EPI (Holdings) Limited
長盈集團(控股)有限公司

HKSE:0689

Annual Report

2011

Corporate Profile

EPI is a company that primarily focuses on the production of oil and gas in the energy and resource sector. While having a strong oil and gas exploration and production operation in Argentina, EPI is progressively expanding its portfolio through strategic mergers and acquisitions in other oil and gas projects around the world. EPI is committed to becoming one of Asia's leading operators in the oil and gas industry and is proactively pursuing investment opportunities that create long-term, sustainable value to our shareholders.

Financial Summary

	2011 HK$'000	2010 HK$'000		Change
Turnover	**619,800**	937,258	↓	34%
Gross profit	**2,139**	10,639	↓	80%
Loss before taxation	**(225,679)**	(289,518)	↓	22%
Loss attributable to equity holders of the Company	**(217,737)**	(288,628)	↓	25%
Loss per share attributable to equity holders of the Company				
– Basic HK cent	**(10.70)**	(23.40)		
– Diluted HK cent	**(10.70)**	(23.40)		

FINANCIAL POSITIONS

	2011 HK$'000	2010 HK$'000		Change
Cash and bank balances	**29,509**	85,204	↓	65%
Total assets	**4,525,191**	4,377,434	↑	3%
Short term borrowings	**226,885**	314,645	↓	28%
Long term borrowings	**379,365**	10,754	↑	3428%
Total equity	**3,918,941**	4,052,035	↓	3%

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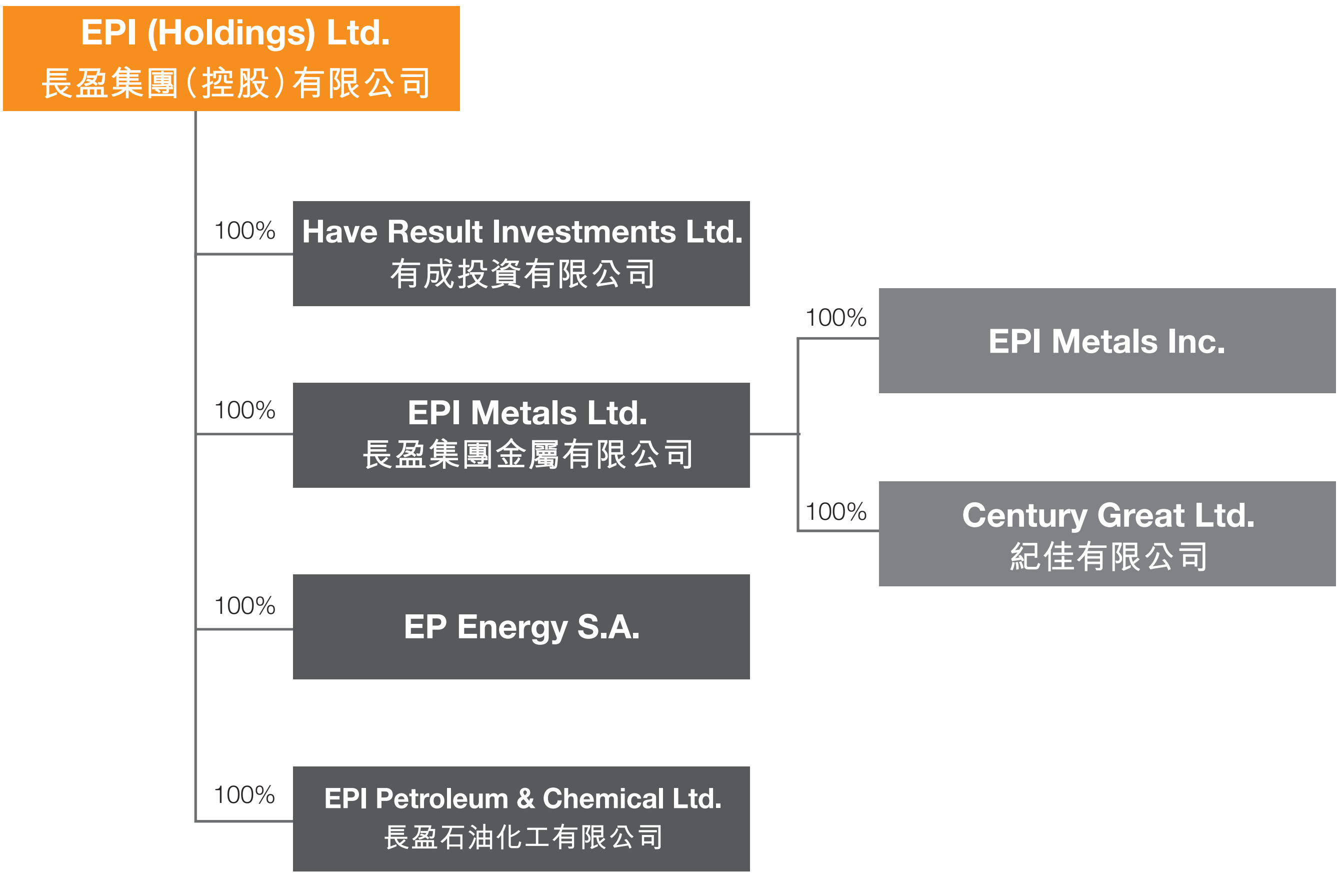
VISION

Our vision is to become one of Asia's leading operators in the oil and gas industry. At EPI, we aim to achieve this by investing in oil and gas projects with good potentials and building a strong operation and management team to support our exploration, production and development work for our oilfield projects.

MISSION

Our mission is to build strategic and productive partnerships with major state-owned enterprises in China oil and gas industry that fit well with our operating strengths and interests to progressively explore, invest and develop significant projects around the world.
Our strategy is to invest in projects that will bring quick investment returns. Leveraging on our financial restructuring and management skills, we aim to maximize our value and to provide long-term and sustainable returns to our shareholders.


EPI (Holdings) Ltd.
長盈集團(控股)有限公司
100%
Have Result Investments Ltd.
有成投資有限公司
100%
EPI Metals Ltd.
長盈集團金屬有限公司
100%
EPI Metals Inc.
100%
Century Great Ltd.
紀佳有限公司
100%
EP Energy S.A.
100%
EPI Petroleum & Chemical Ltd.
長盈石油化工有限公司

CEO Statement

Mr. Chu Kwok Chi Robert, Executive Director and CEO

CEO Statement

On behalf of the board (the "Board") of directors (the "Directors") of EPI (Holdings) Limited (the "Company") and its subsidiaries (collectively, the "Group"), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December 2011.

The Group is principally engaged in the sourcing and trading of non-ferrous metals, trading of petroleum related products, and petroleum exploration and production with its focus in the Mendoza oil project in Argentina. In 2011, the Group had successfully obtained a seven years' project loan from China Development Bank Hong Kong Branch of US$40,000,000 to finance its Mendoza oil project and had completed drilling five new wells. As at the date of this report, all five wells are in production. Currently the Group has ten production wells in the Mendoza oil project.

The Group is now finalizing the year 2012 investment plan and will submit it to Chañares to seek approval from the Government. To optimize the economic benefit of the Mendoza project and to comply with the commitment of the New Agreement, the Board of Director is now finalizing the overall future drilling plan.

Looking toward 2012, we will continue to expand the Group's high value-added natural resources portfolio through strategic mergers and acquisitions and actively look for opportunities to broaden the Group's income streams.

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

The Group's core business is the petroleum exploration and production in the Puesto Pozo Cercado Concession and Chañares Herrados Concession (collectively the"Concessions") in the Cuyana Basin, Mendoza Province of Argentina.

On 12 January 2011, EP Energy S.A. signed JV Agreement with Chañares Herrados Empresa de Trabajos Petroleros S.A. ("Chañares") pursuant to the joint venture agreement signed between Southstart Limited and Chañares on 2 December 2010.

On 14 February 2011, EP Energy S.A. has signed a Drilling Service Agreement with SinoPec International Petroleum Service Corporation Argentina S.R.L. for providing drilling service at the Mendoza oilfield project in "Puesto Pozo Cercado" Area and "Chañares Herrados" Area, Argentina.

As at December 2011, the Group has finished drilling of 10 oil wells in the Chañares Herrados Concession Area, Mendoza oilfield project Area, of which 8 wells are in production.

During year 2011, EP Energy S.A. has started and completed drilling of 5 wells in Chañares Herrados Concession Area. As at December 2011, 3 oil wells CH-1059, CH-1063 & CH-1068 has commenced production, the fourth oil well CH-1066 has started test production, the fifth oil well CH-1082 has completed drilling and undergoing completion work. On 11 March 2011, EP Energy S.A. started drilling of its 1st oil well CH-1059, and finished the completion work and started production on July 2011. Drilling of the second oil well CH-1068 started in late April 2011, with completion work finished and production started on August 2011. Drilling of the CH-1063 started in late June 2011 and commenced production on Oct 2011. Drilling of the CH-1066 started in October 2011, and finished the completion work and started test production on December 2011. Drilling work of CH-1082 has finished and completed work has started in December 2011. EP Energy S.A. is entitled to 72% interest on these 5 wells production.

During year 2011, 5 oil wells drilled by Have Result Investments Limited continued producing, that the Group entitled 51% interest on these 5 wells production.

On 14 July 2011, the Group has been informed by Chañares that the Executive of the Province of Mendoza issued a Decree No. 1467 dated 30 June 2011 ("the Decree") pursuant to which Chañares obtained an extension of 10 years from the date of expiry of the original term of the Concessions, the Decree approved an agreement between Chañares and the Mendoza Province dated 31 May 2011 (the "Extension Agreement"), whereby the parties agreed on the terms and conditions of the aforementioned extension, subject to issuance of the Decree.

The contingent oil resources in certain shallow reservoirs in the Mendoza Oilfield as at 31 December 2011 are as follows,

Contingent Oil Resource (unit: million barrels) *

Category Gross	**(100%)**
Low Estimate (1C)	84.8
Best Estimate (2C)	146.9
High Estimate (3C)	245.5
Total (1C+2C+3C)	477.2

* According to the Resource Estimation Review Report issued by Roman Oil and Mining Associate Limited on 28 March 2012 on The Chañares Herrados and Puesto Pozo Cercado Oil Project in Mendoza Province, Argentina.

FINANCIAL REVIEW

For the year ended 31 December 2011, the Group's turnover was HK$619.80 million, a decrease of 33.87% from HK$937.26 million for the year ended 31 December 2010. The Company recorded a loss for the year of HK$217.74 million, against a loss for the year of HK$288.63 million in 2010. The substantial loss for the year was mainly attributable to impairment loss on investment cost against the discounted future cashflow for the old wells drilled by Have Result Investments Limited of HK$34.02 million.

During year 2011, the Group was focused on the fulfillment of year 2011 investment plan commitment under the New JV Agreement with Chañares. Most of our resource and manpower have been allocated for the drilling of 5 new wells by EP Energy during year 2011. The Group has noticed the decrease in production in the 5 old wells drilled by Have Result which required performing workover work that was planned to perform in year 2012. By applying the existing production prior to workover under the prudent approach adopted in accounting, to estimate the discounted future cashflow on oil sales until year 2027, an impairment loss in investment cost is required. The Group considered that this impairment loss can be reversed after workover work was finished.

OPERATIONS REVIEW

During the year, the Group's continuing operations comprised petroleum exploration and production, trading of petroleum related products and metals sourcing and trading. The Group did not enter into any transactions within the metals sourcing and trading segment during the year 2011 as the profit margin was not favorable.

