlled entity | | **(2,658)** | (5,522) |
| **Loss before taxation** | 6 | **(73,837)** | (36,001) |
| Income tax | 7(a) | **(6,539)** | 27 |
| **Loss for the year** | | **(80,376)** | (35,974) |
| **Loss for the year attributable to:** | | | |
| Owners of the Company | | **(66,057)** | (31,934) |
| Non-controlling interests | | **(14,319)** | (4,040) |
| | | **(80,376)** | (35,974) |
| **Loss per share** | 12 | | |
| Basic and diluted | | **(0.81cents)** | (1.10 cents) |

The notes on pages 40 to 133 form part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Loss for the year** | **(80,376)** | (35,974) |
| **Other comprehensive expense** | | |
| Exchange difference arising on translation of financial statements of overseas subsidiaries, net of tax HK$nil (2009: HK$nil) | **(622)** | (51) |
| **Total comprehensive expense for the year** | **(80,998)** | (36,025) |
| **Total comprehensive expense for the year attributable to:** | | |
| Owners of the Company | **(66,159)** | (31,968) |
| Non-controlling interests | **(14,839)** | (4,057) |
| | **(80,998)** | (36,025) |

The notes on pages 40 to 133 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Exploration and evaluation assets | 14 | **3,501,338** | 3,247,828 |
| Property, plant and equipment | 15(a) | **5,046** | 1,885 |
| Intangible asset | 16 | **944** | 3,246 |
| Deposit paid for potential investment | 18 | **–** | 30,000 |
| Convertible promissory note receivable | 21 | **8,412** | – |
| Interest in a jointly controlled entity | 19 | **6,948** | 9,606 |
| Loan to a non-controlling shareholder | 23(f) | **1,134** | – |
| Deposit paid for a sub-contracting contract | 20 | **79,301** | – |
| | | **3,603,123** | 3,292,565 |
| **CURRENT ASSETS** | | | |
| Inventories | 22(a) | **349** | – |
| Trade and other receivables | 23 | **122,398** | 42,447 |
| Deposit paid for potential investment | 18 | **60,000** | – |
| Convertible promissory note receivable | 21 | **9,312** | – |
| Derivative financial instruments | 21 | **272** | – |
| Restricted bank deposits | | **–** | 9,265 |
| Pledged bank deposits | 24 | **–** | 28,355 |
| Cash and cash equivalents | 25 | **114,061** | 163,747 |
| | | **306,392** | 243,814 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 26 | **73,816** | 13,736 |
| Bank and other borrowings | 29 | **160,294** | 85,368 |
| Obligations under finance leases | 30 | **12** | 12 |
| Current taxation | 31(a) | **4,564** | 12 |
| Provisions | 32 | **–** | 7,713 |
| | | **(238,686)** | (106,841) |
| **NET CURRENT ASSETS** | | **67,706** | 136,973 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,670,829** | 3,429,538 |
| **NON-CURRENT LIABILITIES** | | | |
| Obligations under finance leases | 30 | **(1)** | (13) |
| **NET ASSETS** | | **3,670,828** | 3,429,525 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 34(b) | **825,518** | 551,000 |
| Share premium and reserves | 34(c) | **2,862,513** | 2,880,889 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | **3,688,031** | 3,431,889 |
| **NON-CONTROLLING INTERESTS** | | **(17,203)** | (2,364) |
| **TOTAL EQUITY** | | **3,670,828** | 3,429,525 |

Approved and authorised for issue by the board of directors on 29 March 2011.

**Cheng Kam Chiu, Stewart**
*Director*

**Cheng Ming Kit**
*Director*

The notes on pages 40 to 133 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15(b) | **–** | 809 |
| Convertible promissory note receivable | 21 | **8,412** | – |
| Investment in subsidiaries | 17 | **3,437,642** | 2,395,092 |
| | | **3,446,054** | 2,395,901 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | 23 | **268,543** | 1,028,315 |
| Convertible promissory note receivable | 21 | **9,312** | – |
| Derivative financial instruments | 21 | **272** | – |
| Cash and cash equivalents | 25 | **17,302** | 94,505 |
| | | **295,429** | 1,122,820 |
| **CURRENT LIABILITIES** | | | |
| Other payables | 26 | **15,256** | 4,513 |
| Other borrowing | 29 | **41,400** | 40,000 |
| Current taxation | 31(a) | **6** | 12 |
| | | **(56,662)** | (44,525) |
| **NET CURRENT ASSETS** | | **238,767** | 1,078,295 |
| **NET ASSETS** | | **3,684,821** | 3,474,196 |
| **CAPITAL AND RESERVES** | 34(a) | | |
| Share capital | | **825,518** | 551,000 |
| Share premium and reserves | | **2,859,303** | 2,923,196 |
| **TOTAL EQUITY** | | **3,684,821** | 3,474,196 |

Approved and authorised for issue by the board of directors on 29 March 2011.

**Cheng Kam Chiu, Stewart**
*Director*

**Cheng Ming Kit**
*Director*

The notes on pages 40 to 133 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Employee share-based compensation reserve | Capital reserve | Exchange fluctuation reserve | Shares to be issued | Convertible notes reserve | Accumulated losses | Total share premium and reserves | Total | Non-controlling interests | Total equity |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2009 | 78,197 | 356,452 | 10,270 | 9,585 | – | – | – | (142,806) | 233,501 | 311,698 | – | 311,698 |
| Loss for the year | – | – | – | – | – | – | – | (31,934) | (31,934) | (31,934) | (4,040) | (35,974) |
| Other comprehensive expense | – | – | – | – | (34) | – | – | – | (34) | (34) | (17) | (51) |
| Total comprehensive expense for the year | – | – | – | – | (34) | – | – | (31,934) | (31,968) | (31,968) | (4,057) | (36,025) |
| **Transactions with owners** | | | | | | | | | | | | |
| Issue of consideration shares (note 36(a)) | 9,375 | 38,437 | – | – | – | – | – | – | 38,437 | 47,812 | – | 47,812 |
| Shares to be issued pursuant to the acquisition of subsidiaries (note 36(a)) | – | – | – | – | – | 95,625 | – | – | 95,625 | 95,625 | – | 95,625 |
| Issue of convertible notes (note 27(a)) | – | – | – | – | – | – | 2,897,132 | – | 2,897,132 | 2,897,132 | – | 2,897,132 |
| Shares issued upon conversion of convertible notes (note 27 and 34(b)(ii)) | 463,428 | 1,790,449 | – | – | – | – | (2,142,287) | – | (351,838) | 111,590 | – | 111,590 |
| Acquisition of subsidiaries (note 36(c)) | – | – | – | – | – | – | – | – | – | – | 1,693 | 1,693 |
| Total transactions with owners | 472,803 | 1,828,886 | – | – | – | 95,625 | 754,845 | – | 2,679,356 | 3,152,159 | 1,693 | 3,153,852 |
| At 31 December 2009 | 551,000 | 2,185,338 | 10,270 | 9,585 | (34) | 95,625 | 754,845 | (174,740) | 2,880,889 | 3,431,889 | (2,364) | 3,429,525 |
| At 1 January 2010 | 551,000 | 2,185,338 | 10,270 | 9,585 | (34) | 95,625 | 754,845 | (174,740) | 2,880,889 | 3,431,889 | (2,364) | 3,429,525 |
| Loss for the year | – | – | – | – | – | – | – | (66,057) | (66,057) | (66,057) | (14,319) | (80,376) |
| Other comprehensive expense | – | – | – | – | (102) | – | – | – | (102) | (102) | (520) | (622) |
| Total comprehensive expense for the year | – | – | – | – | (102) | – | – | (66,057) | (66,159) | (66,159) | (14,839) | (80,998) |
| **Transactions with owners** | | | | | | | | | | | | |
| Issue of consideration shares (note 36(a)) | 18,750 | 76,875 | – | – | – | (95,625) | – | – | (18,750) | – | – | – |
| Shares issued upon exercise of bonus warrants (note 34(b)(v)) | 3 | 6 | – | – | – | – | – | – | 6 | 9 | – | 9 |
| Shares issued under placement, net of issuing costs of HK$8,069,000 (note 34(b)(iv)) | 74,310 | 147,982 | – | – | – | – | – | – | 147,982 | 222,292 | – | 222,292 |
| Subscription of new shares (note 34(b)(iii)) | 32,258 | 67,742 | – | – | – | – | – | – | 67,742 | 100,000 | – | 100,000 |
| Shares issued upon conversion of convertible notes (note 27(a) and 34(b)(ii)) | 149,197 | 605,648 | – | – | – | – | (754,845) | – | (149,197) | – | – | – |
| Lapse of share options granted under share option scheme (note 33(b)) | – | – | (3,851) | – | – | – | – | 3,851 | – | – | – | – |
| Total transactions with owners | 274,518 | 898,253 | (3,851) | – | – | (95,625) | (754,845) | 3,851 | 47,783 | 322,301 | – | 322,301 |
| **At 31 December 2010** | **825,518** | **3,083,591** | **6,419** | **9,585** | **(136)** | **-** | **-** | **(236,946)** | **2,862,513** | **3,688,031** | **(17,203)** | **3,670,828** |

The notes on pages 40 to 133 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before taxation | | **(73,837)** | (36,001) |
| Adjustments for: | | | |
| Depreciation | 15 | **1,176** | 640 |
| Amortisation of intangible asset | 16 | **1,472** | 120 |
| Interest expenses | 6(a) | **7,173** | 1,847 |
| Interest income | 5(a) | **(1,376)** | (1,460) |
| Loss on early settlement of promissory notes | 6(c) | **–** | 10,817 |
| Impairment loss on trade and other receivables | 23 | **12,597** | – |
| Impairment loss on intangible asset | 16 | **914** | – |
| Bad debts written off on other receivables | 6(c) | **335** | – |
| Interest waived upon early settlement of promissory notes | 5(c) | **–** | (476) |
| Net fair value gain on derivative financial instruments | 5(b) | **(78)** | (8,055) |
| Share of losses of a jointly controlled entity | 19 | **2,658** | 5,522 |
| Foreign exchange (gain)/loss | | **(445)** | 87 |
| Changes in working capital: | | **(49,411)** | (26,959) |
| Increase in inventories | | **(349)** | – |
| (Increase)/decrease in trade and other receivables | | **(170,566)** | 23,700 |
| Increase/(decrease) in trade and other payables | | **3,630** | (9,228) |
| **CASH USED IN OPERATIONS** | | **(216,696)** | (12,487) |
| Interest paid | | **(5,773)** | (181) |
| Interest received | | **1,341** | 1,460 |
| Income tax paid | | | |
| – the PRC | | **(70)** | (50) |
| – Argentina | | **(1,919)** | – |
| **NET CASH USED IN OPERATING ACTIVITIES** | | **(223,117)** | (11,258) |
| **INVESTING ACTIVITIES** | | | |
| Payment for the purchase of property, plant and equipment | 15(a) | **(4,322)** | (168) |
| Payment for the purchase of exploration and evaluation assets | 14 and 32 | **(209,354)** | (620) |
| Payment of deposit for potential investment | 18 | **(30,000)** | (30,000) |
| Convertible promissory note receivable acquired | 21 | **(17,900)** | – |
| Loan to a non-controlling shareholder | | **(2,999)** | – |
| Decrease/(increase) in restricted bank deposits | | **9,265** | (9,265) |
| Decrease/(increase) in pledged bank deposits | 24 | **28,355** | (28,355) |
| Cash acquired upon acquisition of subsidiaries | 36(c) | **–** | 50,253 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(226,955)** | (18,155) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| New bank and other borrowings | | **186,021** | 40,000 |
| Repayment of bank borrowings | | **(115,685)** | – |
| Capital element of finance lease rental payments | | **(12)** | (12) |
| Proceeds from issue of convertible notes, net of transaction costs | | **–** | 119,387 |
| Repayment of promissory notes | 28 | **–** | (120,300) |
| Issue of new shares, net of transaction costs | | **322,301** | – |
| **NET CASH GENERATED FROM FINANCING ACTIVITIES** | | **392,625** | 39,075 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(57,447)** | 9,662 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **163,747** | 154,085 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **7,761** | – |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 25 | **114,061** | 163,747 |

Note:

**Major non-cash transactions**

(a) For the year ended 31 December 2009, the deferred consideration of RMB2,550,000 (equivalent to HK$2,894,000) for the acquisition of Shenzhen Zhilai Trading Company Limited was recorded as trade and other payables (see note 36(b)).

(b) For the year ended 31 December 2010, additions to exploration and evaluation assets of HK$56,450,000 were not paid and included under "Trade and other payables".

The notes on pages 40 to 133 form part of these financial statements.

## 1. BACKGROUND INFORMATION

New Times Energy Corporation Limited ("the Company") is a limited liability company incorporated in Bermuda and its registered office and principal place of business are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Room 1007-8, 10/F., New World Tower 1, 16-18 Queen's Road Central, Hong Kong respectively. The Company is listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company is an investment holding company and its subsidiaries (hereinafter collectively referred to as "the Group") are principally engaged in: (i) the trading of oil products and non-ferrous metals; (ii) the production and sale of iron concentrates; and (iii) exploration of crude oil.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries and the Group's interest in a jointly controlled entity.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollars ("HK$"), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company's functional and presentation currency.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (b) Basis of preparation of the financial statements *(continued)*

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are carried at their fair value as explained in the accounting policies set out below:

– financial instruments classified as trading securities (see note 2(e)); and

– derivative financial instruments (see note 2(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 41.

### (c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (c) Subsidiaries and non-controlling interests *(continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2 (n), (o) or (p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(e)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 2(d)).

In the Company's statement of financial position, an investment in a subsidiary is carried at cost less any impairment losses (see note 2(k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(k)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (d) Jointly controlled entities *(continued)*

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal and constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(e)) or, when appropriate, the cost on initial recognition of an investment in an associate).

### (e) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and jointly controlled entity, are as follows:

Investments in debt and equity securities are initially carried at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(u)(ii).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are carried in the consolidated statement of financial position at amortised cost less impairment losses (see note 2(k)).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (e) Other investments in debt and equity securities *(continued)*

Investments in equity securities that do not have a listed market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(k)(i)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(u)(ii). When these investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

### (f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

### (g) Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are carried at cost less any accumulated impairment losses (see note 2(k)(iii)).

