# 東方明珠創業有限公司
# Pearl Oriental Innovation Limited

Stock Code: 0632

Annual Report

2010

# Contents

# Corporate Information

## DIRECTORS

### Executive Directors:

Wong Yuk Kwan (alias: Wong Kwan) *(Chairman)*
Lew Mon Hung
Cheung Kwok Yu
Zhou Li Yang
Johnny Yuen

### Non-Executive Director:

Baiseitov Bakhytbek

### Independent Non-Executive Directors:

Yu Jianmeng
Fung Hing Chiu, Cyril
Lam Ka Wai, Graham

## SOLICITORS

Hastings & Co.
Lau Kwong & Hung

## PRINCIPAL BANKERS

Bank of China
Industrial and Commercial Bank of China (Asia) Limited

## COMPANY SECRETARY

Cheung Kwok Yu

## AUDITORS

Ascenda Cachet CPA Limited

## AUTHORISED REPRESENTATIVES

Wong Kwan
Cheung Kwok Yu

## REGISTERED OFFICE:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## PRINCIPAL OFFICE:

Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

## BERMUDA RESIDENT REPRESENTATIVE

John C.R. Collis

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
2 Church Street
Hamilton HM11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

## WEBSITE AND OTHER INFORMATION

For more information on the Company, please find us on the World-Wide-Web at www.pearloriental.com

To access the Company on Bloomberg, please type "632 HK".

# Financial Highlights

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| For the year ended 31 December | | |
| Revenue | | |
| — Continuing operations | **555,242** | 163,438 |
| — Discontinued operations | **—** | 32,092 |
| Operating Loss | **(34,507)** | (39,180) |
| Net Profit/(Loss) attributable to shareholders | **423,195** | (566,840) |
| Earnings/(Loss) per share | | |
| Basic (cents) | | |
| — For profit/(loss) for the year | **27.3** | (85.3) |
| — For profit/(loss) from continuing operations | **27.3** | (84.0) |
| Diluted (cents) | | |
| — For profit/(loss) for the year | **27.0** | (85.3) |
| — For profit/(loss) from continuing operations | **27.0** | (84.0) |
| Average shareholders' equity | **1,024,108** | 421,062 |
| Average capital employed | **1,873,895** | 513,283 |
| At 31 December | | |
| Total indebtedness | **—** | — |
| Shareholders' equity | **2,650,453** | 344,987 |
| Capital employed | **3,336,502** | 411,287 |
| Ratio | | |
| Return on average capital employed (%) | **20.9%** | 188.6% |
| Return on average equity (%) | **41.3%** | 134.6% |
| Total debt to total capital (%) | **N/A** | N/A |

*Notes:*

1. Total indebtedness/Total debt = total non-current bank borrowings
2. Capital employed = shareholders' funds + non-controlling interests + non-current liabilities
3. Return on average capital employed = operating profit/(loss) after tax and interest/average capital employed
4. Return on average equity = net profit/(loss) attributable to shareholders/average shareholders' equity
5. Total debt to total capital = debt/(shareholders' funds + non-controlling interests + debt)

# Chairman's Statement

Dear Shareholders,

2010 is the most important year of the development of Pearl Oriental Innovation Limited in its history! With the full support of all our shareholders, we took a big step resolutely and wisely to successfully transform Pearl Oriental into a company with its core business focused on investment and operation in oil and gas sector in the international market.

With the joint effort of the board of directors and management team, the consolidated turnover of the Company for the financial year ended 31 December 2010 (the "Year") was HK$555.24 million, representing an increase of 2.4 times as compared with that of 2009, the profit after tax attributable to owners was HK$423.20 million and earnings per share was HK27.3 cents which turnaround the situation from previous loss to profitable. The Group's net assets was HK$2,650.45 million, representing an increase of 6.7 times as compared with that of 2009. The Group's cash reserves (including cash deposit and short term receivable loans) was HK$588 million. The Company does not have any bank borrowings with healthy and strong financial condition.

The high profit for the Year was mainly attributed from the fair net assets value which was over the cost of acquisition after the successful completion of acquiring the Utah Gas and Oil Field. The Group's recycled plastic business also recorded a gross profit of HK$24.45 million. In addition, Management has decisively entered into the Settlement Agreement to dispose of the interest in coal mining business in Shanxi which brought special gain of HK$56.29 million to the Group.

Given the sound financial position of Pearl Oriental and the confidence in the future development, the Board resolved to propose a final dividend of HK2 cents per share and bonus share of one share for every five shares. The Board believes that the growth of the Company counts on the support from the shareholders, therefore, timely sharing with and effectively creating value for our shareholders will be our Company's policy.

Taking the advantage of "One Country, Two Systems" policy, Pearl Oriental is now at its best historical position. Being an independent economic entity, the Company can expand its core business more efficiently. In the world of oil and energy, there are many big players and competitors. As a new comer, we are fearless and will steadily acquire new oil fields with great development potential in order to expand our assets portfolio and reserves of oil and gas. At the same time, we will speed up the development of oil and gas fields to increase production volume of oil and gas so as to increase the Group's operating income.

We must clearly and sensibly understand that investment and operation in oil and gas business is one of the high risk, high return and capital intensive businesses. Therefore, the Group will capture many business opportunities and rapidly build up and strengthen a professional team of oil experts and, of more importance, we have to closely manage various risk factors so as to maintain the Company's financial management at a healthy and sustainable level during the high-speed development and bring the desirable return on investment for all the shareholders.

I paid a lot for experience in the Asian financial crisis in 1997. Through the profound lessons and valuable experience, I was able to work together with the Board and Management and led Pearl Oriental went through the impact of global financial turmoil in 2008 and developed new business with rapid growth. I am pleased and therefore would like to take this opportunity to thank all of our shareholders, directors, staff and the joint venture partners for their full and hearted support.

**Wong Kwan**
*Chairman and Chief Executive*

31 March 2011, Hong Kong

# Profiles of Directors and Senior Management

## PROFILES OF DIRECTORS

### Executive Directors

### MR. WONG KWAN (CHAIRMAN)

Aged 63, is currently the Chairman and chief executive of the Company, Mr. Wong is a well known entrepreneur in Hong Kong. He is a veteran in the capital market, investment and property development fields and has over 30 years of experience in diversified investment, operation and management in Hong Kong, China and overseas. Mr. Wong is also well known in the Asian business world with extensive business connections in the Asia Pacific region. Mr. Wong is responsible for the overall strategic planning and business development of the Company

### DR. LEW MON HUNG (DEPUTY CHAIRMAN)

Aged 62, Dr. Lew Mon Hung is a renowned figure in political and economical sectors in China and Hong Kong. Dr. Lew is currently a committee member of the National committee of the Chinese People's Political Consultative Conference and a member of the Executive Committee Commission on Strategic Development of HKSAR, Chairman of Smart Strategy Limited. The popular publication of Dr. Lew are 《期貨決勝一百零八篇》and《指點江山》.

Dr. Lew has more than 30 years of experience in financial investment and corporate management; and has remarkable results in corporate finance, mergers and acquisitions. For the past 10 years, Dr. Lew had successfully arranged fund raisings of over HK$10 billion for a few Hong Kong listed companies which has established good foundations for the continuous development of those listed companies.

### MR. ZHOU LI YANG (MANAGING DIRECTOR)

Aged 51, Mr. Zhou has held managerial positions in several banking and investment companies listed on the Hong Kong Stock Exchange, including CITIC Ka Wah Bank and Tianjin Development Holdings Ltd and has over ten years of working experience in corporate governance, mergers and acquisitions, project investment and fund management. Mr. Zhou also has over ten years of management experience in commerce and government sectors in China. He has a Master degree in Business/Finance from University of Baltimore, USA and a Bachelor degree in Physics from Central-South University, PRC.

### MR. CHEUNG KWOK YU

Aged 41, Mr. Cheung has over 15 years of working experience in international accounting firms and law firms and listed companies in direct investment, accounting, legal, corporate finance and mergers and acquisitions. Mr. Cheung is a Chartered Financial Analyst charterholder and a professional accountant in Hong Kong, and is also qualified as a solicitor in Hong Kong. He has a Master degree in Applied Finance from Macquarie University in Sydney and a Bachelor of Arts degree in Accountancy from Hong Kong Polytechnic University. Mr. Cheung is currently the Financial Controller and Company Secretary of Pearl Oriental.

### MR. JOHNNY YUEN

Aged 65, Professor Johnny Yuen with more than 30 years of property investment and management experiences is one of the management experts in the first group returning from the United States to China at the end of 1985. He is currently both the President and Chairman of United International Hotel Investment Group and United Hotel Consultancy Co. Ltd, also the Chairman of Les Amis D' Escoffier Society, Asia-Pacific region. Professor Yuen also serves as the life member of U.S. Republican Presidential Task Force and was appointed as Professor, Doctoral Adviser by the prestigious Sichuan University. He has been the management consultants for more than 100 hotels and large commercial real estate projects in China. He has been honoured successively with the "Foreign Expert Friendship Award of People's Republic of China", the "Outstanding Contribution Award of Guangzhou City" and "30 Years of China's Reform and Opening-up 100 Most Influential People of China Hotel Industry" etc government awards.

## Non-Executive Director

### MR. BAISEITOV BAKHYTBEK (DEPUTY CHAIRMAN)

Aged 52, Mr. Baiseitov is the present President of the Association of Kazakhstan Banks, founder, major shareholder and Chairman of Bank CenterCredit ("BCC"). Mr. Baiseitov is currently the Vice-chairman of the International Banking Council of Commonwealth of Independent States and Eastern Europe and used to be Co-chairman of Kazakhstan-US Business Council. Mr. Baiseitov is a very well known and highly respected member of the business community of Middle Asia. Mr. Baiseitov has over 20 years of significant and comprehensive experience in management, and development of major investment projects in financial, energy and natural resources sectors. Mr. Baiseitov represented BCC to sign the "Strategic Cooperation Agreement" with Pearl Oriental. Mr. Baiseitov will have great contribution for the future development of the Company's core business in oil and gas and energy resources and it will be in the interests of Pearl Oriental and its shareholders as a whole.

## Independent Non-Executive Directors ("INEDS")

### MR. YU JIAN MENG

Aged 59, Mr. Yu has extensive personal connections and commercial relationships in China. He has over 30 years' experience in press publication, telecom technology, tourism, financial investment and industrial development. He was the Chief Reporter of Xinhua News Agency in Putong, Shanghai and the President of Xinhua Agency East Development Company. Since 1999, he was appointed as the President of Shanghai SIIT Development Holdings Ltd, President of China in Investment and Development of Star Cruise Group and the Executive Director of VODone Ltd. Mr. Yu is currently the Director and CEO of WorldVest Capital Ltd. Mr. Yu holds a Master Degree in Economics from East China Normal University, in jointly course with the University of Hawaii. He was awarded the Senior Economist by Xinhua News Agency.

### MR. FUNG HING CHIU, CYRIL

Aged 71, Mr. Fung is a prominent international and Hong Kong entrepreneur. Mr. Fung graduated from Harvard Graduate School of Business Administration with an Master Degree in Business Administration in 1965. He had worked for Morgan Guaranty Trust in New York head office and Bank of East Asia. Mr. Fung was the Managing Director of Fung Ping Fan Holdings. He was also the Co-founder and Chairman of the first venture capital fund in Asia, Inter-Asia Management Co. Ltd. and succeeded in bringing McDonald's to Hong Kong and Singapore. Mr. Fung's strong strategic sense, proven value-enhancement expertise and very diverse business experience made him a distinct business investment consulting professional.

### MR. LAM KA WAI, GRAHAM

Aged 43, Mr. Lam graduated from University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is an associate member of Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lam has 18 years experience in investing banking and auditing. He has held senior managerial positions in international well-known accounting firm KPMG and various investment banks in Hong Kong. Mr. Lam is currently the Managing Director and Head of Corporate Finance Department of Guangdong Securities.

## Profiles of Senior Management

### MR. DONG ZHIXIONG, SENIOR CONSULTANT

Aged 64, Mr. Dong has 41 years solid experience in metallurgy, steel industry and mining operation. He joined China Metallurgy Import and Export Company in 1982 and had subsequently been promoted to the Vice President of China Sinosteel Group Company and responsible for its investments in international resources, development and supervision.

Mr. Dong had also been the Chairman of ASA Metals Co. Ltd, the largest mining company for chromite mines in South Africa for 10 years. Mr. Dong graduated from the Faculty of Automatization of University of Science and Technology of Beijing (formerly known as Beijing Institute of Iron and Steel Engineering) and has a bachelor degree in Industrial Studies. Mr. Dong had been the independent non-executive director of Pearl Oriental for 2 years and becomes the senior consultant since 1 October 2009.

**MR. RALPH CURTON, CHIEF OPERATING OFFICER**

Mr. Ralph Curton has 40 years of experiences in the operation and management in the oil and natural gas industry. In the 70's, Mr. Curton invested 50,000 productive arces in oil and natural gas enterprise in East Texas and Louisiana, and had successfully developed more than 300 oil and gas wells. Over the years, Mr. Curton has established close relationships with U.S. well-known oilfield engineering services company, Halliburton and natural gas exploration enterprise, Anadarko. The next mutual development goal between Pearl Oriental and Mr. Curton is to work together to acquire a huge natural gas and oilfield project around this Utah Gas and Oil Field with a natural gas reserve exceeding 2,000 Bcf, then to invite China and international first-class oil enterprises to be the strategic partners.

**MR. YAM KWOK SHUN, CHIEF TECHNICAL OFFICER**

Aged 60, Mr. Yam is responsible for Pearl Oriental's development of energy and resources businesses and technical supervision. Mr. Yam has a Master degree in Aerospace Engineering and a Bachelor degree in Mechanical Engineering. He is a member of Society of Petroleum Engineers, Hong Kong Institute of Engineers and Professional Engineer registered in the State of Texas respectively. Mr. Yam has more than 30 years of extensive management experience in the oil and natural gas sector. He has held senior management positions in the U.S. prestigious petroleum and technology companies such as Hughes Offshore, NL Rig Equipment and Kerr-McGee Corporation etc, to render diversified professional services including operation management, design co-ordination and international business expansion of natural gas and oilfield projects for various states in the U.S., Gulf of Mexico, North Sea, Asia Pacific and Australia etc. Before joining Pearl Oriental, Mr. Yam was the Deputy JMC Chairman and Operation Manager for Anadarko's South China Sea deep water gas and oilfield project, which successfully exploited oil reserve of 150 million barrels. He is also the team member of the joint venture of China National Offshore Oil Corporation and Anadarko for Bohai oilfield project.

**MR. CHEUNG MO KIT, MANAGING DIRECTOR OF CHINA ENVIRONMENTAL RESOURCES LIMITED**

Aged 60, Mr. Cheung has over 30 years solid experience in environmental plastic industry. Mr. Cheung founded IB Group in 1978, engaging in the processing of plastic waste materials and trading of recycled plastics. IB Group has also established recycled plastic factories in PRC and Malaysia. After years of development, IB Group has extensive sales network in PRC and supply network in Japan. The annual turnover of IB Group exceeds HK$550 million. The strategic restructuring of IB Group and Euro Resources will bring rapid business development potential to China Environmental.

**MR. YU KIN WING, FINANCE MANAGER AND ASSISTANT COMPANY SECRETARY**

Aged 39, Mr. Yu obtained his bachelor of business administration degree in accounting from the Hong Kong University of Science and Technology and his master of business administration in the University of South Australia. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has extensive knowledge in the accounting field and had worked for several Hong Kong listed companies before joining the Group.

# Management Discussion and Analysis

## RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2010 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated turnover of HK$555,242,000 (2009: HK$163,438,000) mainly from China Environmental Resources Limited, which is 60% owned by the Group.

Basic earnings per share was 27.3 HK cents for the Year as compared to the loss per share of 85.3 HK cents per share for the year ended 31 December 2009.

The increase in turnover was mainly due to the formation of the joint venture by the Group and Mr. Cheung Mo Kit, China Environmental Resources Limited has only completed in around October 2009 whilst the Year 2010 figures reflected the whole year operations for year 2010. However, the gross profit was HK$24,449,000 (2009: HK$9,166,000) for the Year, which represented an increase of approximately 166.74% over the last year and the gross profit margin has decreased from 5.6% to 4.4%.

The earnings attributable to the owners of the Company for the Year from loss of HK$566,840,000 to profit of HK$423,195,000 is mainly due to the difference of approximately HK$604,703,000 between the fair value of 70% ownership interest in the Utah Gas and Oil Field and the relevant consideration of the acquisition has been recognized in the consolidated income statement during the Year.

### Financing

The Company's issue of new shares for fund raising of HK$778 million in aggregate to various international funds and institutional investors including JP Morgan, British Rowland family, Senrigan Capital and Wellchamp Capital in May and November 2010 to finance the Group for its acquisition of ownership interest of the Utah Gas and Oil Field project.

In addition, Mr. Wong Kwan, the controlling shareholder, who is also the Chairman and Chief Executive, has converted his Convertible Notes into new Shares of the Company in a principal amount of HK$70,000,000, the conversion has further strengthened the financial capability of the Company. It demonstrated Mr. Wong Kwan's strong confidence in the Company's future development.

The Company will become an international energy and resources investment and operating platform on which the Company can build up long-term mutual beneficial relationship with sizeable state-owned enterprises in China, and it will bring desirable return on investment to the Company and its shareholders.

## BUSINESS REVIEW

### Oil and Gas Business

The Special General Meeting of the Company held on 8 June 2010, got an unanimous 100% in favour from attending shareholders to approve the US$225 million acquisition of 100% ownership interest of the Utah Gas and Oil Field project.

The Company completed the Phase 1 Acquisition of the Utah Gas and Oil Field on 21 June 2010 and legally held 70% Ownership Interest of the Utah Gas and Oil Field as at 31 December 2010. The Operating Company of the Utah Gas and Oil Field and Halliburton have also signed an agreement for project management and consulting services for the design, exploitation, production and management of the 14 new and existing wells of Utah Gas and Oil Field. The Company also further completed the Phase 2 acquisition in respect of the remaining 30% Ownership Interest on 11 March 2011, and therefore the Group now owns 100% Ownership Interest of the Utah Gas and Oil Field as at the date of the financial statements.

Halliburton has excellent track record in worldwide oil and gas field services with a leading position. It has 38 sizeable oil field projects including in the United States, Latin America, Middle East, Europe and China.

In addition, a gas purchase agreement for five years with Anadarko Group has been extended to a period of 12 years beginning from February 2010. Anadarko Group has a gas pipeline running through the Utah Gas and Oil Field. It is intended that all gas production from the Utah Gas and Oil Field will be sold to Anadarko's midstream operations.

## OPERATION REVIEW AND UPDATE ON RESERVES

During the year ended 31 December 2010, no exploration activity had taken place. Utilizing the professional services of the prominent U.S. oil and gas engineering service firm, Halliburton, drilling of three (3) new wells were conducted within the Utah Oil and Gas Field. They all took place smoothly with completion and fracturing achieved in early October 2010.

Drawing on our logging and engineering data, the first new well drilled yielded oil in shallow pay zone at a depth of around 2,700 to 3,500 feet showing encouraging results. The size of this new oil discovery has not been included in the independent technical expert report which was included in the Company's circular dated 24, May 2010. Our management team will calculate the commercial value of this oil discovery upon obtaining further technical information from our experts and we plan to drill a new well testing out this newly discovered shallow oil potentials as soon as practicable.

The expenditure incurred on the development and mining production activities during the year ended 31 December 2010 were approximately HK$59 million in aggregate.

To the best of the Company's knowledge, as at 31 December 2010, as substantiated by external experts, there was no material difference on the reserves of the Utah Gas and Oil Field from those reported in the independent technical expert report (the "ITR") dated 24 May 2010. The ITR was prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers and the ITR has been included in the Company's circular dated 24 May 2010, i.e. the net probable and possible reserves were estimated to be:

| | |
|---|---|
| Oil & Condensate | 1,857,600 barrels |
| Natural gas | 454,518,000 Mcf |

### Settlement of Litigation

On 31 July 2010, the Company entered into a settlement agreement (the "Settlement Agreement") with Mr. Zhang Jingyuan (''Mr. Zhang''), the joint venture party, to withdraw all legal claims against any parties to those litigations in Hong Kong and Mainland China and to dispose of 55.11% equity interest of China Coal Energy Holdings Limited (''China Coal'') to Mr. Zhang. Upon completion of the disposal, the Company will have an aggregate net proceeds of HK$168.6 million to be received by instalments within 2 years. As a full provision of impairment loss in respect of China Coal has been made before, therefore, the disposal of equity interest of China Coal will bring a considerable amount of non-recurring gain to the Company. Up to the date of the financial statements, the net proceeds from the first and second instalments of payment of HK$80 million in aggregate pursuant to the Settlement Agreement have been received by the Company.

The entering into the Settlement Agreement allows the Company to have considerable proceeds which are not only beneficial to strengthen financial capability of the Group, but also for Management to focus its energy and resources on developing oil and gas core businesses at full speed.

## PROSPECTS

### China's high demands for overseas oil

China produces over 4 million battles of crude oil every day, making it the fifth largest oil-producing country in the world by volume. However, China is still the second largest oil-consuming country just after the United States and consumes over 9 million battles each day, meaning that over 55% of China's oil consumption depends on external supply. In other words, China's oil resources are not self-sufficient and largely affected by the peripheral region.