Exploration and Sales of petroleum

During the year, EP Energy S.A. has fulfilled the commitment to complete drilling of 5 wells under the New JV Agreement signed with Chañares. As of the date of this announcement, the Group have 10 wells in production,

Oil well	Status	Depth (m)	Date of production
CH-1052	In production	3,697	26 November 2009
CH-1053	In production	3,580	8 December 2009
CH-1055	In production	3,600	25 March 2010
CH-25bis	In production	4,685	12 May 2010
CH-7 bis	In production	4,200	14 August 2010
CH-1059	In production	3,600	9 July 2011
CH-1068	In production	3,600	17 August 2011
CH-1063	In production	3,600	28 September 2011
CH-1066	In production	3,600	1 January 2012
CH-1082	In production	3,600	10 January 2012

The 5 wells commenced production in year 2009 and 2010 continued producing oil in year 2011, albeit with certain percentage of decline in production.

During the year, the Group have 8 producing wells together with test production from CH-1066 generate oil sales revenue of HK$42.56 million. A significant portion of the oil was sold to YPF Sociedad Anónima, through Chañares, the Concession owner, amount to HK$42.16 million, a small part of oil, to a value of approximately HK$0.4 million, was sold to Polipetrol S.A., a oil refinery in Mendoza Province.

As of 31 December 2011, the Company has invested HK$533.27 million in the drilling and completion of its oil wells, as wells as related infrastructure, in the Mendoza project. This amounts includes: 1) HK$270.41 million in oil well drilling and completion which is classified as oil & gas assets and for which depreciation started from the commencement of production; 2) HK$85.46 million in oil well drilling which has not yet completed and commenced production, which is classified as Construction in Progress, and for which no depreciation is charged until commencement of production; 3) HK$177.4 million of oil well drilling exploration cost for exploration purpose to collect data in the Potrerillos Formation that is located at a depth of over 4,200 meters, which was expensed in the profit and loss account in year 2010.

During the year 2011, the depreciation of the oil & gas assets was HK$27.72 million.

In line with the rising trend in the international oil price, the local selling price of crude oil in Argentina continued to increase during year 2011. The local crude oil price increased from USD52.30 per barrel in December 2010 to USD67.21 per barrel in December 2011, representing an increase of USD14.91 per barrel or 28.5%. The crude oil price continued to increase during 2012, with the price in February reaching USD68.71 per barrel. The Group expects that the crude oil price will continue to increase and that the gap between domestic and international oil prices will narrow.

The 10-year extension granted under Decree No. 1467 as detailed above has extended the hydrocarbon exploitation right granted to Chañares by Mendoza Province to year 2027.

1.1 Future operation plan

Overall drilling plan

As noted, the Executive of the Province of Mendoza has granted Chañares a 10 year extension of exploitation right to year 2027. According to the New JV Agreement, starting as from year 2012, EP Energy S.A. shall drill a minimum of five wells per year for five consecutive years and in subsequent years two wells per year until the year in which 7 years remain until the expiration of the term of the Concessions. The Group is now finalizing the year 2012 investment plan and will submit it to Chañares to seek approval from the Government. To optimize the economic benefit of the Mendoza project and to comply with the commitment of the New Agreement, the Board of Director is now finalizing the overall future drilling plan.

Oil well work-over

The Group is now finishing the plan to perform workover works on the 5 wells drilled by Have Result during year 2009 and 2010, to increase the overall oil production.

1.2 Segment financial results

Sales of petroleum

	Year ended 31 December		
	Year 2011 HK$'000	Year 2010 HK$'000	% change
Turnover	**42,554**	35,695	+19.22%
Segment Loss	**(97,561)**	(250,676)	-61.08%

The Group has completed the drilling of 5 oil wells in year 2011 of which 3 wells, CH-1059, CH-1068 and CH-1063 has commenced production during year 2011. The forth well CH-1066, has started test production in December 2011, while the fifth well has completed drilling, and started completion during December 2011. The 5 wells commenced production in year 2009 and 2010, continued producing oil in year 2011. As of December 2011, the Group has 8 producing well plus 1 well in test production producing oil and generates sale revenue.

The turnover represents sales of oil to our customer YPF Sociedad Anónima of HK$42.16 million and Polipetrol of HK$0.4 million respectively. The average selling price was USD59.2 per barrel or USD372.3 per m^3.

Administrative and Financial expenses of HK$54.37 million mainly include professional and consultancy fees in relation to oil drilling service and the UTE agreement, exchange differences, salaries, travel expenses and other tax expenses.

Impairment loss on investment cost against the discounted future cashflow from future oil sales until year 2027 amounting to HK$34,023,000. This impairment loss was related to the old wells drilled by Have Result Investments Limited during year 2009 and 2010.

Trading of petroleum related products

Segment financial results

	Year ended 31 December		
	Year 2011 HK$'000	Year 2010 HK$'000	% change
Turnover	**577,246**	463,940	+24.42%
Segment Profit	**1,353**	6,191	-78.15%

In 2011, the Group purchased 49,632 metric tons of mixed aromatics and 21,511 metric tons of MTBE from overseas markets and sold to the customers in China. The sales in 2011 dropped significantly as compared to 2010 because the business was difficult in the second half of 2011 and the Group did not conclude any deal during the period.

FINANCIAL POSITION

As at 31 December 2011, the net asset value of the Group was HK$3,918.94 million (2010: HK$4,052.04 million) and the net asset value per share was HK$1.82 (2010: HK$0.22).

LIQUIDITY AND FINANCIAL RESOURCES

In order to meet general working capital requirements and the funding needs of the Mendoza oil project, the Group decided to raise additional capital via placement of shares and convertible notes during the year. On 9 May 2011, the Company raised net proceeds of approximately HK$63 million via a top-up subscription placement of 1,280,000,000 shares at HK$0.05 per share. On 19 August 2011, the Company raised net proceeds of approximately HK$60 million via the placement of an aggregate amount of HK$62.1 million at zero coupon convertible notes due on the second anniversary of the issue date, convertible into shares of the Company at initial conversion price of HK$0.15 per share (subject to adjustments). On 14 October 2011, the Company raised net proceeds of approximately HK$13.56 million via a top-up subscription placement of 80,000,000 shares at HK$0.182 per share.

On 3 November 2011, the Company entered into a loan agreement with China Development Bank Hong Kong Branch for a seven years' term loan facility of US$40,000,000 (approximately HK$312,000,000) for the purpose of funding the 2011 investment plan of the Mendoza oil project and refinancing the debts incurred by the Group on the project.

The Company has planned to raise additional funds for Mendoza oil project and new oil investment projects in 2012 via placement of shares, issue of convertible bonds and obtaining medium project loans from the banks.

PLEDGE OF ASSETS

At 31 December 2011, the following assets were pledged to secure the Group's bank borrowings and banking facilities:

(a) The entire stock capital of EP Energy whose principal asset is the 72% equity interest in the joint venture company formed under the New JV Agreement.

(b) The entire issued share capital of Have Result.

(c) The entire issued share capital of two wholly-owned subsidiaries of the Company which together hold the entire stock capital of EP Energy.

At 31 December 2010, pledged bank deposits amounting to HK$26,340,000 (2011: nil) were pledged to secure the Group's bank borrowings and banking facilities.

CAPITAL COMMITMENTS

As at 31 December 2011, the future capital expenditure for which the Group had contracted but not provided for amounted to HK$ 210.60 million (2010: HK$46.68 million).

Chu Kwok Chi, Robert
Executive Director and CEO

Hong Kong, 30 March 2012

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. CHU Kwok Chi, Robert, Executive Director and Chief Executive Officer, aged 61

Mr. Chu has been a Sales Director for the Group since August 2004 and was appointed Executive Director for the Group in September 2006 heading the consumer electronics business. Mr. Chu has over 30 years of experience in the international trade and the electronics industry. Mr. Chu has been responsible for the marketing, sales, trading and production of various private and listed consumer electronics companies in Hong Kong. He was the Managing Director of Eltic Electronics Company Limited, a subsidiary of Great Wall Cybertech Limited (former name of EPI (Holdings) Limited), from 1990 to 2000.

Mr. Chu was appointed as the Executive Director of Vision Tech International Holdings Limited (HKSE stock code: 922) on 3 March 2008. He holds a Bachelor's Degree in Business Administration.

Mr. HONG Kin Choy, Bryan, Executive Director, Chief Financial Officer and Company Secretary, aged 47

Mr. Hong joined the Group in October 2005. Mr. Hong oversees the Group's financials and carries out the role of Company Secretary. He is a practising certified public accountant in Hong Kong and a Fellow Member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Hong has over 20 years of experience in the fields of audit, accountancy, business advisory services and corporate finance. Mr. Hong received a Professional Diploma in Accountancy from Hong Kong Polytechnic University in 1987, and subsequently worked for international accounting firm Deloitte Touche Tohmatsu for 5 years, where he had extensive experience in accountancy, auditing and taxation.

Mr. Hong has wide experience in the commercial sector and has held Financial Controller and General Manager Positions for more than 10 years. Prior to joining the Group, Mr. Hong runs a CPA firm in his own name.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEUNG, Yuk Ming, aged 59

Mr. Cheung joined the Group in June 2011. He is a member of the Hong Kong Institute of Bankers, a member of the Institute of Internal Auditors of the United States, a member of the Alliance of Acquisition and Merger Advisors (Chicago, the United States), a member of the Chartered Institute of Arbitrators (U.K.), an associate of The Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Securities Institute.

Mr. Cheung obtained a Master's degree in business administration from the University of East Asia, Macau in 1987. Mr. Cheung has undertaken a one-year course of "Advanced Research Class on the Development and Investment Strategies of the Mineral Industry in China" in China University of Geosciences and an engineering management course in The Institute of Civil Engineering Surveyors. Prior to June 2009, Mr. Cheung had served as assistant auditor and senior accountant at PricewaterhouseCoopers, and was a partner of Lau, Cheung, Fung & Chan. He has been an executive director of Lawrence CPA Limited since January 2005 and an independent non-executive director of Metallurgical Corporation of China Limited (HKSE stock code: 1618) since June 2009 and an independent non-executive director of Travelsky Technology Limited (HKSE stock code: 696) since March 2010.

Mr. QIAN, Zhi Hui, aged 49

Mr. Qian joined the Group in September 2008. He joined China National Native Produce & Animal By-Products Import & Export Corporation, Guangdong Province, as chief legal advisor in 1988. He joined Guangzhou King Pound Law Firm as lawyer in 1993 and is currently a partner of Guangdong Justwin Law Firm. From 2006 to 2008, he was the Independent Non-Executive Director of New Times Group Holdings Limited (HKSE stock code: 166). He has a Master degree in Procedural Law from Southwest University of Political Science and Law.

Mr. Zhu Tiansheng, aged 66

Mr. Zhu joined the Group in November 2009. He has over 39 years extensive experience in project management, operations, design and construction process of oil and natural gas transmission pipeline, exploration, production and transporting heavy oil, recycling of light hydrocarbon, design and construction of natural gas treatment plants in numerous oil field projects in China.