Exploration and evaluation assets include the cost of exploration rights and the expenditures incurred in the search for natural resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

When the technical feasibility and commercial viability of extracting natural resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as either intangible assets or property, plant and equipment. These assets are assessed for impairment, and any impairment loss recognised, before reclassification.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (h) Property, plant and equipment

Property, plant and equipment are carried in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (note 2(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method, over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold improvements | 25% |
| Infrastructure | 20% |
| Machinery | 33% |
| Furniture, fixtures and office equipment | 20%-33% |
| Motor vehicles | 20%-33% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (i) Intangible assets (other than goodwill)

Intangible assets with finite useful lives acquired by the Group are carried in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over its remaining licence period. Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

*(ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments of such assets are included in non-current assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance lease. Deprecation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

*(iii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (k) Impairment of assets

#### *(i) Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities (other than investments in subsidiaries) (see note 2(k)(ii)) and other current and non-current receivables that are carried at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investment in a jointly controlled entity recognised using the equity method (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

– For unlisted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

**2. SIGNIFICANT ACCOUNTING POLICIES** ***(CONTINUED)***

(k) Impairment of assets ***(continued)***

*(i) Impairment of investments in debt and equity securities and other receivables* ***(continued)***

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occuring after the impairment loss was recognised. Reversals of impairment losses in such circumstance are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (k) Impairment of assets *(continued)*

*(ii) Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets; and

– investments in subsidiaries (except for those classified as held for sale).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (k) Impairment of assets *(continued)*

*(ii) Impairment of other assets* **(continued)**

– Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior year. Reversals of impairment losses are credited to profits or loss in the year in which the reversals are recognised.

*(iii) Impairment of exploration and evaluation assets*

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKAS 36 Impairment of Assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, such as:

– the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

– substantive expenditure on further exploration for and evaluation of natural resources in the specific area is neither budgeted nor planned.

– exploration for and evaluation of natural resources in the specific area have not led to the discovery of commercially viable quantities of natural resources and the entity has decided to discontinue such activities in the specific area.

– sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (k) Impairment of assets *(continued)*

*(iv) Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see note 2(k)(i), (ii) and (iii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unlisted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

### (l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Costs is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter carried at amortised cost less allowance for impairment loss, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are carried at cost less allowance for impairment loss (see note 2(k)(i)).

**2. SIGNIFICANT ACCOUNTING POLICIES** ***(CONTINUED)***

(n) Convertible notes

*(i) Convertible notes that contain an equity component*

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

*(ii) Other convertible notes*

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 2(f)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES** ***(CONTINUED)***

(n) Convertible notes *(continued)*

*(ii) Other convertible notes* ***(continued)***

The derivative component is subsequently remeasured in accordance with note 2(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are carried at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interests and fees payables, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with 2(t)(i), trade and other payables are subsequently carried at amortised cost unless the effect of discounting would be immaterial, in which case they are carried at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(r) Employee benefits

*(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are carried at their present values.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (r) Employee benefits *(continued)*

*(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in an employee share-based compensation reserve within equity. The fair value is measured at grant date using the Black-Scholes-Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognised as an expenses is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the employee share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the employee share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated losses).

*(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (s) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provide those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (s) Income tax *(continued)*

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (t) Financial guarantees issued, provisions and contingent liabilities

*(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, that is the amount initially recognised, less accumulated amortisation.

*(ii) Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are carried at the present value of the expenditure expected to settle the obligation.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (t) Financial guarantees issued, provisions and contingent liabilities *(continued)*

*(ii) Other provisions and contingent liabilities* **(continued)**

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

*(i) Sale of goods*

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

*(ii) Interest income*

Interest income is recognised as it accrues using the effective interest method.

*(iii) Commission income*

Commission income is recognised when services are rendered.

### (v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (v) Translation of foreign currencies *(continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange fluctuation reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

From 1 January 2010 onwards, on disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposal, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

### (w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### (x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker ("CODM"), i.e., the board of directors of the Company, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| HKAS 27 (Revised 2008) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendment) | Eligible hedged items |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised 2008) | Business Combinations |
| HK(IFRIC)-Int 17 | Distribution to Non-cash Assets to Owners |
| HK-Int 5 | Presentation of Financial Statements-Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause |

The adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods. The details of the new and revised HKFRSs are as follows:

### HKFRS 3 (revised 2008), Business combinations

As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the requirements under HKFRS 3 (revised 2008). Its application has affected the accounting for business combinations in the current year.

- HKFRS 3 (revised 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. Consequently, the goodwill recognised in respect of the acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of the recognised amount of the identifiable net assets of the acquiree.

- HKFRS 3 (revised 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date. Subsequent adjustments, if any, to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

HKFRS 3 (revised 2008), Business combinations *(continued)*

- HKFRS 3 (revised 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, with those costs being recognised as an expense in profit or loss as incurred. Previously, they were accounted for as part of the cost of the acquisition.

- HKFRS 3 (revised 2008) requires that where the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying amounts of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

HKAS 27 (revised 2008), Consolidated and Separate Financial Statements

The application of HKAS 27(amended 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in loss of control. Previously, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised. For decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (amended 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, HKAS 27 (amended 2008) requires the derecognition of all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

In accordance with the transitional provisions of HKAS 27, these changes in accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

### HKAS 27 (revised 2008), Consolidated and Separate Financial Statements *(continued)*

Revisions to HKAS 27 (revised 2008) have not had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of such previous transactions.

### Amendments to HKAS 17 Leases, as part of Improvements to HKFRSs issued in 2009

HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

### Hong Kong Interpretation 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ('HK (Int) 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK (Int) 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

### Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current, provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period, notwithstanding that the entity could be required by the counterparty to settle in shares at any time.

### Amendments to HKAS 7 Statement of Cash Flows (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

The application of the amendments to HKAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in HKAS 38 Intangible Assets for capitalisation as part of an internally generated intangible asset in the consolidated statement of cash flows. This change has been applied retrospectively.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

Amendments to HKFRS 5, Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKFRS 5 clarify that the disclosure requirements in HKFRSs other than HKFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and the disclosures are not already provided in the consolidated financial statements.

HKFRS 2 (Amendments), Group cash-settled share-based payment transactions

HKFRS 2 (Amendments) become effective from 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC)11, the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 4. TURNOVER

The principal activities of the Group are general trading and exploration of natural resources.

Turnover represents the sales value of goods supplied to customers. The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Sale of oil products | **40,658** | – |
| Sale of iron concentrates | **2,408** | – |
| Sale of non-ferrous metals | **14,186** | – |
| Sale of frozen food | **–** | 9,196 |
| | **57,252** | 9,196 |

## 5. OTHER REVENUE, NET INCOME AND OPERATING INCOME

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **(a) Other revenue** | | |
| Bank interest income | **1,337** | 176 |
| Other interest income | **4** | 1,284 |
| Effective interest income on convertible promissory note receivable (note 21) | **35** | – |
| Total interest income on financial assets not at fair value through profit or loss | **1,376** | 1,460 |
| Commission income | **1,456** | – |
| Recovery of insurance premium | **6,650** | – |
| Sundry income | **426** | 651 |
| | **9,908** | 2,111 |
| **(b) Other net income** | | |
| Net realised gain on trading securities | **5,117** | – |
| Net gain on sale of crude oil under trial production | **196** | – |
| Net fair value gain on derivative financial instruments (note 21 and 27(b)) | **78** | 8,055 |
| | **5,391** | 8,055 |
| **(c) Other operating income** | | |
| Interest waived upon early settlement of promissory note (note 28) | **–** | 476 |

## 6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **(a) Finance costs** | | |
| Interest on bank and other borrowings wholly repayable within five years | **7,172** | 180 |
| Effective interest expenses on | | |
| – promissory notes (note 28) | **–** | 1,408 |
| – convertible notes (note 27(b)) | **–** | 258 |
| Finance charges on obligations under finance leases | **1** | 1 |
| Total interest expenses on financial liabilities not at fair value through profit or loss | **7,173** | 1,847 |
| Loan guarantee charge | **1,341** | – |
| | **8,514** | 1,847 |
| **(b) Staff costs (including directors' emoluments)** | | |
| Salaries, wages and benefits in kind | **12,520** | 4,776 |
| Retirement scheme contributions | **519** | 151 |
| | **13,039** | 4,927 |
| **(c) Other items** | | |
| Cost of inventories (note 22(b)) | **56,751** | 9,150 |
| Amortisation of intangible asset (note 16) | **1,472** | 120 |
| Depreciation for property, plant and equipment (note 15(a)) | **1,176** | 640 |
| Net foreign exchange loss | **3,415** | 139 |
| Minimum lease payments under operating leases on leasehold land and buildings | **2,279** | 1,575 |
| Loss on early settlement of promissory notes (note 28) | **–** | 10,817 |
| Impairment loss on intangible asset (note 16) | **914** | – |
| Impairment loss on trade and other receivables (note 23(b)) | **12,597** | – |
| Bad debts written off on other receivables | **335** | – |
| Preliminary expenses written off | **21** | – |
| Auditor's remuneration | **1,070** | 862 |

Cost of inventories includes HK$35,000 (2009: HK$nil) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

## 7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax | | |
| – Hong Kong Profits Tax | **–** | – |
| – PRC Enterprise Income Tax | **118** | 44 |
| – Argentina minimum presumed income tax | **6,421** | – |
| | **6,539** | 44 |
| Over-provision in respect of prior periods | | |
| – Argentina Corporate Income Tax | **–** | (71) |
| Deferred income tax | **–** | – |
| Tax charge/(credit) | **6,539** | (27) |

Pursuant to the rules and regulations of the Bermuda and the British Virgin Islands ("BVI"), the Company and its subsidiaries incorporated in Bermuda and BVI are not subject to any income tax in the Bermuda and the BVI during the year (2009: HK$nil).

No Hong Kong Profits Tax has been provided for in the financial statements as the Company and its subsidiaries incorporated or operated in Hong Kong have accumulated tax losses brought forward which exceed the estimated assessable profits for the year (2009: No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profit arising in Hong Kong during the year).

People's Republic of China ("PRC") subsidiaries of the Group are subject to PRC Enterprise Income tax at 25%. Provision for Foreign Enterprise Income Tax in the PRC has been calculated based on total operating expenses of the PRC representative office of the Company in accordance with the provisions of the Circular of the State Administration of Taxation Concerning the Related Matters about Reinforcing the Collection and Administration of Taxes on Permanent Establishments of Foreign Enterprises (Guo Shui Fa [1996] No.165) and the Circular of the State Administration of Taxation Concerning the Related Matters about the Tax Administration of the Permanent Establishments of Foreign Enterprises (Guo Shui Fa [2003] No.28) issued by the State Administration of Taxation of the PRC on 13 September 1996 and 12 March 2003 respectively.

Argentina subsidiaries of the Group are subject to Argentina Corporate Income Tax ("CIT") at 35% and minimum presumed income tax ("MPIT"). MPIT is supplementary to CIT and is chargeable at the applicable tax rate of 1% on the tax basis of certain assets. The tax liabilities of Argentina subsidiaries of the Group are the higher of CIT and MPIT.

## 7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(CONTINUED)*

(b) Reconciliation between tax expense/(credit) and accounting loss at the applicable tax rates:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss before taxation | **(73,837)** | (36,001) |
| Notional tax on loss before taxation, calculated at the tax rates applicable to losses in the tax jurisdictions concerned | **(17,335)** | (6,935) |
| Tax effect of non-taxable income | **(236)** | (1,438) |
| Tax effect of non-deductible expenses | **8,998** | 7,502 |
| Tax effect of tax losses not recognised | **8,987** | 168 |
| Tax effect of deductible temporary differences not recognised | **28** | 703 |
| Tax effect on utilisation of tax losses not recognised in prior year | **(366)** | – |
| Tax effect of PRC income tax on representative office | **42** | 44 |
| Argentina minimum presumed income tax | **6,421** | – |
| Over-provision of Argentina Corporate Income Tax in prior periods | **–** | (71) |
| Actual tax expense/(credit) | **6,539** | (27) |

## 8. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | Year ended 31 December 2010 | | | |
|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
| **Chairman** | | | | |
| Mr. Cheng Kam Chiu, Stewart | 100 | – | – | 100 |
| **Executive directors** | | | | |
| Mr. Cheng Ming Kit, Tommy | 42 | 770 | 7 | 819 |
| **Non-executive directors** | | | | |
| Mr. Chan Chi Yuen | 100 | – | – | 100 |
| Mr. Wong Man Kong, Peter | 100 | – | – | 100 |
| **Independent non-executive directors** | | | | |
| Mr. Fung Chi Kin | 100 | – | – | 100 |
| Mr. Chiu Wai On | 100 | – | – | 100 |
| Mr. Fung Siu To, Clement | 100 | – | – | 100 |
| | 642 | 770 | 7 | 1,419 |

## 8. DIRECTORS' EMOLUMENTS *(CONTINUED)*

| | Year ended 31 December 2009 | | | |
|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
| **Chairman** | | | | |
| Mr. Cheng Kam Chiu, Stewart | 100 | – | – | 100 |
| **Executive directors** | | | | |
| Mr. Li Guoping (resigned on 2 March 2009) | – | – | – | – |
| Mr. Cheng Chi Him (resigned on 19 October 2009) | – | – | – | – |
| Mr. Cheng Ming Kit, Tommy (appointed on 19 October 2009) | 20 | – | – | 20 |
| **Non-executive directors** | | | | |
| Mr. Chan Chi Yuen | 100 | – | – | 100 |
| Mr. Wong Man Kong, Peter | 100 | – | – | 100 |
| Mr. Pei Cheng Ming, Michael (resigned on 21 December 2009) | 97 | – | – | 97 |
| Mr. Tse On Kin (resigned on 5 November 2009) | 51 | 400 | 4 | 455 |
| **Independent non-executive directors** | | | | |
| Mr. Fung Chi Kin | 100 | – | – | 100 |
| Mr. Chiu Wai On | 100 | – | – | 100 |
| Mr. Fung Siu To, Clement | 100 | – | – | 100 |
| | 768 | 400 | 4 | 1,172 |

As at 31 December 2010, none of the directors held any share options under the Company's share option scheme. The details of the share options are disclosed under the paragraph "share option scheme" in the report of the directors and note 33.

No emoluments or incentive payments were paid to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year. There was no arrangement under which a director waived or agreed to waive any remuneration for both years.

## 9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2009: nil) was director of the Company whose emoluments are included in the disclosures in note 8 above. The emoluments of the remaining four (2009: five) individuals were as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **4,186** | 2,322 |
| Retirement scheme contributions | **42** | 40 |
| | **4,228** | 2,362 |

Analysis of the emoluments of the remaining four (2009: five) individuals with the highest emoluments by the number of individuals and remuneration range is as follows:

| | **Number of individuals** | |
|---|---|---|
| | **2010** | 2009 |
| **Band** | | |
| Nil – HK$1,000,000 | **3** | 5 |
| HK$1,000,001 – HK$1,500,000 | **1** | – |

No emoluments or incentive payments were paid to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

## 10. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company includes a loss of HK$111,676,000 (2009: loss of HK$13,511,000) which has been dealt with in the financial statements of the Company.

## 11. DIVIDENDS

No dividend was paid or proposed during the year 2010, nor has any dividend been proposed since the end of the reporting period (2009: HK$nil).

## 12. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK$66,057,000 (2009: loss of approximately HK$31,934,000) and the weighted average number of 8,150,702,713 ordinary shares (2009: 2,897,868,159 ordinary shares) in issue during the year.

### (b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2009 and 2010 were the same as the basic loss per share as the potential ordinary shares outstanding during the years had an anti-dilutive effect on the basic loss per share for both years.