### China's intention to expand oil reserves

In terms of energy, although coal accounts for 70% of energy consumption in China, we cannot ignore the importance of oil, which significantly affects nearly all products. At present, oil reserves in the Mainland China are only enough for one month of consumption, which is far under the international standard of 90 days and therefore are in dire need of improvement in future. Oil is so important that money can not buy when a crisis occurs.

In a long-term view, it is estimated that oil would be used out in about 40 years. Its decreasing nature will only keep pushing prices up.

### Prospects of natural gas

At its recently held Energy Economy Press Conference, National Energy Administration of China stated that at the time of energy restructuring, traditional energies have to make way for new energies; China's energy strategy during the "twelfth five-year" period has already shifted from keeping supply to controlling the total consumption of energies; and the control on total energy consumption in a reasonable manner has been written into the proposals for the "twelfth five-year" period. In 2011, coal consumption will be affected by such macro-control policy, especially the development objective for renewable energies and such tasks as energy saving and waste reduction during the "twelfth five-year" period, which would slow down the growth of coal demand. Driven by relevant policies, the consumption of traditional fossil energies such as coal, electricity and oil will be curbed to a certain extent. On the other hand, the consumption of natural gas will maintain rapid growth.

According to the estimates of International Energy Agency (IEA), global consumption of natural gas will grow from 30 trillion cubic metres in 2007 to 43 trillion cubic metres in 2030 with an average annual growth rate of 1.5%, of which more than 80% will come from non-OECD countries with China and India topping the list.

According to the BP Statistical Review of World Energy, as of the end of 2008, global remaining recoverable reserves of natural gas is 1,850 trillion cubic metres, of which China's remaining recoverable natural gas of 22.6 trillion cubic metres accounting for 1.3%. Based on the world's population of 6.5 billion and China's population of 1.3 billion, global remaining recoverable natural gas reserves per capita was 28,500 cubic metres, of which China's remaining recoverable natural gas reserves per capita of only 1,900 cubic metres accounting for only approximately 7% of the worldwide reserves per capita. Since there are limited natural gas reserves in China, the development of non-conventional natural gas will be an important supplement to China's clean energies in the future. As China's clean energies continue with its rapid growth and the development scheme of renewable energies during the "twelfth five-year" period implements in full scale, China's new energies and renewable energies will bring about new opportunities, and overall energy supply/demand is expected to remain balanced.

In addition, state-owned energy enterprises such as China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation (CNOOC) have also begun acquiring natural gas fields. In February 2011, CNPC announced it would acquire parts of the interests in the shale gas and deep natural gas assets of a Canadian energy company Encana Corp. at a consideration of US$5.4 billion. On January 2011, CNOOC also entered into an agreement with an American natural gas manufacturer Chesapeake Energy Corp. in relation to their cooperation in the exploitation of shale gas. There is a belief in the industry that natural gas will continue to see growth in both consumption and prices in the next five years.

Though used as the main power generation model by many Middle Eastern oil producing countries, oil fired power is deemed as an alternative power by the majority of the countries around the world. Thus there is an increasing demand for power generation using natural gas, coal and renewable energies given a potential slowdown in the growth of global nuclear power industry.

After the recent nuclear crisis in Japan, natural gas is considered as the best alternative to nuclear power. Because natural gas, as well as nuclear power, is a clean energy with little greenhouse gas emission and air pollution as well as a short lead time. Besides, the recent years have witnessed aggressive efforts by many countries in the development of unconventional natural gas.

## OUTLOOK

The Utah Gas and Oil Field which the Company holds 100% Ownership Interest, is under the assistance and management of Halliburton, a world-wide famous oil and gas engineering company. The drilling of wells is in full swing. The Utah Gas and Oil Field has started its oil and gas production by October 2010 which will bring stable income for the Company. Our management and professional technical team of the Company had a few trips to Kazakhstan to visit the government authorities as well as to pay site visits to several Kazakhstan oil fields which are under the negotiation for possible acquisitions during the Year.

On 10 August 2010, the Company signed a Strategic Cooperation Agreement with Bank CenterCredit (''BCC'') in Kazakhstan, pursuant to which BCC will also introduce some other energy resources projects with potential development to the Company, and the Company will assist BCC to introduce oil and gas Kazakhstan enterprises to be listed on Stock Exchange of Hong Kong and/or to raise funds in the capital markets which will be of great benefit to broaden the business relationship and other opportunities between Hong Kong and Kazakhstan.

On 24 February 2011, the Company entered into a Memorandum of Understanding with an independent third party for the possible acquisition of oil fields in Kazakhstan (''Kazakhstan Oilfields''). Based on the evaluation prepared by an independent international oil consulting firm, the total 3P reserves (proved, probable and possible oil reserves) are over 700 million barrels. At the moment, management team of Pearl Oriental and other independent professionals are conducting the due diligence on Kazakhstan Oilfields. We strongly believe that the Kazakhstan Oilfields have an excellent development potential and expect to enter into the Sale and Purchase Agreement with the vendor soon.

The Board believes that the professional engineering services and support to be provided by Halliburton and the gas purchase services provided by Anadarko which are the two leading giants in the oil and gas industry will be beneficial to the enhancement of the pace of production and quality of products of the Utah Gas and Oil Field, and it is expected that it will bring long-term stable income for the Company soon.

The Board believes that, given the commencement of production of the Group's gas and oil field in Utah, USA in October 2010 and the recent surging and expected favourable oil price trend in the international market, the Group will further expand its portfolio of oil assets through mergers and acquisitions so as to enhance the development potential of the Company.

### Other Litigations

The Group had three pending litigation claims with the ex-directors of a disposed subsidiary, Dransfield Holdings Limited (''DHL''), who claim against the Group for a total sum of not less than HK$11.4 million. As disclosed in the Company's announcement dated 23 August 2005, the Company's interest in DHL was disposed of on 23 July 2005. It was alleged in these claims that by disposing of all its shares in DHL, the Company was evading liabilities and denying these claimants' benefits of the debts owned by DHL. The Company has successfully appealed against the judgment during the Year, and has been awarded legal costs of around HK$2.33 million.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of news shares and convertible notes, internally generated resources. At the year end date, the Group did not have any bank borrowings (2009: Nil) except for the loans in respect of discounted bills receivables. Furthermore, the Group's cash and bank balances as at 31 December 2010 have substantially increased to approximately HK$375 million from HK$224 million as at 31 December 2009 due to the placing of about 560 million new shares during the Year. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 30.24 as at 31 December 2010 (2009: 4.58).

During the Year, the Group conducted its business transactions principally in US dollars, Renminbi, Euro and Hong Kong dollars, or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the number of employees of the Group was about 60 (2009: 80). The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and travelling allowances and discretionary bonuses.

## SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

### Acquisition of Festive Oasis Limited ("Oasis")

During the Year, the Company has acquired the 100% equity interest in Oasis and its subsidiaries, the amount due by the Oasis to one of its shareholders and 70% Ownership Interest in respect of the oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field at a consideration of US$200 million (equivalent to approximately HK$1,560 million). The Company may, at its option (which has been exercised subsequent to the Year), further acquire the remaining 30% Ownership Interest and transfer the same to the Oasis Group at a consideration of US$25 million (equivalent to approximately HK$195 million).

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 20 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the period ended 31 December 2010 are set out in the consolidated income statement on page 24.

The Board of Directors recommended a final dividend of HK2 cents per share (2009: Nil) out of the contributed surplus and the issue of bonus share on the basis of one bonus share for every five existing shares being held to the shareholders registered in the Company's Register of Members as at the close of business on 20 May 2011, Friday.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2010, HK$1,503,933,000 distributable reserves were available for distribution to the equity shareholders of the Company.

## SHARE CAPITAL

Details of the movements during the year in the share capital of the Company together with the reason therefor are set out in note 32 to the financial statements.

## DIRECTORS

The directors of the Company during the year were:

**Executive Directors:**

Wong Kwan
Lew Mon Hung
Cheung Kwok Yu
Zhou Li Yang
Zheng Yingsheng (resigned on 1 September 2010)
Johnny Yuen

**Non-Executive Directors:**

Baiseitov Bakhytbek (appointed on 5 October 2010)

**Independent Non-Executive Directors:**

Yu Jianmeng
Fung Hing Chiu, Cyril
Lam Ka Wai, Graham

In accordance with Clause 86(2) of the Company's Bye-Laws, Mr. Baiseitov Bakhytbek so appointed by the Board to fill a causal vacancy on the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting.

In accordance with Clause 87(1) of the Company's Bye-Laws, each of Mr. Cheung Kwok Yu, Mr. Johnny Yuen and Mr. Fung Hing Chiu, Cyril will retire as director by rotation at the forthcoming annual general meeting and being eligible, offer himself/herself for re-election as director. All other remaining directors continue in office. Other than as disclosed above, no director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 5, 6 and 7 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

None of the executive directors of the Company has each entered into a service contract with the Company. All the abovementioned service contracts are continuous until terminated by either party giving to the other not less than six months notice in writing or otherwise in accordance with its terms.

Apart from the foregoing, 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.

## CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2010, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

**Long positions**

*(A) Ordinary Shares of HK$0.10 each of the Company*

| | Number of Shares held in the Capacity of | | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **Beneficial owner** | **Held by controlled corporation** | **Held by trust** | **Total number of Shares held** | **Percentage of the issued share capital of the Company** |
| Wong Kwan *(note)* | — | 710,952,800 | — | 710,952,800 | 35.78% |
| Johnny Yuen | 300,000 | — | — | 300,000 | 0.02% |
| Cheung Kwok Yu | 5,000,000 | — | — | 5,000,000 | 0.25% |
| Zhou Li Yang | 1,000,000 | — | — | 1,000,000 | 0.05% |
| Baiseitov Bakhytbek | 5,075,000 | — | — | 5,075,000 | 0.26% |

*Note:* These Shares were held by Orient Day Developments Limited, which is wholly-owned by Mr. Wong Kwan.

*(B) Share options*

| Name of Directors | Capacity | Number of options held | Exercise Period | Exercise Price *(HK)* |
|---|---|---|---|---|
| Wong Kwan | Beneficial owner | 3,000,000 | 05/08/2009–14/07/2019 | 0.56 |
| | | 5,000,000 | 09/06/2010–14/07/2019 | 1.13 |
| Lew Mon Hung | Beneficial owner | 3,000,000 | 03/12/2009–14/07/2019 | 0.83 |
| | | 5,000,000 | 09/06/2010–14/07/2019 | 1.13 |
| Zhou Li Yang | Beneficial owner | 2,000,000 | 05/08/2009–14/07/2019 | 0.56 |
| | | 5,000,000 | 09/06/2010–14/07/2019 | 1.13 |
| Johnny Yuen | Beneficial owner | 5,000,000 | 09/06/2010–14/07/2019 | 1.13 |
| Fung Hing Chiu, Cyril | Beneficial owner | 5,000,000 | 09/06/2010–14/07/2019 | 1.13 |
| Lam Ka Wai | Beneficial owner | 5,000,000 | 09/06/2010–14/07/2019 | 1.13 |
| Yu Jianmeng | Beneficial owner | 1,000,000 | 05/08/2009–14/07/2019 | 0.56 |
| | | 5,000,000 | 09/06/2010–14/07/2019 | 1.13 |
| Baiseitov Bakhytbek | Beneficial owner | 15,000,000 | 05/10/2010–14/07/2019 | 1.604 |

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2010.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, as at 31 December 2010, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

**Long positions**

| Name of Substantial Shareholder | Capacity | Number of issued ordinary shares held | Percentage of issued share capital of the Company |
|---|---|---|---|
| Orient Day Developments Limited *(Note)* | Beneficial owner | 710,952,800 | 35.78% |

*Note:* Orient Day Developments Limited is wholly-owned by Mr. Wong Kwan.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2010.

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

## EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 33 to the financial statements.

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of the significant related party transactions during the year are detailed in note 43 to the financial statements. Except for the above, the Group did not have any connected transactions during the year.

## PRE-EMPTIVE RIGHTS

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

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

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest customers and five largest customers taken together accounted for 13.2% and 38.8% respectively of the Group's total sales for the year. The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 14.5% and 49.2% respectively of the Group's total purchases for the year.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year.

## EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the events taken place after the end of the reporting period are set out in note 45 to the financial statements.

## AUDITORS

The financial statements for the years ended 31 December 2008, 2009 and 2010 have been audited by Ascenda Cachet CPA Limited (formerly Cachet Certified Public Accountants Limited), who retire and a resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors.

By order of the Board

**Cheung Kwok Yu**
*Executive Director & Company Secretary*

31 March 2011

# Corporate Governance Report

## SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The rights of shareholders of the Company are contained in the Articles. The Group firmly believes the importance of communicating with the investment community and the shareholders in attaining a high level of transparency. The general meetings of the Company provide a platform for communication between the shareholders and the Board. The Chairman of the Board as well as chairman of the Audit Committee or if, in their absence, other members of the respective committees, and where applicable, the independent board committee, are available to answer questions at the shareholders' meetings. The Company endeavours to provide timely and accurate information to the investors to enhance the business development strategy and direction of the Group.

The Group will continue to maintain a close relationship with investors and develop greater understanding about the Group for international investors, to enhance investors' confidence in the Group.

## CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to achieving high standard of corporate governance. In the opinion of the Board, the Company has complied throughout the year ended 31 December 2010 (the "Year") with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which was in force on 1 January 2005, save for the following:

(a) The Chairman and the Managing Director are not subject to retirement by rotation pursuant to Bye-laws of the Company.

(b) Pursuant to Bye-law 87(1) of the Company, at each annual general meeting one-third of the Directors for the time being, (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the Year ended 31 December 2010.

## BOARD OF DIRECTORS

The Board is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value. It is responsible for the formulation and the approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, and supervision of management in accordance with the governing rules. The management of the Company is responsible for the oversight of the realization of the objectives set by the Board and the day-to-day operations of the Group.

As at 31 December 2010, the Board comprises nine members, five of whom are executive directors, one of whom is non-executive director and three are independent non-executive directors. One-third of the Board is independent non-executive directors and more than one of them have appropriate professional qualifications or accounting or related financial management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

To promote effective communication, the Company maintains a website at www.pearloriental.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

## SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

During the Year, 2 board meetings have been held, the attendance of each Director, on named basis and by category at Board meetings, Audit Committee meetings is set out below:

| | **Meetings attended/held** | |
|---|---|---|
| | **Board Meetings** | **Audit Committee Meetings** |
| **Executive Directors:** | | |
| Wong Kwan *(Chairman & Chief Executive)* | 2/2 | N/A |
| Lew Mong Hung | 2/2 | N/A |
| Cheung Kwok Yu | 2/2 | N/A |
| Zhou Li Yang | 2/2 | N/A |
| Zheng Yingsheng *(Note 1)* | N/A | N/A |
| Johnny Yuen | 1/2 | N/A |
| **Non-executive Director:** | | |
| Baiseitov Bakhytbek *(Note 2)* | | |
| **Independent Non-executive Directors:** | | |
| Yu Jianmeng *(Member of Audit Committee)* | 1/2 | 1/2 |
| Fung Hing Chiu, Cyril *(Member of Audit Committee)* | 2/2 | 2/2 |
| Lai Ka Wai, Graham *(Chairman of Audit Committee)* | 2/2 | 2/2 |

*Notes:*

(1) Resigned on 1 September 2010.

(2) Appointed on 5 October 2010.

To the best knowledge of the Board, there is no relationship (including financial, business, family or other relationship) among members of the Board as at 31 December 2010. All of them are free to exercise their individual judgments.

## CHAIRMAN AND MANAGING DIRECTOR

For the Year, Mr. Wong Kwan, the Chairman, and Mr. Zhou Li Yang, the Managing Director, had segregated and clearly defined roles.

## REMUNERATION OF DIRECTORS

The Remuneration Committee has 3 members, comprising Messrs. Yu Jianmeng, Fung Hing Chiu, Cyril and Lam Ka Wai, Graham, all independent non-executive directors. The Remuneration Committee is chaired by Lam Ka Wai, Graham.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

## NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing directors.

The notice of annual general meeting contains detailed information on election of directors including detailed biography of all directors standing for election or re-election to enable shareholders to make an informed decision on their election.

## INTERNAL CONTROL

The Board acknowledges its responsibility to ensure that a sound and effective internal control system, which serves as an integral part of the Company's management system, is maintained. The Board is responsible for approving and reviewing internal control policy, while the responsibility of day-to-day management of operational risks and implementation of mitigation measures lies with the management. An internal control system is designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimise risks of failure in operational systems. Key control procedures include:

- establishing a structure with defined authority and proper segregation of duties
- monitoring the strategic plan and performance
- designing an effective accounting and information system
- encouraging internal reporting on serious concern about malpractice
- conducting internal independent review by internal audit function

The Company places great value upon creating an environment where employees maintain the highest standard of integrity. To this end, the Board encourages the raising of concerns by employees about internal malpractice directly to the Board which will review complaints and decide how the investigation should be conducted.

## AUDITORS' REMUNERATION

For the year ended 31 December 2010, Ascenda Cachet CPA Limited, the existing external auditors provided the following services to the Group:

| | *HK$'000* |
|---|---|
| Annual audit services | 980 |
| Other assurance services | 760 |
| | 1,740 |

## AUDIT COMMITTEE

As at 31 December 2010, the Audit Committee currently comprises the three independent non-executive directors, namely Mr. Lam Ka Wai, Graham (Chairman of the Audit Committee), Mr. Yu Jianmeng and Mr. Fung Hing Chiu, Cyril. The Audit Committee held two meetings during the Year. The Audit Committee is provided with sufficient resources to discharge its duties. The term of reference of the Audit Committee follow the guidelines sset out in the CG Code. The principal duties of the Audit Committee include the review of the financial reporting and internal control system of the Group, review of half-yearly and annual reports and accounts review and monitor the appointment of the auditors and their independence.

The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2010.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements.

The statement of the external auditors of the Company, Ascenda Cachet CPA Limited, with regard to their reporting responsibilities on the Company's financial statements is set out in the Independent Auditor's Report on pages 22 and 23.

# Independent Auditors' Report

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai Hong Kong

**To the shareholders of Pearl Oriental Innovation Limited**
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pearl Oriental Innovation Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 24 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 these 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 ("HKICPA') and the disclosure requirements of 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.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 HKICPA. 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.

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 auditors' 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 auditors consider internal control relevant to the entity's preparation of 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 affairs of the Company and the Group as at 31 December 2010 and of the Group's profit 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.