Mr. Zhu has been employed by China National Offshore Oil Corporation ("CNOOC") since 1986. Since 2005, he is the Senior Consultant and the Chief Project Officer for China Offshore Oil & Gas Development & Utilization Company of CNOOC, participating in the construction of asphalt plant. From 2004 to 2005, he was the Deputy Director of Coordination Office of CNOOC and Mr. Fu Chengyu, was the director and currently the General Manager of CNOOC.
From 2001 to 2004, Mr Zhu was the General Manager of China Ocean Oilfields Services (Hong Kong) Limited.

During the period of 1997 to 2001, Mr. Zhu was the General Manager of the Construction Department of CNOOC. The Construction Department is responsible for the organization and investigation of concept design and plans of development, an immediate and final investigation of the basic design. The detailed designs, constructions and installations are managed by the Project Units, which are organized by the Construction Department. The Construction Department also organizes and cooperates with foreign companies for the development and construction of oil and gas fields.

From 1992 to 1997, Mr. Zhu was the Deputy Manager of Development and Production Department of CNOOC and he was responsible for construction development. During the period of 1986 to 1992, he was offered the position of Chief of Project Management Office of Construction Department of CNOOC.

In 1986, Mr. Zhu was transferred to CNOOC from Liaohe Oil Field, China where he had worked there for over 11 years in the 70s and his last position was the Chief of Oil and Gas Management Office of Liaohe Oil Field.

Mr. Zhu was graduated at the Beijing Petroleum Institute and was majoring in oil and gas storage and transportation engineering since 1969. During his work tenor, Mr. Zhu was trained in Japan for 3 months in recycling of light hydrocarbon and studied project management in EGT in United Kingdom during 1994.

SENIOR MANAGEMENT PROFILE

Mr. PAK, Ka Kei, Financial Controller, aged 41

Mr. Pak joined the Group in November 2009. Mr. Pak oversees the Group's financials and focus on the oil project. Mr. Pak has over 15 years experience in the fields of audit, internal control, accountancy, taxation and treasury. Prior to joining the Group, Mr. Pak has been working in TCL Multimedia Technology Holdings Limited over 10 years on the finance sections in Hong Kong, Emerging Markets and Europe and he has held the Deputy Internal Control Director and Deputy Financial Controller for Emerging Markets and Europe.

Mr. Pak graduated from City University of Hong Kong with a Bachelor of Arts degree in Accounting in year 1994 and has been worked for Ernst & Young for 5 years.

The Board hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2011.

CORPORATE GOVERNANCE PRACTICES

The Board recognizes the importance of incorporating elements of good corporate governance into the management structure and the internal control procedures of the Group so as to ensure that all business activities of the Group and the decision making process are properly regulated. During the year under review, the Company has applied the principles and has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") with deviations from the code provision A.2.2, A.2.3 and A.4.1 of the CG Code as summarized below.

The code provision A.2.2 of the CG Code stipulates that the chairman should ensure that all directors are properly briefed on issues arising at board meetings and the code provision A.2.3 of the CG Code stipulates that the chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner. Since the resignation of Mr. Wong Chi Wing Joseph on 20 December 2011, the office of the chairman of the Company is still vacant. The Company recognizes the importance of the duties of the chairman and will identify a high caliber executive to take up the role as soon as possible.

The code provision A.4.1 of the CG Code stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election. Currently the Non-executive Directors are not appointed for a specific term. However, all Non-executive Directors are subject to retirement and can offer themselves for re-election in accordance with the Company's Bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct rules (the "Model Code") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirms that all Directors have complied with the Model Code throughout the year.

BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board.

The Board is responsible for the promotion of the success of the Company by directing and guiding its affairs in an accountable and effective manner. Board members have a duty to act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders.

The types of decisions that are to be taken by the Board include:

1. Setting the Company's mission and values
2. Formulating strategic directions of the Company
3. Reviewing and guiding corporate strategy; setting performance objectives and monitoring implementation and corporate performance
4. Monitoring and managing potential conflicts of interest of management and Board members; and
5. Ensuring the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

For the year ended 31 December 2011, the Board:–

1. reviewed and approved the annual results of the Group for the year ended 31 December 2010 and the interim results of the Group for the period ended 30 June 2011.
2. reviewed and approved the general mandates to issue and repurchase shares of the Company
3. reviewed the internal controls of the Group
4. reviewed the performance of the Group and formulated the business strategy of the Group.
5. reviewed and approved the top-up subscription placement of 1,280,000,000 shares in the Company at HK$0.05 per share
6. reviewed and approved the issuance of HK$62.1 million zero coupon convertible notes due on the second anniversary of the issue date, convertible into shares of the Company at initial conversion price of HK$0.15 per share (subject to adjustments)
7. reviewed and approved the top-up subscription placement of 80,000,000 shares in the Company at HK$0.182 per share
8. reviewed and implemented the share consolidation involving the consolidation of every ten existing shares of HK$0.01 each into one new share of HK$0.1 and changed the board lot size from 20,000 existing shares to 10,000 new shares per board lot.
9. reviewed and approved the price-sensitive transactions

Regular Board meetings are scheduled in advance to give all Directors an opportunity to attend. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. No request was made by any Director for such independent professional advice in 2011. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings, which will be available for inspection by Directors upon request.

BOARD COMPOSITION

The Board currently comprises two Executive Directors and three independent Non-executive Directors, whose biographical details are set out in the section headed "Directors and Senior Management Profile" on page 12. Following the resignation of Mr. Poon Kwok Shin Edmond on 11 March 2011, the Company has only two Independent Non-executive Directors, the number of which falls below the minimum number required under Rule 3.10(1) and deviates from the requirement of at least one of the Independent Non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Mr. Cheung Yuk Ming, who is a certified public accountant, has been appointed as the Independent Non-executive Director on 10 June 2011 to fulfill the requirements under Rule 3.10 of the Listing Rules.

The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operation and development of the Group. The Company has also adopted the recommended best practice under the CG Code for having at least one-third of its Board members being independent non-executive directors.

All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group.

BOARD MEETING RECORDS

There were four meetings held for the year ended 31 December 2011. The following is an attendance record of the Board Meetings held by the Board during the year:

Name of Directors		**Number of Board meetings attended in 2011**
Mr. Wong Chi Wing Joseph	(resigned on 20 December 2011)	4/4
Mr. Chu Kwok Chi Robert		4/4
Mr. Cheung Yuk Ming	(appointed on 10 June 2011)	2/4
Mr. Hong Kin Choy	(appointed on 1 May 2011)	2/4
Mr. Leung Hon Chuen	(resigned on 17 March 2011)	1/4
Mr. Poon Kwok Shin Edmond	(resigned on 11 March 2011)	1/4
Mr. Qian Zhi Hui		2/4
Mr. Zhu Tiansheng		2/4
Mr. Zhou Jacky	(resigned on 16 February 2011)	1/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman's responsibility is to provide leadership to the Board and formulate the Group's business strategies. The Chief Executive Officer is responsible for the day to day operation of the Company and implementation of the development strategy adopted by the Board. Mr. Wong Chi Wing Joseph is the Chairman and Chief Executive Officer of the Company prior to his resignation on 20 December 2011, which had deviated from the code provision A.2.1 of the CG Code that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chu Kwok Chi Robert filled the vacancy of Chief Executive Officer on 9 January 2012 after the resignation of Mr. Wong Chi Wing Joseph.

Since the resignation of Mr. Wong Chi Wing Joseph on 20 December 2011, the office of the Chairman of the Company is still vacant. The Company recognizes the importance of the duties of the Chairman and will identify a high caliber executive to take up the role as soon as possible.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group. The Group's Independent non-executive Directors have been appointed to hold office until the next Annual General Meeting and shall retire and offer themselves for re-election according to the Company's Bye-laws.

All Independent Non-executive Directors are financially independent from the Company and any of its subsidiaries.

Each of the Independent Non-executive Directors has given a written confirmation to the Company confirming that he has met the criteria set out in Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of the independence of directors.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:–

1. Audit Committee
2. Remuneration Committee
3. Nomination Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limit of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

1) Audit Committee

a) Composition of Audit Committee members

Mr. Poon Kwok Shin Edmond *(Chairman)*	(resigned on 11 March 2011)
Mr. Cheung Yuk Ming *(Chairman)*	(appointed on 10 June 2011)
Mr. Leung Hon Chuen	(resigned on 17 March 2011)
Mr. Qian Zhi Hui	
Mr. Zhu Tiansheng	(appointed on 1 April 2011)

b) Role and function

The Audit Committee is mainly responsible for:

i. reviewing the financial statements and reports and considering any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.

ii. reviewing the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and making recommendations to the Board on the appointment, re-appointment and removal of external auditors.

iii. reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control and risk management system and associated procedures.

c) Meeting records

Two meetings were held for the year ended 31 December 2011 and the attendance of each committee member is set out as follows:

Name of Committee Members		**Number of Committee meetings attended in 2011**
Mr. Poon Kwok Shin Edmond *(Chairman)*	(resigned on 11 March 2011)	1/2
Mr. Leung Hon Chuen	(resigned on 17 March 2011)	1/2
Mr. Cheung Yuk Ming *(Chairman)*	(appointed on 10 June 2011)	1/2
Mr. Qian Zhi Hui		2/2
Mr. Zhu Tiansheng	(appointed on 1 April 2011)	1/2

During the meeting, the Audit Committee discussed the following matters:–

i. Financial Reporting

The Audit Committee reviewed with the Chief Executive Officer, the Company Secretary and the Financial Controller of the Company the Final Results for the year ended 31 December 2010 and the Interim Results for the period ended 30 June 2011.

ii. *External Auditors*

The Audit Committee reviewed the audit fee for the year ended 31 December 2010 and recommended it to the Board.

The Audit Committee reviewed the Audit Committee Report prepared by Deloitte Touche Tohmatsu for the year ended 31 December 2010.

2) Remuneration Committee

a) Composition of Remuneration Committee members

Mr. Leung Hon Chuen *(Chairman)*	(resigned on 17 March 2011)
Mr. Chu Kwok Chi Robert *(Chairman)*	(appointed on 1 April 2011)
Mr. Poon Kwok Shin Edmond	(resigned on 11 March 2011)
Mr. Qian Zhi Hui	
Mr. Zhu Tiansheng	(appointed on 1 April 2011)

b) Role and function

The Remuneration Committee is mainly responsible for:

i. reviewing any significant changes in human resources policies and structure made in line with prevailing trends and business developments.

ii. making recommendations to the Board on the Company's policy and the structure of all remuneration of Directors and senior management as well as on the establishment of formal and transparent procedures for developing policy on such remuneration;

iii. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and

iv. ensuring that no Director or any of his associates is involved in deciding his or her own remuneration.

c) Meeting Records

One meeting was held for the year ended 31 December 2011 and the attendance of each committee member is set out as follows:

Name of Committee Members		**Number of Committee meetings attended in 2011**
Mr. Leung Hon Chuen *(Chairman)*	(resigned on 17 March 2011)	0/1
Mr. Chu Kwok Chi Robert *(Chairman)*	(appointed on 1 April 2011)	1/1
Mr. Poon Kwok Shin Edmond	(resigned on 11 March 2011)	0/1
Mr. Qian Zhi Hui		1/1
Mr. Zhu Tiansheng	(appointed on 1 April 2011)	1/1

During the year under review, the Remuneration Committee reviewed the policies for the remuneration of Directors and senior management of the Group, the staff costs and headcount of the Group. The Remuneration Committee also reviewed the remuneration package of the Directors and the senior management to ensure they are in line with the market.