## 13. SEGMENT INFORMATION

The Group manages its businesses by divisions which are organized by business lines. In a manner consistent with the way in which information is reported internally to the Group's CODM for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

| | |
|---|---|
| General trading | This segment includes trading of oil products, non-ferrous metal and frozen foods. Currently, the Group's general trading activities are carried out in both Hong Kong and Mainland China. |
| Exploration of natural resources | This segment is engaged in the exploration of crude oil in Argentina Republic ("Argentina"). The activities carried out in Argentina are through a non-wholly-owned subsidiary. |

## 13. SEGMENT INFORMATION *(CONTINUED)*

### (a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all non-current assets and current assets with the exception of interest in a jointly controlled entity, convertible promissory note receivable, deposit paid for potential investment and other corporate assets. Segment liabilities include non-current liabilities and current liabilities with the exception of current taxation and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Segment loss represents the profit earned/loss resulted by each segment without allocation of central administration costs including directors' emoluments, share of loss of a jointly controlled entity and income tax expenses. This is the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance. In addition to receiving segment information concerning the segment result, the CODM is provided with segment information concerning interest income, interest expenses, depreciation and amortisation, impairment losses on intangible asset and trade and other receivables and additions to non-current segment assets used by the segments in their operations.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

## 13. SEGMENT INFORMATION *(CONTINUED)*

(a) Segment results, assets and liabilities *(continued)*

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below:

| | General trading | | Exploration of natural resources | | Total | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Reportable segment revenue (note)** | **54,844** | 9,196 | **–** | – | **54,844** | 9,196 |
| **Reportable segment loss** | **(27,750)** | (312) | **(14,295)** | (12,269) | **(42,045)** | (12,581) |
| Depreciation and amortisation | **1,784** | 121 | **227** | – | **2,011** | 121 |
| Interest income | **(651)** | (393) | **(247)** | – | **(898)** | (393) |
| Interest expenses | **5,736** | 181 | **–** | – | **5,736** | 181 |
| Income tax expenses/(credit) | **118** | 44 | **6,421** | (71) | **6,539** | (27) |
| Impairment loss of | | | | | | |
| – intangible asset | **914** | – | **–** | – | **914** | – |
| – trade and other receivables | **12,597** | – | **–** | – | **12,597** | – |
| **Reportable segment assets** | **122,148** | 80,963 | **3,584,290** | 3,302,904 | **3,706,438** | 3,383,867 |
| Additions to non-current segment assets during the year | **611** | 3,425 | **259,440** | 3,248,137 | **260,051** | 3,251,562 |
| **Reportable segment liabilities** | **(129,102)** | (54,203) | **(59,412)** | (8,218) | **(188,514)** | (62,421) |

Note:

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2009: HK$nil).

## 13. SEGMENT INFORMATION *(CONTINUED)*

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| **Revenue** | | |
| Reportable segment revenue | **54,844** | 9,196 |
| Unallocated revenue | **2,408** | – |
| Consolidated turnover | **57,252** | 9,196 |
| **Loss** | | |
| Reportable segment loss | **(42,045)** | (12,581) |
| Unallocated operating income | **7,098** | 12,920 |
| Unallocated operating expenses | **(34,873)** | (26,209) |
| Finance costs | **(1,437)** | (1,847) |
| Share of post-tax loss of a jointly controlled entity | **(2,658)** | (5,522) |
| Loss on early settlement of promissory notes | **–** | (10,817) |
| Net fair value gain on derivative financial instruments | **78** | 8,055 |
| Consolidated loss before taxation | **(73,837)** | (36,001) |

## 13. SEGMENT INFORMATION *(CONTINUED)*

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities *(continued)*

| | As at 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| **Assets** | | |
| Reportable segment assets | **3,706,438** | 3,383,867 |
| Interest in a jointly controlled entity | **6,948** | 9,606 |
| Deposit paid for potential investment | **60,000** | 30,000 |
| Convertible promissory note receivable | **17,996** | – |
| Unallocated corporate assets | | |
| – Cash and cash equivalents | **66,187** | 110,525 |
| – Other receivables | **44,607** | – |
| – Others | **7,339** | 2,381 |
| Consolidated total assets | **3,909,515** | 3,536,379 |
| **Liabilities** | | |
| Reportable segment liabilities | **(188,514)** | (62,421) |
| Current taxation | **(4,564)** | (12) |
| Unallocated corporate liabilities | | |
| – Other borrowings | **(42,344)** | (40,000) |
| – Others | **(3,265)** | (4,421) |
| Consolidated total liabilities | **(238,687)** | (106,854) |

## 13. SEGMENT INFORMATION *(CONTINUED)*

### (c) Geographical information

The Group's operations are located in Hong Kong (place of domicile), Mainland China and Argentina.

The following tables sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than convertible promissory note receivable, deposit paid for potential investment, loan to a non-controlling shareholder and interest in a jointly controlled entity ("Specified non-current assets"). The geographical location of customers is based on the location at which the goods delivered. The geographical location of the specified non-current assets is based on (i) the physical location of the asset, in the case of property, plant and equipment and exploration and evaluation assets; and (ii) the location of the operation to which they are allocated, in the case of intangible assets and deposit paid for a sub-contracting contract.

| | **Revenue from external customers** | | **Specified non-current assets** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong (place of domicile) | **40,658** | 9,196 | **949** | 1,691 |
| Mainland China | **16,594** | – | **83,275** | 3,302 |
| Argentina | **–** | – | **3,502,405** | 3,247,966 |
| | **57,252** | 9,196 | **3,586,629** | 3,252,959 |

### (d) Information about major customers

Revenue from sales of goods to customers represents 10% or more of the Group's total revenue is shown as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **40,658** | – |
| Customer B | **–** | 9,196 |
| Customer C | **14,186** | – |

All revenue disclosed above are related to the "General trading" reportable segment.

### (e) Information about products and services

The Group's revenues from external customers for each product were set out in note 4.

## 14. EXPLORATION AND EVALUATION ASSETS

The Group

| | Exploration rights | Exploratory drilling | Geological studies | Others | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2009 | – | – | – | – | – |
| Arising on acquisition of subsidiaries (note 36(c)) | 3,217,023 | – | – | 359 | 3,217,382 |
| Additions | – | 21,530 | – | 9,076 | 30,606 |
| Exchange adjustments | (38) | – | – | (122) | (160) |
| At 31 December 2009 and 1 January 2010 | 3,216,985 | 21,530 | – | 9,313 | 3,247,828 |
| Additions | 8,455 | 6,259 | 214,585 | 28,957 | 258,256 |
| Exchange adjustments | (268) | (137) | (3,906) | (435) | (4,746) |
| At 31 December 2010 | 3,225,172 | 27,652 | 210,679 | 37,835 | 3,501,338 |

Note:

(a) In 2006, JHP International Petroleum Engineering Limited ("JHP") and Maxipetrol – Petroleros de Occidente S.A. (formerly known as "Oxipetrol – Petroleros de Occidente S.A.") ("Maxipetrol") (collectively the "Consortium") were granted the Tartagal Concession and the Morillo Concession under the Provincial Government Decree N° 3391/2006 and Decree N° 3388/2006 dated 29 December 2006 respectively. The Tartagal Concession and Morillo Concession (collectively the "Concessions") are the concessions of the exploration permits and potential exploitation permits for oil and developments of hydrocarbons in the province of Salta in northern Argentina covering a total surface area of approximately 7,065 and 3,518 square kilometers respectively. The exploration permits granted are valid for an initial period of four years starting from 29 December 2006 and additional extensions up to an aggregate of nine years may be obtained. The holder for an exploration permit has the right to obtain an exploitation permit.

On 9 March 2009, High Luck Group Limited ("High Luck") and the Consortium executed an Union of Temporary Enterprise ("UTE") agreement pursuant to which the interest and title in the Concessions of the exploration permits and potential exploitation permits shall be taken up by an UTE. Under the agreement, Maxipetrol agreed JHP to distribute its 60% interest in the Concessions to High Luck. After the distribution, High Luck, JHP and Maxipetrol held 60%, 10% and 30% interest in the UTE and the Concessions respectively and each of them shall bear the costs and benefits from the Concessions and the UTE according to their respective interests. High Luck is solely responsible for the provision of funding for investments and expenses incurred during the exploration stage, and any cash generated in the Concessions will first apply to repay the funding provided by High Luck.

## 14. EXPLORATION AND EVALUATION ASSETS *(CONTINUED)*

In April 2009, the UTE namely Maxipetrol Petroleros de Occidente – UTE was registered in the Public Register of Commerce and High Luck becomes one of the members of the UTE.

The UTE is managed by an Executive Committee ("Committee"), which composes of ten committee members. High Luck is entitled to appoint up to six members in the Committee. High Luck also acts as the UTE's representative that carries out the duties in regard to all legal acts, contracts and other operations related to the purpose of the UTE and pursuant to Section 379 of Law 19,550 on Business Companies. In the opinion of the directors of the Company, High Luck has the power to govern the financial and operating policies of the UTE so as to obtain benefits from its activities and therefore the UTE is classified as a subsidiary of the Company.

(b) As for the fair value of the interest in the Concessions acquired, since the valuation was based on prospective resources which indicate exploration opportunities and development potentials only in the event of a petroleum discovery is made, the range of reasonable fair value estimates is so large that the directors of the Company are of the opinion that its fair value cannot be measured reliably. As a result, the directors of the Company are of the opinion that the fair value of the consideration paid for the acquisition of the Concessions was taken to be the fair value of the Group's interest in the Concessions which are determined in accordance with HKFRS 2 "Share-based Payments" and HKAS 39 "Financial Instruments: Recognition and Measurement".

(c) As at the end of the reporting period, according to the accounting policy set out in note 2(k)(iii), the management of the Group determines that there is no events and changes in circumstances indicate that the carrying amount of the exploration and evaluation assets may not be recoverable. As a result, no impairment of exploration and evaluation assets is recognised.

(d) Pursuant to the bidding terms, the exploration permits to the Concessions were expired on 29 December 2010. On 22 April 2010, the Group submitted an application to the Secretary of Energy of Province of Salta, Argentina for an extension of the exploration permits. The application was approved on 2 July 2010 and the initial exploration permits to the Concessions was extended to 29 February 2012.

## 14. EXPLORATION AND EVALUATION ASSETS *(CONTINUED)*

(e) Pursuant to the agreements for the acquisition of Jade Honest Limited ("Jade Honest") and its subsidiaries collectively "Jade Honest Group" (note 36(a)), if within 3 years subsequent to the completion on 4 May 2009, the Company having obtained a technical report in a form and substance reasonably acceptable to the Company having been prepared and issued by a firm of independent technical consultants to be appointed by the Company and agreed by the vendors showing, and the Company being satisfied, that the aggregate proven reserves (as defined in the Petroleum Resources Management System (PRMS)) in the Concessions are not less than 100 million tons of oil, the Company shall forthwith arrange to issue an contingent announcement on the website of the Stock Exchange and within 90 days after the publication of the contingent announcement, at the choice of the Company after consultation with the vendors, either (i) pay to the vendors by a sum of HK$780,000,000 as to HK$259,740,000 to vendor 1 and as to HK$520,260,000 to vendor 2; or (ii) in the event of the Company having obtained the necessary legal and regulatory approvals, pay to the vendors in aggregate HK$780,000,000 by the allotment and issue of new shares of the Company (the "Shares") at the price equivalent to the average closing price of the Shares as stated in the Stock Exchange daily quotations sheets for the 10 business days immediately preceding the date of the contingent announcement in the same proportion as stated in (i) above, or (iii) in the event of the Company having obtained the necessary legal and regulatory approvals, pay to the vendors in aggregate HK$780,000,000 in the same proportion as stated in (i) above by a combination of cash and allotment and issue of new Shares at the price equivalent to the average closing price of the Shares as stated in the Stock Exchange daily quotations sheets for the 10 business days immediately preceding the date of the contingent announcement in any proportion in the absolute discretion of the Company.

The above contingent consideration is a derivative in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement". At the date of acquisition, the estimated reserves are classified as prospective resources by reference to a technical report prepared by an international independent technical advisor. Having considered the technical report and the fact that the Concessions are still at the exploration stage, the directors of the Company are uncertain that the proven reserves in the areas will exceed 100 million tons of oil. Hence, in the opinion of the directors of the Company, the fair value of the contingent consideration at the end of the reporting period is not significant.

## 15. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

| | Leasehold improvements | Infrastructure | Machinery | Furniture, fixtures and office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Cost** | | | | | | |
| At 1 January 2009 | – | – | – | 220 | 2,929 | 3,149 |
| Exchange adjustments | – | – | – | (2) | – | (2) |
| Additions | – | – | – | 168 | – | 168 |
| Additions-through acquisition of subsidiaries (note 36(c)) | – | – | – | 50 | – | 50 |
| At 31 December 2009 | – | – | – | 436 | 2,929 | 3,365 |
| At 1 January 2010 | – | – | – | 436 | 2,929 | 3,365 |
| Exchange adjustments | 19 | 3 | 8 | (8) | (10) | 12 |
| Additions | 1,633 | 135 | 516 | 1,129 | 909 | 4,322 |
| **At 31 December 2010** | **1,652** | **138** | **524** | **1,557** | **3,828** | **7,699** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2009 | – | – | – | 63 | 777 | 840 |
| Charge for the year | – | – | – | 54 | 586 | 640 |
| At 31 December 2009 | – | – | – | 117 | 1,363 | 1,480 |
| At 1 January 2010 | – | – | – | 117 | 1,363 | 1,480 |
| Exchange adjustments | 1 | – | – | (1) | (3) | (3) |
| Charge for the year | 186 | – | 19 | 240 | 731 | 1,176 |
| **At 31 December 2010** | **187** | **–** | **19** | **356** | **2,091** | **2,653** |
| **Carrying amount** | | | | | | |
| **At 31 December 2010** | **1,465** | **138** | **505** | **1,201** | **1,737** | **5,046** |
| At 31 December 2009 | – | – | – | 319 | 1,566 | 1,885 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(b) The Company

| | Motor vehicle |
|---|---|
| | HK$'000 |
| **Cost** | |
| At 1 January 2009, 31 December 2009 and 1 January 2010 | 1,349 |
| Disposals | (1,349) |
| **At 31 December 2010** | **–** |
| **Accumulated depreciation** | |
| At 1 January 2009 | 270 |
| Charge for the year | 270 |
| At 31 December 2009 and 1 January 2010 | 540 |
| Written back on disposals | (540) |
| **At 31 December 2010** | **–** |
| **Carrying amount** | |
| **At 31 December 2010** | **–** |
| At 31 December 2009 | 809 |

(c) The Group leases certain furniture, fixtures and office equipment under finance leases expiring within 2 years. At the end of the lease term, the Group has the option to purchase the leased assets at prices deemed to be a bargain purchase option. None of the leases includes contingent rentals.

At the end of the reporting period, the carrying amount of the furniture, fixtures and office equipment held under finance leases of the Group was approximately HK$15,000 (2009: HK$26,000).