Ascenda Cachet CPA Limited
*Certified Public Accountants*

**Chan Yuk Tong**
Practising Certificate Number P03723

Hong Kong
31 March 2011

# Consolidated Income Statement

Year ended 31 December 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000<br>(Restated) |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| REVENUE | 5 | **555,242** | 163,438 |
| Cost of sales | | **(530,793)** | (154,272) |
| Gross profit | | **24,449** | 9,166 |
| Gain on bargain purchase | 36 (a) | **604,703** | — |
| Change in fair value on derivative financial instruments | 6 | **11,050** | — |
| Other income and gains | 5 | **59,537** | 23,891 |
| Selling and distribution costs | | **(5,323)** | (1,896) |
| Administrative expenses | | **(100,576)** | (58,563) |
| Exploration, repair and maintenance expenses | 6 | **(12,594)** | — |
| Equity-settled share option expenses | 33 | **(39,966)** | (6,727) |
| Finance costs | 7 | **(53)** | (1,826) |
| Impairment loss on available-for-sale investments | 24 | **—** | (922,318) |
| Impairment loss on goodwill | 19 | **(27,943)** | — |
| Write-off of assets on liquidation of a subsidiary | 40 | **(126,513)** | — |
| Share of losses of an associate | | **—** | (548) |
| PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS | 6 | **386,771** | (958,821) |
| Income tax credit/(expense) | 10 | **4,703** | (319) |
| PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS | | **391,474** | (959,140) |
| **DISCONTINUED OPEARTION** | | | |
| Profit/(loss) for the year from a discontinued operation | 11 | **36** | (8,822) |
| PROFIT/(LOSS) FOR THE YEAR | | **391,510** | (967,962) |
| Attributable to: | | | |
| Owners of the Company | 13 | **423,195** | (566,840) |
| Non-controlling interests | | **(31,685)** | (401,122) |
| | | **391,510** | (967,962) |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 14 | | |
| Basic | | | |
| — For profit/(loss) for the year | | **27.3 cents** | (85.3) cents |
| — For profit/(loss) from continuing operations | | **27.3 cents** | (84.0) cents |
| Diluted | | | |
| — For profit/(loss) for the year | | **27.0 cents** | (85.3) cents |
| — For profit/(loss) from continuing operations | | **27.0 cents** | (84.0) cents |

Details of the dividend proposed for the year are disclosed in note 12 to the financial statement.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| PROFIT/(LOSS) FOR THE YEAR | **391,510** | (967,962) |
| OTHER COMPREHENSIVE INCOME | | |
| Exchange differences on translation of foreign operations | **(5,739)** | 1,949 |
| Income tax effect | **—** | — |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | **(5,739)** | 1,949 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **385,771** | (966,013) |
| Attributable to: | | |
| Owners of the Company | **417,456** | (564,911) |
| Non-controlling interests | **(31,685)** | (401,102) |
| | **385,771** | (966,013) |

# Consolidated Statement of Financial Position

31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **1,198** | 64,465 |
| Prepaid land lease payments | 16 | **—** | — |
| Exploration and evaluation assets | 17 | **46,371** | — |
| Intangible assets | 18 | **1,960,140** | — |
| Goodwill | 19 | **34,096** | 121,945 |
| Available-for-sale investments | 24 | **—** | — |
| Derivative financial instruments | 28 | **664,253** | — |
| Deferred tax assets | 31 | **5,204** | — |
| Deposits paid | | **—** | 761 |
| Total non-current assets | | **2,711,262** | 187,171 |
| CURRENT ASSETS | | | |
| Inventories and supplies | 21 | **6,912** | 8,707 |
| Trade and bill receivables | 22 | **1,771** | 6,199 |
| Prepayments, deposits and other receivables | 23 | **263,011** | 47,521 |
| Available-for-sale investments | 24 | **—** | — |
| Cash and cash equivalents | 25 | **374,932** | 224,314 |
| | | **646,626** | 286,741 |
| Available-for-sale investments classified as non-current assets held for sale | 24 | **—** | — |
| Total current assets | | **646,626** | 286,741 |
| CURRENT LIABILITIES | | | |
| Trade payables | 26 | **4,502** | 5,700 |
| Other payables and accruals | 27 | **14,665** | 51,696 |
| Interest-bearing bank borrowings, unsecured | 30 | **1,399** | — |
| Tax payable | | **820** | 319 |
| Loan from immediate parent and ultimate controlling party | 29 | **—** | 4,910 |
| Total current liabilities | | **21,386** | 62,625 |
| NET CURRENT ASSETS | | **625,240** | 224,116 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **3,336,502** | 411,287 |

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Loan from immediate parent and ultimate controlling party | 29 | — | 66,300 |
| Deferred tax liabilities | 31 | **686,049** | — |
| Total non-current liabilities | | **686,049** | 66,300 |
| Net assets | | **2,650,453** | 344,987 |
| EQUITY | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | 32 | **198,697** | 115,922 |
| Reserves | 35(a) | **1,520,691** | 212,906 |
| | | **1,719,388** | 328,828 |
| Consideration shares to be issued | 36(a) | **932,591** | — |
| **Non-controlling interests** | | **(1,526)** | 16,159 |
| Total equity | | **2,650,453** | 344,987 |

**Zhou Li Yang**
*Director*

**Cheung Kwok Yu**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2010

| | Attributable to the owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium account HK$'000 | Treasury shares HK$'000 (note 35(a)) | Capital reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Share option reserve HK$'000 (note 33) | Warrants reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2009 | 46,474 | 384,008 | (10,556) | 403,851 | 7,797 | — | — | (318,278) | 513,296 | 8,647 | 521,943 |
| Total comprehensive income for the year | — | — | — | — | 1,929 | — | — | (566,840) | (564,911) | (401,102) | (966,013) |
| Exchange fluctuation reserve realised upon disposal of a subsidiary *(note 39)* | — | — | — | — | (7,276) | — | — | — | (7,276) | — | (7,276) |
| Issue of new shares | 68,568 | 308,026 | — | — | — | — | — | — | 376,594 | — | 376,594 |
| Share issue expenses | — | (530) | — | — | — | — | — | — | (530) | — | (530) |
| Equity-settled share options arrangements | — | — | — | — | — | 6,727 | — | — | 6,727 | — | 6,727 |
| Share options exercised during the year | 880 | 5,697 | — | — | — | (1,649) | — | — | 4,928 | — | 4,928 |
| Share options forfeited during the year | — | — | — | — | — | (188) | — | 188 | — | — | — |
| Increase in non-controlling interests arising from acquisition of a subsidiary *(note 36(b))* | — | — | — | — | — | — | — | — | — | 399,094 | 399,094 |
| Increase in non-controlling interests arising from acquisition of a business *(note 38)* | — | — | — | — | — | — | — | — | — | 5,039 | 5,039 |
| Contribution from non-controlling interests | — | — | — | — | — | — | — | — | — | 7,000 | 7,000 |
| Acquisition of non-controlling interests *(note 37)* | — | — | — | — | — | — | — | — | — | (2,519) | (2,519) |
| At 31 December 2009 and 1 January 2010 | 115,922 | 697,201 | (10,556) | 403,851 | 2,450 | 4,890 | — | (884,930) | 328,828 | 16,159 | 344,987 |
| Total comprehensive income for the year | — | — | — | — | (5,739) | — | — | 423,195 | 417,456 | (31,685) | 385,771 |
| Exchange fluctuation reserve realised upon disposal of a subsidiary *(note 39)* | — | — | — | — | 1,148 | — | — | — | 1,148 | — | 1,148 |
| Write-off of exchange fluctuation reserve on liquudation of a subsidiary *(note 40)* | — | — | — | — | 2,435 | — | — | — | 2,435 | — | 2,435 |
| Issue of new shares *(note 32)* | 79,911 | 834,525 | — | — | — | — | — | — | 914,436 | — | 914,436 |
| Share issue expenses | — | (12,408) | — | — | — | — | — | — | (12,408) | — | (12,408) |
| Issue of warrants *(note 34)* | — | — | — | — | — | — | 3,263 | — | 3,263 | — | 3,263 |
| Equity-settled share options arrangements *(note 33)* | — | — | — | — | — | 39,966 | — | — | 39,966 | — | 39,966 |
| Share options exercised during the year | 2,864 | 29,639 | — | — | — | (8,239) | — | — | 24,264 | — | 24,264 |
| Contribution from non-controlling interests | — | — | — | — | — | — | — | — | — | 14,000 | 14,000 |
| At 31 December 2010 | 198,697 | 1,548,957* | (10,556)* | 403,851* | 294* | 36,617* | 3,263* | (461,735)* | 1,719,388 | (1,526) | 1,717,862 |

* These reserve accounts comprise the consolidated reserve of HK$1,520,691,000 (2009:HK$212,906,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) before tax: | | | |
| From continuing operations | | **386,771** | (958,821) |
| From discontinued operation | | **36** | (8,822) |
| Adjustments for: | | | |
| Finance costs | 7 | **53** | 5,597 |
| Gain on disposal of subsidiaries | 39 | **(56,285)** | (20,270) |
| Gain on bargain purchase | 36(a) | **(604,703)** | — |
| Change in fair value on derivative financial instruments | | **(11,050)** | — |
| Share of losses of associates | | **—** | 548 |
| Interest income | 5 | **(3,167)** | (12) |
| Loss on disposal of a subsidiary | 39 | **1,401** | — |
| Depreciation of property, plant and equipment | 15 | **3,118** | 9,160 |
| Amortisation of prepaid land lease payments | 16 | **—** | 459 |
| Impairment loss on goodwill | 6, 19 | **27,943** | — |
| Impairment loss on available-for-sale investments | 6, 24 | **—** | 922,318 |
| Write-off of assets on liquidation of a subsidiary | 40 | **126,513** | — |
| Write-off of other receivables | 6 | **—** | 955 |
| Write-off of property, plant and equipment | 15 | **—** | 5 |
| Equity-settled share option expenses | 33 | **39,966** | 6,727 |
| | | **(89,404)** | (42,156) |
| (Increase)/decrease in inventories and supplies | | **(6,031)** | 376 |
| Decrease/(increase) in trade and bills receivables | | **4,136** | (3,417) |
| Increase in prepayments, deposits and other receivables | | **(133,047)** | (43,625) |
| (Decrease)/increase in trade payables | | **(896)** | 861 |
| (Decrease)/increase in other payables and accruals | | **(5,158)** | 8,492 |
| Cash used in operations | | **(230,400)** | (79,469) |
| Income tax paid | | **—** | — |
| Net cash flows used in operating activities | | **(230,400)** | (79,469) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **3,167** | 12 |
| Purchases of items of property, plant and equipment | 15 | **(1,257)** | (4,673) |
| Addition of exploration and evaluation assets | 17 | **(46,371)** | — |
| Net cash and cash equivalent (outflow)/inflow from acquisition of subsidiaries | 36(a) | **(390,000)** | 9 |
| Net cash and cash equivalent inflow from disposal of subsidiaries | 39 | **26,236** | 54,987 |
| Net cash and cash equivalent outflow from write-off of assets on liquidation of a subsidiary | 40 | **(405)** | — |
| Advances to an associate | | **—** | (275) |
| Net cash flows (used in)/from investing activities | | **(408,630)** | 50,060 |

# Consolidated Statement of Cash Flows

Year ended 31 December 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | **747,618** | 167,464 |
| New bank borrowings | 30 | **1,399** | — |
| Repayment of bank loans | | **—** | (7,100) |
| Net proceeds from the exercise of the share options | 32(a)(v) | **24,264** | 4,928 |
| Net proceeds from issue of warrants | 34 | **3,263** | — |
| Contributions from non-controlling interests | | **14,000** | 7,000 |
| Advance from an immediate parent and ultimate controlling party | | **—** | 71,210 |
| Interest paid | | **(53)** | (5,597) |
| Net cash flows from financing activities | | **790,491** | 237,905 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **151,461** | 208,496 |
| Cash and cash equivalents at beginning of year | | **224,314** | 15,787 |
| Effect of foreign exchange rate changes, net | | **(843)** | 31 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **374,932** | 224,314 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | **374,932** | 224,314 |

# Statement of Financial Position

31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 20 | **2,164,749** | 212,420 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | 23 | **213,906** | 10,684 |
| Cash and cash equivalents | 25 | **310,604** | 206,624 |
| Total current assets | | **524,510** | 217,308 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 27 | **3,003** | 4,073 |
| Loan from immediate parent and ultimate controlling party | 29 | **—** | 3,112 |
| Total current liabilities | | **3,003** | 7,185 |
| NET CURRENT ASSETS | | **521,507** | 210,123 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,686,256** | 422,543 |
| NON-CURRENT LIABILITIES | | | |
| Due to subsidiaries | 20 | **(11,155)** | (11,256) |
| Loan from immediate parent and ultimate controlling party | 29 | **—** | (66,300) |
| Total non-current liabilities | | **(11,155)** | (77,556) |
| Net assets | | **2,675,101** | 344,987 |
| EQUITY | | | |
| Issued capital | 32 | **198,697** | 115,922 |
| Reserves | 35(b) | **1,543,813** | 229,065 |
| | | **1,742,510** | 344,987 |
| Consideration shares to be issued | 36(a) | **932,591** | — |
| Total equity | | **2,675,101** | 344,987 |

**Zhou Li Yang**
*Director*

**Cheung Kwok Yu**
*Director*

## 1. CORPORATE INFORMATION

Pearl Oriental Innovation Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is situated at Suite 1908, 19/F., 9 Queen's Road Central, Hong Kong.

In the opinion of the directors, the Company's immediate parent and ultimate controlling party is Orient Day Developments Limited, a company incorporated in the British Virgin Islands with limited liabilities.

During the year, the Company is an investment holding company. Except for the discontinuation of its operation of provision of logistics business and related services during the year, as detailed in note 11 to the financial statements, the principal activities of the Company and its subsidiaries (the "Group") are the processing and sales of recycling materials. In addition, the Group commenced its operation in oil and gas business during the year by engaging in natural gas and petroleum exploration, exploitation and production in the area located in Utah, the United States of America.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all 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. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for buildings and derivative financial instruments, which are stated in the consolidated statement of financial position at valuation less accumulated depreciation and any impairment losses, and measured at fair value, respectively.

These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

*Basis of consolidation from 1 January 2010*

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.1 BASIS OF PREPARATION *(Continued)*

**Basis of consolidation** *(Continued)*

*Basis of consolidation from 1 January 2010 (Continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

*Basis of consolidation prior to 1 January 2010*

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interest) prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

## 2.2 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards |
| HKFRS 1 Amendments | Amendments to HKFRS 1 First-time Adopting of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters |
| HKFRS 2 Amendments | Amendments to HKFRS 2 Share-based Payment — Group Cash settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HKFRS 5 Amendments included in Improvement to HKFRSs issued in October 2008 | Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 Amendment | Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items |
| HK(IFRIC) — Int 17 | Distributions of Non-cash Assets to Owners |
| Improvements to HKFRSs 2009 | Amendments to a number of HKFRSs issued in May 2009 |
| HK Interpretation 4 Amendment | Amendment to HK Interpretation 4 Lease — Determination of the Length of Lease Term in respect of Hong Kong Land Leases |
| HK Interpretation 5 | Presentation of Financial Statements — Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause |

## 2.2 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised) and amendments to HKAS 7, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adoption these new and revised HKFRSs are as follows:

a) **HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements***

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interest in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

b) **Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs**

HKAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early adopted the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKFRS 1 Amendment | Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters [2] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets [4] |
| HKFRS 9 | Financial Instruments [5] |
| HKAS 24 (Revised) | Related Party Disclosures [3] |
| HKAS 32 Amendments | Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Right Issues [1] |
| HK(IFRIC) — Int 14 Amendments | Amendments to HK(IFRIC) — Int 14 Prepayments of a Minimum Funding Requirement [3] |
| HK(IFRIC) — Int 19 | Extinguishing Financial Liabilities with Equity Instruments [2] |

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK (IFRIC) — Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiaries**

A subsidiary is an entity who's financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

**Joint ventures**

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Joint ventures** *(Continued)*

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group, has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

**Associates**

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Business combinations and goodwill**

*Business combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair values as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be assets or liabilities are recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and the liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Business combinations and goodwill** *(Continued)*

*Business combinations prior to 1 January 2010 but after 1 January 2005*

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect the previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to contingent consideration were recognised against as part of goodwill.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, goodwill, financial assets and assets of a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Related parties**

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, an individual referred to in (d) or (e); or

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

**Property, plant and equipment and depreciation**

Property, plant and equipment other than buildings are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Buildings are stated at valuation less accumulated depreciation and any impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Property, plant and equipment and depreciation** *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Freehold land | Not depreciated |
| Buildings | Over the shorter of the lease terms and their estimated useful lives |
| Leasehold improvements | Over the shorter of the lease terms and land use rights or 5 years |
| Furniture, fixtures and equipment | 20% to 25% |
| Motor vehicles | $16^2/_3$% to $33^1/_3$% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Oil and gas properties**

For oil and gas properties, the successful efforts method of accounting is adopted. The Group capitalises the initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.

Productive oil and gas properties are depreciated on a unit-of-production basis over the proved and probable reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved and probable reserves of the respective oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

Capitalised acquisition costs of proved properties are depreciated on a unit-of-production method over the total proved and probable reserves of the relevant oil and gas properties.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Non-current assets and disposal groups held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

**Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

**Investments and other financial assets**

*Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments and other financial assets** *(Continued)*

*Initial recognition and measurement (Continued)*

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, available for sale investments and derivative financial instruments.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance cost or operating expenses.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments and other financial assets** *(Continued)*

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Group has investments in unlisted shares that are not traded in an active market but that are classified as available-for-sale investment.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Impairment of financial assets** *(Continued)*

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

*Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, loan from immediate parent and ultimate controlling party.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

*Convertible bonds*

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market interest rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

**Treasury shares**

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

**Inventories and supplies**

Inventories primarily consist of oil and supplies, including items for repairs and maintenance of oil and gas properties. Inventories are stated at the lower of cost and net realisable value. Costs of inventories and supplies represent purchase or production cost of goods and are determined on a weighted average basis and first-in-first-out basis.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**Provisions**

*General*

A general provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in"Finance costs" in the consolidated statement of comprehensive income.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Income tax** *(Continued)*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the oil and gas sales, when the significant risks and rewards of ownership have been transferred, that is, when title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism;

(ii) from the provision of logistic services, when the services are rendered;

(iii) rental income, on a time proportion basis over the lease terms;

(iv) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(v) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**Employee benefits**

*Share-based payment transactions*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in note 33 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of the each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of comprehensive income for a year represents the movement in the cumulative expense recognised as at the beginning and end of that year.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Employee benefits** *(Continued)*

*Share-based payment transactions (Continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

*Other employee benefits*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

**Foreign currencies**

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period.

All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Foreign currencies** *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Contingent liabilities in respect of litigations and claims*

The Group has been engaged in a number of litigations and claims during the year. Contingent liabilities arising from these litigations and claims have been assessed by management with reference to legal advices. Provisions on the possible obligation, if appropriate, are made based on management's best estimates and judgements.

*Control over Taiyuan Sanxing Coal Gasification (Group) Co., Limited ("Taiyuan Sanxing")*

During the year ended 31 December 2010, the Group assesses whether it has control over the financial and operating policies of Taiyuan Sanxing. As the Group was not provided with the financial and operating information of Taiyuan Sanxing, the Group is unable to exercise its power on the financial and operating matters of Taiyuan Sanxing. The investment in Taiyuan Sanxing is therefore classified as available-for-sale investment.

*Control over China Coal Energy Holdings Limited ("China Coal")*

During the year ended 31 December 2010, the Group loss on control over the financial and operating policies of China Coal. As the Group was not in a position to exercise significant influence in China Coal, the investment in China Coal is therefore classified as available-for-sale investment.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that 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.

*Impairment and written off of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was HK$34,096,000 (2009: HK$121,945,000) and goodwill written off and impaired during the year amounted to approximately HK$59,906,000 (2009: Nil) and HK$27,943,000 (2009: Nil), respectively. More details are set out in note 19 to the financial statements.

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating units exceeds it recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

*Impairment of available-for-sale investments*

The Group classifies certain assets as available-for-sale investments and stated at cost less impairment losses. The Group assesses at the end of each reporting period whether there is any objective evidence that the available-for-sale investments are impaired. At 31 December 2010, impairment losses of approximately HK$Nil (2009: HK$922,318,000) have been recognised for available-for-sale assets. The net carrying amount of available-for-sale assets was Nil (2009: Nil). More details are set out in note 24 to the financial statements.

*Depreciation and useful lives*

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technologies changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

**Estimation uncertainty** *(Continued)*

*Reserve base*

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to proved and probable reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the proportion of the gross reserves which are attributable to the host government under the terms of the production sharing contracts. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's oil and gas properties has been impaired. The Group uses the New York Mercantile Exchange ("NYMEX") prices to estimate its proved oil and gas reserves.

*Carrying value of oil and gas assets*

The calculation of the unit-of-production rate for oil and gas properties amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include changes in proved reserves, the effect on proved reserves of differences between actual commodity prices and commodity price assumptions and unforeseen operational issues.

*Impairment indicators*

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value in use and fair value less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of tangible assets. The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the logistics and related services segment is the provision of logistic business and related services, which had been discontinued during the year;

(b) the plastic recycling segment is procuring, processing and sales of recycling materials; and

(c) the oil and gas sales segment is exploring, exploiting and sales of natural gas and oil, which was commenced during the year.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income and finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

**Year ended 31 December 2010**

| | Continuing operations | | Discontinued operation | |
|---|---|---|---|---|
| | Plastic recycling segment | Oil and gas sales segment | Provision of logistics and related services segment | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment revenue:** | | | | |
| Service income | — | — | — | — |
| Gross rental income | — | — | — | — |
| Sales of recycling materials | 555,196 | — | — | 555,196 |
| Sales of oil and natural gas | — | 46 | — | 46 |
| | 555,196 | 46 | — | 555,242 |
| **Segment results** | (78,610) | (14,318) | 36 | (92,892) |
| Other income and gains | | | | 59,537 |
| Gain on bargain purchase | | | | 604,703 |
| Unallocated expenses | | | | (184,488) |
| Profit from operations | | | | 386,860 |
| Finance costs | | | | (53) |
| Profit before tax | | | | 386,807 |
| Income tax credit | | | | 4,703 |
| Profit for the year | | | | 391,510 |
| **Segment assets** | 91,846 | 2,734,077 | — | 2,825,923 |
| Unallocated assets | | | | 531,965 |
| Total assets | | | | 3,357,888 |
| **Segment liabilities** | 12,410 | 2,606 | — | 15,016 |
| Unallocated liabilities | | | | 692,419 |
| Total liabilities | | | | 707,435 |
| Capital expenditure | 920 | — | — | 920 |
| Unallocated capital expenditure | | | | 337 |
| | | | | 1,257 |
| Depreciation and amortisation | 2,884 | — | — | 2,884 |
| Unallocated depreciation and amortisation | | | | 234 |
| | | | | 3,118 |

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

**Year ended 31 December 2009**

| | Continuing operation | Discontinued operation | |
|---|---|---|---|
| | Plastic recycling segment | Provision of logistics and related services segment | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment revenue:** | | | |
| Service income | — | 28,266 | 28,266 |
| Gross rental income | — | 3,826 | 3,826 |
| Sales of recycling materials | 163,438 | — | 163,438 |
| | 163,438 | 32,092 | 195,530 |
| **Segment results** | (16,686) | (8,822) | (25,508) |
| Other income and gains | | | 23,968 |
| Unallocated expenses | | | (959,958) |
| Loss from operations | | | (961,498) |
| Finance costs | | | (5,597) |
| Share of losses of an associate | | | (548) |
| Loss before tax | | | (967,643) |
| Income tax expense | | | (319) |
| Loss for the year | | | (967,962) |
| **Segment assets** | 241,710 | 8,450 | 250,160 |
| Unallocated assets | | | 223,752 |
| Total assets | | | 473,912 |
| **Segment liabilities** | 17,541 | 8,082 | 25,623 |
| Unallocated liabilities | | | 103,302 |
| Total liabilities | | | 128,925 |
| Capital expenditure | 4,236 | 415 | 4,651 |
| Unallocated capital expenditure | | | 22 |
| | | | 4,673 |
| Depreciation and amortisation | 4,653 | 4,245 | 8,898 |
| Unallocated depreciation and amortisation | | | 262 |
| | | | 9,160 |
| Impairment loss on available-for-sales investments | | | 922,318 |
| Write-off of other receivables | | | 955 |

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

**Geographical information**

*(a) Revenue from external customers*

The revenue information is based on the location of the customers.

| **Year ended 31 December 2010** | **Hong Kong** *HK$'000* | **The PRC** *HK$'000* | **France** *HK$'000* | **USA** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|
| Segment revenue: | | | | | |
| Sales of recycling materials | **553,636** | **—** | **1,560** | **—** | **555,196** |
| Sales of oil and natural gas | **—** | **—** | **—** | **46** | **46** |
| | **553,636** | **—** | **1,560** | **46** | **555,242** |

| **Year ended 31 December 2009** | Hong Kong *HK$'000* | The PRC *HK$'000* | France *HK$'000* | USA *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| Segment revenue: | | | | | |
| Service income | — | 28,266 | — | — | 28,266 |
| Gross rental income | — | 3,826 | — | — | 3,826 |
| Sales of recycling materials | 162,045 | — | 1,393 | — | 163,438 |
| | 162,045 | 32,092 | 1,393 | — | 195,530 |

*(b) Non-current assets*

| **Year ended 31 December 2010** | **Hong Kong** *HK$'000* | **The PRC** *HK$'000* | **France** *HK$'000* | **USA** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|
| Non-current assets | **35,293** | **—** | **—** | **2,675,969** | **2,711,262** |

| **Year ended 31 December 2009** | Hong Kong *HK$'000* | The PRC *HK$'000* | France *HK$'000* | USA *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| Non-current assets | 73,352 | — | 113,819 | — | 187,171 |

**Information about a major customer**

Revenue of approximately HK$73,342,000 (2009: HK$20,442,000) was derived from sales to a single customer during the year ended 31 December 2010.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents service income from logistics and other services rendered, gross rental income, sales of recycling materials and sales of oil and natural gas during the year.