3) Nomination Committee

a) Composition of Nomination Committee members

Mr. Wong Chi Wing Joseph *(Chairman)*	(resigned on 20 December 2011)
Mr. Chu Kwok Chi Robert *(Chairman)*	(appointed on 20 December 2011)
Mr. Leung Hon Chuen	(resigned on 17 March 2011)
Mr. Poon Kwok Shin Edmond	(resigned on 11 March 2011)
Mr. Qian Zhi Hui	(appointed on 1 April 2011)
Mr. Zhu Tiansheng	(appointed on 1 April 2011)

b) Role and function

The Nomination Committee is mainly responsible for:

i. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;

ii. identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for Directorships;

iii. assessing the independence of Independent Non-executive Directors; and

iv. making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer.

c) Meeting Records

One meeting was held for the year ended 31 December 2011 and the attendance of each committee member is set out as follows:

Name of Committee Members		Number of Committee meetings attended in 2011
Mr. Wong Chi Wing Joseph *(Chairman)*	(resigned on 20 December 2011)	1/1
Mr. Chu Kwok Chi Robert *(Chairman)*	(appointed on 20 December 2011)	0/1
Mr. Leung Hon Chuen	(resigned on 17 March 2011)	0/1
Mr. Poon Kwok Shin Edmond	(resigned on 11 March 2011)	0/1
Mr. Qian Zhi Hui	(appointed on 1 April 2011)	1/1
Mr. Zhu Tiansheng	(appointed on 1 April 2011)	1/1

During the meeting, the Nomination Committee discussed for the need of segregating the duties of Chairman and the Chief Executive Officer and unanimously agreed to identify a high caliber executive to take up either one of the roles. Suitable candidate has not yet been identified but the Nomination Committee members would continue to look for the right person for the posts and recommend to the Board.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Directors also ensure that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting policies.

In preparing the financial statements, the Directors consider that the financial statements of the Group are prepared on a going concern basis and appropriate accounting policies have been consistently applied. The Directors have also made judgments and estimates that are prudent and reasonable in the preparation of the financial statements.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 33-34.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Group's system of internal control so as to maintain sound and effective controls to safeguard the shareholders' investment and the assets of the Group.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. This process includes continuous updating of the internal control system of the Group in response to the changing business environment and regulatory requirements. The Board is also conducting a review of the internal controls of the Group to ensure that the policies and procedures in place are adequate.

EXTERNAL AUDITORS

The Board acknowledges its responsibility for preparing the financial statements of the Group. In preparing the financial statements, the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants have been adopted. The principal accounting policies adopted for the preparation of financial statements of the Group, which have been consistently applied to all the years, are set out in note 4 to the financial statements.

It is the auditors' responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

During the year under review, the remuneration paid to the Company's external auditors, Messrs Deloitte Touche Tohmatsu was as follows:

Nature of services	Fee paid/payable HK$'000
Audit services	3,050

COMMUNICATION WITH SHAREHOLDERS

The Company uses various communication methods to ensure its Shareholders are kept well informed of key business imperatives. These include general meetings, annual report, various notices, announcements and circulars. The poll voting procedures and the rights of Shareholders to demand a poll were included in all circulars accompanying notices convening general meeting and the detailed procedures for conducting a poll had been read out by the Company Secretary at general meetings.

The annual general meeting provides a useful forum for Shareholders to exchange views with the Board. The Chairman, Directors, Board Committees" Chairman/Members and external auditor are available to answer questions at the meeting.

To ensure all Shareholders timely access to important corporate information, the Company utilizes its corporate website to disseminate to the Shareholder information such as announcements, circulars, annual and interim reports.

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing and trading of non-ferrous metals, and petroleum exploration and production. Particulars of the Company's principal subsidiaries are set out in note 45 to the consolidated financial statements. An analysis of the Group's performance for the year by operating and reportable segments is set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 (the "Year") are set out in the consolidated statement of comprehensive income on page 35.

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2011.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 107.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment are set out in note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of movement during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

PURCHASE, SALES AND REDEMPTION OF SHARES

Neither the Company nor its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

RESERVES

Movements in reserves of the Group during the year are set out in consolidated statement of changes in equity on page 37.

DIRECTORS

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

Executive Directors:

Mr. Chu Kwok Chi Robert
Mr. Hong Kin Choy (appointed on 1 May 2011)
Mr. Wong Chi Wing Joseph (resigned on 20 December 2011)
Mr. Zhou Jacky (resigned on 16 February 2011)

Non-executive Directors:

Mr. Leung Hon Chuen (resigned on 17 March 2011)

Independent Non-executive Directors:

Mr. Cheung Yuk Ming (appointed on 10 June 2011)
Mr. Poon Kwok Shin Edmond (resigned on 11 March 2011)
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

Biographical details of Directors of the Company are set out on page 12 under the section titled "Directors and Senior Management Profile".

In accordance with Article 99(A) of the Company's bye-laws, all Directors, except the Managing Director, shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company in accordance with the Company's bye-laws.

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 "Listing Rules") and the Company considers such Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, or any of its subsidiaries, its holding company, or any subsidiaries of its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

COMPETING INTEREST

None of the Director or their respective associates (as defined in the Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

LONG POSITIONS IN THE SHARES AND UNDELYING SHARES OF THE COMPANY

Director	Nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital (note 1)
Chu Kwok Chi Robert	Personal	33,852,938	1.57%
Zhu Tiansheng	Personal	270,000	0.01%

Note:

1. The calculation of percentages is based on 2,150,877,588 Shares of the Company in issue as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, no Directors or Chief Executive have any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required in the Listing Rules pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, according to the register of interests maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons, other than the Directors and the chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital were as follows:

LONG/SHORT POSITIONS IN THE SHARES AND UNDELYING SHARES OF THE COMPANY

Name of Shareholders	Long/short position	Capacity/ nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital (note 3)
City Smart International Investment Limited (note 1)	Long	Beneficial owner	7,466,856	0.35%
City Wise Investment Limited (note 1)	Long	Beneficial owner	398,232,975	18.51%
South America Petroleum Investment Holdings Limited (note 1)	Long	Interest of a controlled corporation	398,232,975	18.51%

Name of Shareholders	Long/short position	Capacity/ nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital (note 3)
Mr. Wu Shaozhang (note 1)	Long	Interest of a controlled corporation	405,699,831	18.86%
Rich Concept Worldwide Limited (note 2)	Long	Beneficial owner	125,810,827	5.85%
	Short	Beneficial owner	90,000,000	4.18%
Mr. Wong Chi Wing Joseph (note 2)	Long	Beneficial owner	5,896,600	0.27%
	Long	Interest of a controlled corporation	125,810,827	5.85%
	Short	Interest of a controlled corporation	90,000,000	4.18%

Notes:

1. So far is known to the Directors, City Smart International Investment Limited, South America Petroleum Investment Holdings Limited and City Wise Investment Limited are beneficially wholly-owned by Mr. Wu Shaozhang.

2. So far is known to the Directors, Rich Concept Worldwide Limited is wholly-owned by Mr. Wong Chi Wing Joseph.

3. The calculation of percentages is based on 2,150,877,588 Shares of the Company in issue as at 31 December 2011.

Saved as disclosed above, as at 31 December 2011, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, no persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or has any options in respect of such capital.

EMOLUMENT POLICY

The emolument of the employees of the Group is set up by the human resources department and seeks to provide remuneration packages on the basis of the merit, qualifications and competence of the employees. The emoluments of the Directors and senior management of the Company will be reviewed by the Remuneration Committee, having regard to factors including the Group's operating results, responsibilities of the Directors and senior management and comparable market statistics.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits schemes of the Group are set out in note 40 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted for a period of 10 years commencing 6 November 2006 pursuant to an Ordinary Resolution passed at the Special General Meeting of the Shareholders held on 6 November 2006 for the purpose of providing incentives or rewards to selected employees and directors for their contribution to the Group.

Under the Scheme, the Company may grant options to selected employees and directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible vendors, customers, advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, Independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholders, Independent non-executive directors, or any of their respective associates) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be also approved by the Company's shareholders.

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

As at 31 December 2011, options to subscribe for an aggregate of 152,379,999 shares of the Company granted to the Directors, certain employees and suppliers pursuant to the Scheme remained outstanding, details of which were as follows:

Name and category of participant	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$	Outstanding at 1.1.2011	Granted during the year	Lapsed during the year	Cancelled during the year	Adjustment on 23.6.2011	Outstanding at 31.12.2011
Executive Director									
Mr. Zhou Jacky (resigned on 16 February 2011)	19 March 2010	19 March 2010 – 9 February 2013	1.610*	5,000,000	–	–	(5,000,000)	–	–
	19 March 2010	10 November 2010 – 9 February 2013	1.610*	5,000,000	–	–	(5,000,000)	–	–
	19 March 2010	10 August 2011 – 9 February 2013	1.610*	5,000,000	–	–	(5,000,000)	–	–
Independent Non-executive Director									
Mr. Zhu Tiansheng	19 March 2010	19 March 2010 – 9 February 2013	1.610*	900,000	–	–	–	(810,000)	90,000
	19 March 2010	10 November 2010 – 9 February 2013	1.610*	900,000	–	–	–	(810,000)	90,000
	19 March 2010	10 August 2011 – 9 February 2013	1.610*	900,000	–	–	–	(810,000)	90,000
Employees	15 August 2007	15 August 2008 – 15 August 2011	6.420*	1,000,000	–	–	(100,000)	(900,000)	–
	15 August 2007	15 August 2009 – 15 August 2011	6.420*	1,000,000	–	–	(100,000)	(900,000)	–
	15 August 2007	15 August 2010 – 15 August 2011	6.420*	1,000,000	–	–	(100,000)	(900,000)	–
	10 February 2010	10 February 2010 – 9 February 2013	1.564*	23,099,996	–	–	(2,133,331)	(18,869,998)	2,096,667
	10 February 2010	10 November 2010 – 9 February 2013	1.564*	23,099,996	–	–	(2,133,331)	(18,869,998)	2,096,667
	10 February 2010	10 August 2011 – 9 February 2013	1.564*	23,100,008	–	–	(2,133,338)	(18,870,003)	2,096,667
	10 November 2010	1 January 2011 – 31 December 2012	0.0816**	340,000,000	–	–	(340,000,000)	–	–
	10 November 2010	1 January 2012 – 31 December 2012	0.0816**	340,000,000	–	–	(340,000,000)	–	–

Name and category of participant	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$	Outstanding at 1.1.2011	Granted during the year	Lapsed during the year	Cancelled during the year	Adjustment on 23.6.2011	Outstanding at 31.12.2011
Other participants	10 February 2010	10 February 2010 – 9 February 2013	1.564*	19,399,999	–	–	–	(17,460,000)	1,939,999
	10 February 2010	10 November 2010 – 9 February 2013	1.564*	19,399,999	–	–	–	(17,460,000)	1,939,999
	10 February 2010	10 August 2011 – 9 February 2013	1.564*	19,400,002	–	–	–	(17,460,002)	1,940,000
	10 November 2010	1 January 2011 – 31 December 2012	0.0816**	135,000,000	–	–	(135,000,000)	–	–
	10 November 2010	1 January 2012 – 31 December 2012	0.0816**	135,000,000	–	–	(135,000,000)	–	–
	11 October 2011	11 October 2011 – 10 October 2013	0.141***	–	140,000,000	–	–	–	140,000,000
				1,098,200,000	140,000,000	–	(971,700,000)	(114,120,001)	152,379,999

* This reflects the adjusted share price on grant date after the completion of the consolidation of shares on 23 June 2011.