## 16. INTANGIBLE ASSET

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| **Cost** | | |
| At 1 January | **3,366** | – |
| Exchange adjustment | **135** | (2) |
| Arising on acquisition of subsidiaries (note 36(c)) | **–** | 3,368 |
| At 31 December | **3,501** | 3,366 |
| **Accumulated amortisation and impairment** | | |
| At 1 January | **120** | – |
| Exchange adjustment | **51** | – |
| Charge for the year | **1,472** | 120 |
| Impairment loss | **914** | – |
| At 31 December | **2,557** | 120 |
| **Carrying amount** | | |
| At 31 December | **944** | 3,246 |

Intangible asset represents the coal trading license in PRC held by the Group. The coal trading license has finite useful lives and is amortised on a straight line basis over its remaining license period of 28 months. The amortisation charge for the year is included in "Administrative expenses" in the consolidated income statement.

### Impairment tests for intangible asset

The recoverable amount of the intangible asset is determined based on fair value less costs to sell by reference to the quoted price from independent parties make available to the Group. After assessing the information available in respect of the fair value of the intangible asset, the management of the Company is of the opinion that the intangible asset should be impaired and an impairment loss of RMB790,000 (equivalent to HK$914,000) is recognised for the year ended 31 December 2010 related to the Group's coal trading license.

## 17. INVESTMENT IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **2,395,092** | 2,395,092 |
| Due from subsidiaries (note(a)) | **1,083,971** | – |
| Less: Impairment losses (note (b)) | **(41,421)** | – |
| | **3,437,642** | 2,395,092 |

Notes:

(a) The amounts were unsecured, interest free and will not be demanded for repayment. In substance, they form part of the investment cost in subsidiaries.

(b) During the year ended 31 December 2010, a subsidiary had incurred operating losses. After reviewing the financial performance and financial position of the subsidiary and taking into account the current market environment, the directors consider that impartment loss on the amount due from the subsidiary to its recoverable amount should be made. The impairment loss has been charged to the income statement of the Company.

(c) The following list contains only the particulars of subsidiaries which, in the opinion of the directors, principally affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

| Name of company | Place of establishment/ incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Total Belief Limited | BVI/ Hong Kong | 1 share of US$1 | 100% | 100% | – | Investment holding |
| 深圳市源協貿易有限公司 ("Shenzhen Yuanxie") * | PRC | Registered capital US$1,000,000 | 100% | – | 100% | Investment holding |
| 深圳市志來貿易有限公司 ("Shenzhen Zhilai") ** | PRC | Registered capital RMB5,000,000 | 51% | – | 51% | Investment holding |
| 四會市志來煤炭實業有限公司 ("Sihui Zhilai") ** | PRC | Registered capital RMB5,000,000 | 51% | – | 100% | Trading of scrap copper and exploration and exploitation of iron ore |
| Hong Kong Zhilai Company Limited | Hong Kong | 15,500,000 shares of HK$1 | 51% | – | 100% | Trading of oil products |
| Jumbo Hope Group Limited | Hong Kong | 1 share of HK$1 | 100% | – | 100% | Investment holding |
| Rich Result Limited | Hong Kong | 1 share of HK$1 | 100% | – | 100% | Trading of securities/ frozen food |
| Cheer Profit Group Limited | British Virgin Islands | 1 share of US$1 | 100% | – | 100% | Investment holding |

## 17. INVESTMENT IN SUBSIDIARIES *(CONTINUED)*

| Name of company | Place of establishment/ incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| High Luck Group Limited | BVI/Hong Kong and Argentina | 100 shares of US$1 | 100% | – | 100% | Investment holding |
| Maxipetrol Petroleros de Occidente – UTE | Argentina | N/A | 60% | – | 60% | Exploration of crude oil |

* Registered under the laws of the PRC as a wholly-foreign-owned enterprise ("WFOE").

** Private limited liability company.

## 18. DEPOSIT PAID FOR POTENTIAL INVESTMENT

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| At 31 December | **60,000** | 30,000 |

On 8 December 2009, Techno Wealth Limited ("Techno Wealth"), an indirect wholly-owned subsidiary of the Company, entered into a memorandum of understanding ("MOU") with an independent third party ("Vendor") in relation to the proposed acquisition of 90% of the equity interests of 青龍滿族自治縣宏文黃金有限責任公司 (Qinglong Manzu Autonomous County Hongwen Gold Company Limited) ("Hongwen Gold"), for an initially-agreed consideration of HK$630,000,000. Hongwen Gold is principally engaged in mining and selling of gold concentrates and holds three gold mines located at Qinglong Manzu Autonomous County in the PRC. A refundable deposit of HK$30,000,000 for the proposed acquisition was paid to the Vendor upon execution of the MOU.

On 6 February 2010, Techno Wealth, the Vendor, Hongwen Gold and Mr. Sun Jingzu ("Mr. Sun"), a former owner who held 90% equity interest in Hongwen Gold, entered into a sale and purchase agreement ("Agreement") to acquire the entire issued share capital of Fortune Ease Holdings Limited ("the Target"), which in turn indirectly holds 90% equity interest in Hongwen Gold, and the shareholder's loan for an adjusted aggregate consideration of HK$600,000,000. The adjusted consideration of HK$600,000,000 is to be satisfied by (i) set-off of the HK$30,000,000 deposit paid under the MOU; (ii) HK$30,000,000 payable to the Vendor in cash after the signing of the Agreement; and (iii) HK$540,000,000 by the issue of consideration shares upon completion. The further sum of HK$30,000,000 was paid in cash on 8 February 2010.

The balance of HK$60,000,000 (2009: HK$30,000,000) as at the end of the reporting period represents the deposit money paid by the Group in relation to the acquisition of the Target.

The acquisition of the Target had been approved in the special general meeting of the Company held on 16 July 2010.

## 18. DEPOSIT PAID FOR POTENTIAL INVESTMENT *(CONTINUED)*

On 16 December 2010, due to certain conditions precedent to completion of the acquisition, including the possession of all necessary operation permits or licenses and that no material adverse change would occur in the operational owner of the three gold mines, have not been satisfied in accordance with the terms of the Agreement, the Company propose to terminate the acquisition and in process of negotiation with the Vendor for the terms of the proposed termination agreement. As a result, the deposit paid for the potential investment was classified as "Current assets" for the year.

Further on 21 January 2011, Techno Wealth entered into a termination deed ("the Deed") with the Vendor, Hongwen Gold and Mr. Sun for the termination of the acquisition of the Target. According to the Deed, Techno Wealth and the Vendor agreed to release and discharge all rights, obligations, liabilities or claims against each of them under the Agreement. For the avoidance of doubt, all parties agreed not to file any claim or lawsuit against other parties for any form of right, obligation or duty which may be arisen from or in connection with the Agreement. In addition, the Vendor agreed and undertook to return and refund the deposit of HK$60,000,000 paid by Techno Wealth to the Vendor pursuant to the Agreement on or before 28 February 2011. On 28 February 2011, the Company agreed at the Vendor's request to extend the repayment of deposit to 14 April 2011 to allow extra time for further negotiation among all parties in relation to arrange for the resignation of the six directors appointed by the Group in the board of directors of Hongwen Gold. The unrefunded deposit bears interest at a rate of 10% per annum. On 25 March 2011, Techno Wealth, the Vendor and an escrow agent entered into an escrow agreement pursuant to which all directors of Hongwen Gold appointed by the Group shall resign from the board of Hongwen Gold within three months from the date of the escrow agreement and the Vendor shall deposit the whole deposit money paid by the Group amounting to HK$60,000,000 to the escrow agent within 60 days from the date of the escrow agreement. Pursuant to the escrow agreement, the Group is entitled to receive HK$10,000,000 directly from the escrow agent for resignation of each director from the board of Hongwen Gold.

## 19. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Share of net assets | **6,948** | 9,606 |

Details of the Group's interest in the jointly controlled entity are as follows:

| Name of joint venture | Form of entity | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|---|
| Smart Win International Limited ("Smart Win") | Incorporated | BVI/Hong Kong | 200 shares of US$1 each | 50% | – | 50% | Investment holdings |

## 19. INTEREST IN A JOINTLY CONTROLLED ENTITY *(CONTINUED)*

Summary financial information of the jointly controlled entity – Group's effective interest:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current assets | **6,948** | 9,646 |
| Current liabilities | **–** | (40) |
| Net assets | **6,948** | 9,606 |
| Income | **1,987** | 3,467 |
| Expenses | **(4,645)** | (8,989) |
| Loss for the year | **(2,658)** | (5,522) |

Pursuant to the legally binding memorandum of understanding ("MOU") entered into between Smart Win, Empire Energy International Corporation ("Empire Energy"), Great South Land Minerals Limited ("GSLM") and Mr. Malcom Bendall, a major shareholder and president of Empire Energy, dated 17 July 2008, Smart Win agreed to grant Empire Energy a loan of AUD5,000,000 in return for an option to enter into a joint venture agreement with GSLM for the exploration and development of oil and gas resources within special exploration license 13/98 located in Tasmania, Australia. During the year 2008, Smart Win advanced approximately AUD3,886,000 to Empire Energy.

In year 2009, due to failure of adhesion to the budget jointly authorised by Smart Win and Empire Energy as agreed in the MOU, Smart Win refused to further advance the remaining loan to Empire Energy pursuant to the MOU.

On 9 September 2010, Smart Win commenced a legal proceeding against Empire Energy and Mr. Malcolm Bendall (together "the Defendants"), to the Supreme Court of Slate of New York ("the Court") to recover the loan principle of approximately AUD3,886,000 advanced to Empire Energy during the year 2008, plus interest, penalties and attorney's fee.

On 17 November 2010, the Defendants submitted an answer, affirmative defense and counterclaim to the Court to defense the complaint by Smart Win and counterclaim for damages alleged to be in excess of US$3,000,000,000 together with attorneys' fees. The counterclaim was arising from Smart Win's breach of contract, breach of convenant of good faith and fair dealing and breach of fiduciary duty by suspending the remaining loan of approximately AUD1,114,000. A legal opinion was obtained from Stewart Occhipinti, LLP, the legal representative of Smart Win, on 25 March 2011. Pursuant to the legal opinion, the legal representative is of the opinion that it is too early in the litigation to provide a prediction of the ultimate outcome regarding the Defendant's claims. The directors of the Company believe that they have meritorious defenses to Defendants' claims and the counterclaim to Smart Win should be remote.

## 20. DEPOSIT PAID FOR A SUB-CONTRACTING CONTRACT

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| At 31 December | **79,301** | – |

In July 2010, Sihui Zhilai entered into a sub-contracting agreement with an independent third party ("the Sub-contractor"), who procure to have 90% interest in a PRC limited liability company which owns an iron mine (北坎子鐵礦) located at Qinglong Manzu Autonomous County (青龍滿族自治縣) in the PRC. Pursuant to the sub-contracting agreement, Sihui Zhilai have a right to operate the iron mine for a period of 3 years by paying a deposit of RMB67,400,000 (equivalent to HK$79,498,000). A sub-contracting fee was charged at RMB150 (equivalent to HK$180) per ton on every iron concentrate sold under which the deposit paid will be made use to set off the sub-contracting fee payable during the sub-contracting period. The deposit is refundable upon the expiry of the 3-year sub-contracting period. In August 2010, Sihui Zhilai took up the operation of the iron mine and all accounting for all the operating results during the sub-contracting period.

As at 31 December 2010, the balance represents the deposit paid after net-off the sub-contracting fee of RMB167,000 (equivalent to approximately HK$194,000) recognised for the year. The sub-contracting fee is included in "Cost of sales" in the consolidated income statement.

## 21. CONVERTIBLE PROMISSORY NOTE RECEIVABLE

On 21 December 2010, the Company and Nordaq Energy Inc. ("Nordaq"), an independent United States private corporation, entered into a loan agreement to provide a non-revolving line of credit of US$5,000,000 (equivalent to approximately HK$38,874,000) ("Line of Credit") to Nordaq for working capital and for Nordaq to secure certain oil and gas properties in the United States.

As security for the Line of Credit, a pledge and escrow agreement ("Pledge Agreement") was entered into on the same date under which Nordaq pledged to the Company all the Nordaq's right, title and interest in 392,337 common shares of Nordaq as collateral. Meanwhile, Nordaq will issue a convertible promissory note ("CPN") to the Company in the same amount of funds advanced to Nordaq by the Company.

On 21 December 2010, the Company advanced funds of US$2,300,000 (equivalent to HK$17,900,000) to Nordaq and an equivalent value of CPN was received. The CPN bears interest at prime rate as published daily by the Wall Street Journal plus 2% per annum with maturity date on 1 June 2012 and is payable in 12 equal monthly installments of US$191,667 with the first payment due on 1 July 2011. The outstanding principal amount of the CPN may be converted at anytime at the option of the Company prior to 1 June 2012 at a conversion price of US$12.7442 per share subject to adjustment for the consolidation or sub-division of shares, capitalization of profits or reserves or subsequent issue of securities in Nordaq.

## 21. CONVERTIBLE PROMISSORY NOTE RECEIVABLE *(CONTINUED)*

As at the end of the reporting period, the Company committed to Nordaq an unutilised Line of Credit of US$2,700,000 (equivalent to approximately HK$20,994,000). Further in January 2011, the remaining Line of Credit were fully utilised by Nordaq.

The movement of the amount of the CPN during the year is set out below:

**The Group and the Company**

| | Loan receivable | Embedded financial derivatives | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2009 and 2010 | – | – | – |
| Acquired during the year | 17,706 | 194 | 17,900 |
| Effective interest credited during the year (note 5(a)) | 35 | – | 35 |
| Changes in fair value during the year (note (5(b)) | – | 78 | 78 |
| Exchange adjustments | (17) | – | (17) |
| At 31 December 2010 | 17,724 | 272 | 17,996 |
| Less: Amount included under "Current assets" | (9,312) | (272) | (9,584) |
| Amount included under "Non-current assets" | 8,412 | – | 8,412 |

As the CPN includes an embedded derivative financial instrument, that is, a call option, and loan receivables, the carrying value of the CPN have been allocated as follows:

(a) Loan receivable is initially recognised at fair value and thereafter carried at amortised cost less allowance for impairment loss. The interest credited for the period is calculated by applying an effective interest rate of 6.54% to the loan receivables since the CPN was issued. The carrying amount of the CPN as at 31 December 2010 was approximates to its fair value.

(b) Embedded financial derivatives comprise the fair value of the conversion option of the Company to convert the CPN into Nordaq's shares.

## 21. CONVERTIBLE PROMISSORY NOTE RECEIVABLE *(CONTINUED)*

(c) The fair value of the embedded financial derivatives were calculated using the Black-Scholes Option Pricing Model. The major inputs used in the model as at the issue date and 31 December 2010 were as follows:

| | As at 21 December 2010 | As at 31 December 2010 |
|---|---|---|
| Stock price | US$3.265 | US$3.636 |
| Exercise price | US$12.7442 | US$12.7442 |
| Risk-free rate | 0.435% | 0.41% |
| Expected option period | 1.447 years | 1.419 years |
| Expected volatility | 76.042% | 77.419% |
| Expected dividend yield | 0% | 0% |

The stock price of Nordaq is determined by adopting the market-based Approach as at the date of the CPN issued. The risk-free rate was determined with reference to the Yield Curves & Spread for US Treasury with a matching maturity term. The exercise price and expected option period are based on the terms and conditions under the CPN. The expected volatility is determined by applying the average historical of three comparable companies over the expected option period.