An analysis of revenue, other income and gains is as follows:

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| **Revenue** | | |
| Service income | — | 28,266 |
| Gross rental income | — | 3,826 |
| Sales of recycling materials | **555,196** | 163,438 |
| Sales of oil and natural gas | **46** | — |
| Total revenue | **555,242** | 195,530 |
| **Other income and gains** | | |
| Bank interest income | **21** | 12 |
| Other loan interest income | **3,146** | — |
| Gain on disposal of subsidiaries *(note 39)* | **56,285** | 20,270 |
| Exchange gains, net | — | 3,012 |
| Others | **476** | 674 |
| Total other income and gains | **59,928** | 23,968 |
| Total revenue, other income and gains | **615,170** | 219,498 |
| **Revenue** | | |
| Attributable to continuing operations reported in the consolidated income statement | **555,242** | 163,438 |
| Attributable to discontinued operation *(note 11)* | — | 32,092 |
| | **555,242** | 195,530 |
| **Other income and gains** | | |
| Attributable to continuing operations reported in the consolidated income statement | **59,537** | 23,891 |
| Attributable to discontinued operation *(note 11)* | **391** | 77 |
| | **59,928** | 23,968 |
| | **615,170** | 219,498 |

## 6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

| | **2010** **HK$'000** | 2009 *HK$'000* |
|---|---|---|
| Cost of services provided and good sold*: | | |
| Continuing operations | **530,793** | 154,272 |
| Discontinued operations *(note 11)* | **—** | 20,819 |
| | **530,793** | 175,091 |
| Amortisation of prepaid land lease payments *(note 16)* | **—** | 459 |
| Depreciation of property, plant and equipment* *(note 15)* | **3,118** | 9,160 |
| Write-off of property, plant and equipment** *(note 15)* | **56,510** | 5 |
| Write-off of assets on liquidation of a subsidiary** *(note 40)* | **126,513** | — |
| Minimum lease payments under operating leases: | | |
| Land and buildings | **4,154** | 4,298 |
| Auditors' remuneration: | | |
| Annual audit | **980** | 850 |
| Other assurance services | **760** | 420 |
| | **1,740** | 1,270 |
| Write-off of other receivables | **—** | 955 |
| Impairment loss on goodwill *(note 19)* | **27,943** | — |
| Impairment loss on available-for-sale investments *(note 24)* | **—** | 922,318 |
| Loss on disposal of a subsidiary *(note 39)* | **1,401** | — |
| Exploration, repair and maintenance expenses | **12,594** | — |
| Staff costs (including directors' remuneration *(note 8)*): | | |
| Wages and salaries | **62,288** | 28,689 |
| Equity-settled share option expenses | **34,943** | 6,727 |
| Pension scheme contributions | **329** | 168 |
| | **97,560** | 35,584 |
| Exchange losses/(gains), net | **775** | (3,012) |
| Bank interest income | **(21)** | (12) |
| Gain on bargain purchase *(note 36 (a))* | **(604,703)** | — |
| Gain on disposal of subsidiaries *(note 39)* | **(56,285)** | (20,270) |
| Change in fair value on derivative financial instruments *(note 28)* | **(11,050)** | — |

* The cost of services provided and good sold included depreciation of property, plant and equipment of approximately HK$2,480,000 during the year ended 31 December 2009.

** The amount of write-off of assets on liquidation of a subsidiary included write-off of property, plant and equipment of approximately HK$56,510,000 during the year ended 31 December 2010.

## 7. FINANCE COSTS

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Interest on bank and other borrowings wholly repayable within five years | **3** | 3,570 |
| Bank overdraft interest | **35** | 4 |
| Interest on other loans | **15** | 1,738 |
| Others | **—** | 285 |
| | **53** | 5,597 |
| Finance costs: | | |
| Attributable to continuing operations reported in the consolidated income statement | **53** | 1,826 |
| Attributable to discontinued operation *(note 11)* | **—** | 3,771 |
| | **53** | 5,597 |

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Fees | **7,235** | 1,272 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **39,440** | 10,536 |
| Pension scheme contributions | **47** | 49 |
| Equity-settled share option expenses* | **23,511** | 5,786 |
| | **62,998** | 16,371 |
| | **70,233** | 17,643 |

* During the year, the directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which has been recognised in the income statement was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

## 8. DIRECTORS' REMUNERATION *(Continued)*

**Year ended 31 December 2010**

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Equity-settled share option expenses HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Wong Kwan | — | 11,264 | 1,932 | 12 | 13,208 |
| Lew Mon Hung | — | 14,900 | 1,932 | — | 16,832 |
| Cheung Kwok Yu | — | 7,316 | 1,932 | 12 | 9,260 |
| Zhou Li Yang | — | 5,660 | 1,932 | 12 | 7,604 |
| Zheng Yingsheng (resigned on 1 September 2010) | — | — | — | — | — |
| Johnny Yuen | — | 300 | 1,932 | 11 | 2,243 |
| | — | 39,440 | 9,660 | 47 | 49,147 |
| **Non-executive director** | | | | | |
| Baiseitov Bakhytbek (appointed on 5 October 2010) | 467 | — | 8,055 | — | 8,522 |
| **Independent non-executive directors** | | | | | |
| Fung Hing Chiu, Cyril | 588 | — | 1,932 | — | 2,520 |
| Lam Ka Wai, Graham | 5,640 | — | 1,932 | — | 7,572 |
| Yu Jian Meng | 540 | — | 1,932 | — | 2,472 |
| | 6,768 | — | 5,796 | — | 12,564 |
| Total | 7,235 | 39,440 | 23,511 | 47 | 70,233 |

## 8. DIRECTORS' REMUNERATION *(Continued)*

**Year ended 31 December 2009**

| | Directors' fees *HK$'000* | Salaries, allowances and benefits in kind *HK$'000* | Equity-settled share option expenses *HK$'000* | Pension scheme contributions *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Wong Kwan | — | 1,800 | 562 | 12 | 2,374 |
| Cheung Kwok Yu | — | 1,216 | 562 | 12 | 1,790 |
| Zheng Yingsheng | — | 871 | 562 | — | 1,433 |
| Zhou Li Yang | — | 1,320 | 562 | 12 | 1,894 |
| Johnny Yuen | — | 300 | 562 | 12 | 874 |
| Lew Mon Hung (appointed on 3 December 2009) | — | 5,000 | 1,103 | — | 6,103 |
| Chan Yiu Keung (resigned on 6 February 2009) | — | 29 | — | 1 | 30 |
| | — | 10,536 | 3,913 | 49 | 14,498 |
| **Independent non-executive directors** | | | | | |
| Fung Hing Chiu, Cyril | 150 | — | 562 | — | 712 |
| Lam Ka Wai, Graham | 930 | — | 562 | — | 1,492 |
| Yu Jian Meng (appointed on 19 September 2009) | 67 | — | 187 | — | 254 |
| Dong Zhixiong (resigned on 1 October 2009)[@] | 125 | — | 562 | — | 687 |
| | 1,272 | — | 1,873 | — | 3,145 |
| Total | 1,272 | 10,536 | 5,786 | 49 | 17,643 |

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

[@] Dong Zhixiong was a director of the Company during the year ended 31 December 2009. He resigned as a director and became a consultant of the Company on 1 October 2009 for two years.

## 8. DIRECTORS' REMUNERATION *(Continued)*

The number of directors, whose remuneration fell within the following bands is as follows:

| | Number of directors 2010 | 2009 |
|---|---|---|
| Nil to HK$1,000,000 | **1** | 5 |
| HK$1,000,001 to HK$2,000,000 | **—** | 4 |
| HK$2,000,001 to HK$5,000,000 | **3** | 1 |
| Over HK$5,000,000 | **6** | 1 |
| | **10** | 11 |

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2010 and 2009 are directors, details of whose remuneration are set out in note 8 above.

## 10. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2009 and 2010. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

| | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|
| Current tax: | | |
| Hong Kong profits tax | **501** | 319 |
| Deferred tax *(note 31)* | **(5,204)** | — |
| Tax (credit)/charge for the year | **(4,703)** | 319 |

## 10. INCOME TAX (CREDIT)/EXPENSE *(Continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | **2010** *HK$'000* | **2010** *%* | 2009 *HK$'000* | 2009 *%* |
|---|---|---|---|---|
| Profit/(loss) before tax from continuing operations | **386,771** | | (958,821) | |
| Tax at statutory tax rate | **47,194** | **12.2** | (162,284) | 16.9 |
| Tax effect of share of losses of an associate | **—** | **—** | 90 | — |
| Income not subject to tax: | | | | |
| Gain on disposal of subsidiaries | **(9,287)** | **(2.4)** | (3,344) | 0.3 |
| Gain on bargain purchase | **(99,776)** | **(25.8)** | — | — |
| Change in fair value on derivative financial instrument | **(1,824)** | **(0.4)** | — | — |
| Others | **(14)** | **—** | (389) | — |
| Expenses not deductible for tax: | | | | |
| Equity-settled share option expenses | **6,594** | **1.6** | — | — |
| Impairment loss on available-for-sales investments | **—** | **—** | 152,182 | (15.8) |
| Impairment of goodwill | **4,173** | **1.1** | — | — |
| Write-off of assets on liquidation of a subsidiary | **31,112** | **8.0** | — | — |
| Others | **17,053** | **4.4** | 7,455 | (0.7) |
| Tax losses not yet recognised | **72** | **—** | 6,609 | (0.7) |
| Tax (credit)/charge at the Group's effective rate | **(4,703)** | **(1.3)** | 319 | — |

## 11. DISCONTINUED OPERATION

During the year, the Group has decided to cease its logistics and related services business through the disposal of its subsidiaries. The disposal has been completed in November 2010, details of which are set out in note 39(a) to the financial statements.

The results of logistics and related services business:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue *(note 5)* | — | 32,092 |
| Cost of services provided *(note 6)* | — | (20,819) |
| Gross profit | — | 11,273 |
| Other income and gains *(note 5)* | **391** | 77 |
| Administrative expenses | **(355)** | (16,401) |
| Finance costs *(note 7)* | — | (3,771) |
| Profit/(loss) before tax from the discontinued operation | **36** | (8,822) |
| Income tax expense | — | — |
| Profit/(loss) for the year from the discontinued operation | **36** | (8,822) |
| The net cash flows incurred are as follows: | | |
| Operating activities | **1,468** | 104 |
| Investing activities | **6** | 54 |
| Financing activities | — | (14,711) |
| Net cash inflow/(outflow) | **1,474** | (14,553) |
| Earnings/(loss) per share: | | |
| Basic, from the discontinued operation | **0.002 cent** | (1.3) cents |
| Diluted, from the discontinued operation | **0.002 cent** | (1.3) cents* |

## 11. DISCONTINUED OPERATION *(Continued)*

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit/(loss) attributable to ordinary equity holders of the Company from the discontinued operation | **36** | (8,822) |

| | **Number of shares (thousand)** | |
|---|---|---|
| | **2010** | 2009 |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 14)* | **1,548,722** | 664,500 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation *(note 14)* | **1,567,849** | NA |

* No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2009 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

## 12. DIVIDENDS AND BONUS ISSUE OF SHARES

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Proposed final — HK2 cents (2009: Nil) per ordinary share | **39,739** | — |

A final dividend in respect of the year ended 31 December 2010 of HK2 cents per share, totalling approximately HK$39,739,000, are proposed by the board of directors to be distributed from the Company's contributed surplus. The dividends are subject to approval by shareholders at the forthcoming annual general meeting ("AGM") and have not been included as liabilities in these consolidated financial statements. The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these consolidated financial statements.

Subsequent to the end of the reporting period, on 31 March 2011, the directors recommended a bonus issue of shares to the ordinary equity holders of the Company on the basis of one bonus share for every five shares of the Company being held. The bonus issue of shares is subject to approval by the shareholders at the forthcoming AGM. The bonus shares will rank pari passu in all respect with the ordinary shares of the Company and the Company will not allot any fractions of bonus shares.

## 13. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit/(loss) for the year attributable to owners of the Company for the years ended 31 December 2010 and 2009 included a profit of HK$428,002,000 and a loss of HK$546,417,000, respectively, which has been dealt with in the financial statements of the Company.

## 14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2009 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic earnings/(loss) per share are based on:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings** | | |
| Profit/(loss) attributable to equity holders of the Company used in the basic earnings/(loss) per share calculation | **423,195** | (566,840) |

| | **Number of shares (thousand)** | |
|---|---|---|
| | **2010** | 2009 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation: | | |
| Issued ordinary shares at 1 January | **1,159,217** | 464,737 |
| Effect of shares issued during the year | **389,505** | 199,763 |
| | **1,548,722** | 664,500 |

The calculation of diluted earnings per share is based on:

| | **2010** |
|---|---|
| | ***HK$'000*** |
| **Earnings** | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation | **423,195** |

| | **Number of shares (thousand)** |
|---|---|
| | **2010** |
| Shares | |
| Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation: | |
| Effect on dilution — weighted average number of ordinary shares: | **1,548,722** |
| — Share options | **12,843** |
| — Warrants | **6,284** |
| | **1,567,849** |

## 15. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Buildings *HK$'000* | Freehold land *HK$'000* *(note (b))* | Leasehold improvements *HK$'000* | Furniture, fixtures and equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| **31 December 2010** | | | | | | |
| At 1 January 2010: | | | | | | |
| Cost or valuation | 32,278 | 4,494 | 85 | 31,006 | 446 | 68,309 |
| Accumulated depreciation and impairment | (1,171) | — | (32) | (2,408) | (233) | (3,844) |
| Net carrying amount | 31,107 | 4,494 | 53 | 28,598 | 213 | 64,465 |
| At 1 January 2010, net of accumulated depreciation and impairment | 31,107 | 4,494 | 53 | 28,598 | 213 | 64,465 |
| Additions | — | — | 823 | 173 | 261 | 1,257 |
| Depreciation provided during the year | (425) | (49) | (264) | (2,214) | (166) | (3,118) |
| Exchange realignment | (2,779) | (401) | — | (1,716) | — | (4,896) |
| Write-off *(note 40)* | (27,903) | (4,044) | — | (24,563) | — | (56,510) |
| At 31 December 2010, net of accumulated depreciation and impairment | — | — | 612 | 278 | 308 | 1,198 |
| At 31 December 2010: | | | | | | |
| Cost | — | — | 908 | 12,010 | 707 | 13,625 |
| Accumulated depreciation and impairment | — | — | (296) | (11,732) | (399) | (12,427) |
| Net carrying amount | — | — | 612 | 278 | 308 | 1,198 |

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

**Group** *(Continued)*

| | Buildings | Freehold land | Leasehold improvements | Furniture, fixtures and equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* *(note (b))* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **31 December 2009** | | | | | | |
| At 1 January 2009: | | | | | | |
| Cost or valuation | 120,937 | 4,555 | 1,270 | 54,486 | 2,121 | 183,369 |
| Accumulated depreciation and impairment | (2,597) | — | (845) | (13,840) | (756) | (18,038) |
| Net carrying amount | 118,340 | 4,555 | 425 | 40,646 | 1,365 | 165,331 |
| At 1 January 2009, net of accumulated depreciation and impairment | 118,340 | 4,555 | 425 | 40,646 | 1,365 | 165,331 |
| Additions | 27 | — | — | 4,646 | — | 4,673 |
| Disposal of subsidiaries *(note 39)* | (85,312) | — | (257) | (11,946) | (840) | (98,355) |
| Write-off | — | — | — | (5) | — | (5) |
| Depreciation provided during the year | (3,571) | — | (119) | (5,154) | (316) | (9,160) |
| Exchange realignment | 1,623 | (61) | 4 | 411 | 4 | 1,981 |
| At 31 December 2009, net of accumulated depreciation and impairment | 31,107 | 4,494 | 53 | 28,598 | 213 | 64,465 |
| At 31 December 2009: | | | | | | |
| Cost | 32,278 | 4,494 | 85 | 31,006 | 446 | 68,309 |
| Accumulated depreciation and impairment | (1,171) | — | (32) | (2,408) | (233) | (3,844) |
| Net carrying amount | 31,107 | 4,494 | 53 | 28,598 | 213 | 64,465 |

*Notes:*

(a) Include in the buildings were the Group's buildings located in the PRC (the "PRC Property") and in France (the "French Property"), respectively. The PRC Property of approximately HK$85,312,000 had been disposed of through the disposal of subsidiaries (note 39) during the year ended 31 December 2009. The French Property of approximately HK$27,903,000 together with the freehold land of approximately HK$4,044,000 had been fully write-off during the year ended 31 December 2010 as the subsidiary was in a liquidation process.

(b) The Group's freehold land is located in France and had been write-off through the liquidation of a subsidiary (note 40) during the year ended 31 December 2010.

## 16. PREPAID LAND LEASE PAYMENTS

The Group's prepaid lease payments represented its interest in land use rights and their net carrying value is analysed as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Carrying amount at 1 January | — | 19,341 |
| Amortisation during the year | — | (459) |
| Exchange realignment | — | 200 |
| Disposal of a subsidiary during the year *(note 39(d))* | — | (19,082) |
| Carrying amount at 31 December | — | — |
| Current portion included in prepayments, deposits and other receivables | — | — |
| Non-current portion | — | — |
| Analysed into: | | |
| Situated in the PRC under a medium term lease | — | — |

The pledged buildings and prepaid land lease payments were disposed of through the disposal of subsidiaries during the year ended 31 December 2009 (note 39(d)) and the pledge has therefore been released since then.

## 17. EXPLORATION AND EVALUATION ASSETS

**Group**

**31 December 2010**

| | ***HK$'000*** |
|---|---|
| At 1 January 2010, at cost | — |
| Additions | **46,371** |
| Impairment provided during the year | — |
| At 31 December 2010, net of impairment | **46,371** |
| 31 December 2010: | |
| Cost | **46,371** |
| Accumulated impairment | — |
| Net carrying amount | **46,371** |

## 17. EXPLORATION AND EVALUATION ASSETS *(Continued)*

As detailed in note 36(a) to the financial statement, the above exploration and evaluation assets represented the exploration work of certain natural gas and oilfield properties located in the areas in the Uinta Basin, Uintah County, Utah State, the United States of America. The exploration and evaluation assets are stated at cost less impairment losses. When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to property, plant and equipment and amortised on the units of production method (the "UOP") based on the proved and probable reserves.

During the year ended 31 December 2010, the Group has capitalised certain oil and gas properties of approximately HK$46,371,000 in the exploration and evaluation costs. None of the exploration and evaluation costs were transferred to the property, plant and equipment as the directors of the Company are of the opinion that the exploration properties were not capable of commercial production at the end of the reporting period.

## 18. INTANGIBLE ASSETS

**Group**

**31 December 2010**

| | **Oil and gas processing right** *HK$'000* |
|---|---|
| At 1 January 2010, at cost | — |
| Acquisition through business combination *(note 36(a))* | 1,960,140 |
| Amortisation provided during the year | — |
| At 31 December 2010, net of amortisation | 1,960,140 |
| 31 December 2010: | |
| Cost | 1,960,140 |
| Accumulated amortisation | — |
| Net carrying amount | 1,960,140 |

As detailed in note 36(a) to the financial statement, the above intangible assets represented the oil and gas processing right of the certain natural gas and oilfield properties which was located in the areas in the Uinta Basin, Uintah Country, Utah State, the United States of America. The intangible assets are amortised using the UOP method based on the proved and probable reserves. None of amortisation had been provided as the directors of the Company are of the opinion that the intangible assets were not capable of commercial production at the end of the reporting period.