** This reflects the share price on grant date before the completion of the consolidation of shares on 23 June 2011.

*** This reflects the share price on grant date after the completion of the consolidation of shares on 23 June 2011.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

– the largest customer	27%
– five largest customers combined	82%

Purchases

– the largest supplier	71%
– five largest supplier combined	99%

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers as noted above.

PRE-EMPTIVE RIGHTS

There is no provision 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.

EMPLOYEES

As at 31 December 2011, the Group had a total of about 15 employees in Hong Kong, 14 employees in Argentina and 6 employees in PRC. Employee's cost (excluding directors' emoluments) amounted to approximately HK$20.99 million (2010: HK$37.72 million). The Group ensures that the pay levels of its employees are competitive according to market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

SUFFICIENCY OF PUBLIC FLOAT

Based on information available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the Public as of the date of this report.

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 44 to the consolidated financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to reappoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Chu Kwok Chi Robert
Executive Director and CEO

30 March 2012

Deloitte.
德勤

TO THE MEMBERS OF EPI (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of EPI (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 106, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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.

TO THE MEMBERS OF EPI (HOLDINGS) LIMITED – continued
(incorporated in Bermuda with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Continuing operations:			
Revenue	6	619,800	937,258
Cost of sales	7	(617,661)	(926,619)
Gross profit		2,139	10,639
Other gains and losses	8	(12,965)	17,685
Distribution and selling expenses		(10,531)	(11,799)
Administrative expenses		(73,511)	(89,162)
Other expenses	9	(96,132)	(214,496)
Finance costs	10	(34,679)	(2,385)
Loss before taxation		(225,679)	(289,518)
Taxation credit	11	7,942	–
Loss for the year from continuing operations	12	(217,737)	(289,518)
Discontinued operations:			
Profit for the year from discontinued operations	13	–	890
Loss for the year attributable to owners of the Company		(217,737)	(288,628)
Other comprehensive income (expense):			
Transfer to profit and loss on disposal of foreign operation		–	120
Exchange differences arising on translation of foreign operation		–	(97)
Fair value gain on available-for-sale investments		–	57,176
Income tax relating to components of other comprehensive income		–	(5,718)
Other comprehensive income for the year		–	51,481
Total comprehensive expense for the year attributable to owners of the Company		(217,737)	(237,147)
			(restated)
Loss per share	17		
From continuing and discontinued operations:			
– basic		(10.7) HK cent	(23.4) HK cent
– diluted		(10.7) HK cent	(23.4) HK cent
From continuing operations:			
– basic		(10.7) HK cent	(23.5) HK cent
– diluted		(10.7) HK cent	(23.5) HK cent

Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Exploration and evaluation assets	18	**3,837,156**	3,793,293
Property, plant and equipment	19	**340,843**	161,027
Deferred tax assets	20	**9,870**	295
Other tax recoverable	21	**54,148**	33,643
		4,242,017	3,988,258
Current assets			
Trade and other receivables	22	**186,013**	206,032
Available-for-sale investments	23	**67,600**	67,600
Held-for-trading investments	24	**52**	4,000
Pledged bank deposits	25	**–**	26,340
Bank balances and cash	25	**29,509**	85,204
		283,174	389,176
Current liabilities			
Trade and other payables	26	**169,780**	168,372
Taxation payable		**777**	–
Derivative financial instruments	27	**–**	10,596
Borrowings – amount due within one year	28	**56,328**	135,677
		226,885	314,645
Net current assets		**56,289**	74,531
Total assets less current liabilities		**4,298,306**	4,062,789
Non-current liabilities			
Convertible notes	29	**74,661**	–
Promissory notes	30	**–**	1,899
Borrowings – amount due after one year	28	**296,400**	–
Deferred tax liabilities	20	**6,574**	5,718
Assets retirement obligation	31	**1,730**	3,137
		379,365	10,754
		3,918,941	4,052,035
Capital and reserves			
Share capital	32	**215,088**	185,088
Reserves		**3,703,853**	3,866,947
Equity attributable to owners of the Company		**3,918,941**	4,052,035

The consolidated financial statements on pages 35 to 106 were approved and authorised for issue by the Board of Directors on 30 March 2012 and are signed on its behalf by:

Chu Kwok Chi, Robert	**Hong Kin Choy**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (note b)	Investment revaluation reserve HK$'000	Contributed surplus reserve HK$'000 (note a)	Translation reserve HK$'000	Share options reserve HK$'000	Convertible notes reserve HK$'000 (note 29(b))	Accumulated profits (losses) HK$'000	Total HK$'000
At 1 January 2010	76,936	1,401,554	–	–	60,322	(23)	15,518	2,326,356	96,222	3,976,885
Transfer to profit and loss on disposal of foreign operation	–	–	–	–	–	120	–	–	–	120
Exchange differences arising on translation	–	–	–	–	–	(97)	–	–	–	(97)
Fair value gain on available-for-sale investments	–	–	–	57,176	–	–	–	–	–	57,176
Income tax relating to components of other comprehensive income	–	–	–	(5,718)	–	–	–	–	–	(5,718)
Loss for the year	–	–	–	–	–	–	–	–	(288,628)	(288,628)
Total comprehensive income and expense for the year	–	–	–	51,458	–	23	–	–	(288,628)	(237,147)
Recognition of share-based payment expense	–	–	–	–	–	–	16,749	–	–	16,749
Proceeds received from subscription of new shares	–	–	61,721	–	–	–	–	–	–	61,721
Issue of new shares	13,900	240,470	–	–	–	–	–	–	–	254,370
Transaction costs attributable to issue of new shares	–	(10,462)	–	–	–	–	–	–	–	(10,462)
Shares repurchased and cancelled	(1,090)	(8,991)	–	–	–	–	–	–	–	(10,081)
Conversion of convertible notes	95,342	2,231,014	–	–	–	–	–	(2,326,356)	–	–
At 31 December 2010	185,088	3,853,585	61,721	51,458	60,322	–	32,267	–	(192,406)	4,052,035
Loss for the year and total comprehensive expense for the year	–	–	–	–	–	–	–	–	(217,737)	(217,737)
Recognition of share-based payment expense	–	–	–	–	–	–	7,480	–	–	7,480
Issue of new shares	30,000	110,660	(61,721)	–	–	–	–	–	–	78,939
Transaction costs attributable to issue of new shares	–	(1,776)	–	–	–	–	–	–	–	(1,776)
At 31 December 2011	**215,088**	**3,962,469**	**-**	**51,458**	**60,322**	**-**	**39,747**	**-**	**(410,143)**	**3,918,941**

Notes:

(a) The contributed surplus reserve represents the credit arising from the capital reduction in 2006.

(b) On 22 December 2010, the Company entered into a subscription agreement with Rich Concept (as defined in note 32), a shareholder of the Company, to allot and issue 920,000,000 new ordinary shares of HK$0.01 each at the price of HK$0.0675 per share. The subscription agreement is conditional upon completion of the placing of 920,000,000 issued ordinary shares of the Company made by the placing agent on behalf of Rich Concept. The placing of issued shares then held by Rich Concept was completed on 22 December 2010 with net proceeds amounting to HK$61,721,000 being remitted to the Company which shall be applied as part settlement as subscription money for the new shares to be issued to Rich Concept. The subscription of new shares by Rich Concept was completed on 3 January 2011 (see also Note 32(e)(i)).

Details of the above are set out in the Company's announcements dated 22 December 2010 and 3 January 2011.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	NOTE	2011 HK$'000	2010 HK$'000
Operating activities			
Loss for the year		(217,737)	(288,628)
Adjustments for:			
Income tax credit recognised in profit or loss		(7,942)	–
Depreciation of property, plant and equipment		28,279	23,688
Capitalised exploratory well costs charged to expense		–	177,439
Impairment loss recognised in respect of property, plant and equipment		34,023	–
Loss on disposal of property, plant and equipment		1	156
Gain on disposal of subsidiaries		–	(7,744)
Share-based payment expense		7,480	16,749
Allowance for bad and doubtful debts		–	13
Interest income		(484)	(5,519)
Interest expense		24,277	2,385
Fair value loss on conversion option of convertible notes		10,106	–
Operating cash flows before movements in working capital		(121,997)	(81,461)
Decrease in trade and other receivables		19,019	2,886
(Increase) decrease in other tax receivables		(20,505)	6,269
Decrease in held-for-trading financial assets		3,948	144,412
Decrease in trade and other payables		(12,040)	(22,301)
(Decrease) increase in derivative financial instruments		(10,596)	2,587
Net cash (used in) from operating activities		**(142,171)**	52,392
Investing activities			
Purchase of property, plant and equipment		(207,987)	(159,127)
Additions of exploration and evaluation assets		(57,752)	(17,565)
Proceeds from disposal of property, plant and equipment		5	1,342
Interest received		484	5,519
Disposal of subsidiaries	35	–	(14,422)
Proceeds from disposal of subsidiary		1,000	–
Payments for acquisition of available-for-sale investments		(10,424)	–
Proceeds from disposal of a jointly controlled entity		–	37,800
Proceeds from repayment of loan receivables		–	15,962
Decrease (increase) in pledged bank deposits		26,340	(3,716)
Net cash used in investing activities		**(248,334)**	(134,207)

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Financing activities		
New bank borrowings raised	312,000	132,284
Repayment of bank borrowings	(135,677)	(100,022)
New other loans raised	133,873	–
Repayment of other loans	(93,145)	–
Proceeds from issue of convertible notes	62,100	–
Expenses on issue of convertible notes	(2,044)	–
Repayment of promissory notes	(1,899)	(250,381)
Interest paid	(17,561)	(3,315)
Payment on repurchase of shares	–	(10,081)
Proceeds from issue of new shares	78,939	254,370
Proceeds received from subscription of new shares	–	61,721
Expenses on issue of new shares	(1,776)	(10,462)
Net cash from financing activities	334,810	74,114
Net decrease in cash and cash equivalents	(55,695)	(7,701)
Cash and cash equivalents at beginning of the year	85,204	93,002
Effect of foreign exchange rate changes	–	(97)
Cash and cash equivalents at end of the year, representing bank balances and cash	29,509	85,204

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of the principal place of business of the Company is Suite 6303-4 on 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing and trading of non-ferrous metals, trading of petroleum related products, and petroleum exploration and production.

In January 2011, the directors of the Company determined that the functional currency of the Company has changed from Hong Kong dollars ("HK$") to United States dollars ("US$") as the Company's subsidiaries have commenced and are expanding in petroleum exploration and production which are transacted in US$.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The presentation currency of the consolidated financial statements is HK$. For the convenience of the financial statements users, the results and financial position of the Group are presented in HK$ as the Company's shares are listed on the Stock Exchange.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK (IFRIC)-INT 14	Prepayments of a minimum funding requirement
HK (IFRIC)-INT 19	Extinguishing financial liabilities with equity instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
	Disclosures – Offsetting financial assets and financial liabilities[2]
	Mandatory effective date of HKFRS 9 and transition disclosure[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[5]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities[6]
HK(IFRIC)-INT 20	Stripping costs in the production phase of a surface mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

HKFRS 9 "Financial instruments" – continued

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The application of HKFRS 9 may affect the classification and measurement of the Group's available-for-sale investments.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC)-INT 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures" and HK(SIC)-INT 13 "Jointly controlled entities – Non-monetary contributions by venturers". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

New and revised standards on consolidation, joint arrangements, associates and disclosures – continued

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that under HKFRS 11, the Group's jointly controlled entities will be classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the joint arrangement. The directors have not yet performed a detailed analysis of the impact of the application of these five standards and hence have not yet quantified the extent of the impact on the results and financial position of the Group.