The valuation were carried out by an independent appraisal firm, Roma Appraisal Limited, who have appropriate qualifications and recent experience in the valuation of similar financial instruments being valued.

Any changes in the major inputs into the model will result in changes in the fair value of the embedded financial derivatives. The variables and assumptions used in calculating the fair value of the embedded financial derivatives are based on the market inputs.

## 22. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Raw materials | **306** | – |
| Consumable stores | **43** | – |
| | **349** | – |

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Carrying amount of inventories sold (note 6(c)) | **56,751** | 9,150 |

## 23. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade receivables (note (a)) | **5,909** | 2,829 | **–** | – |
| Less: Allowance for impairment loss (note (b)) | **(5,909)** | – | **–** | – |
| | **–** | 2,829 | **–** | – |
| Other receivables (note (e)) | **57,320** | 5,987 | **25** | – |
| Less: Allowance for impairment loss (note (b)) | **(6,935)** | – | **–** | – |
| | **50,385** | 5,987 | **25** | – |
| Amount due from subsidiaries | **–** | – | **309,555** | 1,028,050 |
| Less: Allowance for impairment loss (note(c)) | **–** | – | **(44,157)** | – |
| | **–** | – | **265,398** | 1,028,050 |
| Loan to a non-controlling shareholder (note (f)) | **1,865** | – | **–** | – |
| Amount due from a non-controlling shareholder | **2** | 2 | **–** | – |
| Loans and receivables | **52,252** | 8,818 | **265,423** | 1,028,050 |
| Held-to-maturity securities (note g) | **–** | 11,342 | **–** | – |
| Argentina VAT and other tax recoverable | **39,577** | – | **–** | – |
| Prepayment and deposits | **30,569** | 22,287 | **3,120** | 265 |
| | **122,398** | 42,447 | **268,543** | 1,028,315 |

All of the trade and other receivables (including amounts due from a non-controlling shareholder and subsidiaries) are expected to be recovered or recognised as expense within one year.

Note:

**(a) Ageing analysis**

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| 0 – 14 days | **–** | – |
| 15 – 60 days | **–** | 480 |
| 61 – 90 days | **–** | 441 |
| Over 90 days | **5,909** | 1,908 |
| | **5,909** | 2,829 |

## 23. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Note: *(continued)*

**(a) Ageing analysis *(continued)***

Trade receivables are due within 14 days (2009: 14 days) from the date of billing. Further details on the Group's credit policy are set out in note 35(a).

**(b) Impairment of trade and other receivables**

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 2(k)(i)).

The movement in the allowance for impairment loss during the year, including both specific and collective loss components, is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| At 1 January | **–** | – |
| Impairment loss recognised | **12,597** | – |
| Exchange adjustment | **247** | – |
| At 31 December | **12,844** | – |

At 31 December 2010, the Group's trade and other receivables of HK$12,844,000, in which HK$5,909,000 from trade receivables and HK$6,935,000 from other receivables, were individually determined to be impaired. The individually impaired receivables related to a customer and a debtor that were in lawsuit with the Group in respect of the outstanding debts. The management assessed that the recovery of the receivables are with financial difficulties and may not be recovered. Consequently, specific allowances for impairment loss of HK$12,597,000 (2009: HK$nil) was recognised. The Group does not hold any collateral over these balances.

**(c) Impairment of amounts due from subsidiaries**

Movement in the allowance for impairment loss

| | The Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| At 1 January | **–** | – |
| Impairment loss recognised | **44,157** | – |
| At 31 December | **44,157** | – |

During the year ended 31 December 2010, several subsidiaries had incurred operating losses. After reviewing the financial performance and financial position of these subsidiaries and taking into account the current market environment, the directors consider that impairment loss on the amounts due from these subsidiaries to their recoverable amount should be made. The impairment loss has been charged to the income statement of the Company.

## 23. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Note: *(continued)*

**(d) Trade receivables that are not impaired**

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **–** | – |
| Past due but not impaired | | |
| – Less than 1 month past due | **–** | 480 |
| – 1 to 3 months past due | **–** | 973 |
| – 3 to 6 months past due | **–** | 1,376 |
| | **–** | 2,829 |

Receivable that was neither past due nor impaired relate to a customer for whom there was no recent history of default.

In last year, receivable that was past due nor impaired related to an independent customer that the balance was fully settled subsequent to the end of the reporting period. The Group does not hold any collateral over this balance.

**(e)** The balance as at 31 December 2010 mainly represents the consideration receivable of HK$43,900,000 from an independent third party for the disposal of trading securities listed on the main board of the Stock Exchange. The balance was unsecured, interest-free and repayable on 28 February 2011. The balance was fully settled in March 2011.

**(f)** The loan to a non-controlling shareholder is unsecured, interest free and repayable by monthly installment of US$20,000 (equivalent to approximately HK$156,000) until in full settlement. The amount is neither past due nor impaired. An amount of approximately HK$1,134,000, which is expected to be recovered after one year and is classified as non-current asset in the consolidated statement of financial position. For the remaining balance, it is expected to be recovered within one year.

**(g)** Held-to-maturity securities were unlisted debt securities with maturity date on 5 January 2010. Their carrying amount as at 31 December 2009 approximated their fair value.

## 24. PLEDGED BANK DEPOSITS

The amount represented deposits pledged to a bank to secure banking facilities granted to an independent third party. The deposits carry fixed interest rate of 1.71% per annum. These deposits have been pledged to secure a short-term financial guarantee (see note 39) and therefore are classified as current assets. The pledged deposits were released on 6 April 2010 when the financial guarantee expired and was released. There was no pledged bank deposit for the current year.

## 25. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Deposits with banks | **40,083** | 93,001 | **–** | 93,001 |
| Cash at bank and in hand | **73,978** | 70,746 | **17,302** | 1,504 |
| Cash and cash equivalents in the statement of financial position and statement of cash flows | **114,061** | 163,747 | **17,302** | 94,505 |

As at 31 December 2010, the interest rates on the cash at bank and deposits with banks ranged from 0.001% to 0.45% (2009: 0.02% to 1.71%) per annum.

## 26. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade payables (note (a)) | **4,831** | 257 | **–** | – |
| Other payables and accruals | **68,985** | 13,277 | **2,486** | 4,191 |
| Amounts due to directors (note (b)) | **–** | 202 | **–** | 202 |
| Amounts due to subsidiaries (note (b)) | **–** | – | **12,770** | 120 |
| Financial liabilities measured at amortised cost | **73,816** | 13,736 | **15,256** | 4,513 |

All of the trade and other payables (including amounts due to directors and subsidiaries) are expected to be settled within one year or are repayable on demand.

Note:

(a) The following is an ageing analysis of the trade payables presented based on the invoice date at the end of the reporting period:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **116** | – |
| 31 – 60 days | **71** | 257 |
| 61 – 90 days | **–** | – |
| Over 90 days | **4,644** | – |
| | **4,831** | 257 |

(b) The amounts are unsecured, interest free and repayable on demand.

## 27. CONVERTIBLE NOTES

(a) On 4 May 2009, pursuant to the agreements for the acquisition of the Jade Honest Group (note 36(a)), the Company issued HK$1,832,400,000 zero coupon convertible notes to nominees of the vendors. The convertible notes confer to the noteholder the right to convert into the Company's ordinary shares at a conversion price of HK$0.32 per share, with maturity date falling on the thirtieth anniversary of the date of issue, i.e., 4 May 2039, for the settlement of part of the consideration of the acquisition of the Jade Honest Group.

Pursuant to the terms of the convertible notes, the Company has no obligation to repay any outstanding amount of the convertible notes at any time of the conversion period up to maturity, but has the right to redeem the whole or any part of the outstanding principal amount of the convertible notes at an amount equal to 100% of the principal amount of the convertible notes being redeemed at any time after the issue of the convertible notes up to maturity.

The convertible notes are interest-free and are freely transferable with the prior consent of the Company and, if required, that of Stock Exchange.

The noteholders may at any time before the maturity date convert the whole or part of the principal amount of the convertible notes into new ordinary shares of the Company at the conversion price of HK$0.32 per share, provided that (i) no conversion rights attached to the convertible notes may be exercised, to the extent that following such exercise, a holder of the convertible notes and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 20% or more of the voting rights of the Company (or such other percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer); and (ii) no holder of the convertible notes shall exercise the conversion right attached to the convertible notes held by such holders if immediately after such conversion, the public float of the shares falls below the minimum public float requirement stipulated under Rule 8.08 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The conversion price of HK$0.32 per share is subject to adjustment for the consolidation or sub-division of shares, capitalisation of profits or reserves or subsequent issue of securities by the Company.

In the opinion of the directors of the Company, since the convertible notes are not repayable by the Company and the Company has no intention to redeem any convertible notes at any time up to maturity, the convertible notes are classified as equity instruments containing an equity element only and are presented in equity heading "convertible notes reserve".

The total number of ordinary shares of the Company to be issued under the convertible notes is 5,726,250,000 of HK$0.10 each. The fair value of the convertible notes are determined by reference to the closing market price of the ordinary shares of the Company, being HK$0.51, at the issue date of the convertible notes.

## 27. CONVERTIBLE NOTES *(CONTINUED)*

(a) *(continued)*

The movement of the amount of the convertible notes during the year is set out below:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At the beginning of the year | **754,845** | – |
| Issued upon the acquisition of Jade Honest during the year (note 36(a)) | **–** | 2,897,132 |
| Converted during the year | **(754,845)** | (2,142,287) |
| At the end of the year | **–** | 754,845 |

At the time when the convertible notes are converted into ordinary shares of the Company, the nominal value of shares issued upon conversion will be transferred from the convertible notes reserve to the share capital account while the difference between the fair value of the convertible notes at their issue dates and the nominal value of shares issued will be transferred from the convertible notes reserve to the share premium. During the year, convertible notes with an aggregate carrying amount of HK$754,845,000 (2009: HK$2,142,287,000) (principal amount of HK$477,430,000 (2009: HK$1,354,970,000)) were converted into 1,491,969,000 (2009: 4,234,281,000) of the Company's shares. Accordingly, HK$149,197,000 (2009: HK$423,428,000) was transferred to share capital account while HK$605,648,000 (2009: HK$1,718,859,000) was transferred to share premium. All convertible notes are converted into the Company's shares during the year.

(b) On 20 November 2009, the Company issued convertible notes with maturity date falling on the second anniversary of the date of issue (the "Second Tranche") for an aggregate principal amount of HK$124,000,000. The convertible notes bear interest at 3% per annum payable semi-annually and are unsecured and freely transferrable.

The noteholders may at any time before maturity convert the whole or part of the principal amount of the convertible notes into new ordinary shares of the Company at the conversion price of (i) HK$0.31 per share from the issue date up to the date falling six months after the issue date of the convertible notes; and (ii) HK$0.35 per share from the next date falling six months after the issue date of the convertible notes up to maturity. The conversion prices are subject to adjustment for the consolidation or sub-division of shares, capitalisation of profits or reserves or subsequent issue of securities in the Company.

Upon maturity, the outstanding convertible notes which have not been converted, will be redeemed at their principal amount together with any accrued interest in cash.

## 27. CONVERTIBLE NOTES *(CONTINUED)*

(b) *(continued)*

As the convertible notes have different convertible prices during the conversion period, the conversion of the convertible notes will not be settled by an exchange of a fixed number of the Company's equity instruments. In accordance with the requirements of HKAS 39 "Financial Instruments: Recognition and Measurement", the convertible notes must be separated into a liabilities component consisting of the straight debt element and an option right of the noteholders to convert the convertible notes into equity. The proceeds received from the issue of the convertible notes have been allocated as follows:

(i) Liability components were initially measured by deducting the fair value of the embedded financial derivative from the proceeds of issue of the convertible notes as a whole.

The interest charged for the period is calculated by applying an effective interest rate of 19.88% to the liabilities component since the convertible notes were issued.

(ii) Embedded financial derivative comprises the fair value of the conversion option of the noteholders to convert the convertible notes into the Company's shares.

(iii) The fair value of the embedded financial derivative was calculated using the Trinomial Option Pricing Model. The major inputs used in the model as at the issue date were as follows:

| | |
|---|---|
| Stock price | HK$0.365 |
| Exercise price | HK$0.310 |
| Risk-free rate | 0.09% |
| Expected option period | 0.5 years |
| Expected volatility | 57.423% |
| Expected dividend yield | 0% |

The risk-free rate was determined with reference to the Hong Kong Exchange Fund Notes Yields. The expected option period is estimated based on the terms of the convertible notes. The expected volatility was determined based on the historical price volatilities of the Company under the same period as the expected option period.

Any changes in the major inputs into the model will result in changes in the fair value of the embedded financial derivative. The variables and assumptions used in calculating the fair value of the embedded financial derivative are based on the directors' best estimates.

## 27. CONVERTIBLE NOTES *(CONTINUED)*

(b) *(continued)*

(iii) *(continued)*

The movement of the liability component and embedded financial derivative of the Second Tranche of the convertible notes for the year is set out below:

| | Liability component | Embedded financial derivatives | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2009 | – | – | – |
| Issued during the year | 92,251 | 31,749 | 124,000 |
| Transaction cost incurred | (4,613) | – | (4,613) |
| Effective interest charged during the year (note 6(a)) | 258 | – | 258 |
| Changes in fair value during the year (note 5(b)) | – | (8,055) | (8,055) |
| Converted during the year | (87,896) | (23,694) | (111,590) |
| As at 31 December 2009 and 2010 | – | – | – |

The fair value of the liability component of the convertible notes is calculated using cash flows discounted at a rate based on the effective interest rate of 23.08%.

The changes in fair value of the embedded financial derivative for the year ended 31 December 2009 resulted in a fair value gain of HK$8,055,000.

At the time when the convertible notes are converted into ordinary shares of the Company, the nominal value of the shares issued upon conversion will be transferred from the liability component and the embedded financial derivatives component of the convertible notes to the share capital account while the difference will be transferred to the share premium. In last year, all convertible notes were converted into 400,000,000 ordinary shares of the Company. Accordingly, HK$40,000,000 was transferred to share capital account while HK$71,590,000 was transferred to share premium.

## 28. PROMISSORY NOTES

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| At the beginning of year | – | – |
| Issued upon acquisition of Jade Honest Group (note 36(a)) | – | 108,551 |
| Effective interest charged (note 6(a)) | – | 1,408 |
| Interest waived upon early settlement (note 5(c)) | – | (476) |
| Settled during the year | – | (120,300) |
| Loss on early settlement (note 6(c)) | – | 10,817 |
| At the end of year | – | – |

On 4 May 2009, pursuant to the agreements for the acquisition of the Jade Honest Group (note 36(a)), the Company issued promissory notes with principal amount of HK$123,000,000 to the nominees of the vendors, with maturity date falling on the third anniversary of the date of issue for the settlement of part of the consideration for the acquisition of the Jade Honest Group. The promissory notes bear interest at 2% per annum payable on the maturity date and are unsecured and freely transferrable.