## 19. GOODWILL

**Group**

| | HK$'000 |
|---|---|
| **At 31 December 2009:** | |
| Cost at 1 January 2009, net of accumulated impairment | 16,921 |
| Acquisition of non-controlling interests *(note 37)* | 42,985 |
| Acquisition of a business *(note 38)* | 62,039 |
| Net carrying amount at 31 December 2009 | 121,945 |
| At 31 December 2009: | |
| Cost | 121,945 |
| Accumulated impairment | — |
| Net carrying amount | 121,945 |
| **At 31 December 2010:** | |
| Cost at 1 January 2010, net of accumulated impairment | **121,945** |
| Write-off of goodwill on liquidation of a subsidiary during the year *(note 40)* | **(59,906)** |
| Impairment during the year | **(27,943)** |
| Net carrying amount at 31 December 2010 | **34,096** |
| At 31 December 2010: | |
| Cost | **62,039** |
| Accumulated impairment | **(27,943)** |
| Net carrying amount | **34,096** |

## 19. GOODWILL *(Continued)*

**Impairment testing of goodwill**

Goodwill acquired through business combinations and acquisition of a business has been allocated to the relevant cash-generating units for impairment testing as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Carrying amount of goodwill relevant to the processing and sales of plastic recycling materials in the ERC Group *(note (A))* | — | 59,906 |
| Carrying amount of goodwill relevant to the processing and sales of plastic recycling materials in the IBE Group *(note (B))* | **34,096** | 62,039 |
| | **34,096** | 121,945 |

*(A) Processing and sales of plastic recycling materials in the ERC Group*

Exploitation Ressources Internationales S.A., a major subsidiary of the ERC Group, was applied for a liquidation on 16 June 2010, the recoverable amount of the processing and sales of plastic recycling materials in the ERC Group was minimal, details of which, are set out in note 40 to the financial statements. Therefore, the goodwill relevant to the processing and sales of plastic recycling materials in the ERC Group was written off during the year ended 31 December 2010.

As at 31 December 2009, the recoverable amount of the processing and sales of plastic recycling materials in the ERC Group cash-generating unit had been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 17% and cash flows beyond the five-year period were extrapolated using a growth rate which did not exceed the long term average growth rate of the processing and sales of plastic recycling materials industry.

Key assumptions were used in the value in use calculation of the processing and sales of plastic recycling materials in the ERC Group cash-generating unit for 31 December 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

| | 2009 |
|---|---|
| | % |
| Gross margin | 40 |
| Growth rate | 43 |
| Discount rate | 17 |

Management determined the budgeted gross-margin based on past performance and its expectation for market development. The weighted average growth rates used were based on the industry research. The discount rates used were pre-tax that reflected current market assessments of the time value of money and the specific risks relating to the relevant segments.

## 19. GOODWILL *(Continued)*

**Impairment testing of goodwill** *(Continued)*

*(B) Processing and sales of plastic recycling materials in the IBE Group*

The recoverable amount of the processing and sales of plastic recycling materials in the IBE Group cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12% (2009: 12%) and cash flows beyond the five-year period are extrapolated using a growth rate which does not exceed the long term average growth rate of the processing and sales of plastic recycling materials industry.

Key assumptions were used in the value in use calculation of the processing and sales of plastic recycling materials in the IBE cash-generating unit for 31 December 2009 and 2010. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

| | **2010** | 2009 |
|---|---|---|
| | *%* | *%* |
| Gross margin | **5** | 7 |
| Growth rate | **4** | 5 |
| Discount rate | **12** | 12 |

During the year ended 31 December 2010, the Group provided an impairment loss on goodwill of HK$27,943,000 primarily due to an expected decrease in both the gross margin and the growth rate in the IBE cash generating units resulting in a lower recoverable amount.

Management determined the budgeted gross-margin based on past performance and its expectation for market development. The weighted average growth rates used are based on the industry research. The discount rates used are pre-tax that reflected current market assessments of the time value of money and the risks specific risks relating to the relevant segments.

## 20. INTERESTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **11,126** | — |
| Due from subsidiaries | **2,153,623** | 726,156 |
| | **2,164,749** | 726,156 |
| Less: Impairment | **—** | (513,736) |
| | **2,164,749** | 212,420 |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## 20. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries of the Company are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Champion Merry Investment Limited | The British Virgin Islands (the "BVI") | US$1 | — | 100% | Investment holding |
| China Environmental Resources Limited | Hong Kong | HK$50,000,000 | — | 60% | Investment holding |
| Euro Resources China Limited | Hong Kong | HK$10,000 | — | 60% | Investment holding |
| Get Wealthy Investments Limited | BVI | US$1 | — | 100% | Investment holding |
| Grand Huge International Limited | Hong Kong | HK$10,000 | — | 100% | Provision of corporate services |
| IB Environmental Plastic Limited | Hong Kong | HK$1 | — | 60% | Plastic recycling |
| Pearl Oriental International Assets Limited | Hong Kong | HK$1 | — | 100% | Provision of corporate services |
| Pearl Oriental Logistics Sino Limited | Hong Kong | HK$22,000,000 | — | 60% | Investment holding |
| Festive Oasis Limited *(note (a))* | BVI | US$1,000 | — | 100% | Investment holding |
| Shiny One Limited *(note (a))* | BVI | US$100 | — | 100% | Investment holding |
| Shiny One, USA, LLC *(note (a))* | United States of America | N/A | — | 100% | Exploration, development, production and sales of natural gas and oil |

*Note (a)*: These subsidiaries were acquired by the Company during the year, details of which are set out in note36(a) to the financial statements.

The above table lists the subsidiaries of the Company which in the opinion of the directors, principally affects the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particular of excessive length.

## 21. INVENTORIES AND SUPPLIERS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials for the plastics recycling business | — | 8,707 |
| Goods in transit | **6,699** | — |
| Material and supplies | **213** | — |
| | **6,912** | 8,707 |

## 22. TRADE AND BILL RECEIVABLES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **3,357** | 9,142 |
| Less: Impairments | **(2,985)** | (2,943) |
| | **372** | 6,199 |
| Bill receivables *(note 30)* | **1,399** | — |
| | **1,771** | 6,199 |

The trade receivables of HK$372,000 (after deducting the impairment provision) represented the trade receivables arising from the plastics recycling business. The Group's trading terms with its customers are mainly on credit while sales deposits (note 27(b)) are required to receive in advance from its customers. The credit period is generally one month.

For the logistics business, the Group's trading terms with its customers were mainly on credit, except for new customers, where payment in advance was normally required. The credit period was generally two months, extending up to three months for major customers.

Both of plastic recycling's and logistic's business, each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Less than 3 months | **1,771** | 5,995 |
| 3 months to 6 months | — | 96 |
| 6 months to 12 months | — | 108 |
| | **1,771** | 6,199 |

## 22. TRADE AND BILL RECEIVABLES *(Continued)*

The movements in the provision for impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| At the beginning of the reporting period | **2,943** | 2,880 |
| Exchange realignment | **42** | 63 |
| At the end of the reporting period | **2,985** | 2,943 |

The aged analysis of the trade and bill receivables that are not considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **1,771** | 5,995 |
| 3 to 6 months past due | **—** | 96 |
| 6 to 12 months past due | **—** | 108 |
| | **1,771** | 6,199 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Company does not hold any collateral or other credit enhancements over these balances.

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Prepayments | **4,016** | 948 | **—** | — |
| Rental and other deposits paid *(note (a))* | **1,045** | 2,756 | **—** | — |
| Security deposits for the legal case *(note (b))* | **—** | 10,446 | **—** | 10,446 |
| Trade deposits *(note (c))* | **42,034** | 32,702 | **—** | — |
| Other receivables | **2,010** | 669 | **—** | 238 |
| Loans receivable *(note (d))* | **213,906** | — | **213,906** | — |
| | **263,011** | 47,521 | **213,906** | 10,684 |

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

*Notes:*

**(a) Include in the rental and other deposits of approximately HK$1,725,000 represented:**

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Deposit paid | **1,725** | 1,725 | — | — |
| Deposit written-off | **(1,725)** | — | — | — |
| | — | 1,725 | — | — |
| Impairment loss recognised | **(1,725)** | — | — | — |
| Reversed on written-off | **1,725** | — | — | — |
| | — | — | — | — |
| | — | 1,725 | — | — |

As at 31 December 2009 and 2010, a deposit of RMB1,650,000 (equivalent to HK$1,725,000) was paid in respect of a proposed acquisition undertaken by Euro Resources China Limited ("ERC"), which was a 60%-owned subsidiary as at 31 December 2009 and 2010. On 14 July 2007, ERC entered into a conditional sale and purchase agreement between an independent third party, Mr. He Zhaorong ("Mr. He"), in relation to the acquisition of a 60% equity interest in Foshan Shunde Euro Resources Wanhai Manufacturing Limited ("Foshan") at a total consideration of RMB9,000,000 (equivalent to HK$$10,153,800).

On the same day, ERC further entered into a supplemental agreement with Mr. He, pursuant to which, ERC paid a deposit of RMB1,500,000 (equivalent to HK$1,692,000) to Mr. He in respect of the proposed acquisition.

On 25 March 2009, Euro Resources entered into a supplemental agreement with Mr. He, pursuant to which, the completion date of the proposed acquisition has been extended to 31 March 2011. During the year ended 31 December 2009, a further amount of RMB150,000 (equivalent to approximately HK$170,000) was paid by the Group.

The directors of the Company are of the opinion that this amount may not be recovered as the Company resolved not to proceed with the negotiation for a conclusive agreement, accordingly, it had been fully impaired and written-off during the year ended 31 December 2010.

As at 31 December 2009 and 2010, the Group had a capital commitment of RMB7,500,000 (equivalent to HK$8,461,000) (note 42) in respect of the outstanding purchase consideration pursuant to the agreements.

**(b)** During the year ended 31 December 2009, the Company paid a sum of HK$10,446,000 to the Court as the security for payment of judgement debt and the plaintiffs' cost in respect of the legal claims with the ex-directors of a disposed subsidiary. The Company has filed an appeal against the Judgment and the appeal was allowed by the Court of Appeal and the Judgment was set aside on 13 April 2010. Accordingly, the deposit had been released during the year. Further details are set out in note 44 to the financial statements.

**(c)** The trade deposits paid of HK$42,034,000 as at 31 December 2010 (2009: HK$32,702,000) represented the purchase deposits paid to the suppliers. The related goods and services were received by the Group subsequent to the end of reporting period.

**(d)** As at 31 December 2010, the loans receivable of HK$213,906,000 mainly represented short term loans receivable including three secured short term loans of HK$203,200,000, and these loans bore interest at around 5% to 6% per annum.

None of the short term loans were past due as at the end of the reporting period.

## 24. AVAILABLE-FOR-SALES INVESTMENTS CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE

The available-for-sales investments grouped in current assets are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Equity securities, at cost: | | | | |
| Balance at 1 January | — | 12,412 | — | 12,412 |
| Write-off during the year | — | (12,412) | — | (12,412) |
| Balance at 31 December | — | — | — | — |
| Impairments: | | | | |
| Balance at 1 January | — | 12,412 | — | 12,412 |
| Write-off during the year | — | (12,412) | — | (12,412) |
| Balance at 31 December | — | — | — | — |
| Net carrying value | — | — | — | — |

The above investment represents certain equity securities of China Technology Global Corporation which were designated as available-for-sale financial assets on 1 January 2005. The securities have been fully impaired because China Technology Global Corporation was de-listed from the Over-The-Counter Bulletin Board of the United States of America in 2006. The above investment was written-off during the year ended 31 December 2009 as the directors were of the opinion that there is unlikely a recover of the investment.

## 24. AVAILABLE-FOR-SALES INVESTMENTS CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE *(Continued)*

The unlisted equity investments grouped in non-current assets are as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Available-for-sale investments: | | |
| At cost: | | |
| At 1 January | **922,318** | — |
| Acquisition of a subsidiary *(note 36(b))* | **—** | 922,318 |
| Transfer to non-current assets held for sales | **(922,318)** | — |
| At 31 December | **—** | 922,318 |
| Impairment: | | |
| At 1 January | **(922,318)** | — |
| Provided during the year | **—** | (922,318) |
| Transfer to non-current assets held for sales | **922,318** | — |
| At 31 December | **—** | (922,318) |
| Net carrying value | **—** | — |
| Non-current assets held for sales: | | |
| At cost: | | |
| At 1 January | **—** | — |
| Transfer from available-for-sale investments | **922,318** | — |
| Disposals | **(153,720)** | — |
| At 31 December | **768,598** | — |
| Impairment: | | |
| At 1 January | **—** | — |
| Transfer from available-for-sale investments | **(922,318)** | — |
| Reversed on disposals | **153,720** | — |
| At 31 December | **(768,598)** | — |
| Net carrying value | **—** | — |

The above investments as at 31 December 2009 represented an 100% equity interests in Taiyuan Sanxing Coal Gasification (Group) Co., Limited (太原市三興煤炭氣化有限公司) ("Taiyuan Sanxing") held by China Coal Energy Holdings Limited ("China Coal").

The balance as at 31 December 2010 represented the Group's 45.92% equity interests in China Coal.

As at 1 January 2009, the Group had 39.93% equity interest in China Coal and classified as "Interests in an associate" and shared its results during that year. As detailed in note 36(b) to the financial statements, the Group has further acquired from independent third parties an aggregate of 15.18% equity interest in China Coal through the acquisition of the entire equity interests in Get Wealthy Investments Limited (which holds 15% equity interests in China Coal) and the remaining equity interest in China Coal at an aggregate consideration of HK$58,000,000. Upon the completion of the acquisition, the Group's equity interest in China Coal increased from 39.93% to 55.11% and the Group obtained control over the financial and operating policies of China Coal. China Coal became an indirect non-wholly-owned subsidiary of the Company which has an effective equity interest of 55.11%. China Coal's results had been equity picked-up until 14 July 2009 and fully consolidated into the Group's consolidated financial statements since 15 July 2009.

## 24. AVAILABLE-FOR-SALES INVESTMENTS CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE *(Continued)*

The principal activity of China Coal is investment holding and the principal asset of China Coal is an 100% equity interest in Taiyuan Sanxing. Taiyuan Sanxing was established in the PRC with limited liabilities and the Taiyuan Sanxing Group is principally engaged in the coal gasification and coal mining. The principal assets of Taiyuan Sanxing and its subsidiary Shanxi Sanxing Coal and Coke Limited (山西三興煤焦有限公司) ("Shanxi Sanxing") (collectively, the "Taiyuan Sanxing Group") are certain coal mines.

Pursuant to a conditional agreement dated 15 July 2006 entered into between the Company and Mr. Zhang, Mr. Zhang has guaranteed the Company that the audited net profit of China Coal determined in accordance with HKFRSs for the three financial years ended 31 December 2009 should in aggregate be not less than HK$600,000,000. Should the aggregate audited net profit of China Coal fall below HK$600,000,000, Mr. Zhang will pay the shortfall to the Company on a dollar-to-dollar basis after the issuance of China Coal's audit reports for the three financial years ended 31 December 2009. Mr. Zhang had pledged all his 44.89% equity interests in China Coal (the "Share Pledge") as collateral for his performance under the Profit investments Guarantee in a the deed of charge dated 25 October 2006 (the "Deed of Charge").

As announced by the Company on 12 August 2008, on 7 August 2008, Mr. Zhang issued and served a writ (the "Writ") in the High Court of Hong Kong against, inter alia, the Company, Get Wealthy Investment Limited ("Get Wealthy"), Champion Merry Investment Limited ("Champion", a subsidiary of the Company) and Mr. Wong Kwan, Chairman, Chief executive, executive director and also a major shareholder of the Company, in which Mr. Zhang claimed, inter alias, against the Company and Champion for damages for alleged breaches of a joint venture agreement dated 15 July 2006 (the "Joint Venture Agreement"), and Mr. Zhang also applied for an order that the Joint Venture Agreement and the Deed of Charge be rescinded.

After considering the opinion from the Company's legal advisors in Hong Kong, the directors are of the opinion that all the claims in the Writ are of no substance and groundless, and the directors will strongly defend and has confidence to defeat such claims and the Company has issued counter claim against Mr. Zhang, including without limitation, the dividend from China Coal of HK$80,000,000, damages for breaches of the Joint Venture Agreement and other relief.

The Group and the other defendants have made applications for striking out of Mr. Zhang's claims against the Group and the other defendants and also a summary judgment for counterclaims against Mr. Zhang for dividend from China Coal of HK$80,000,000 and other damages. The applications have been dismissed by the Court with costs, and the parties to the legal action would proceed to trial on dates to be fixed. After consultation with the Company's legal advisors, the directors are confident that the Group's rights and interests can be fully protected during the coming trial.

## 24. AVAILABLE-FOR-SALES INVESTMENTS CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE *(Continued)*

In addition to the above:

i) Zhang Xinyu obtained a judgment (the "Judgment") on 10 November 2008 from the Taiyuan Intermediate People's Court (太原市中級人民法院) against Taiyuan Sanxing, inter alia, that:

1. an agreement (the "December 2006 Agreement") entered into among Zhang Xinyu, Mr. Zhang and Taiyuan Sanxing on 28 December 2006 in relation to the capital injection and transfer of equity interests in Shanxi Sanxing from Mr. Zhang and Zhang Xinyu to Taiyuan Sanxing should be cancelled; and

2. after the Judgment becomes effective, Shanxi Sanxing has to be restored to the original situation before the December 2006 Agreement, and all shares in Shanxi Sanxing have to be transferred back to Zhang Xinyu and Mr. Zhang.

Zhang Xinyu is the younger brother of Mr. Zhang and the chairman of board, a director and also the legal representative of Taiyuan Sanxing. Unknown to the Company, Zhang Xinyu has instituted the above legal proceedings (the "Legal Proceedings") against Taiyuan Sanxing in the Taiyuan Intermediate People's Court, and the Legal Proceedings have been wilfully concealed to the Company and China Coal. China Coal has made an application for an appeal to the judgement.

ii) Subsequent to the acquisition of the additional 15.18% equity interest in China Coal, it came to the attention of the Company's directors that there is a dispute over the title of the mining permit of a coal mine located at 山西省臨縣林家坪鎮白家峁村 (the "Coal Mine") owned by Shanxi Sanxing. In particular, (山西省臨縣林家坪鎮白家峁村民委員會) (the "Village") has sued the Department of Land and Resources, Shanxi Province (山西省國土資源廳) in the People's Intermediate Court of Taiyuan (太原市中級人民法院) and claimed that the Department of Land and Resources, Shanxi Province (山西省國土資源廳) has wrongfully transferred the title of the Coal Mine from the Village to Shanxi Sanxing and to obtain an administrative judgment of revoking such change. The Company understands that the Department of Land and Resources, Shanxi Province (山西省國土資源廳) has filed its appeal against the judgment but the appeal has been dismissed by the People's High Court of Shanxi Province (山西省高級人民法院) in October 2009. As a result of the judgment, the transfer of the title of the Coal Mine to Shanxi Sanxing in April 2002 has been confirmed as an illegal administrative action, and the mining permit of Shanxi Sanxing issued by the Department of Land and Resources, Shanxi Province (山西省國土資源廳) in December 2006 has been cancelled.

According to the legal advice of the Company's PRC lawyers, the Company and China Coal, as the controlling stakeholder of Taiyuan Sanxing and the Coal Mine, have paid genuine consideration as bona fide purchasers and the investments have been approved by the Department of Commerce, Shanxi Province (山西省商務廳), the Department of Land and Resources, Shanxi Province (山西省國土資源廳) and the Department of Industrial and Commercial Administration, Shanxi Province (山西省工商行政管理局), therefore the investments should be protected by the PRC laws. They have relied on the legality of Shanxi Sanxing as the registered owner of the title of the Coal Mine according to the records in the Department of Land and Resources, Shanxi Province (山西省國土資源廳), the Department of Commerce Shanxi Province (山西省商務廳) and the Department of Industrial and Commercial Administration, Shanxi Province (山西省工商行政管理局). The Company has already taken immediate steps and measures including but not limited to the reporting to the People's Government of Shanxi Province (山西省人民政府), the People's High Court of Shanxi Province (山西省高級人民法院), the Department of Commerce, Shanxi Province (山西省商務廳) and the Department of Land and Resources, Shanxi Province (山西省國土資源廳) to request suspension of execution of the administrative judgment made by the People's High Court of Shanxi Province (山西省高級人民法院) and also requesting the case be fairly handled in accordance with the laws and facts in order to protect its rights and interests in the Coal Mine. The Company also indicates that it will reserve its rights of taking necessary legal actions against the relevant government authorities of Shanxi Province for compensations should the Company incur any damages suffered from loss of the title of the Coal Mine as a result of the issue being not resolved reasonably and lawfully by the government of Shanxi Province.

## 24. AVAILABLE-FOR-SALES INVESTMENTS CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE *(Continued)*

iii) Since Zhang Xinyu, Mr. Zhang, Gao Shanhe, Zhang Zhenwu and Wang Jifeng (the directors of Taiyuan Sanxing) have refused to execute the resolutions of China Coal, the sole shareholder of Taiyuan Sanxing, refused to account for profits of Taiyuan Sanxing, obviously failed to perform their fiduciary duties as directors of Taiyuan Sanxing and also caused damages to lawful rights and interests of China Coal as a foreign investors, China Coal has therefore issued a writ against them in the People's High Court of Shanxi Province (山西省高級人民法院) to claim for damages against breaches of their fiduciary duties and their conducts amounted to wilful embezzling of assets of Taiyuan Sanxing which are clearly contrary to the laws of the PRC.