HKFRS 13 "Fair value measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. This standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the results and financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, that are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Joint ventures

Jointly controlled operations

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the consolidated statement of financial position of the relevant entity on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in the consolidated statement of comprehensive income when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment

Oil and gas properties

Oil and gas properties are stated in the consolidated statement of financial position at cost less subsequent accumulated depletion, depreciation and amortisation and any accumulated impairment losses. The successful efforts method of accounting is used for oil and gas properties. Under this method, all costs for developed wells, support equipment and facilities, and for acquiring proven mineral interests in oil and gas properties are capitalised. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells are found with proven oil and gas reserves. Proven oil and gas reserves are the estimated quantities of crude oil, natural gas and oil, with geological and engineering data to demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and are subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised only if additional drilling is underway or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any significant costs of unproved properties capitalised in oil and gas properties.

Depletion, depreciation and amortisation of capitalised costs of oil and gas properties is calculated on the unit-of-production basis over the total proven reserves of the relevant area. The unit-of-production rate for depletion, depreciation and amortisation of oil and gas properties, also takes into account the expenditure incurred to date, together with projected future development expenditure and the volume of oil and gas produced in the current year.

Construction in progress

Construction in progress includes property, plant and equipment for production or for its own use purposes. Construction in progress is stated in the consolidated statement of financial position at cost less any recognised impairment loss. Construction in process in respect of exploratory well is classified to oil and gas properties when production of oil starts. Construction in progress in respect of other assets is classified to the appropriate category of property, plant and equipment when construction is completed and the asset is ready for intended use. Depreciation of these assets on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property, plant and equipment

Property, plant and equipment other than oil and gas properties and construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than oil and gas properties and construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Costs of exploratory wells (pipelines, drilling cost and others) are capitalised pending the determination of whether sufficient quantities of potentially economic oil and gas reserves have been discovered. The related well costs are expensed if it is determined that such economic viability is not attained within one year of completion of drilling.

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

When the technical feasibility and commercial viability of extracting natural resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as construction in progress oil and gas properties. These assets are assessed for impairment before reclassification.

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment loss in accordance with HKAS 36 and whenever one of the following events or changes in circumstances indicates that the carrying amount may not be recoverable:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of natural resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of natural resources in the specific area have not led to the discovery of commercially viable quantities of natural resources and the Group has decided to discontinue such activities in the specific area.
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets comprise financial assets at fair value through profit or loss ("FVTPL"), available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is excluded from net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Financial assets at fair value through profit or loss – continued

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Impairment of financial assets – continued

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Convertible notes contains liability component and conversion option derivative

Convertible notes issued by the Group contain both liability and conversion option components. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under contract, as determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Other financial liabilities

Financial liabilities including trade and other payables, liability component of convertible notes, promissory notes and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Share options granted to other suppliers of goods and services

Share options issued in exchange for goods or services are measured at the fair value of the goods or services received, unless the fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair value of the goods or services are recognised as expenses with a corresponding increase in equity, when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Retirement benefits costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Schemes ("MPF Schemes") are recognised as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period in which they arise.

For the purposes of presenting the consolidated financial statements in Hong Kong dollars, the assets and liabilities of the group entities are translated into Hong Kong dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve. Translation differences relating to a foreign operation are recognised in profit or loss in the period in which the foreign operation is disposed of.

Change in functional currency

Functional currency of a group entity is changed only if there is a change to the underlying transactions, events and conditions relevant to the entity. The entity applied the translation procedures applicable to the new functional currency prospectively. At the date of change, the entity translates all items into the new functional currency using the exchange rate prevailing at that date and the resulting translated amounts for non-monetary items are treated as the historical cost. Exchange differences arising from the translation of foreign operations recognised in translation reserve are not recognised in profit or loss until the disposal of the foreign operation.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Assets retirement obligation

The Group is required to make payments for restoration and rehabilitation of the land at the end of the productive life of oil and gas fields. Provision for restoration cost is required when the Group has a present obligation as a result of past event, and it is probable that the Group will be required to settle that obligation. Provision is measured in accordance with the relevant rules and regulations applicable in the relevant jurisdictions at the end of the reporting period, and is discounted to their present value where the effect is material.

Restoration cost is recorded in the period in which the obligation is identified and is capitalised to the costs of oil and gas properties. This cost is charged to profit or loss through amortisation of the assets, which are amortised using the unit-of-production method based on the actual production volume over the estimated total proved and probable reserves of the developed wells.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty at the end of the 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.

Estimated impairment of trade and other receivables

Allowance for trade and other receivables is made based on the evaluation of collectability and ageing analysis of accounts. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment 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) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of trade and other receivables is HK$14,951,000 (2010: HK$159,818,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Estimation of petroleum reserves

Petroleum reserves are key elements in the Group's investment decision-making process. They are also an important element in determining the amount of depreciation for oil and gas properties and for testing impairment of property, plant and equipment and exploration and evaluation assets. Changes in proven oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depletion, depreciation and amortisation recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proven developed reserves will increase depletion, depreciation and amortisation charges (assuming constant production) and reduce net profit or increase net loss. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil and gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

Impairment of oil and gas properties

The carrying amounts of the oil and gas properties are assessed for impairment when facts and circumstances suggest that the carrying amounts of the oil and gas properties may exceed their recoverable amounts. The Group's determination as to whether the oil and gas properties are impaired requires an estimation of the recoverable amount of the assets. The Group relies on experts to assess the geological prospects for the discovery of oil and gas in the oil field and estimates the value of oil and gas to be produced in the future at a suitable discount rate in order to calculate the present value. For drilling costs and other exploration and evaluation assets, the Group determines whether the related well costs are expensed if it is determined that such economic viability is not attained after performing further feasibility studies that is usually completed within one year of completion of drilling. The Group's carrying value of oil and gas properties as at 31 December 2011 was HK$253,768,000 (2010: HK$159,645,000).

Impairment of exploration and evaluation assets

The carrying amounts of the exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amounts of the exploration and evaluation assets may exceed their recoverable amounts. The future recoverability of exploration and evaluation expenditure is dependent on a number of factors, including the level of proved and probable petroleum reserves, future technological changes which could impact the cost of drilling, future changes relevant to regulations on exploration, drilling and production of oil and gas in Argentina, charges to the commodity prices, future drilling plan of the Group and the ability of raising financing to meet the drilling plan. The Group's determination as to whether the exploration and evaluation assets are impaired requires an estimation of the recoverable amount of the assets. The directors of the Company exercise their judgement in estimating the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise.

In addition, as disclosed in note 39, as at 31 December 2011, the Group had a commitment of drilling a minimum of five production wells per year during the five consecutive years from 2012, and for the following years, two wells per year, until the expiry of the Concessions (as defined in note 18). Failure to meet the minimum drilling requirements may render the New JV Agreement (as defined in note 18) to be terminated and the Group will be forfeited its rights to continue drilling but it will not be forfeited of any right in respect of the wells already drilled. At 31 December 2011, the Group has estimated the investment cost in respect of the obligation for drilling the five production wells (which is the minimum number in year 2012 pursuant to the Assignment Agreement is approximately HK$210.6 million.)

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Impairment of exploration and evaluation assets – continued

In the opinion of the directors of the Company, the Group will negotiate with banks to source new financing for the drilling commitment. At the date of issuance of the consolidated financial statements, the sourcing of extra financing has not yet been confirmed. If the Group fails to meet the minimum investment commitment, these evaluation and exploration assets may be impaired.

The Group's carrying value of exploration and evaluation assets as at 31 December 2011 was HK$3,837,156,000 (2010: HK$3,793,293,000).

Fair value of embedded conversion option of convertible notes

The directors of the Company use their judgment in selecting an appropriate valuation technique to determine the fair value of embedded conversion option of the convertible notes which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these derivatives financial liabilities are determined at the end of the reporting period with movements in fair value recognised in profit or loss. In estimating the fair value of these derivative financial liabilities, the Group uses independent valuation which is based on various inputs and estimates based on quoted market rates and adjusted for specific features of the instrument (see note 29). If the inputs and estimates applied in the model are different, the carrying amount of these derivative financial liabilities will change. The carrying value of the conversion option of the convertible notes as at 31 December 2011 was HK$17,664,000 (2010: nil).

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold by the Group to customers, less return, discounts and sales related taxes. An analysis of the Group's revenue for the year is as follows:

	2011 HK$'000	2010 HK$'000
Sales of goods		
– petroleum	**42,554**	35,695
– petroleum related products	**577,246**	463,940
– metals	**–**	437,623
	619,800	937,258

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Segment information

Information is reported to the Chief Executive Officer, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance.

For management purposes, the Group is currently organised into three operating divisions namely petroleum exploration and production, trading of petroleum related products and metals sourcing and trading.

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

Petroleum exploration and production	–	exploration and production of petroleum
Trading of petroleum related products	–	trading of chemical products related to petroleum
Metals sourcing and trading	–	sourcing and trading of non-ferrous metals

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

Year ended 31 December 2011

Continuing operations:

	Petroleum exploration and production HK$'000	Trading of petroleum related products HK$'000	Metals sourcing and trading HK$'000 (note)	Total HK$'000
Segment revenue (external sales)	42,554	577,246	–	619,800
Result				
Segment results	(97,561)	1,353	41	(96,167)
Unallocated other gains and losses				(16,365)
Unallocated corporate expenses				(78,468)
Finance costs				(34,679)
Loss before taxation (continuing operations)				(225,679)

Note: The Group did not enter into any transaction within the metals sourcing and trading segment during the year ended 31 December 2011 as the profit margin was not favourable.

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Segment revenue and results – continued

Year ended 31 December 2010

Continuing operations:

	Petroleum exploration and production HK$'000	Trading of petroleum related products HK$'000	Metals sourcing and trading HK$'000	Total HK$'000
Segment revenue (external sales)	35,695	463,940	437,623	937,258
Result				
Segment results	(250,676)	6,191	18,024	(226,461)
Unallocated other gains and losses				(9,085)
Unallocated corporate expenses				(51,587)
Finance costs				(2,385)
Loss before taxation (continuing operations)				(289,518)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned (loss made) by each segment without allocation of interest income, change in fair value of financial assets/liabilities classified as convertible notes and held-for-trading, central administrative expenses and finance costs. This is the measure reported to the Chief Executive Officer, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

	2011 HK$'000	2010 HK$'000
Segment assets		
Continuing operations:		
Petroleum exploration and production	**4,208,230**	3,971,827
Trading of petroleum related products	**156,238**	90,214
Metals sourcing and trading	**–**	101,665
Total segment assets	**4,364,468**	4,163,706
Unallocated	**160,723**	213,728
Consolidated assets	**4,525,191**	4,377,434
Segment liabilities		
Continuing operations:		
Petroleum exploration and production	**145,697**	65,287
Trading of petroleum related products	**–**	89,128
Metals sourcing and trading	**–**	10,937
Total segment liabilities	**145,697**	165,352
Unallocated	**460,553**	160,047
Consolidated liabilities	**606,250**	325,399

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to reportable segments other than deferred tax assets, other tax recoverable, held-for-trading investments, available-for-sale investments and assets used jointly by reportable segments.