The carrying amount of the promissory note is denominated in Hong Kong dollars and the effective interest rate as at the issue date was 6.30% based on the maturity period of 3 years.

All promissory notes were fully repaid on 3 December 2009.

## 29. BANK AND OTHER BORROWINGS

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2010 HK$'000 | 2009 HK$'000 | 2010 HK$'000 | 2009 HK$'000 |
| Bank loans, unsecured but guaranteed (note (a)) | – | 45,368 | – | – |
| Other borrowings, unsecured and unguaranteed (note (b)) | 160,294 | 40,000 | 41,400 | 40,000 |
| | 160,294 | 85,368 | 41,400 | 40,000 |

As at 31 December 2010, all the bank and other borrowings were repayable within one year or on demand.

## 29. BANK AND OTHER BORROWINGS *(CONTINUED)*

Note:

a) The bank loans represented RMB40,000,000 (equivalent to HK$45,368,000) was borrowed from a bank guaranteed by an independent third party, bearing interest at a fixed rate of 4.779% per annum and was repayable on 21 October 2010. The bank loans were fully repaid on the due date.

b) The other borrowings mainly comprise:

(i) HK$41,400,000 (2009: HK$40,000,000) is borrowed from an independent third party, bearing interest at a fixed rate of 3.5% per annum and is repayable on 22 December 2011.

(ii) RMB100,000,000 (equivalent to approximately HK$117,950,000) is borrowed from an independent third party, bearing interest at a fixed rate of 5.31% per annum and is repayable on 20 October 2011.

(iii) RMB800,000 (equivalent to approximately HK$944,000) is borrowed from an independent third party, interest free and is repayable on 5 January 2011. Subsequent on 5 January 2011, the loan was further extended to 23 June 2013 with the same terms.

## 30. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2010, the Group had obligation under finance leases repayable as follows:

| | **The Group** | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Present value of the minimum lease payments HK$'000** | **Total minimum lease payments HK$'000** | Present value of the minimum lease payments HK$'000 | Total minimum lease payments HK$'000 |
| Within 1 year | **12** | **13** | 12 | 13 |
| After 1 year but within 2 years | **1** | **1** | 12 | 13 |
| After 2 years but within 5 years | **–** | **–** | 1 | 1 |
| | **1** | **1** | 13 | 14 |
| | **13** | **14** | 25 | 27 |
| Less: total future interest expenses | | **(1)** | | (2) |
| Present value of lease obligations | | **13** | | 25 |

## 31. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **PRC Enterprise Income Tax** | | | | |
| – Provision for the year | **118** | 44 | **42** | 44 |
| – Provisional tax paid | **(58)** | (32) | **(36)** | (32) |
| – Exchange adjustments | **2** | – | **–** | – |
| | **62** | 12 | **6** | 12 |
| **Argentina minimum presumed income tax (note)** | | | | |
| – Provision for the year | **6,421** | – | **–** | – |
| – Provisional tax paid | **(1,919)** | – | **–** | – |
| | **4,502** | – | **–** | – |
| | **4,564** | 12 | **6** | 12 |

Note:

The Group's subsidiaries in Argentina are subject to a tax on MPIT. MPIT is supplementary to CIT and is chargeable at the effective tax rate of 1% on the tax base of certain assets. The Group's tax liabilities in Argentina is the higher of CIT and MPIT. If MPIT exceeds CIT during a financial year, such excess is allowable to carry forward to credit against any CIT excess over MPIT that may arise in the next ten years.

## 31. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

***(CONTINUED)***

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately HK$49,244,000 (2009: approximately HK$22,955,000) and Argentina MPIT credit of approximately HK$6,421,000 (2009: HK$nil) as it is not probable that future taxable profits against which the losses and tax credit can be utilised will be available in the relevant tax jurisdiction and for the entity. The tax losses do not expire under current tax legislation except for tax losses of RMB15,200,000 (equivalent to approximately HK$17,929,000) (2009: RMB2,903,000 (equivalent to approximately HK$3,293,000)) in the PRC which is available for carry forward to set-off future assessable income for a period of five years. Argentina MPIT credit of Argentine Peso ("AR$") 3,305,000 (equivalent to approximately HK$6,421,000) (2009: AR$nil) in Argentina is available for carry forward to set-off future CIT liabilities for a period of ten years. The details of which are as follows:

**The Group**

| | **PRC tax losses** | | **Argentina MPIT credit** | |
|---|---|---|---|---|
| **Year** | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| 2013 | **3,424** | 3,293 | **–** | – |
| 2014 | **14,505** | – | **–** | – |
| 2020 | **–** | – | **6,421** | – |
| | **17,929** | 3,293 | **6,421** | – |

## 32. PROVISIONS

Provision for compensation to surface owners

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| As 1 January | **7,713** | – |
| Exchange adjustment | **(165)** | – |
| Additional provisions made | **–** | 7,713 |
| Provisions paid | **(7,548)** | – |
| At 31 December | **–** | 7,713 |

Pursuant to the terms and conditions set out in the bidding documents in relation to the exploration permits of the Concessions as disclosed in note 14, the Group is obliged to indemnify the surface owners for damages caused by activities conducted by the Group in the exploration area. Provisions of AR$3,800,000 (equivalent to approximately HK$7,713,000) were therefore made for the expected liabilities as estimated by the directors of the Company, after seeking legal advice from an Argentina solicitor, for the compensations to be paid. During the year, all provision made was paid. Since the Group completed the exploration activities in relation to the 2-dimension and 3-dimension seismic studies in the area of Concessions for the initial period, the directors of the Company are of the opinion that the possible compensation to surface owners would be insignificant and no further provision was recognised for the year.

## 33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 30 August 2002 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options for a nominal consideration to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the scheme shall not in aggregate exceed 10% of the total number of shares of the Company in issue on the adoption date of the scheme (i.e., 433,302,000 shares). As at the date of this report, 9,088,518,000 shares of the Company were in issue.

Under the scheme, the total number of shares to be issued upon exercise of the options granted to each eligible person (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. The exercise price (subscription price) shall be such price as determined by the board of directors in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share.

## 33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(CONTINUED)*

The options vest from the date of grant and are exercisable within a period of five years.

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

| | **Number of shares issuable under options granted** | **Vesting conditions** | **Contractual life of options** |
|---|---|---|---|
| Options granted to directors: | | | |
| – on 8 May 2007 | 12,999,000 | Immediately from date of grant | 5 years |
| Options granted to employees: | | | |
| – on 8 May 2007 | 12,999,000 | Immediately from date of grant | 5 years |
| Options granted to consultants: | | | |
| – on 8 May 2007 | 17,332,000 | Immediately from date of grant | 5 years |
| Total share options granted | 43,330,000 | | |

(b) The number and the weighted average exercise prices of share options are as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of shares issuable under options granted** | Weighted average exercise price | Number of shares issuable under options granted |
| Outstanding at the beginning of the year | **HK$0.6** | **34,664,000** | HK$0.6 | 34,664,000 |
| Lapsed during the year | **HK$0.6** | **(12,999,000)** | HK$0.6 | – |
| Outstanding at the end of the year | **HK$0.6** | **21,665,000** | HK$0.6 | 34,664,000 |
| Exercisable at the end of the year | **HK$0.6** | **21,665,000** | HK$0.6 | 34,664,000 |

The share options outstanding at 31 December 2010 had an exercise price of HK$0.60 (2009: HK$0.60) (note 34(b)(vi)) and a weighted average remaining contractual life of 1.4 year (2009: 2.4 years).

## 34. CAPITAL AND RESERVES

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

**The Company**

| | Share capital | Share premium | Employee share-based compensation reserve | Contributed surplus | Shares to be issued | Convertible notes reserve | Accumulated losses | Total share premium and reserves | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2009 | 78,197 | 356,452 | 10,270 | 122,864 | – | – | (232,235) | 257,351 | 335,548 |
| **Changes in equity for 2009** | | | | | | | | | |
| Issue of consideration shares (note 36(a)) | 9,375 | 38,437 | – | – | – | – | – | 38,437 | 47,812 |
| Shares to be issued pursuant to the acquisition of subsidiaries (note 36(a)) | – | – | – | – | 95,625 | – | – | 95,625 | 95,625 |
| Issue of convertible notes (note 27(a)) | – | – | – | – | – | 2,897,132 | – | 2,897,132 | 2,897,132 |
| Shares issued upon conversion of convertible notes (note 27 and 34(b)(ii)) | 463,428 | 1,790,449 | – | – | – | (2,142,287) | – | (351,838) | 111,590 |
| Loss and total comprehensive expense for the year | – | – | – | – | – | – | (13,511) | (13,511) | (13,511) |
| At 31 December 2009 | 551,000 | 2,185,338 | 10,270 | 122,864 | 95,625 | 754,845 | (245,746) | 2,923,196 | 3,474,196 |
| At 1 January 2010 | 551,000 | 2,185,338 | 10,270 | 122,864 | 95,625 | 754,845 | (245,746) | 2,923,196 | 3,474,196 |
| **Changes in equity for 2010** | | | | | | | | | |
| Issue of consideration shares (note 36(a)) | 18,750 | 76,875 | – | – | (95,625) | – | – | (18,750) | - |
| Shares issued upon exercise of bonus warrants (note 34(b)(v)) | 3 | 6 | – | – | – | – | – | 6 | 9 |
| Shares issued under placement, net of issuing costs of HK$8,069,000 (note 34(b)(iv) | 74,310 | 147,982 | – | – | – | – | – | 147,982 | 222,292 |
| Subscription of new shares (note 34(b)(iii)) | 32,258 | 67,742 | – | – | – | – | – | 67,742 | 100,000 |
| Shares issued upon conversion of convertible notes (note 27(a) and 34(b)(ii)) | 149,197 | 605,648 | – | – | – | (754,845) | – | (149,197) | - |
| Lapse of share options granted under share option scheme (note 33(b)) | – | – | (3,851) | – | – | – | 3,851 | – | – |
| Loss and total comprehensive expense for the year | – | – | – | – | – | – | (111,676) | (111,676) | (111,676) |
| **At 31 December 2010** | **825,518** | **3,083,591** | **6,419** | **122,864** | **-** | **-** | **(353,571)** | **2,859,303** | **3,684,821** |

## 34. CAPITAL AND RESERVES *(CONTINUED)*

(b) Share capital

*(i) Authorised and issued share capital*

| | 2010 Number of shares '000 | 2010 HK$'000 | 2009 Number of shares '000 | 2009 HK$'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of HK$0.10 each | **20,000,000** | **2,000,000** | 20,000,000 | 2,000,000 |
| Ordinary shares, issued and fully paid: | | | | |
| At 1 January | **5,510,002** | **551,000** | 781,971 | 78,197 |
| Shares issued upon exercise of bonus warrants (note 34(b)(v)) | **32** | **3** | – | – |
| Issue of consideration shares (note 36(a)) | **187,500** | **18,750** | 93,750 | 9,375 |
| Shares issued under placement (note 34(b)(iv)) | **743,100** | **74,310** | – | – |
| Subscription of new shares (note 34(b)(iii)) | **322,582** | **32,258** | – | – |
| Shares issued upon conversion of convertible notes (note 34(b)(ii)) | **1,491,969** | **149,197** | 4,634,281 | 463,428 |
| At 31 December | **8,255,185** | **825,518** | 5,510,002 | 551,000 |

The holders of ordinary shares are entitled to received dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

*(ii) Shares issued upon conversion of convertible notes*

– On 4 May 2009, the Company issued convertible notes for an aggregate principal amount of HK$1,832,400,000 (note 27(a)). During the year ended 31 December 2010, convertible notes for a principal amount of HK$477,430,000 (2009: HK$1,354,970,000) were converted into 1,491,969,000 (2009: 4,234,281,000) ordinary shares of the Company of HK$0.1 each at the conversion price of HK$0.32 each.

– On 20 November 2009, the Company issued convertible notes in an aggregate principal amount of HK$124,000,000 (note 27(b)). In November 2009, all convertible notes were fully converted into 400,000,000 ordinary shares of the Company of HK$0.1 each at the conversion price of HK$0.31 each.

## 34. CAPITAL AND RESERVES *(CONTINUED)*

### (b) Share capital *(continued)*

*(iii) Subscription of new shares*

On 18 January 2010, Max Sun Enterprises Limited ("Max Sun"), a shareholder of the Company, entered into a subscription agreement with the Company to subscribe for 322,582,000 new ordinary shares of HK$0.1 each at HK$0.31 per share for a consideration of HK$100,000,000. The new ordinary shares of HK$0.1 each were issued on 26 February 2010. The proceeds are used for general working capital purpose and for financing future investment opportunities.

*(iv) Shares issued under placement*

On 19 January 2010, the Company entered into a placing agreement with an independent placing agent to place an aggregate of 743,100,000 new ordinary shares of HK$0.1 each of the Company at HK$0.31 per share for a consideration of approximately HK$230,361,000. The new ordinary shares of HK$0.1 each were issued on 28 January 2010 and the placement was then completed in February 2010. The proceeds are used for general working capital purpose and for financing future investment opportunities.

*(v) Shares issued upon exercise of bonus warrants*

On 25 June 2010, the Company issued a total of 1,152,521,860 bonus warrants on the basis of one bonus warrant for every seven existing shares of the Company held by the shareholders registered on the register of members of the Company ("Qualified shareholders") on 18 June 2010 at an initial subscription price of HK$0.27 per ordinary share paid in cash. The bonus warrant was listed on the main board of the Stock Exchange and exercisable on the date of issue and end on the date immediately preceding the first anniversary, i.e., 24 June 2011. During the year, 31,999 bonus warrants were exercised to subscribe for 31,999 new ordinary shares of HK$0.1 each of the Company for a total consideration of approximately HK$9,000, of which approximately HK$3,000 and approximately HK$6,000 were credited to the share capital and share premium respectively. As at 31 December 2010, 1,152,489,861 bonus warrants were not yet exercised.

*(vi) Terms of unexpired unexercised share options at the end of the reporting period:*

| Exercisable period | Exercise price | **2010 Number of shares issuable under option granted** | 2009 Number of shares issuable under option granted |
|---|---|---|---|
| 8 May 2007 to 7 May 2012 | HK$0.60 | **21,665,000** | 34,664,000 |

Each option entitles the holder to subscribe for one ordinary share of the Company. Further details of these options are set out in note 33 to the consolidated financial statements.

## 34. CAPITAL AND RESERVES *(CONTINUED)*

(c) Nature and purpose of reserves

*(i) Share premium*

The application of the share premium account is governed by the Companies Act 1981 of Bermuda.

*(ii) Employee share-based compensation reserve*

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **10,270** | 10,270 |
| Lapse of share options granted | **(3,851)** | – |
| At 31 December | **6,419** | 10,270 |

This represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 2(r)(ii).