Because of the above legal claims between the Company and Mr. Zhang, China Coal had not been provided with the operating and financing information of Taiyuan Sanxing since 1 January 2008 and China Coal was unable to exercise its powers on the financial and operating matters of Taiyuan Sanxing. The loss of the operating and financing control over Taiyuan Sanxing had become apparent to China Coal's board of directors because the legal representative, directors and senior management of Taiyuan Sanxing were either appointed based on the recommendation of Mr. Zhang and/or ex-senior management of Taiyuan Sanxing prior to the Group's acquisition of the present equity interests in China Coal and therefore in Taiyuan Sanxing. Following all the shareholders of China Coal except Mr. Zhang had become aware of the loss of control over Taiyuan Sanxing, the board of directors of China Coal had passed certain key resolutions demanding structural reform to the board of directors of Taiyuan Sanxing. However, due to the above management structure unfavourable to the Group, those board resolutions of China Coal cannot be executed on or by Taiyuan Sanxing. As a result of the loss of control or significant influence over Taiyuan Sanxing, China Coal's equity interests in Taiyuan Sanxing were reclassified as an available-for-sales investment at its carrying value during the year ended 31 December 2008.

The Group, through China Coal, has taken the necessary legal actions to protect China Coal's investment in Taiyuan Sanxing. However, based on the legal advice, the directors of the Company may not be able to obtain a favourable judgement in the litigations.

In view of the above litigations and the inability of China Coal to deal with its interests in Taiyuan Xinsang as well as the significant deterioration of the Taiyuan Sanxing Group's operations and assets, particularly as evidenced by the cancellation of the title of the Coal Mine, a full provision of impairment loss of approximately HK$922,318,000 on the available-for-sales-investment in Taiyuan Sanxing was made by the Group during the year ended 31 December 2009, in which an amount of approximately HK399,094,000 was attributable to its non-controlling interests.

## 24. AVAILABLE-FOR-SALES INVESTMENTS CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE *(Continued)*

A settlement agreement was entered into on 31 July 2010 between, inter alias, the Company and certain its subsidiaries together with Favour Good Investment Limited (a former shareholder of China Coal ("Favour Good")) (collectively, "Party A"), and Mr. Zhang and certain of his associates (collectively, "Party B"), pursuant to which, inter alias, (i) Party A and Party B should make applications to withdraw or settle all the Legal Claims against any parties to those litigations both in Hong Kong and the PRC; (ii) Favour Good waived the principal amount of HK$23,400,000 (the "Favour Good Loan") plus interest due from China Coal to it; and (iii) the Group disposed of its 55.11% equity interest in China Coal at a consideration of HK$192,000,000 (the "Consideration") by cash. The gross Consideration is to be settled by, and the China Coal shares are to be transferred from the Group to, Mr. Zhang as follows:

| | Received date | Gross consideration amount *HK$* | Number of China Coal shares to be transferred |
|---|---|---|---|
| First instalment | Within 7 days from the withdrawal of the Legal Claims (the "First Payment Date") | 32,000,000 | 9,185,127 |
| Second instalment | Within 6 months after the First Payment Date | 50,000,000 | 14,351,760 |
| Third instalment | Within 12 months after the First Payment Date | 50,000,000 | 14,351,760 |
| Fourth instalment | Within 18 months after the First Payment Date | 30,000,000 | 8,611,056 |
| Fifth instalment | Within 24 months after the First Payment Date | 30,000,000 | 8,611,057 |

In addition, pursuant to a supplemental settlement agreement dated 28 January 2011, 3% administrative charges will be deducted from each instalment starting from the second instalment.

During the year ended 31 December 2010, the Group has received of HK$32,000,000 and therefore, 9.19% equity interest in China Coal was disposal of. Upon the completion of such disposal, the Group's equity interest in China Coal decreased from 55.11% to 45.92% and the Group has lost control over the financial and operating policies of China Coal. China Coal has ceased to be a subsidiary of the Company since then. China Coal was reclassified from "Investment in a subsidiary" to "Available for sales investments" under non-current asset held for sale at the date of losing control over China Coal and/or significant influence in China Coal.

The directors of the Company are of the opinion that the prolonged legal actions in relation to China Coal have last for almost two years, the Group cannot afford to spend any further time, resources and effort liaising with various governmental authorities and the outcome of these legal actions are uncertain. Upon the completion of the disposal as detailed in note 39(b) to the financial statements, the Group can fully focus on its oil and gas core businesses after the disputes in relation to China Coal has been resolved and it can remove the uncertainty on the prospect of the Group's future development.

## 25. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **374,932** | 224,314 | **310,604** | 206,624 |

At 31 December 2010, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$Nil (2009: HK$3,975,000). The RMB is not freely convertible into other currencies, however, under Mainland China's "Foreign Exchange Control Regulations" and "Administration of Settlement, Sale and Payment of Foreign Exchange Regulations", the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

At 31 December 2009, certain bank deposits of the Group amounting to approximately HK$1,127,000 was freezed and such deposits were de-recognised upon the disposal of subsidiaries (note 39(a)) during the year ended 31 December 2010.

## 26. TRADE PAYABLES

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Current–3 months | **3,405** | 3,622 |
| Over 1 year | **1,097** | 2,078 |
| | **4,502** | 5,700 |

The trade payables are non-interest-bearing and are normally settled on 60 day terms

## 27. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Other payables | **1,842** | 5,372 | **—** | — |
| Accruals | **3,514** | 13,815 | **3,003** | 4,073 |
| Due to former shareholders of subsidiaries *(note (a))* | **6,012** | 29,412 | **—** | — |
| Trade deposit received *(note (b))* | **3,297** | 3,007 | **—** | — |
| Deposit received *(note (b))* | **—** | 90 | **—** | — |
| | **14,665** | 51,696 | **3,003** | 4,073 |

*Notes:*

(a) As at 31 December 2009 and 2010, the amounts due to certain former shareholders of subsidiaries represented:

- (i) the amount due to Favour Good Investments Limited of approximately HK$23,400,000, which was unsecured, bore interest rate at 6% per annum and was repayable in December 2010. The amounts was de-recognised from the Group upon the disposal of China Coal (note 39 (b)).
- (ii) the amount due to Kong Rise Limited of approximately HK$6,012,000, which was unsecured, interest-free and had no fixed repayments terms.

(b) The trade deposits received of approximately HK$3,297,000 as at 31 December 2010 (2009: HK$3,007,000) represented sales deposits received from the customers. The related goods were delivered by the Group to the customers subsequent to the end of reporting period.

## 28. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Balance at 1 January | **—** | — |
| Recognition on inception *(note 36)* | **653,203** | — |
| Change in fair value *(note 6)* | **11,050** | — |
| Balance at 31 December | **664,253** | — |

As detailed in note 36(a) to the financial statement, the derivative financial instruments represented the acquisition right of remaining 30% ownership interest in respect of the oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field (the "30% Acquisition Right").

Subsequent to the end of the reporting period, on 11 March 2011, the 30% Acquisition Right was exercised by the Group at a consideration of US$25 million (approximately HK$195 million)(notes 36(a) and 45(a))

## 29. LOAN FROM IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Current portion *(note (i))* | **—** | 4,910 | **—** | 3,112 |
| Non current portion *(note (ii))* | **—** | 66,300 | **—** | 66,300 |
| | **—** | 71,210 | **—** | 69,412 |

As at 31 December 2009, the loan from immediate parent and ultimate controlling party of HK$71,210,000 represented:

(i) a loan with an aggregate amount of approximately HK$4,910,000 granted by Orient Day Developments Limited ("Orient Day") during that year with the following terms:

- approximately HK$3,112,000 advanced to the Company, which was unsecured, bored interest at HSBC Prime Rate from time to time and had no fixed repayment terms, and;
- approximately HK$1,798,000 advanced to a subsidiary of the Group, which was unsecured, interest-free and had no fixed repayment terms.

These loans were fully settled in February 2010.

(ii) An amount of HK$66,300,000 representing the amounts received for the subscription of the Company's shares by Orient Day. The subscription was completed in January 2010, details of which are set out in note 32 to the financial statements.

## 30. INTEREST-BEARING BANK BORROWINGS, UNSECURED

| | | | Group | |
|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | 2010 HK$'000 | 2009 HK$'000 |
| Bank borrowings — unsecured repayable within one year | 0.18% | 2011 | **1,399** | — |

The bank borrowings represented a loan granted by the bank in respect of discounted bills receivables (note 22).

Subsequent to the end of the reporting period in January 2011, the bank borrowings were fully settled.

## 31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

**Group**

*Deferred tax liabilities*

| | Fair value adjustments arising from acquisition of subsidiaries HK$'000 |
|---|---|
| Deferred tax recognised arising from the business combination* *(note 36(a))* | 686,049 |
| At 31 December 2010 | 686,049 |

* Fair value adjustments for the intangible assets.

*Deferred tax assets*

| | Tax losses HK$'000 |
|---|---|
| At 31 December 2009 and 1 January 2010 | — |
| Deferred tax credited to the income statement during the year *(note 10)* | (5,204) |
| At 31 December 2010 | (5,204) |

Apart from that, the Group had unused tax losses of approximately HK$14,239,000 (2009: HK$23,453,000) available for offset against future profits for a period of five years at 31 December 2010. A deferred tax has been recognised in respect of tax losses of HK$13,953,000 (2009: HK$Nil) of such losses. No deferred tax asset has been recognised in the respect of the remaining tax losses of approximately HK$286,000 (2009: HK$23,453,000), due to unpredictability of future profit streams. During the year, no unrecognised tax losses have expired.

At 31 December 2010, the Group did not have any significant deductible temporary differences (2009: Nil).

## 32. SHARE CAPITAL

### (a) Shares

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Authorised: | | |
| 200,000,000,000 ordinary shares of HK$0.10 each | **20,000,000** | 20,000,000 |
| Issued and fully paid: | | |
| 1,986,968,960 ordinary shares of HK$0.10 each (2009: 1,159,216,960 shares of HK$0.10) | **198,697** | 115,922 |

*Issued and fully paid*

| | Number of shares '000 | HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 31 December 2009 and 1 January 2010 | 1,159,216 | 115,922 | 698,101 | 814,023 |
| Issue of new shares during the year: | | | | |
| In January 2010 *(note (i))* | 65,000 | 6,500 | 59,800 | 66,300 |
| In May 2010 *(note (ii))* | 231,368 | 23,137 | 296,150 | 319,287 |
| In May 2010 *(note (iii))* | 175,000 | 17,500 | 52,500 | 70,000 |
| In November 2010 *(note (iv))* | 327,750 | 32,774 | 426,075 | 458,849 |
| Share issue expenses | — | — | (12,408) | (12,408) |
| Share options exercised *(note (v))* | 28,635 | 2,864 | 29,639 | 32,503 |
| At 31 December 2010 | 1,986,969 | 198,697 | 1,549,857 | 1,748,554 |

*Notes:*

i. In December 2009, the Company has entered into several share sale and subscription agreements with Orient Day and certain subscribers. Pursuant to the agreements, Orient Day has agreed to sell an aggregate of 65,000,000 existing ordinary shares in the Company to the subscribers at a price of HK$1.02 per share and, in return, Orient Day has agreed to subscribe for an aggregate 65,000,000 new ordinary shares in the Company at a price of HK$1.02 per share, with total gross proceeds of HK$66,300,000 intended partly as the Group's general working capital and partly for possible acquisition of overseas energy and natural resources projects. The sale and subscription was completed in January 2010 while the consideration was received by the Company in December 2009 and recorded as a loan from immediate parent and ultimate controlling party in the statement of financial position as at 31 December 2009 (note 29(ii)).

ii. In April 2010, the Company has entered into several subscription agreements with certain subscribers, pursuant to which, those subscribers have subscribed for an aggregate of 231,368,000 new ordinary shares in the Company at a price of HK$1.38 per share, for total gross proceeds of approximately HK$319,287,000. Except for a total of HK$110,400,000, which was satisfied as to HK$55,200,000 in cash and as to HK$55,200,000 by means of a short term loan provided by the Company, the gross proceeds were received by the Company upon completion in May 2010, which were intended to be partially utilised for the acquisition of the Utah Gas and Oil Field (note 36(a)) and partially utilised as costs for the exploitation and exploration of existing and new wells of the Utah Gas and Oil Field. The remaining consideration of HK$55,200,000 has been received by the Company subsequent to the date of the reporting period.

iii. In May 2009, Orient Day and the Company have entered into a subscription agreement in relation to the proposed issue of convertible notes (the "Convertible Notes") by the Company to Orient Day. The Convertible Notes consisted of two tranches and the total principal amount was up to HK$100,000,000, convertible into new ordinary shares in the Company at a conversion price of HK$0.40 per ordinary share, resulting in the issue of an aggregate of up to 250,000,000 new ordinary shares in the Company.

## 32. SHARE CAPITAL *(Continued)*

### (a) Shares *(continued)*

On 20 October 2009 and 31 December 2009, Orient Day exercised its right to convert a total of HK$30,000,000 Convertible Notes into a total of 50,000,000 and 25,000,000 new ordinary shares in the Company respectively.

As at 31 December 2009, a total of HK$70,000,000 Convertible Notes remained outstanding and were exercised by Orient Day on 3 May 2010, resulting in a total of 175,000,000 new ordinary shares being issued to Orient Day for a total consideration of HK$70,000,000 in cash for general working capital of the Company.

At the end of the reporting period, there were no outstanding Convertible Notes.

iv. In October and November 2010, the Company has entered into several share sale and subscription agreements with Orient Day and certain other subscribers. Pursuant to the agreements, (i) Orient Day has agreed to sell an aggregate of 188,225,000 existing ordinary shares in the Company to the subscribers at a price of HK$1.4 per share, and in return, Orient Day has agreed to subscribe for an aggregate 188,225,000 new ordinary shares in the Company at a price of HK$1.4 per share; and (ii) certain subscribers have agreed to subscribe for a total of 139,525,000 additional new shares at a price of HK$1.4 per share. The aggregate gross proceeds of approximately HK$458,849,000 were intended to be used for the acquisition of some oil and gas projects including but not limited to the remaining 30% Ownership Interests in the Utah Gas and Oil Field, partially utilised for the exploitation and exploration of existing and new wells of the Utah Gas and Oil Field and partially as the Group's working capital. Except for a total of HK$168,000,000, which was satisfied as to HK$140,000,000 in cash and as to HK$28,000,000 by means of a short term loan provided by the Company, the gross proceeds have been received by the Company upon the completion in November 2010. The remaining consideration of HK$28,000,000 has been received by the Company subsequent to the date of the reporting period.

v. During the year ended 31 December 2010, 14,200,000 and 14,435,000 share options (which have been issued pursuant to the Company's share option scheme) have been exercised at an exercise price of HK$0.56 and HK$1.13 per share, respectively, resulting in the issue of a total of 28,635,000 new ordinary shares in the Company with an aggregate gross proceeds of HK$32,503,000 (including an amount transferred from share option reserve of approximately HK$8,239,000). The net proceeds from the exercise of the share options were HK$24,264,000.

### (b) Share Options

Details of the Company's share option scheme are included in note 33 to the financial statements.

## 33. SHARE OPTION SCHEME

The Company has a share option scheme (the "New Scheme") which was adopted on 15 July 2009, whereby, pursuant to a written resolution of all the shareholders, was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 14 July 2019. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of any companies in the Group, to subscribe for shares in Company.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the issued share capital of the Company from time to time, without prior approval from shareholders of the Company. The number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company's issued share capital; otherwise it must be approved by the shareholders of the Company.

The options may be exercised at any time from the date of acceptance of the offer to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company.

## 33. SHARE OPTION SCHEME *(Continued)*

The following table discloses movements in the Company's share options establishing during the year:

| Grantee | Date of grant | Exercise period | Outstanding as at 1 January 2010 | Granted during the year | Exercise during the year | Outstanding as at 31 December 2010 | Exercise price per share option *HK$* |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Wong Yuk Kwan | 5 August 2009 | 5 August 2009–14 July 2019 | 3,000,000 | — | — | 3,000,000 | 0.56 |
| | 9 June 2010 | 9 June 2010–14 July 2019 | — | 5,000,000 | — | 5,000,000 | 1.13 |
| Cheung Kwok Yu | 9 June 2010 | 9 June 2010–14 July 2019 | — | 5,000,000 | (5,000,000) | — | 1.13 |
| Zhou Li Yang | 5 August 2009 | 5 August 2009–14 July 2019 | 3,000,000 | — | (1,000,000) | 2,000,000 | 0.56 |
| | 9 June 2010 | 9 June 2010–14 July 2019 | | 5,000,000 | | 5,000,000 | 1.13 |
| Zheng Yingsheng | 5 August 2009 | 5 August 2009–14 July 2019 | 1,000,000 | — | (1,000,000) | — | 0.56 |
| Johnny Yuen | 5 August 2009 | 5 August 2009–14 July 2019 | 3,000,000 | — | (3,000,000) | — | 0.56 |
| | 9 June 2010 | 9 June 2010–14 July 2019 | — | 5,000,000 | — | 5,000,000 | 1.13 |
| Fung Hing Chiu | 5 August 2009 | 5 August 2009–14 July 2019 | 3,000,000 | — | (3,000,000) | — | 0.56 |
| | 9 June 2010 | 9 June 2010–14 July 2019 | — | 5,000,000 | — | 5,000,000 | 1.13 |
| Lam Ka Wai Graham | 5 August 2009 | 5 August 2009–14 July 2019 | 3,000,000 | — | (3,000,000) | — | 0.56 |
| | 9 June 2010 | 9 June 2010–14 July 2019 | — | 5,000,000 | — | 5,000,000 | 1.13 |
| Yu Jianmeng | 5 August 2009 | 5 August 2009–14 July 2019 | 1,000,000 | — | — | 1,000,000 | 0.56 |
| | 9 June 2010 | 9 June 2010–14 July 2019 | — | 5,000,000 | — | 5,000,000 | 1.13 |
| Lew Mon Hung | 3 December 2009 | 3 December 2009–14 July 2019 | 3,000,000 | — | — | 3,000,000 | 0.83 |
| | 9 June 2010 | 9 June 2010–14 July 2019 | — | 5,000,000 | — | 5,000,000 | 1.13 |
| Baiseitov Bakhytbek | 5 October 2010 | 5 October 2010–14 July 2019 | — | 15,000,000 | — | 15,000,000 | 1.604 |
| | | | 20,000,000 | 55,000,000 | (16,000,000) | 59,000,000 | |
| **Consultant** | | | | | | | |
| Dong Zhixiong* | 5 August 2009 | 5 August 2009–14 July 2019 | 3,000,000 | — | (3,000,000) | — | 0.56 |
| | 9 June 2010 | 9 June 2010–14 July 2019 | — | 2,000,000 | — | 2,000,000 | 1.13 |
| Others | 9 June 2010 | 9 June 2010–14 July 2019 | — | 11,000,000 | (4,500,000) | 6,500,000 | 1.13 |
| **Employees** | 5 August 2009 | 5 August 2009–14 July 2019 | 200,000 | — | (200,000) | — | 0.56 |
| | 9 June 2010 | 9 June 2010–14 July 2019 | — | 29,600,000 | (4,935,000) | 24,665,000 | 1.13 |
| | | | 23,200,000 | 97,600,000 | (28,635,000) | 92,165,000 | |

* Mr. Dong Zhixiong is a consultant of the Company after the resignation as a director of the Company on 1 October 2009.

The options granted were measured using the Binomial Option Pricing Model which was performed by an independent valuer, BMI Appraisals Limited. The inputs into the model used summarised as follows:

| Date of grant | 5 August 2009 | 3 December 2009 | 9 June 2010 | 5 October 2010 |
|---|---|---|---|---|
| Spot price | HK$0.56 | HK$0.83 | HK$1.13 | HK$1.604 |
| Exercise price | HK$0.56 | HK$0.83 | HK$1.13 | HK$1.604 |
| Risk-free rate | 2.43% | 2.14% | 2.36% | 1.832% |
| Nature of the option | Call | Call | Call | Call |
| Expected life of the options | 9.94 years | 9.61 years | 9.1 years | 8.78 years |
| Expected volatility | 75.33% | 75.15% | 77.56% | 76.69% |
| Expected dividend yield | Nil | Nil | Nil | Nil |
| Early exercise behaviour | 150% | 150% | 150% | 150% |

The Company recognised total expenses of approximately HK$39,966,000 for the year ended 31 December 2010 (2009: HK$6,727,000) in relation to share options granted.

## 33. SHARE OPTION SCHEME *(Continued)*

At the end of the reporting period, the Company had 92,165,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 92,165,000 additional ordinary shares of the Company and additional share capital of HK$9,216,500 and share premium of HK$97,719,950 (before issue expenses).

Subsequent to the end of period in March 2011, 100,000 share options were exercised and at the date of approval of these financial statements, the Company had 92,065,000 share options outstanding under the New Scheme, which represented approximately 4.63% of the Company's shares in issue as at that date.

## 34. WARRANTS

On 10 June 2010, the Company entered into a warrant subscription agreement with Orient Day in relation to an issue of 320,000,000 warrants at an issue price of HK$0.0102 per warrant, which entitled Orient Day to subscribe for up to 320,000,000 new shares of the Company of HK$0.10 each at an exercise price of HK$1.38 per new share for a period of 3 years commencing from the date of issue of the warrants. Total consideration received from the issue of warrants amounted to HK$3,263,000 has been credited to "Warrant reserve" and been fully applied as the Group's working capital. At 31 December 2010 and the date of this financial statements, the warrants were still outstanding.