– all liabilities are allocated to reportable segments other than deferred tax liabilities, convertible notes, promissory notes, borrowings and liabilities for which reportable segments are jointly liable.

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Other segment information

Year ended 31 December 2011

Continuing operations:

	Petroleum exploration and production HK$'000	Trading of petroleum related products HK$'000	Metals sourcing and trading HK$'000	Unallocated HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Capital additions	207,986	–	–	1	207,987
Depreciation	28,089	4	–	186	28,279
Impairment loss recognised in respect of property, plant and equipment	34,023	–	–	–	34,023
Gain on change in fair value of derivative financial instruments	–	–	(41)	–	(41)

Year ended 31 December 2010

Continuing operations:

	Petroleum exploration and production HK$'000	Trading of petroleum related products HK$'000	Metals sourcing and trading HK$'000	Unallocated HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Capital additions	158,489	–	–	207	158,696
Depreciation	22,300	–	16	361	22,677
Capitalised exploratory well costs charged to expense	177,439	–	–	–	177,439
Allowance for bad and doubtful debts	–	–	–	13	13
Loss on change in fair value of derivative financial instruments	–	–	25,188	–	25,188

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Geographical information

The Group's operations are located in the People's Republic of China (the "PRC"), Hong Kong and Argentina.

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

	Revenue from external customers		Non-current assets	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
PRC	**577,246**	901,563	**–**	–
Hong Kong	**–**	–	**508**	773
Argentina	**42,554**	35,695	**4,177,491**	3,953,547
	619,800	937,258	**4,177,999**	3,954,320

Non-current assets excluded deferred tax assets and other tax recoverable.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2011 HK$'000	2010 HK$'000
Customer A[1]	**169,149**	N/A[3]
Customer B[1]	**93,362**	N/A[3]
Customer C[1]	**88,725**	N/A[3]
Customer D[1]	**85,320**	N/A[3]
Customer E[1]	**71,829**	174,034
Customer F[1]	**68,861**	N/A[3]
Customer G[2]	**N/A[3]**	258,320
Customer H[2]	**N/A[3]**	114,169

1 Revenue from trading of petroleum related products.
2 Revenue from metals sourcing and trading operation.
3 The corresponding revenue did not contribute over 10% of total sales of the Company.

7. COST OF SALES

Continuing operations:

Cost of sales included HK$589,942,000 (2010: HK$904,610,000), representing cost of inventories recognised as expenses.

8. OTHER GAINS AND LOSSES

	2011 HK$'000	2010 HK$'000
Continuing operations:		
Bank interest income	484	115
Other interest income	–	5,404
Total interest income	484	5,519
(Loss) gain on change in fair value of financial assets/liabilities classified as:		
– convertible notes	(10,106)	–
– held-for-trading (note a)	(6,743)	(9,200)
– derivative financial instruments	41	(25,188)
	(16,808)	(34,388)
Commission received (note b)	–	41,415
Others	3,359	5,139
	(12,965)	17,685

Notes:

(a) The amount in 2011 includes a loss of HK$6,566,000 incurred upon disposal of held-for-trading securities pledged as securities for an other loan from an independent third party.

(b) The amount in 2010 represented one-off commission income received from independent third parties for the Group's referral of customers to these independent third parties in the metals sourcing and trading business.

9. OTHER EXPENSES

	2011 HK$'000	2010 HK$'000
Continuing operations:		
Allowance for bad and doubtful debts	–	13
Capitalised exploratory well costs charged to expense	–	177,439
Expenses incurred in exploring potential investment opportunities	49,984	1,093
Impairment loss recognised in respect of property, plant and equipment	34,023	–
Irrecoverable value-added tax expense (note 21)	12,124	35,795
Loss on disposal of property, plant and equipment	1	156
	96,132	214,496

10. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Continuing operations:		
Interest on borrowings wholly repayable within five years:		
Bank borrowings and overdrafts	10,097	1,115
Promissory notes	22	1,270
Other loans	6,960	–
Interest on borrowings not wholly repayable within five years:		
Bank borrowings	2,699	–
Effective interest expense on convertible notes (note 29)	4,499	–
Total interest expense	24,277	2,385
Loan arrangement fees for other loans	1,496	–
Arrangement fee paid for share mortgage provided by Rakata (as defined in note 28(d)) (note 44)	2,340	–
Share-based payment expense for loan arrangement	6,566	–
	34,679	2,385

11. TAXATION

	2011 HK$'000	2010 HK$'000
Current tax:		
Hong Kong	–	–
Other jurisdictions	(777)	–
	(777)	–
Deferred tax credit (note 20)	8,719	–
Total	7,942	–

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax has been made as there is no assessable profit arising in Hong Kong in both years.

Argentina income tax is calculated at 35% of assessable profit for the year. No provision for Argentina income tax has been made as there is no assessable profit arising in Argentina for both years. However, a minimum presumptive tax is levied on all assets located in Argentina or in foreign countries owned by companies domiciled in Argentina or branches of foreign companies located in Argentina. The tax rate is 1% on the assessable assets.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The taxation for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	2011 HK$'000	2010 HK$'000
Loss before taxation (from continuing operations)	(225,679)	(289,518)
Tax at the applicable rates of 16.5% (2010: 16.5%)	37,237	47,770
Tax effect of income not taxable for tax purpose	105	29
Tax effect of expenses not deductible for tax purpose	(18,679)	(38,700)
Tax effect of tax losses not recognised as deferred tax asset	(13,422)	(12,887)
Tax effect of utilisation of tax losses previously not recognised	–	3,784
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,806	–
Others	(105)	4
Tax credit for the year	7,942	–

At 31 December 2011, the Group had unused tax losses of HK$174,909,000 (2010: HK$93,564,000) available for offset against future profits. Deferred tax asset of HK$9,870,000 has been recognised and other deferred tax asset has not been recognised due to the unpredictability of future profit. Included in unused tax losses are losses of HK$70,854,000 (2010: HK$19,001,000) that will expire in 2015 to 2016 (2010: 2015). All other tax losses may be carried forward indefinitely.

12. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2011 HK$'000	2010 HK$'000
Loss for the year from continuing operations has been arrived at after charging (crediting):		
Directors' remuneration (note 14)	**5,907**	5,825
Other staff's retirement benefits costs	**421**	928
Other staff share-based payment expense	**895**	16,116
Other staff costs	**19,675**	20,677
Total staff costs	**26,898**	43,546
Auditor's remuneration	**3,050**	2,730
Depreciation of property, plant and equipment	**28,279**	22,677
Exchange loss, net	**4,657**	8,170
Minimum lease payments under operating leases in respect of office properties and buildings	**4,389**	3,887

13. DISCONTINUED OPERATIONS

On 27 August 2010, the Group entered into two agreements to dispose of certain of Group's wholly-owned subsidiaries, including Great Wall Infrastructure Limited and its subsidiary, Innovision Enterprises Limited, and Shenzhen Innovision Trading Limited 深圳基漢貿易有限公司 (collectively the "Disposed Subsidiaries"), which together carried out all of the Group's consumer electronics operation. The disposal was completed on 31 December 2010, on which date the Group ceased to have control over the Disposed Subsidiaries. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed in note 35.

The disposal of the consumer electronics operation represented opportunities for the Group to realise its investment in the original core business of sourcing and trading of consumer electronics products on reasonable terms and allow the Group to better utilising its resources and focusing on the development of its investment in the resources sector.

The results of the discontinued operations in 2010 included in the consolidated statement of comprehensive income and consolidated statement of cash flows are set out below.

13. DISCONTINUED OPERATIONS – CONTINUED

	2010 Consumer electronics HK$'000
Profit for the year from discontinued operations	
Revenue	117,652
Cost of sales	(113,071)
Gross profit	4,581
Other gains and losses	77
Distribution and selling expenses	(2,203)
Administrative expenses	(8,326)
Other expenses	(983)
Loss before taxation	(6,854)
Gain on disposal of operation (including HK$120,000 reclassification of foreign currency translation reserve from equity to profit or loss on disposal of operations (note 35))	7,744
Profit for the year from discontinued operations (attributable to owners of the Company)	890
Profit for the year from discontinued operations includes the following:	
Other staff costs	1,887
Auditor's remuneration	–
Cost of inventories recognised as expenses	113,071
Depreciation of property, plant and equipment	1,011
Exchange loss, net	13
Rental expenses	2,759
After crediting:	
Bank interest income	3
Other information:	
Capital additions	431
Cashflows from discontinued operations	
Net cash flows from operating activities	2,224
Net cash flows used in investing activities	(433)
Net cash flows from financing activities	11,598
Net cash inflows	13,389

The carrying amounts of the assets and liabilities of the Disposed Subsidiaries at the date of disposal are disclosed in note 35.

14. DIRECTORS' EMOLUMENTS

	2011 HK$'000	2010 HK$'000
Fees	458	600
Other emoluments		
Salaries and other benefits	5,396	4,556
Share-based payments	19	633
Retirement benefits scheme contributions	34	36
	5,907	5,825

The emoluments paid or payable to each of the nine (2010: seven) directors were as follows:

2011

		Other emoluments			
Name	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors					
Chu Kwok Chi, Robert	–	1,210	–	12	1,222
Hong Kin Choy (note a)	–	1,020	–	8	1,028
Wong Chi Wing, Joseph (note b)	–	3,058	–	12	3,070
Zhou Jacky (note c)	–	108	–	2	110
Non-executive director					
Leung Hon Chuen (note d)	37	–	–	–	37
Independent non-executive directors					
Cheung Yuk Ming (note e)	84	–	–	–	84
Poon Kwok Shin (note f)	37	–	–	–	37
Qian Zhi Hui	150	–	–	–	150
Zhu Tiansheng	150	–	19	–	169
Total emoluments	458	5,396	19	34	5,907

Notes:

(a) Appointed on 1 May 2011.
(b) Resigned on 20 December 2011.
(c) Resigned on 16 February 2011.
(d) Resigned on 17 March 2011.
(e) Appointed on 10 June 2011.
(f) Resigned on 11 March 2011.

14. DIRECTORS' EMOLUMENTS – CONTINUED

2010

Name	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Share-based payments	Other emoluments: Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Chu Kwok Chi, Robert	–	910	–	12	922
Wong Chi Wing, Joseph	–	2,736	–	12	2,748
Zhou Jacky (note g)	–	910	536	12	1,458
Non-executive director					
Leung Hon Chuen	150	–	–	–	150
Independent non-executive directors					
Poon Kwok Shin	150	–	–	–	150
Qian Zhi Hui	150	–	–	–	150
Zhu Tiansheng	150	–	97	–	247
Total emoluments	600	4,556	633	36	5,825

Note:

(g) Appointed on 1 January 2010.

There was no arrangement under which a director waived or agreed to waive remuneration during both years. In addition, no remuneration was paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2010: three) were directors of the Company whose emoluments are included in the disclosures in note 14. The emoluments of the remaining three (2010: two) individuals, one of whom was appointed as executive director during the year, were as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other benefits	3,778	2,035
Retirement benefits scheme contributions	24	24
	3,802	2,059

Their emoluments were within the following bands:

	2011 No. of employees	2010 No. of employees
HK$nil to HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	1	2
HK$1,500,001 to HK$2,000,000	1	–

16. DIVIDEND

No dividend was proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: nil).