*(iii) Capital reserve*

The capital reserve of the Group represents the difference between the nominal value of ordinary shares issued by the Company and the aggregate of the share capitals and share premiums of subsidiaries acquired through a reorganisation in preparation for the listing of the Company's shares on the Stock Exchange in October 1998.

*(iv) Exchange fluctuation reserve*

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **(34)** | – |
| Exchange difference arising on translating the financial statements of foreign operations | **(102)** | (34) |
| At 31 December | **(136)** | (34) |

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(v).

## 34. CAPITAL AND RESERVES *(CONTINUED)*

### (c) Nature and purpose of reserves *(continued)*

*(v) Contributed surplus*

The contributed surplus of the Company represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the reorganisation in preparation for the listing of the Company's shares on the Stock Exchange and the nominal amount of the Company's shares issued for the acquisition. Under Section 54 of the Bermuda Companies Act 1981, contributed surplus is available for distribution as dividends to shareholders subject to the provisions of the Company's bye-laws and provided that immediately following the distribution, the Company is able to pay its liabilities as and when they fall due or the realisable value of the Company's assets would not be less than the aggregate of its liabilities and its issued share capital and share premium account.

*(vi) Convertible notes reserve*

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| At 1 January | **754,845** | – |
| Recognition of the equity component of convertible notes | **–** | 2,897,132 |
| Issue of ordinary shares upon conversion | **(754,845)** | (2,142,287) |
| At 31 December | **–** | 754,845 |

The convertible notes reserve comprises the value of the unexercised equity component of convertible notes issued by the Group.

*(vii) Shares to be issued*

An obligation (see note 36(a)) to issue a fixed number of the Company's own shares at a fixed amount is an equity instrument and recognised in the reserve (shares to be issued). The balance will be transferred to share capital and share premium once shares are issued. Any excess of par value of issued shares will be transferred to share premium.

### (d) Distributability of reserves

At 31 December 2010, the Company had no reserves available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus in the amount of HK$122,864,000 (2009: HK$122,864,000) is currently not available for distribution. The Company's share premium account in the amount of HK$3,083,591,000 as at 31 December 2010 (2009: HK$2,185,338,000) may be distributed in the form of fully paid bonus shares.

## 34. CAPITAL AND RESERVES *(CONTINUED)*

### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as the total equity as shown in the consolidated statement of financial position.

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain the ratio within 10% to 40%. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The net debt-to-capital ratio as at 31 December 2010 and 2009 was as follow:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Bank and other borrowings (note 29) | **160,294** | 85,368 |
| Obligations under finance leases (note 30) | **13** | 25 |
| Total borrowings | **160,307** | 85,393 |
| Less: Cash and cash equivalents (note 25) | **(114,061)** | (163,747) |
| Net debt | **46,246** | (78,354) |
| Total equity | **3,670,828** | 3,429,525 |
| Adjusted gearing ratio | **1%** | N/A |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include convertible promissory note, other non-current financial assets, bank and other borrowings, trade and other receivables and trade and other payables. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and other price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### (a) Credit risk

(i) As at 31 December 2010, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

(ii) In respect of trade and other receivables, in order to minimize risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 14 days (2009: 14 days) from the date of billing.

(iii) In respect of trade and other receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had a certain concentration of credit risk as 84% (2009: 93%) of the total trade and other receivables was due from one (2009: two) customer/debtor of the Group.

(iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group monitors closely the credit ratings of these counterparties and will take appropriate action when their ratings change. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 23.

(v) As set out in note 39, the financial guarantees given by the Group in 2009 was released on 6 April 2010.

## 35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval of the board of directors. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding to satisfy its contractual and reasonably foreseeable obligations as they fall due.

The following table sets out the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company is required to pay:

**The Group**

| | 2010 | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
| **Non-derivative financial liabilities** | | | | | | | | | | |
| Trade and other payables | 73,816 | - | - | 73,816 | 73,816 | 13,736 | – | – | 13,736 | 13,736 |
| Bank and other borrowings | 166,735 | - | - | 166,735 | 160,294 | 88,566 | – | – | 88,566 | 85,368 |
| Obligations under finance leases | 13 | 1 | - | 14 | 13 | 13 | 13 | 1 | 27 | 25 |
| | 240,564 | 1 | - | 240,565 | 234,123 | 102,315 | 13 | 1 | 102,329 | 99,129 |
| **Financial guarantee issued** | | | | | | | | | | |
| Maximum amount guaranteed (note 39) | - | - | - | - | - | 26,413 | – | – | 26,413 | – |

The amounts included above for financial guarantee contracts represent the maximum amounts that the Group is required to pay if the guarantee was called upon in its entirety.

## 35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(b) Liquidity risk *(continued)*

**The Company**

| | 2010 | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
| Other payables | 15,256 | - | - | 15,256 | 15,256 | 4,513 | – | – | 4,513 | 4,513 |
| Other borrowing | 42,813 | - | - | 42,813 | 41,400 | 41,365 | – | – | 41,365 | 40,000 |
| | 58,069 | - | - | 58,069 | 56,656 | 45,878 | – | – | 45,878 | 44,513 |

(c) Interest rate risk

The Group's interest rate risk arises primarily from its borrowings and receivables. Borrowings and receivables at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

The Group's cash flow interest rate risk mainly concentrates on the fluctuation of market interest rate arising from the Group's bank deposits and convertible promissory note receivable.

## 35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

### (c) Interest rate risk *(continued)*

*(i) Interest rate profile*

The following table details the interest rate profile of the Group's bank deposits, borrowings and receivables at the end of the reporting period:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Effective interest rates** | | Effective interest rates | |
| | **%** | **HK$'000** | % | HK$'000 |
| **Fixed rate bank deposits:** | | | | |
| Restricted bank deposits | **–** | **–** | 0% | 9,265 |
| Pledged bank deposit | **–** | **–** | 1.71% | 28,355 |
| Deposit with banks | **0.39%-0.45%** | **40,083** | 0.02%-0.3% | 93,001 |
| Total bank deposits | | **40,083** | | 130,621 |
| **Fixed rate borrowings:** | | | | |
| Bank borrowings | **–** | **–** | 4.779% | 45,368 |
| Other borrowings | **3.5%-5.31%** | **160,294** | 3.5% | 40,000 |
| Obligations under finance leases | **2.85%** | **13** | 2.85% | 25 |
| Total borrowings | | **160,307** | | 85,393 |
| **Variable rate receivables** | | | | |
| Convertible promissory note receivable | **5.25%** | **17,724** | – | – |
| Total receivables | | **17,724** | | – |
| Total bank deposits, borrowings and receivables | | **218,114** | | 216,014 |
| Net fixed rate bank deposits as a percentage of total bank deposits, borrowings and receivables | | **18%** | | 60% |
| Net fixed rate borrowings as a percentage of total bank deposits, borrowings and receivables | | **73%** | | 40% |

**35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES** ***(CONTINUED)***

(c) Interest rate risk *(continued)*

*(ii) Sensitivity analysis*

All of the bank and other borrowings and deposit with banks of the Group which are fixed rate instruments are insensitive to any changes in interest rates. A change in interest rate at the end of the reporting period would not affect profit or loss.

At 31 December 2010, it is estimated that a general increase/decrease of 50 basis points in interest rates of variable rate bank deposits and convertible promissory note receivable, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses by approximately HK$226,000 (2009: HK$314,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for variable rate interest bearing financial instruments in existence at that date. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting period. The analysis is performed on the same basis for 2009.

(d) Currency risk

The Group is exposed to currency risk primarily through carrying out exploration activities and investment in convertible promissory note issued by a foreign company which give rise to convertible promissory note receivable, cash and cash equivalents, trade and other receivables and trade and other payables that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies give rise to this risk are primarily United States dollars and Euros. Presently, there is no hedging policy with respect to the foreign exchange exposure.

*(i) Exposure to currency risk*

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

## 35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(d) Currency risk *(continued)*

*(i) Exposure to currency risk (continued)*

| | Exposure to foreign currencies | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **United States Dollars HK$'000** | **Euros HK$'000** | United States Dollars HK$'000 | Euros HK$'000 |
| **The Group** | | | | |
| Convertible promissory note receivable | **17,724** | **–** | – | – |
| Trade and other receivables | **–** | **–** | 159 | – |
| Cash and cash equivalents | **7,413** | **19** | 7,362 | 10 |
| Trade and other payables | **(56,725)** | **–** | – | – |
| Net exposure arising from recognised assets and liabilities | **(31,588)** | **19** | 7,521 | 10 |

| | Exposure to foreign currencies | |
|---|---|---|
| | **2010** | 2009 |
| | **United States Dollars HK$'000** | United States Dollars HK$'000 |
| **The Company** | | |
| Convertible promissory note receivable | **17,724** | – |
| Cash and cash equivalents | **2** | – |
| Exposure arising from recognised assets and liabilities | **17,726** | – |

*(ii) Sensitivity analysis*

The following table indicates the approximate change in the Group's loss after tax (and accumulated losses) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

## 35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(d) Currency risk *(continued)*

*(ii) Sensitivity analysis (continued)*

**The Group**

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on loss after tax and accumulated losses** | Increase/ (decrease) in foreign exchange rates | Effect on loss after tax and accumulated losses |
| | | **HK$'000** | | HK$'000 |
| United States dollars | **1%** | **(314)** | 5% | 384 |
| | **-1%** | **317** | -5% | (364) |
| Euros | **5%** | **–** | 5% | – |
| | **-5%** | **(2)** | -5% | (1) |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The management adjusted the sensitivity rate from 5% to 1% for the purpose of assessing foreign currency risk against United States dollars. Hence, 5% and 1% (2009: 5%) are the sensitivity rates used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates.

(e) Price risk

The Group is engaged in petroleum-related activities. Prices of crude oil are affected by a wide range of global and domestic political, economic and military factors which are beyond the control of the Group. A decrease in such prices could adversely affect the Group's financial position. The Group has not used any derivative instruments to hedge against potential price fluctuations of crude oil. The management will consider hedging oil exposure should the need arises.

## 35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

### (f) Fair value measurements recognised in the consolidated statement of financial position

(i) The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

| | The Group and The Company | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets at fair value through profit or loss** | | | | |
| Derivative financial instruments (note 21) | – | 272 | – | 272 |

There were no significant transfers between instruments in level 1 and level 2 during the year.

(ii) *Fair value of financial instruments carried at other than fair value*

The fair values of convertible promissory note receivable, cash and cash equivalents, deposit paid for potential investment, trade and other receivables, trade and other payables, bank and other borrowings, obligations under finance leases are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments. The fair value has been determined either by reference to the market value at the end of each reporting period or by discounting the relevant cash flows using current interest rates for similar instruments.

## 35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments:

*(i) Interest-bearing loans and borrowings and finance lease liabilities*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

*(ii) Financial guarantees*

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

*(iii) Derivative*

The estimate of the fair value of the conversion option embedded in the convertible promissory notes receivable with cash settlement alternatives is measured using the Black-Scholes Option Pricing Model. The fair value of conversion options and assumptions are disclosed in note 21(c).

## 36. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Jade Honest

On 4 May 2009, the Company completed its acquisition of 100% equity interest in Jade Honest, a company that directly held 100% equity interest in High Luck which is the beneficial and registered owner of 60% interest in the Concessions, from independent third parties for a consideration of HK$3,213,001,000 and a contingent consideration of HK$780,000,000 (note 14(e)). These transactions have been reflected as purchases of assets and liabilities.

## 36. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

### (a) Acquisition of Jade Honest *(continued)*

Details of the net assets acquired in respect of the acquisition of Jade Honest are summarised below:

| | HK$'000 |
|---|---|
| **Net assets acquired** | |
| Exploration and evaluation assets (note 14) | 3,217,382 |
| Other receivables | 9 |
| Cash and cash equivalents | 2,723 |
| Other payables and accruals | (8,128) |
| Current taxation | (72) |
| Amounts due to shareholders | (817,909) |
| Net assets | 2,394,005 |
| Non-controlling interests | 1,087 |
| Assignment of shareholders' loan | 817,909 |
| | 3,213,001 |
| **Consideration satisfied by:** | |
| Deposit for acquisition of subsidiaries paid in previous years | 54,600 |
| Issue of new shares (note) | 143,437 |
| Promissory notes (note 28) | 108,551 |
| Convertible notes (note 27(a)) | 2,897,132 |
| Direct expenses incurred in connection with the acquisition of subsidiaries | |
| – paid in previous years | 3,758 |
| – paid during the year | 5,523 |
| | 3,213,001 |
| Cash and cash equivalents acquired | 2,723 |
| Cash consideration paid | (5,523) |
| Net outflow of cash and cash equivalents in respect of the acquisition of Jade Honest | (2,800) |

## 36. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

### (a) Acquisition of Jade Honest *(continued)*

Note:

Pursuant to the agreements for the acquisition of Jade Honest, three tranches of share issue will be made on completion, three months after completion and six months after completion respectively.

In the first tranche, 93,750,000 new shares were issued on 4 May 2009. The fair value of the shares issued amounting to approximately HK$47,812,000 was determined using the published closing price of HK$0.51 on 4 May 2009.

As at 31 December 2009, the Company had approximately 187,500,000 shares to be issued in connection with the acquisition of Jade Honest. The fair value of the shares to be issued was determined using the published closing price of HK$0.51 at the date of completion, amounting to approximately HK$95,625,000.

In July 2009, Mr. Wong Cheung Yiu and Mr. Chan Koon Wa (the "Vendors"), instructed the Company to stop the issue of the second tranche consideration shares ("T2 Shares") to the nominees assigned by them under an irrevocable payment instructions but issue the consideration shares to them directly instead. However, under the irrevocable payment instructions, the Company is obliged to issue the consideration shares to the nominees directly. After seeking the legal advice from an independent legal adviser, the Company made an application to the High Court of Hong Kong ("High Court") on 4 August 2009 for an interpleader relief for the purpose of seeking an order or direction from the High Court concerning the allotment and issue of the T2 Shares ("First Proceedings"). First hearing in respect of the interpleader relief took place on 16 December 2009. It was adjudged on the same date that the Company is to abide by and be bound by the High Court's determination of the issues in relation to the entitlement of the T2 Shares and to allot and issue the T2 Shares as the High Court may direct after the final determination of the issues.

Prior to the due date of issue of the third tranche consideration shares ("T3 Shares") on 4 November 2009, the Company faced the same issue as mentioned in the preceding paragraph. On 4 November 2009, the Company initiated proceedings ("Second Proceedings") of a similar nature to the First Proceedings. The hearing of the Second Proceedings has been fixed to be on 24 May 2010.

On 13 September 2010, the Company and the Vendors entered into a deed of settlement and deed of waiver ("Deeds") in relation to First Proceedings and Second Proceedings ("the Proceedings"). Pursuant to the terms of the Deeds, the Company and the Vendors both agreed to waive and settle all claims in connection with or arising out of the T2 Shares and T3 Shares or otherwise in relation to the Proceedings. The Company issued and allotted the T2 Shares and T3 Shares on 10 September 2010. The consents orders to dismiss the Proceedings were filed with the High Court on 17 September 2010 and the Proceedings were totally settled.