## 35. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation in 1996.

At 31 December 2009 and 2010, 4,060,000 ordinary shares of the Company remained with Pearl Oriental Logistics Sino Limited, a subsidiary, which was accounted for as a reduction in the Company's equity.

## 35. RESERVES *(Continued)*

### (b) Company

| | Issued capital HK$'000 | Share premium account HK$'000 | Warrants reserve HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Retained earnings/ (accumulated losses) HK'000 | Total HK'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 46,474 | 384,908 | — | 45,348 | — | 26,955 | 503,685 |
| Issue of new shares | 68,568 | 308,026 | — | — | — | — | 376,594 |
| Share issue expenses | — | (530) | — | — | — | — | (530) |
| Equity-settled share options arrangements *(note 33)* | — | — | — | — | 6,727 | — | 6,727 |
| Share options exercised during the year | 880 | 5,697 | — | — | (1,649) | — | 4,928 |
| Share options forfeited during the year | — | — | — | — | (188) | 188 | — |
| Total comprehensive income for the year | — | — | — | — | — | (546,417) | (546,417) |
| At 31 December 2009 | 115,922 | 698,101 | — | 45,348 | 4,890 | (519,274) | 344,987 |
| Issue of new shares *(note 32)* | 79,911 | 834,525 | — | — | — | — | 914,436 |
| Share issue expenses | — | (12,408) | — | — | — | — | (12,408) |
| Equity-settled share options arrangements *(note 33)* | — | — | — | — | 39,966 | — | 39,966 |
| Share options exercised during the year *(note 32(a)(v))* | 2,864 | 29,639 | — | — | (8,239) | — | 24,264 |
| Issue of Warrants *(note 34)* | — | — | 3,263 | — | — | — | 3,263 |
| Total comprehensive income for the year | — | — | — | — | — | 428,002 | 428,002 |
| At 31 December 2010 | 198,697 | 1,549,857 | 3,263 | 45,348 | 36,617 | (91,272) | 1,742,510 |

*Notes:*

*(i) Contributed surplus*

The contributed surplus of the Company represents the excess of the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition pursuant to the Group reorganisation in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

Under the Companies Act 1981 Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

## 35. RESERVES *(Continued)*

### (b) Company *(Continued)*

*Notes: (Continued)*

*(ii) Share premium account*

The share premium account is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Share premium | **1,549,857** | 698,101 |
| Contributed surplus | **45,348** | 45,348 |
| Accumulated losses | **(91,272)** | (519,274) |
| | **1,503,933** | 224,175 |

## 36. ACQUISITION OF SUBSIDIARIES

### 31 December 2010

*(a) Acquisition of Festive Oasis Limited ("Oasis")*

The Company and the vendors (the "Vendors"), namely Charcon Assets Limited ("Charcon", a company wholly owned by Mr. Wong Kwan ("Mr. Wong"), chairman, chief executive and executive director of the Company) and Marvel Sunlight Limited ("Marvel", a company wholly owned by an independent third party (the "Third Party"), a party independent and not connected to the Company), entered into an agreement on 9 January 2010 and supplemental agreements on 18 March 2010 and 10 May 2010 (collectively, the "Oasis Agreements"), pursuant to which, the Company acquired (the "Oasis Acquisition") (i) the 100% equity interest in Oasis and its subsidiaries(collectively, the Oasis Group"), Shiny One Limited ("Shiny One BVI") and Shiny One, USA, LLC ("Shiny One USA"); (ii) the amount due by the Oasis to one of its shareholders, Charcon, (the "Sales Loan"); and (iii), through 2 phases, the 100% ownership interest in respect of the oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field (the "Ownership Interest").

Upon the completion of phase 1 (the "Phase 1 Acquisition") on 21 June 2010, the Company acquired the 100% equity interest in Oasis and the Sales Loan at a consideration of US$200 million (equivalent to approximately HK$1,560 million) which was satisfied by (i) as to US$50 million (equivalent to approximately HK$390 million) by cash; and (ii) as to US$150 million (equivalent to approximately HK$1,170 million) by the issue of up to 847,810,000 consideration shares (the "Consideration Shares") in the Company at a price (the "Price") of HK$1.38 per share. Accordingly, 70% Ownership Interest had been transferred to the Oasis Group.

## 36. ACQUISITION OF SUBSIDIARIES *(Continued)*

**31 December 2010** *(Continued)*

*(a) Acquisition of Festive Oasis Limited (Continued)*

In phase 2, the Company may, at its option, further acquire the remaining 30% Ownership Interest (the "30% Acquisition Right") and transfer the same to the Oasis Group at a consideration of US$25 million (equivalent to approximately HK$195 million) which is to be satisfied by (i) as to US$25 million (equivalent to approximately HK$195 million) by cash in full; or (ii) if the Vendors elect, as to US$12.5 million (equivalent to approximately HK$97.5 million) by cash and the remaining sum of US$12.5 million (equivalent to approximately HK$97.5 million) by the issue of 70,650,000 consideration shares in the Company at HK$1.38 per share.

Oasis is an investment holding company incorporated in the British Virgin Islands (the "BVI") with limited liability on 9 December 2009.

Shiny One BVI is an investment holding company incorporated in the BVI with limited liability on 29 September 2009.

Shiny One USA was incorporated in the United States of America (the "USA") with limited liability on 8 December 2009.

The principal asset of Shiny One USA is 70% Ownership Interest and is principally engaged in natural gas and petroleum exploration, exploitation and production in the area located in Utah, the USA. The Phase 1 Acquisition was completed on 21 June 2010. Subsequent to the end of the reporting period on 11 March 2011, the Company exercised its 30% Acquisition Right to acquire the remaining 30% Ownership Interest, details of which are set out in (note 45 (a)) to the financial statements. Upon fulfilment of the conditions precedent, the completion date of the Phase 1 Acquisition was 21 June 2010 despite the fact that the Consideration Shares have not yet been issued at the request of the Vendors.

## 36. ACQUISITION OF SUBSIDIARIES *(Continued)*

**31 December 2010** *(Continued)*

*(a) Acquisition of Festive Oasis Limited (Continued)*

The fair values of the identifiable assets and liabilities of Oasis Group as at the date of the Oasis Acquisition were as follows:

| | **Fair value recognised on acquisition** *HK$'000* |
|---|---|
| Oil and gas processing right arising from the Ownership Interest *(note (i))* | 1,960,140 |
| Derivative financial instruments *(note (ii))* | 653,203 |
| Due to a shareholder of the Oasis Group (the "Sales Loan") | (4,913) |
| Total identifiable net assets at fair value | 2,608,430 |
| Less: Deferred tax effect *(note 31)* | (686,049) |
| Less: Elimination of the Sales Loans | 4,913 |
| Gain on bargain purchase recognised in the consolidated income statement | (604,703) |
| Consideration | 1,322,591 |
| Satisfied: | |
| By the issue of the Consideration Shares *(note (iii))*: | |
| Issued share capital | 84,781 |
| Share premium | 847,810 |
| | 932,591 |
| By cash | 390,000 |
| | 1,322,591 |

*Notes:*

(i) The amount represented the fair value of a 70% interest in certain natural gas and oilfield properties located in the Areas in the Uinta Basin, Uintah County, Utah State, the United States of America (note 18).

(ii) The derivative financial instruments represented the fair value of the 30% Acquisition Right as at the date of completion of the Oasis Acquisition, i.e. 21 June 2010 (note 28).

(iii) The Consideration Shares have not yet been issued at the date of the financial statements. The fair value of the Consideration Shares is based on the closing market price of the Company's shares at the date of completion of the Oasis Acquisition.

## 36. ACQUISITION OF SUBSIDIARIES *(Continued)*

**31 December 2010** *(Continued)*

*(a) Acquisition of Festive Oasis Limited (Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the Oasis Acquisition are as follows:

| | ***HK$'000*** |
|---|---|
| Cash consideration | **390,000** |
| Cash and bank balances acquired | **—** |
| Net outflow of cash and cash equivalents in respect of the Oasis Acquisition | **(390,000)** |

Since the completion of the Oasis Acquisition, the Oasis Group contributed HK$46,000 to the Group's consolidated revenue for the year ended 31 December 2010, and incurred a loss of approximately HK$14,318,000 to the consolidated profit for the year ended 31 December 2010.

Had the Oasis Acquisition taken place at 1 January 2010, the Group's consolidated revenue and consolidated profit for the year ended 31 December 2010 would have been HK$555,242,000 and HK$386,621,000, respectively.

**31 December 2009**

*(b) Acquisition of additional equity interests in China Coal*

On 15 July 2009, the Group acquired from independent third parties an aggregate of 15.18% equity interests in China Coal thought the acquisition of an 100% equity interest in Get Wealthy Investments Limited ("Get Wealthy") (which holds 15% equity interests in China Coal) and the remaining 0.18% equity interests in China Coal at an aggregate consideration of HK$58,000,000. The consideration was satisfied by issuing 145,000,000 new ordinary shares (the "Consideration Shares") at a price of HK$0.40 per ordinary share. Upon the completion, the Group's equity interest in China Coal increased from 39.93% to 55.11% and China Coal has therefore become an indirect 55.11% owned subsidiary of the Company.

Get Wealthy is an investment holding company incorporated in the British Virgin Islands with limited liabilities. China Coal is an investment holding company incorporated in Hong Kong with limited liabilities. The principal asset of China Coal is a 100% equity interest in Taiyuan Sanxing. Taiyuan Sanxing was established in the PRC with limited liability. Taiyuan Sanxing and its subsidiary are principally engaged in the coal gasification and coal mining.

As detailed in note 24 to the financial statements, China Coal has not been provided with the operating and financing information of Taiyuan Sanxing since 1 January 2008 and China Coal is unable to exercise its powers on the financial and operating matters of Taiyuan Sanxing. As a result of the loss of control or significant influence over Taiyuan Sanxing, China Coal's equity interests in Taiyuan Sanxing were reclassified as an available for sales investment at its carrying value of HK$944,312,000 during the year ended 31 December 2008.

## 36. ACQUISITION OF SUBSIDIARIES *(Continued)*

**31 December 2009** *(Continued)*

*(b) Acquisition of additional equity interests in China Coal (Continued)*

The acquisition of additional equity interests in China Coal (the "Acquisition") is not accounted for as a business combination in the Group's consolidated financial statements for the year ended 31 December 2009 as the Group obtained control of Get Wealthy and China Coal through the Acquisition that are not businesses, the bringing together of those entities is not a business combination. Accordingly, the consideration of the Acquisition was allocated between the individual identifiable assets and liabilities of Get Wealthy and China Coal.

| | *Notes* | Fair value recognised on acquisition *HK$'000* |
|---|---|---|
| Available-for-sale investments | 24 | 922,318 |
| Cash and bank balances | | 9 |
| Other payables and accruals | | (4,010) |
| Due to a former shareholder of China Coal | | (23,400) |
| Due to the Group by China Coal | | (5,868) |
| Net assets of Get Wealthy and China Coal | | 889,049 |
| Non-controlling interests of China Coal | | (399,094) |
| Net assets of Get Wealthy and China Coal attributable to the owners of the Company | | 489,955 |
| Satisfied by: | | |
| Interests in an associate, China Coal | | 420,355 |
| Fair value of the Consideration Shares | | 69,600 |
| | | 489,955 |

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Get Wealthy and China Coal is as follows:

| | *HK$'000* |
|---|---|
| Cash consideration | — |
| Cash and bank balances acquired | 9 |
| Net inflow of cash and cash equivalents in respect of the acquisition of Get Wealthy and China Coal | 9 |

## 36. ACQUISITION OF SUBSIDIARIES *(Continued)*

**31 December 2009** *(Continued)*

*(b) Acquisition of additional equity interests in China Coal (Continued)*

Since its acquisition, China Coal has not contributed to the Group's consolidated revenue for the year ended 31 December 2009 but incurred a loss of approximately HK$923,201,000 to the consolidated loss for the year ended 31 December 2009, of which of approximately HK$399,094,000 was shared by its non-controlling interests.

Had the acquisition taken place at 1 January 2009, the Group's consolidated revenue and loss for the year ended 31 December 2009 would have been HK$195,530,000 and HK$968,786,000, respectively.

## 37. ACQUISITION OF NON-CONTROLLING INTERESTS

On 30 July 2009, the Group entered into a sales and purchase agreement (the "ERC Sales and Purchase Agreement") to acquire the entire issued share capital of Poly Keen Limited ("Poly Keen") for an aggregate consideration of HK$50,000,000, which was satisfied by the issue of 100,000,000 new ordinary shares (the "Consideration Share 1") at the price of HK$0.50 per ordinary share. Prior to the acquisition, the Group owned 80% equity interests in ERC and its subsidiaries and, Poly Keen owned 20% equity interests in ERC. Upon the completion of the acquisition on 21 October 2009, ERC became a wholly-owned subsidiary of the Company.

| | *Notes* | *HK$'000* |
|---|---|---|
| The carrying values of the identifiable assets and liabilities of Poly Keen and ERC Group as at the date of acquisition | | 12,597 |
| Portion attributable to the remaining 20% equity interests In ERC held by Poly Keen | | 2,519 |
| Elimination of amount due to Poly Keen by the ERC Group | | 11,496 |
| | | 14,015 |
| Satisfied by: | | |
| Fair value of the Consideration Shares 1 | | (57,000) |
| Goodwill on acquisition of the remaining 20% equity interests | 19 | 42,985 |

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Poly Keen and the ERC Group are as follows:

| | *HK$'000* |
|---|---|
| Cash consideration | — |
| Cash and bank balances acquired | — |
| Net outflow of cash and cash equivalents in respect of the acquisition of Poly Keen | — |

## 38. ACQUISITION OF A BUSINESS

In addition to the acquisition of non-controlling interests as detailed in note 37 to the financial statements, on 30 July 2009, the Company further entered into a merger agreement ("Merger Agreement") with Mr. Cheung Mo Kit ("Mr Cheung"), an independent third party and the sole shareholder of IB Group Trading Limited ("IBG"). Pursuant to which, a joint venture company, China Environmental Resources Limited ("CER"), has been established for the development of the business of plastic recycling (the "Business"). The registered capital of CER is HK$50,000,000 comprising 50,000,000 shares of HK$1 per share, HK$30,000,000 was contributed by Group for 60% equity interests in CER while the remaining HK$20,000,000 was contributed by Mr. Cheung for 40% equity interests in CER. CER became a 60% owned subsidiary of the Group. A new operating company, IB Environmental Plastic Limited ("IBE" and together with CER, hereby referred as the "IBE Group"), has been set up as a wholly-owned subsidiary CER to operate the Business in the plastic recycling industry in Europe, Japan, the PRC and other countries.

In addition, pursuant to the Merger Agreement, the Company issued 100,000,000 new ordinary shares (the "Consideration Share 2") at the price of HK$0.50 per ordinary share to Mr. Cheung as the consideration for Mr. Cheung's agreeing to enter into the Merger Agreement. Mr. Cheung procured all the Business has been transferred from IBG to IBE.

The fair values of the identifiable assets and liabilities of the Business acquired under the Merger Agreement as at the date of acquisition and the corresponding goodwill arising from the completion of the Merger Agreement were as follows:

| | *Notes* | *HK$'000* |
|---|---|---|
| Assets and liabilities of the Business | | — |
| Assets and liabilities of Poly Keen and the ERC Group | | 12,597 |
| Assets and liabilities of the joint venture, net | | 12,597 |
| The joint venture partner's 40% share in the assets and liabilities of the IBE Group, net | | 5,039 |
| Consideration for the Merger Agreement: | | |
| Fair value of the Consideration Share 2 | | 57,000 |
| Goodwill arising from the completion of the Merger Agreement* | 19 | 62,039 |

* The goodwill arising from the acquisition of the Business of HK$62,039,000 represented (i) the extensive suppliers and customers networks in Japan, Malaysia, Taiwan and Mainland China; (ii) the senior management team of IBG; and (iii) the good reputation and the operation in the plastic recycling industry in Europe, Japan, Mainland China and other countries. These intangible assets have not been recognised separately from the goodwill as the directors of the Company are of the opinion that these intangible assets cannot be measured reliably and cannot be recognised separately as an identifiable asset.

Since its acquisition by the Group, the Business contributed HK$159,018,000 and HK$1,652,000, respectively, to the Group's consolidated revenue and the consolidated profit for the year ended 31 December 2009.

Had the acquisition taken place at 1 January 2009, the Group's consolidated revenue of and consolidated loss for the year ended 31 December 2009 would have been HK$195,530,000 and HK$967,962,000, respectively.

## 39. DISPOSAL OF SUBSIDIARIES

### 31 December 2010

*(a) Disposal of PO(SZ)Group*

On 18 November 2010, the Group entered into a sale and purchase agreement with an independent third party (the "Buyer"). Pursuant to which, the Company has (i) disposed of 100% equity interest in PO (SZ) Logistics Limited ("PO (SZ)") and its subsidiary, Pearl Oriental Logistics (Shenzhen) Ltd ("POL(SZ)"), collectively, the "PO (SZ) Group") and (ii) waived (the "Waiver") of a shareholder's loan of approximately HK$26,141,000 in full owing from PO (SZ) Group to the Group for a consideration of RMB1,000,000 (equivalent to approximately HK$1,168,000) which was satisfied by cash. The disposal of PO (SZ) Group was completed on the same day.

*(b) Disposal of China Coal*

As at 31 December 2009, the Group had a total of 55,110,760 shares, representing 55.11% equity interests in China Coal, the principal activity of which was investment holding. The principal asset of China Coal is an 100% equity interest in Taiyuan Sanxing, which was established in the PRC with limited liability. Taiyuan Sanxing is principally engaged in the coal gasification and coal mining.

As detailed in note 24 to the financial statements, there were certain legal claims (the "Legal Claims") between the Group and Mr. Zhang Jingyuen (張景淵) (formerly known as "Zhang Genyu") ("Mr. Zhang"), a shareholder of China Coal, both in Hong Kong and the PRC.

Pursuant to the Settlement Agreement dated 31 July 2010, the Group and Mr. Zhang, (i) made applications to withdraw and settled all the Legal Claims against any parties to those litigations both in Hong Kong and the PRC; (ii) Favour Good waived the principal amount of HK$23,400,000 (the "Favour Good Loan") plus interest due from China Coal to it; and (iii) the Group agreed to dispose of its 55.11% equity interest in China Coal at a consideration of HK$192,000,000 by cash through five installments.

## 39. DISPOSAL OF SUBSIDIARIES *(Continued)*

**31 December 2010** *(Continued)*

During the year ended 31 December 2010, the first installment of HK$32,000,000 was received.

The gain/(loss) on disposal of subsidiaries were calculated as follows:

| | Notes | PO (SZ) Group HK$'000 | China Coal HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Net assets disposed of: | | | | |
| Cash and bank balances | | 3,027 | 5 | 3,032 |
| Trade receivables | | 103 | — | 103 |
| Prepayments and other receivables | | 636 | — | 636 |
| Due from immediate holding company | | 26,141 | — | 26,141 |
| Accruals and other payables | | (2,345) | (526) | (2,871) |
| Due to immediate holding company | | — | (5,969) | (5,969) |
| Due to Favour Good | | — | (27,664) | (27,664) |
| | | 27,562 | (34,154) | (6,592) |
| Wavier of the amount due from/(to) immediate holding company | | (26,141) | 5,969 | (20,172) |
| Net assets/(liabilities) value | | 1,421 | (28,185) | (26,764) |
| Exchange fluctuation reserve realised | | 1,148 | — | 1,148 |
| | | 2,569 | (28,185) | (25,616) |
| Loss on disposal of a subsidiary | 6 | (1,401) | — | (1,401) |
| Gain on disposal of a subsidiary | 5 | — | 56,285 | 56,285 |
| | | 1,168 | 28,100 | 29,268 |
| Satisfied by: | | | | |
| Cash | | 1,168 | 32,000 | 33,168 |
| Reimbursement of amount due to formal shareholders | | — | (3,900) | (3,900) |
| | | 1,168 | 28,100 | 29,268 |

## 39. DISPOSAL OF SUBSIDIARIES *(Continued)*

**31 December 2010** *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

| | *Notes* | **PO (SZ) Group** *HK$'000* | **China Coal** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Net assets disposed of: | | | | |
| Cash consideration | | **1,168** | **28,100** | **29,268** |
| Cash and bank balances disposed of | | **(3,027)** | **(5)** | **(3,032)** |
| Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries | | **(1,859)** | **28,095** | **26,236** |

**31 December 2009**

*(c) Disposal of POEHL*

On 22 January 2009, the Group entered into a sale and purchase agreement with Sunny Villa Investments Limited ("Sunny Villa"). Pursuant to which, the Company (i) has disposed of 60% equity interest in Pearl Oriental Express Holdings Limited ("POEHL") and (ii) waived (the "Waiver") a shareholder's loan of approximately HK$15,043,000 in full owing from POEHL and its subsidiary, Guangzhou Pearl Oriental Logistics Limited ("GZPO") to the Group for a consideration of HK$3,000,000 which was satisfied by cash and HK$9,000,000 which was satisfied by a convertible bond issued by POEHL with a maturity of two years from the date of issue and which can be convertible into 20% equity interests in POEHL or, GZPO or any other new holding company.

The disposal of POEHL was completed on 28 February 2009 and the Company received cash of HK$3,000,000 and the convertible bond of HK$9,000,000 as the consideration of the disposal of POEHL and the Wavier. In the opinion of the directors of the Company, the fair value of the convertible bond was minimal at the date of issue.