## 36. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

### (b) Acquisition of Shenzhen Zhilai

On 7 December 2009, the Company completed its acquisition of 51% equity interest in Shenzhen Zhilai, a company that directly held 100% equity interest in Sihui Zhilai which holds a coal trading license in PRC, from an independent third party for a consideration of RMB2,550,000 (approximately HK$2,894,000). This transaction has been reflected as purchases of assets and liabilities.

Details of the net assets acquired at fair value in respect of the acquisition of Shenzhen Zhilai are summarised below:

| | HK$'000 |
|---|---|
| **Net assets acquired** | |
| Property, plant and equipment | 50 |
| Intangible assets | 3,368 |
| Prepayments, deposits and other receivables | 454 |
| Cash and cash equivalents | 53,053 |
| Other payables and accruals | (5,858) |
| Bank borrowings | (45,393) |
| Net assets | 5,674 |
| Non-controlling interests | (2,780) |
| Total consideration-satisfied by deferred consideration (note) | 2,894 |
| Cash and cash equivalents acquired | 53,053 |
| Cash consideration paid | – |
| Net inflow of cash and cash equivalents in respect of the acquisition of Shenzhen Zhilai | 53,053 |

Note:

The deferred consideration was to be settled by cash on or before 24 November 2010 according to the terms under share transfer agreement. The deferred consideration was settled on 13 May 2010.

## 36. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

(c) Summary of acquisition of subsidiaries

Details of the net assets acquired at fair value in respect of the acquisition of the above subsidiaries are summarised below:

| | HK$'000 |
|---|---|
| **NET ASSET ACQUIRED** | |
| Exploration and evaluation assets (note 14) | 3,217,382 |
| Property, plant and equipment (note 15(a)) | 50 |
| Intangible assets (note 16) | 3,368 |
| Prepayments, deposits and other receivables | 463 |
| Cash and cash equivalents | 55,776 |
| Other payables and accruals | (13,986) |
| Bank borrowings | (45,393) |
| Current taxation | (72) |
| Amounts due to shareholders | (817,909) |
| Net assets | 2,399,679 |
| Non-controlling interests | (1,693) |
| Assignment of shareholders' loan | 817,909 |
| | 3,215,895 |
| Total purchase consideration satisfied by: | |
| Deposit for acquisition of subsidiaries paid in previous years (note 18) | 54,600 |
| Issue of new shares | 143,437 |
| Promissory notes (note 28) | 108,551 |
| Convertible notes (note 27(a)) | 2,897,132 |
| Direct expenses incurred in connection with acquisition of subsidiaries | |
| – paid in previous years | 3,758 |
| – paid during the year | 5,523 |
| Deferred consideration | 2,894 |
| | 3,215,895 |
| Cash and cash equivalents acquired | 55,776 |
| Cash consideration paid | (5,523) |
| Net cash inflow arising on acquisitions | 50,253 |

## 37. MATERIAL RELATED PARTY TRANSACTIONS

The Group has a related party relationship with the following parties:

| Name of party | Relationship |
|---|---|
| New World Tower Company Limited | The company is controlled by Dato' Dr. Cheng Yu Tung, the ultimate beneficiary of the Company |
| CiF Solutions Limited | The company is controlled by Dato' Dr. Cheng Yu Tung, the ultimate beneficiary of the Company |
| New World Insurance Management Limited | The company is controlled by a close family member of Dato' Dr. Cheng Yu Tung, the ultimate beneficiary of the Company |
| Maxipetrol - Petroleros de Occidente S.A. | Non-controlling shareholder of the UTE with significant influence |

(a) The following is a summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the year.

| Related parties | | Nature of transactions | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|---|
| (i) | New World Tower Company Limited | Rent, rates and management fee | **887** | 8 |
| (ii) | New World Insurance Management Limited | Insurance | **178** | 22 |
| (iii) | CiF Solutions Limited | IT management and support | **66** | – |
| (iv) | Maxipetrol - Petroleros de Occidente S.A. | Seismic advisory | **473** | – |

Note:

The terms for all the above transactions are agreed by the parties concerned.

## 37. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **4,722** | 1,858 |
| Discretionary bonuses | **64** | – |
| Retirement scheme contributions | **42** | 16 |
| | **4,828** | 1,874 |

Total remuneration is included in "staff costs" (see note 6(b)).

(c) Amount due from/(to) related parties

| | | **The Group** | | **The Company** | |
|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 |
| | | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| (i) | Loan to a non-controlling shareholder (note 23(f)) | **2,999** | – | **–** | – |
| (ii) | Amount due from a non-controlling shareholder (note 23) | **2** | 2 | **–** | – |
| (iii) | Amounts due from subsidiaries (notes 17 and 23) | **–** | – | **1,393,526** | 1,028,050 |
| (iv) | Amounts due to subsidiaries (note 26) | **–** | – | **(12,770)** | (120) |
| | Amounts due to directors (note 26) | **–** | (202) | **–** | (202) |
| (v) | Prepayment and deposits (note 23) | **342** | 287 | **–** | – |

## 38. COMMITMENTS

**(a)** Capital commitments outstanding at 31 December 2010 not provided for in the consolidated financial statement were as follows:

| | **The Group** | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Authorised and contracted for | | |
| – Activities of exploration | **6,649** | 153,780 |

## 38. COMMITMENTS *(CONTINUED)*

(b) Commitments under operating leases

As at 31 December 2010, the Group had commitments for future minimum lease payments under non-cancellable operating leases payable as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within one year | **2,383** | 1,334 |
| In the second to fifth year inclusive | **2,971** | 1,933 |
| | **5,354** | 3,267 |

The Group leases its offices under operating lease arrangements. The leases for properties are negotiated for a term of one to three years. None of the leases includes contingent rentals.

(c) Other commitments

Other commitments outstanding at 31 December 2010 not provided for in the consolidated financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Contracted for | | |
| – Investment cost for potential investment (note) | **540,000** | 600,000 |
| – Line of Credit to Nordaq (note 21) | **20,994** | – |
| | **560,994** | 600,000 |

Note:

On 16 December 2010, due to certain condition precedent to completion of the acquisition as disclosed in note 18 have not been satisfied in accordance with the terms of the Agreement, the Company proposed to terminate the acquisition and in process of negotiation with the Vendor for the terms of the proposed termination agreement. A termination deed was then entered on 21 January 2011 and there was no commitment to the Group afterwards.

## 39. CONTINGENT LIABILITIES – FINANCIAL GUARANTEE

In December 2009, Sihui Zhilai, an indirect subsidiary owned by the Company, issued corporate guarantees to a bank in connection with banking facilities granted by the bank to 四會市鯤鵬物資回收有限公司 ("Sihui Kun Peng"), an independent third party of the Group. At 31 December 2009, such facilities was drawn down by Sihui Kun Peng to the extent of USD3,406,000 (equivalent to HK$26,413,000). The maximum liabilities of the Group under the guarantees issued represent the amount drawn down by Sihui Kun Peng of USD3,406,000 (equivalent to HK$26,413,000). No recognition of provision was made because, in the opinion of the director of the Company, the fair value of the guarantees was insignificant and that the directors did not consider it is probable that a claim would be made against the Group under the guarantees. On 6 April 2010, the financial guarantees given by the Group were released.

## 40. EVENT AFTER THE REPORTING PERIOD

On 25 January 2011, the Company entered into a placing agreement with an independent placing agent to place convertible notes for an aggregate principal amount of HK$160,000,000. The convertible notes are with maturity date on the second anniversary of the date of issue. The conversion price is (i) at HK$0.18 per conversion share from the issue date up to the date falling four months after the issue date of the convertible notes; and (ii) at HK$0.2 per conversion share from the next date falling four months after the issue date of the convertible notes. The convertible notes bear interest at 9% per annum payable semi-annually and are unsecured and freely transferable. The convertible notes were issued on 8 February 2011 and the placement was then completed. On 10 February 2011, 833,333,327 ordinary shares were issued upon the conversion of the convertible notes for an aggregate principal amount of HK$150,000,000. The proceeds are used for general working capital purpose and for financing future investment opportunities.

Other than those disclosed above and in note 18, 21, 23(e) and 29 to the consolidated financial statements, the Group does not have any other significant events after the end of the reporting period which were required to be disclosed.

## 41. ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period. Note 21, 27, 33 and 35 contain information about the assumptions and their risk factors relating to convertible promissory note receivable, convertible notes, equity-settled share-based transactions and financial instruments. Other judgements made by the management in the application of HKFRSs that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

## 41. ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

### (a) Key sources of estimation uncertainty *(continued)*

*i) Impairment of exploration and evaluation assets*

Recoverable amounts of exploration and evaluation assets are determined where there is impairment indication and requires an estimation of the existence and the amounts of hydrocarbons that can be explored in the oil fields. The Group relied on experts to assess the geological risk of discovering hydrocarbons in the oil fields and estimated the value of exploration opportunities and development potential.

The carrying amount of exploration and evaluation assets as at 31 December 2010 was HK$3,501,338,000 (2009: HK$3,247,828,000). Details of impairment on exploration and evaluation assets are set out in note 14.

*ii) Impairment of property, plant and equipment*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

The carrying amount of property, plant and equipment as at 31 December 2010 was HK$5,046,000 (2009: HK$1,885,000). Details of impairment on property, plant and equipment are set out in note 15.

*iii) Impairment of receivables*

The Group maintains an allowance for impairment loss on trade and other receivables based upon an evaluation of their irrecoverability, where applicable, at the end of each reporting period. The estimates are based on the ageing of the trade and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance might be required.

The carrying amount of receivables as at 31 December 2010 was HK$122,398,000 (2009: HK$42,447,000). Details of impairment on receivables are set out in note 23.

## 41. ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(a) Key sources of estimation uncertainty *(continued)*

*iv) Impairment for investment in subsidiaries and a jointly controlled entity*

If circumstances indicate that the investment in subsidiaries and a jointly controlled entity may not be recoverable, investment in subsidiaries and a jointly controlled entity may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36, Impairment of Assets. The carrying amount of investment in subsidiaries and a jointly controlled entity is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. The asset is tested for impairment whenever events or changes in circumstances indicate that the recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for investment in subsidiaries and a jointly controlled entity are not readily available. In determining the value in use, expected cash flows generated by the investment in subsidiaries and a jointly controlled entity are discounted to their present value, which requires significant judgment relating to level of sales volume, tariffs and amount of operating costs of the subsidiaries and a jointly controlled entity. The Company uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, tariffs and amount of operating costs of the subsidiaries and a jointly controlled entity.

The carrying amounts of investment in subsidiaries and a jointly controlled entity as at 31 December 2010 were HK$3,437,642,000 (2009: HK$2,395,092,000) and HK$6,948,000 (2009: HK$9,606,000) respectively. Details of impairment for investment in subsidiaries and a jointly controlled entity are set out in note 17 and 19 respectively.

*v) Depreciation and amortisation*

Property, plant and equipment and intangible assets are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and the residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and the residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods are adjusted if there are significant changes from previous estimates.

The carrying amount of property, plant and equipment and intangible assets as at 31 December 2010 was HK$5,046,000 (2009: HK$1,885,000) and HK$944,000 (2009: HK$3,246,000) respectively. Details of depreciation on property, plant and equipment and amortization on intangible assets are set out in note 15 and 16 respectively.

## 41. ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

### (a) Key sources of estimation uncertainty *(continued)*

*vi) Taxation*

The Group is subject to various taxes in the PRC and Argentina where group entities operate. Significant judgment is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be payable. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

The carrying amounts of current taxation as at 31 December 2010 was HK$4,564,000 (2009: HK$12,000) respectively. Details of income taxes are set out in note 31.

### (b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

*Estimation of oil reserves*

Oil reserves are key elements in the Group's investment decision-making process. It is also an important element in provision of contingent consideration and in testing for impairment. Changes in the estimated proven oil reserves may affect the carrying amount of the exploration and evaluation assets and provisions. Proven reserve estimates are subject to revision, either upward or downward, based on the new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, change in the estimation of oil reserves resulting from new information being available from development and production activities have tended to be the most significant cause of annual revisions. An substantial increase in proven reserves over 100,000,000 tons will result in the addition consideration required as set out in note 14(e).

## 42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010.

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 [1] |
| HKFRS 1 (Amendments) | Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters [2] |
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates to First-time Adopter [3] |
| HKFRS 7 (Amendments) | Disclosures-Transfers of Financial Assets [3] |
| HKFRS 9 | Financial Instruments [4] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets [5] |
| HKAS 24 (as revised in 2009) | Related Party Disclosures [6] |
| HKAS 32 (Amendments) | Classification of Rights Issues [7] |
| HK(IFRIC)-Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement [6] |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments [2] |

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

## 42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010 *(CONTINUED)*

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

## 42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010 *(CONTINUED)*

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HKFRIC 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

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.

# FIVE YEARS FINANCIAL SUMMARY

Set out below is a summary of the results and a statement of net assets of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate.

## RESULTS

| | Year ended 31 December | | | | Nine month ended 31 December |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **TURNOVER** | | | | | |
| Continuing operations | **57,252** | 9,196 | 33,020 | 154,259 | 85,937 |
| Discontinued operations | **–** | – | – | 1,194 | 4,244 |
| | **57,252** | 9,196 | 33,020 | 155,453 | 90,181 |
| **LOSS BEFORE TAXATION** | | | | | |
| Continuing operations | **(73,837)** | (36,001) | (26,973) | (30,822) | 2,598 |
| Discontinued operations | **–** | – | (15,024) | (28,676) | (27,453) |
| | **(73,837)** | (36,001) | (41,997) | (59,498) | (24,855) |
| **INCOME TAX** | | | | | |
| Continuing operations | **(6,539)** | 27 | (154) | – | (673) |
| Discontinued operations | **–** | – | – | (239) | (589) |
| | **(6,539)** | 27 | (154) | (239) | (1,262) |
| Net loss from ordinary activities attributable to | | | | | |
| – Owners of the Company | **(66,057)** | (31,934) | (42,151) | (59,737) | (26,117) |
| – Non-controlling interests | **(14,319)** | (4,040) | – | – | – |
| | **(80,376)** | (35,974) | (42,151) | (59,737) | (26,117) |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| Non-current assets | **3,603,123** | 3,292,565 | 72,037 | 129,970 | 87,502 |
| Current assets | **306,392** | 243,814 | 245,800 | 396,581 | 133,185 |
| **Total assets** | **3,909,515** | 3,536,379 | 317,837 | 526,551 | 220,687 |
| Current liabilities | **238,686** | 106,841 | 6,114 | 170,222 | 75,122 |
| Non-current liabilities | **1** | 13 | 25 | 1,321 | 1,286 |
| **Total liabilities** | **238,687** | 106,854 | 6,139 | 171,543 | 76,408 |
| | **3,670,828** | 3,429,525 | 311,698 | 355,008 | 144,279 |