*(d) Disposal of Good Value Group*

In prior years, the Group had 100% equity interest in Good Value Holdings Limited ("Good Value") and its subsidiaries, Hong Kong Good Value Holdings Limited ("HKGVH") and Pearl Oriental Warehouse (Shenzhen) Limited ("POW (SZ)") (collectively referred to as the "Good Value Group"). The principal activities of POW (SZ) were provision of logistics services and warehousing services in the PRC and, POW(SZ) owned a bonded warehouse property (the "Warehouse") in Futian, Shenzhen, the PRC. The Warehouse has been pledged to a bank for a bank loan granted to the Group (the "Bank Loan").

On 27 November 2009, the Group entered into a sale and purchase agreement with Full Wealth International Investments Holdings Limited ("Full Wealth"), an independent third party. Pursuant to which, the Group had disposed of its 100% equity interests in Good Value at a consideration of RMB93,000,000 (equivalent to approximately HK$105,520,000), in which (i) RMB46,500,000 (equivalent to approximately HK$52,760,000) is satisfied by cash; and (ii) the remaining consideration of RMB46,500,000 (equivalent to approximately HK$52,760,000) is offset against the outstanding bank loan of POW (SZ) of approximately RMB46,720,000 (equivalent to approximately HK$53,280,000). The net proceeds after the deduction of the Bank Loan amounted to RMB46,500,000 (equivalent to approximately HK$52,760,000).

## 39. DISPOSAL OF SUBSIDIARIES *(Continued)*

**31 December 2009** *(Continued)*

*(d) Disposal of Good Value Group (Continued)*

The major classes of assets and liabilities of the POEHL Group and the Good Value Group as at the respective disposal dates were as follows:

| | Notes | POEHL Group HK$'000 | Good Value Group HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Net assets disposed of: | | | | |
| Property, plant and equipment | 15 | 3,419 | 94,936 | 98,355 |
| Prepaid land lease payments | 16 | — | 19,082 | 19,082 |
| Cash and bank balances | | 286 | 487 | 773 |
| Trade receivables | | 7,331 | 74 | 7,405 |
| Prepayments and other receivables | | 5,036 | 74 | 5,110 |
| Trade payables | | (3,717) | (211) | (3,928) |
| Accruals and other payables | | (8,465) | (1,639) | (10,104) |
| Interest bearing bank borrowings* | | — | (53,280) | (53,280) |
| Tax payable | | (14) | (16,637) | (16,651) |
| Due to minority interests | | (3,996) | — | (3,996) |
| Due to immediate holding company | | (15,043) | — | (15,043) |
| | | (15,163) | 42,886 | 27,723 |
| Waiver of the amount due to immediate holding company | | 15,043 | — | 15,043 |
| Net assets/(liabilities) value | | (120) | 42,886 | 42,766 |
| Exchange fluctuation reserve realised | | (4,685) | (2,591) | (7,276) |
| | | (4,805) | 40,295 | 35,490 |
| Gain on disposal of subsidiaries | 5 | 7,805 | 12,465 | 20,270 |
| | | 3,000 | 52,760 | 55,760 |
| Satisfied by: | | | | |
| Cash | | 3,000 | 52,760 | 55,760 |
| Fair value of the convertible bond | | — | — | — |
| | | 3,000 | 52,760 | 55,760 |

* The remaining consideration of RMB46,500,000 (equivalent to HK$52,760,000) is offset against the outstanding Bank Loan of approximately RMB46,720,000 (equivalent to approximately HK$53,280,000), the Group is not liable to the excess amount between the remaining consideration and the outstanding Bank Loan.

## 39. DISPOSAL OF SUBSIDIARIES *(Continued)*

**31 December 2009** *(Continued)*

*(d) Disposal of Good Value Group (Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

| | POEHL Group | Good Value Group | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Cash consideration | 3,000 | 52,760 | 55,760 |
| Cash and bank balances disposed of | (286) | (487) | (773) |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | 2,714 | 52,273 | 54,987 |

## 40. WRITE-OFF OF ASSETS ON LIQUIDATION OF A SUBSIDIARY

In May 2010, the directors of the Company have an intention to dissolve Exploitation Ressources Internationales, S.A. ("ERI"), a subsidiary of the Company. On 16 June 2010, the Group has applied for the liquidation of ERI and the liquidator was appointed by the French Court to handle the related matter in accordance with the relevant legal procedures. Accordingly, the Group lost its control over the financial and operating policies of since then. ERI has ceased to be the subsidiary of the Company.

The Group had written-off the following assets, net of the liabilities of ERI, as follows:

| | *HK$000* |
|---|---|
| Property, plant and equipment *(note 15)* | 56,510 |
| Cash and bank balance | 405 |
| Trade receivables | 189 |
| Prepayments, deposits and other receivables | 882 |
| Inventories | 7,826 |
| Goodwill *(note 19)* | 59,906 |
| Trade payables | (302) |
| Accruals and other payables | (3) |
| Tax payables | (1,335) |
| Due to immediate holding company | (39,612) |
| | 84,446 |
| Wavier of the amount due to immediate holing company | 39,612 |
| Net assets value | 124,078 |
| Exchange fluctuation reserve realised | 2,435 |
| Write-off of assets on liquidation of ERI | 126,513 |

## 41. OPERATING LEASE ARRANGEMENTS

**As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to four years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

| | **Group** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **3,164** | 3,303 |
| In the second to fifth year, inclusive | **534** | 3,694 |
| | **3,698** | 6,997 |

The Company did not have any significant operating lease arrangements as at 31 December 2010. (2009: Nil)

## 42. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 41 above, the Group had the following capital commitments at the end of the reporting period:

| | **Group** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Authorised, but not contracted for: | | |
| Proposed acquisition of a subsidiary *(note 23(a))* | **8,461** | 8,352 |
| Leasehold improvements | **—** | 32 |
| Development costs for the Utah Gas and Oil Field | **58,000** | — |
| | **66,461** | 8,384 |

The Company did not have any significant commitments as at 31 December 2010 (2009: Nil).

## 43. RELATED PARTY TRANSACTIONS AND BALANCES

(i) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with the related parties during the year:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Immediate and ultimate controlling party:** | | |
| Orient Day Developments Limited: | | |
| Loan interest paid | **14** | 855 |
| **Former minority shareholder of a subsidiary** | | |
| Favour Good Investments Limited: | | |
| Loan interest paid | **—** | 1,256 |

The related party transactions were conducted on terms negotiated between the Company and the related company.

(ii) Compensation of key management personnel of the Group:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Short term employee benefits** | **40,966** | 10,922 |
| Post-employment benefits | **—** | — |
| Equity-settled share option expenses | **19,647** | 3,913 |
| **Total compensation paid to key management personnel** | **60,613** | 14,835 |

Further details of directors' emoluments are included in note 8 to the financial statements.

## 44. LITIGATIONS

Apart from the litigations detailed in note 24 to the financial statements, the Group had the following significant outstanding litigations at the end of the reporting period:

**Litigation with the ex-directors of a disposed subsidiary**

The Group had three pending litigation claims with the ex-directors of a disposed subsidiary, Dransfield Holdings Limited ("DHL"), who claim against the Group for a total sum of not less than HK$11.4 million. As disclosed in the Company's announcement dated 23 August 2005, the Company's interest in DHL was disposed of on 23 July 2005. It was alleged in these claims that by disposing of all its shares in DHL, the Company was evading liabilities and denying these claimants' benefits of the debts owned by DHL. A judgment (the"Judgment") was given in favour of Horace Yao Yee Cheong, Habile International Holdings Limited and Makdavy Holdings Limited (collectively, the "Plaintiffs") against the Company on 22 May 2010 for the aggregate sum of approximately HK$6.9 million together with interests thereon and legal costs. To pursue the appeal, the Company has paid a total sum of HK$10,167,000 (note 23) to the Court being the security for payment of judgment debt and the Plaintiffs' cost. The Company has filed an appeal against the Judgment and the appeal was allowed by the Court of Appeal and the Judgment was set aside on 13 April 2010. On the basis of the Court of Appeal's judgment, the Group is not liable to pay to the Plaintiffs. The Board is of the view that the claims filed by the remaining two ex-directors, Ms. Cheung Kam Wah and Mr. Tse Tack Huen, Alexander, are without merit.

The negotiation of full and final settlements of the litigation claims between the Company and the three ex-directors has been finalised in February 2011.

## 45. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Group has following events:

### (a) Exercised of the 30% Acquisition Right

Subsequent to the end of the reporting period on 11 March 2011, as detailed in note 36 (a) to the financial statement, the Company exercised its 30% Acquisition Right to acquire the remaining 30% ownership interest in respect of the oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field at a consideration in cash of US$25 million (approximately HK$195 million). Upon the completion, the Group has 100% ownership interest in respect of the oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field since then.

### (b) Possible acquisition of oil fields in Kazakhstan

Subsequent to the end of the reporting period on 24 February 2011, the Company entered into the memorandum of understanding with an independent third party (the "Vendor") for the possible acquisition (the "Possible Acquisition") of a target company which shall involve in conducting development and exploitation at certain oilfields in Kazakhstan.

If the Possible Acquisition is materialised, it is expected that the Possible Acquisition will constitute a notifiable transaction on the part of the Company pursuant to the Listing Rules. Up to the date of approving these financial statements, there has been no further development.

## 46. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

**Major non-cash transactions**

The major non-cash transactions were set out in notes 32,36,37 and 38 to the financial statements.

## 47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**31 December 2010**

| | Group | | |
|---|---|---|---|
| **Financial assets** | **Financial asset at fair value through profit or loss designated as such upon initial recognition** *HK$'000* | **Loans and receivables** *HK$'000* | **Total** *HK$'000* |
| Derivative financial instruments | **664,253** | **—** | **664,253** |
| Trade and bill receivables | **—** | **1,771** | **1,771** |
| Financial assets included in prepayments, deposits and other receivables | **—** | **263,011** | **263,011** |
| Cash and cash equivalents | **—** | **374,932** | **374,932** |
| | **664,253** | **639,714** | **1,303,967** |

| **Financial liabilities** | **Financial liabilities at amortised cost** *HK$'000* | **Total** *HK$'000* |
|---|---|---|
| Trade payables | **4,502** | **4,502** |
| Financial liabilities included in other payables and accruals | **14,665** | **14,665** |
| Interest-bearing bank borrowings, unsecured | **1,399** | **1,399** |
| | **20,566** | **20,566** |

## 47. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

**31 December 2009**

| **Financial assets** | Group<br>Loans and receivables<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|
| Trade receivables | 6,199 | 6,199 |
| Financial assets included in prepayments, deposits and other receivables | 47,521 | 47,521 |
| Cash and cash equivalents | 224,314 | 224,314 |
| | 278,034 | 278,034 |

| **Financial liabilities** | Financial liabilities at amortised cost<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|
| Trade payables | 5,700 | 5,700 |
| Financial liabilities included in other payables and accruals | 51,696 | 51,696 |
| Loan from an immediate parent and ultimate controlling party | 71,210 | 71,210 |
| | 128,606 | 128,606 |

**31 December 2010**

| **Financial assets** | **Company**<br>**Loans and receivables**<br>***HK$'000*** | **Total**<br>***HK$'000*** |
|---|---|---|
| Cash and cash equivalents | **310,604** | **310,604** |
| Other receivables | **213,906** | **213,906** |
| Due from subsidiaries | **2,153,623** | **2,153,623** |
| | **2,678,133** | **2,678,133** |

| **Financial liabilities** | **Financial liabilities at amortised cost**<br>***HK$'000*** | **Total**<br>***HK$'000*** |
|---|---|---|
| Financial liabilities included in other payables and accruals | **3,003** | **3,003** |
| Due to subsidiaries | **11,155** | **11,155** |
| | **14,158** | **14,158** |

## 47. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

**31 December 2009**

| | Company | |
|---|---|---|
| **Financial assets** | Loans and receivables | Total |
| | *HK$'000* | *HK$'000* |
| Cash and cash equivalents | 206,624 | 206,624 |
| Other receivables | 10,446 | 10,446 |
| Due from subsidiaries | 726,156 | 726,156 |
| | 943,226 | 943,226 |

| **Financial liabilities** | Financial liabilities at amortised cost | Total |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Financial liabilities included in other payables and accruals | 4,073 | 4,073 |
| Loan from an immediate parent and ultimate controlling party | 69,412 | 69,412 |
| Due to subsidiaries | 11,256 | 11,256 |
| | 84,741 | 84,741 |

## 48. FAIR VALUE AND FAIR VALUE HIERARACY

**Fair value of financial instruments**

The fair value of financial assets and liabilities are determined as follows:

— the fair value of financial assets and financial liabilities with standards terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask price respectively; and

— the fair value of other financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

The directors consider that the carrying amounts of the Company's other financial asset and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

## 48. FAIR VALUE AND FAIR VALUE HIERARACY *(Continued)*

The carrying amounts and fair values of the Company's financial instruments are as follow:

**Fair value of financial instruments**

*Fair value hierarchy of financial instruments*

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The following table presents the financial instruments that are measured at fair value as at each of the reporting period.

**31 December 2010**

| | **Level 1** *HK$'000* | **Level 2** *HK$'000* | **Level 3** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Derivative financial instruments | — | — | **664,253** | **664,253** |

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise interest-bearing bank borrowings, other payables and accruals, and loan from immediate parent and ultimate controlling party. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing bank borrowings, secured with a floating interest rate.

The following the table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax.

| | **Increase/ (decrease) in basis points** | **Increase/ (decrease) in profit before tax** *HK$'000* | **Increase/ (decrease) in in equity*** *HK$'000* |
|---|---|---|---|
| **31 December 2010** | | | |
| Hong Kong dollars | **1%** | **(14)** | **—** |
| | **(1%)** | **14** | **—** |
| 31 December 2009 | | | |
| Hong Kong dollars | 1% | (31) | — |
| | (1%) | 31 | — |

* Excluding retained profits/accumulated losses.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Foreign currency risk**

*Year ended 31 December 2010*

During the year ended 31 December 2010, the Group has minimal transactional currency exposures as the sales and purchases of the Group were mainly transacted in United States Dollar ("USD") and Hong Kong Dollars (HKD). Approximately 84% of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, while almost 84% of costs are denominated in the units' functional currency.

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in USD and HKD, of which the exchange rate of USD was quite stable during the year ended 31 December 2010.

*Year ended 31 December 2009*

The Group has minimal transactional currency exposures as the sales and purchases of the Group were mainly transacted in Chinese Renminbi ("RMB"), Euro ("EURO"), and Hong Kong Dollars (HKD). Approximately 17% of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, while almost 10% of costs are denominated in the units' functional currency.

The exchange rate of RMB and EURO were comparatively volatile.

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the exchange rate of RMB and EURO exchange rate, with all other variable held constant, of the Group's profit before tax.

| | Increase/(decrease) in exchange rate<br>*%* | Increase/(decrease) in profit before tax<br>*HK$'000* | Increase/(decrease) in equity*<br>*HK$'000* |
|---|---|---|---|
| **31 December 2009** | | | |
| If HKD weakens against RMB | 5% | 122 | — |
| If HKD strengthens against RMB | 5% | (122) | — |
| If HKD weakens against EURO | 5% | (20) | — |
| If HKD strengthens against EURO | 5% | 20 | — |

* Excluding retain profits/accumulated losses.

At 31 December 2009 and 2010, the Group had not hedged any foreign currency sales to reduce such foreign currency risk.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, and other interest-bearing loans. The directors of the Company are currently exploring various options for providing additional equity funding to the Group. Provided that such additional equity funding can be secured, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. A shareholder and director of the Group has indicated his willingness to continue financing the operations of the Group and the Company and has agreed not to demand repayment of the amounts due to him of his controlled entity until the Group and the Company is in a position to do so.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Liquidity risk** *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

***Group***

*31 December 2010*

| | On demand | Less than 3 months | 3 to less than 12 months | 1 to 5 years | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | — | 4,502 | — | — | 4,502 |
| Other payables and accruals | 14,665 | — | — | — | 14,665 |
| Interest-bearing bank borrowings, unsecured | — | 1,399 | — | — | 1,399 |
| | 14,665 | 5,901 | — | — | 20,566 |

*31 December 2009*

| | On demand | Less than 3 months | 3 to less than 12 months | 1 to 5 years | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | — | 5,700 | — | — | 5,700 |
| Other payables and accruals | 51,696 | — | — | — | 51,696 |
| Due to immediate parent and ultimate controlling party | — | — | 4,910 | 66,300 | 71,210 |
| | 51,696 | 5,700 | 4,910 | 66,300 | 128,606 |

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Liquidity risk** *(Continued)*

***Company***

*31 December 2010*

| | On demand *HK$'000* | Less than 3 months *HK$'000* | 3 to less than 12 months *HK$'000* | 1 to 5 years *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| Other payables and accruals | **3,003** | — | — | — | **3,003** |
| Due to subsidiaries | **11,155** | — | — | — | **11,155** |
| | **14,158** | — | — | — | **14,158** |

*31 December 2009*

| | On demand *HK$'000* | Less than 3 months *HK$'000* | 3 to less than 12 months *HK$'000* | 1 to 5 years *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| Other payables and accruals | 4,073 | — | — | — | 4,073 |
| Due to subsidiaries | 11,256 | — | — | — | 11,256 |
| Due to immediate parent and ultimate controlling party | — | — | 3,112 | 66,300 | 69,412 |
| | 15,329 | — | 3,112 | 66,300 | 84,741 |

**Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Capital management** *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade payables, other payables and accruals, a loan from the immediate parent and ultimate controlling party, and interest-bearing bank borrowings, less cash and cash equivalents. Capital includes equity attributable to owners of the Company. The gearing ratios as at the end of reporting periods were as follows:

*Group*

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **4,502** | 5,700 |
| Other payables and accruals | **14,665** | 51,696 |
| Interest-bearing bank borrowings, unsecured | **1,399** | — |
| Loan from an immediate parent and ultimate controlling party | **—** | 71,210 |
| Less: Cash and cash equivalents | **(374,932)** | (224,314) |
| Net cash | **(354,366)** | (95,708) |
| Total equity | **2,650,453** | 344,987 |
| Equity and net debt | **2,296,087** | 249,279 |
| Gearing ratio | **N/A** | N/A |

## 50. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## 51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2011.

# Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

| | **Year ended 31 December 2010 HK$'000** | Year ended 31 December 2009 HK$'000 | Year ended 31 December 2008 HK$'000 | Period from 1 April 2007 to 31 December 2007 HK$'000 | Year ended 31 March 2007 HK$'000 |
|---|---|---|---|---|---|
| **RESULTS** | | | | | |
| **CONTINUING OPERATIONS** | | | | | |
| REVENUE | **555,242** | 163,438 | — | — | — |
| Cost of sales | **(530,793)** | (154,272) | — | — | — |
| Gross profit | **24,449** | 9,166 | — | — | — |
| Gain on bargain purchase | **604,703** | — | — | — | — |
| Change in fair value on derivative financial instruments | **11,050** | — | — | — | — |
| Other income and gains | **59,537** | 23,891 | 120 | 63 | 569 |
| Selling and distribution costs | **(5,323)** | (1,896) | — | — | — |
| Administrative expenses | **(100,576)** | (58,563) | (18,101) | (3,043) | (9,593) |
| Exploration, repair and maintenance expenses | **(12,594)** | — | — | — | — |
| Equity-settled share option expenses | **(39,966)** | (6,727) | — | (4,126) | (20,297) |
| Finance costs | **(53)** | (1,826) | (1,134) | (802) | (1,738) |
| Impairment loss on available-for-sale investments | **—** | (922,318) | — | — | — |
| Impairment of goodwill | **(27,943)** | — | — | — | — |
| Write-off of assets on liquidation of a subsidiary | **(126,513)** | — | — | — | — |
| Share of results of associates | **—** | (548) | (12,752) | 61,884 | (1,201) |
| PROFIT/(LOSS) BEFORE TAX | **386,771** | (958,821) | (31,867) | 53,976 | (32,260) |
| Tax | **4,703** | (319) | — | — | — |
| PROFIT/(LOSS) FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS | **391,474** | (959,140) | (31,867) | 53,976 | (32,260) |
| **DISCONTINUED OPERATION** | | | | | |
| Profit/(loss) for the year/period from a discontinued operation | **36** | (8,822) | (9,398) | (20,851) | (23,224) |
| PROFIT/(LOSS) FOR THE YEAR | **391,510** | (967,962) | (41,265) | 33,125 | (55,484) |
| Attributable to: | | | | | |
| Equity holders of the Company | **423,195** | (566,840) | (38,310) | 38,422 | (53,278) |
| Non-controlling interests | **(31,685)** | (401,122) | (2,955) | (5,297) | (2,206) |
| | **391,510** | (967,962) | (41,265) | 33,125 | (55,484) |

| ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS | **31 December 2010** HK$'000 | 31 December 2009 HK$'000 | 31 December 2008 HK$'000 | 31 December 2007 HK$'000 | 31 March 2007 HK$'000 |
|---|---|---|---|---|---|
| TOTAL ASSETS | **3,357,888** | 473,912 | 673,931 | 645,008 | 547,256 |
| TOTAL LIABILITIES | **(707,435)** | (128,925) | (151,988) | (168,763) | (119,514) |
| NON-CONTROLLING INTERESTS | **1,526** | (16,159) | (8,647) | (6,297) | (1,818) |
| | **2,651,979** | 328,828 | 513,296 | 469,948 | 425,924 |

This summary does not form part of the audited financial statements.