17. LOSS PER SHARE

From continuing and discontinued operations:

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

	2011 HK$'000	2010 HK$'000
Loss		
Loss for the purposes of basic and diluted loss per share (loss for the year attributable to owners of the Company)	(217,737)	(288,628)

17. LOSS PER SHARE – CONTINUED

	2011 '000	2010 '000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**2,034,001**	1,232,484

The denominator for the purpose of calculating basic loss per share for the year ended 31 December 2010 has been adjusted to reflect the consolidation of shares in June 2011 on the basis of ten ordinary shares being consolidated into one ordinary share.

The computation of diluted loss per share for the years ended 31 December 2011 and 31 December 2010 does not assume the exercise of share options and convertible notes as the inclusion of the share options and convertible notes would result in decrease in loss per share.

From continuing operations:

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

Loss figures are calculated as follows:

	2011 HK$'000	2010 HK$'000
Loss for the year attributable to owners of the Company	**(217,737)**	(288,628)
Less: Profit for the year from discontinued operations	**–**	(890)
Loss for the purposes of basic and diluted earnings per share from continuing operations	**(217,737)**	(289,518)

The computation of diluted loss per share for the years end 31 December 2011 and 31 December 2010 does not assume the exercise of share options and convertible notes as the inclusion of the share options and convertible notes would result in decrease in loss per share.

The denominators used are the same as those detailed above for basic and diluted earnings per share.

From discontinued operations:

Basic earnings per share for the discontinued operations was 0.072 HK cent (restated) per share and the diluted earnings per share from discontinued operations was 0.072 HK cent (restated), based on the profit for the year ended 31 December 2010 from discontinued operations of HK$890,000. There were no discontinued operations in 2011.

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

18. EXPLORATION AND EVALUATION ASSETS

	Oil exploration rights HK$'000 (note a)	Others HK$'000 (note b)	Total HK$'000
Cost and carrying values			
At 1 January 2010	3,810,136	–	3,810,136
Additions	–	17,565	17,565
Transfer to property, plant and equipment	(34,408)	–	(34,408)
At 31 December 2010	3,775,728	17,565	3,793,293
Additions	78,000	–	78,000
Transfer to property, plant and equipment	(16,572)	(17,565)	(34,137)
At 31 December 2011	3,837,156	–	3,837,156

Notes:

(a) The amount relates to exploration and evaluation assets in respect of oil exploration rights in Argentina.

On 19 August 2009, the Group as the purchaser, and City Smart International Investment Limited ("City Smart") and TCL Peak Winner Investment Limited ("TCL") as the vendors, entered into a sale and purchase agreement pursuant to which the Group conditionally agreed to acquire from the vendors the entire issued share capital of Have Result Investments Limited ("Have Result"). Both City Smart and TCL were independent third parties of the Company.

The principal assets of Have Result are the oil exploration and production rights through the participating interest in the Puesto Pozo Cercado Concession and Chañares Herrados Concession (collectively the "Concessions") as the concession of hydrocarbon exploitation concession in the Cuyana Basin, Mendoza Province, Argentina, covering a total surface area of approximately 169.4 and 40 square kilometers respectively (referred to as the "Areas" in note 34).

The Puesto Pozo Cercado Concessions was awarded to Chañares Herrados Empresa de Trabajos Petroleros S.A. ("Chañares"), the concessionaire, under International Public Bid No. 1/92. Award of this area to Chañares was made by Resolution No. 782, dated 26 June 1992, issued by the Ministry of Economy and Public Works of the National Government, and approved by National Decree No. 1276, dated 21 July 1992. In accordance with Law No. 17,319 the term of this oil exploration on production concession is 25 years commencing from 26 June 1992, with the possibility of obtaining a 10-year extension under certain conditions.

The Chañares Herrados Concession was obtained by Chañares under an assignment agreement executed with YPF Sociedad Anónima. This area is one of the areas that was formerly owned by YPF S.E. (i.e., when it was a state-owned company), and was converted into an oil exploration and production concession at the time YPF S.E. became a private company (YPF Sociedad Anónima) in accordance with Law No. 24,145. Administrative Decision No. 21 from Chief of Cabinet of the National Government, dated 19 April 1996, authorised the assignment of this hydrocarbon oil exploration and production concession to Chañares. In accordance with Law No. 17,319 the term of this oil exploration and production concession is 25 years commencing from 24 September 1992, with the possibility of obtaining a 10-year extension under certain conditions.

The acquisition of Have Result was completed on 3 November 2009 and the Group settled the initial consideration for the acquisition to the vendors by the issuance of: (1) promissory notes with principal amount of HK$840,000,000; (2) 1,000,000,000 new ordinary shares of HK$0.01 each of the Company and (3) zero coupon convertible notes with par value of HK$2,311,520,000 and a 20-year maturity.

Pursuant to the sale and purchase agreement, the total consideration for the acquisition is subject to adjustment within 24 months following the completion and shall be determined by reference to the technical assessment prepared by a technical adviser (the "Updated Technical Report"). If the Updated Technical Report shows that the proved reserves (as defined in the 2007 Petroleum Resources Management System approved by the Society of Petroleum Engineers ("PRMS")) of oil in the areas are not less than 290 million barrels, the Group shall within 14 days after the issue of the Updated Technical Report issue to the vendors or their respective nominee(s) additional convertible notes in the principal amount of HK$500 million; or (ii) if the Updated Technical Report shows that proved reserves of oil in the areas are not less than 507.5 million barrels, the Group shall within 14 business days after the issue of the Updated Technical Report issue to the vendors or their respective nominee(s) additional convertible notes in the principal amount of HK$1,000 million.

The Updated Technical Report shows that the proved reserves of oil of the Areas do not exceed 290 million barrels, no additional convertible bonds were issued to the vendors.

On 2 December 2010, Southstart Limited ("Southstart"), a wholly-owned subsidiary of the Company, and Chañares entered into another joint venture agreement ("New JV Agreement"). The Group agreed to pay US$6,000,000 (equivalent to approximately HK$46,800,000) to Chañares in consideration for the oil exploration and production right in the Areas during the current term of the Concessions. Details of this are set out in note 34.

During the year ended 31 December 2011, Chañares obtained an extension of 10 years from the date of expiry of the original term of the Concessions under Decree No. 1467, dated 30 June 2011 (the "Decree"), issued by the Executive of the Province of Mendoza. The Group shall pay an aggregate amount of US$4,000,000 (equivalent to approximately HK$31,200,000) to Chañares according to the New JV Agreement in consideration for the oil exploration and production right in the Areas during the extended term of the Concessions. This amount was not fully paid as at 31 December 2011. The outstanding sum, amounting to US$2,596,000 (approximately HK$20,248,000), is included in trade and other payables (see note 26(c)).

(b) Others represent the geological and geophysical costs, drilling and exploration expenses directly attributable to exploration activities.

19. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 January 2010	54,558	3,746	5,463	113,699	177,466
Derecognised on disposal of a subsidiary	–	(1,382)	(3,981)	–	(5,363)
Additions	8,184	186	1,117	149,640	159,127
Transfer from exploration and evaluation assets	–	–	–	34,408	34,408
Transfer	120,308	–	–	(120,308)	–
Disposals	–	(1,936)	(645)	–	(2,581)
Capitalised exploratory well costs charged to expense	–	–	–	(177,439)	(177,439)
At 31 December 2010	183,050	614	1,954	–	185,618
Additions	–	274	526	207,187	207,987
Transfer from exploration and evaluation assets	–	–	–	34,137	34,137
Transfer	155,866	–	–	(155,866)	–
Disposals	–	–	(18)	–	(18)
At 31 December 2011	338,916	888	2,462	85,458	427,724
DEPLETION, DEPRECIATION, AMORTISATION AND IMPAIRMENT					
At 1 January 2010	1,442	1,507	2,539	–	5,488
Provided for the year	21,963	523	1,202	–	23,688
Eliminated on disposal of subsidiaries	–	(868)	(2,647)	–	(3,515)
Eliminated on disposals	–	(993)	(77)	–	(1,070)
At 31 December 2010	23,405	169	1,017	–	24,591
Provided for the year	27,720	167	392	–	28,279
Impairment loss recognised in profit or loss	34,023	–	–	–	34,023
Eliminated on disposals	–	–	(12)	–	(12)
At 31 December 2011	85,148	336	1,397	–	86,881
CARRYING VALUES					
At 31 December 2011	253,768	552	1,065	85,458	340,843
At 31 December 2010	159,645	445	937	–	161,027

The above items of property, plant and equipment other than oil and gas properties and construction in progress, are depreciated on a straight-line basis, and after taking into account their estimated residual value, as follows:

Oil and gas properties	Unit-of-production basis over the total proven reserves
Motor vehicles	20%
Furniture, fixtures and equipment	20% – $33^1/_3$%

19. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

At 31 December 2011, the Group carried out a review of the recoverable amount of its oil and gas properties, having regard to the operating results in its petroleum exploration and production segment. The review led to the recognition of an impairment loss in profit and loss of HK$34,023,000 (2010: nil). The recoverable amount of the oil and gas properties was determined based on the cash flow projections derived from production reserves covering the current term of the Concessions period until 2027 and the estimated future oil price with a discount rate of 10%.

At 31 December 2010, the Group reviewed the carrying amount of the construction in progress and considered that the drilling costs incurred for the deeper portion of two wells were found to be unsuccessful and were irrecoverable. Therefore, capitalised exploratory well costs of HK$177,439,000 (2011: nil) were impaired and recognised as an expense in the that year.

20. DEFERRED TAX

	2011 HK$'000	2010 HK$'000
Deferred tax assets	**9,870**	295
Deferred tax liabilities	**(6,574)**	(5,718)
	3,296	(5,423)

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Withholding tax HK$'000	Accrued expenses HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2010	–	295	–	295
Charge to other comprehensive income relating to available-for-sale investments	(5,718)	–	–	(5,718)
At 31 December 2010	(5,718)	295	–	(5,423)
Charge (credit) to profit or loss (note 11)	–	(1,151)	9,870	8,719
At 31 December 2011	(5,718)	(856)	9,870	3,296

21. OTHER TAX RECOVERABLE

Pursuant to the relevant rules and regulation in Argentina, value-added tax on expenditures incurred in drilling and purchase of property, plant and equipment relating to the petroleum exploration and production operation in Argentina can be used to offset future value-added tax on sales made. The management estimated the recoverable amount of the value-added tax based on the future revenue which the Group excepts would be generated from sales of oil and gas, with reference to the current exploration and evaluation stages of the oil field and oil production from wells. During the year ended 31 December 2011, irrecoverable value-added tax expense of HK$12,124,000 (2010: HK$35,795,000) is recognised in profit and loss (note 9). The directors of the Company expects an amount of HK$54,148,000 (2010: HK$33,643,000) will be recovered from the sales of oil and gas after twelve months from the end of the reporting period. Accordingly, such amount is classified as non-current.

22. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables	8,416	14,623
Bills receivables	–	90,214
	8,416	104,837
Other tax recoverable	15,062	6,214
Prepayments to other suppliers (note a)	156,000	40,000
Consideration receivable on disposal of subsidiaries (note b)	–	1,000
Consideration receivable on disposal of held-for-trading investments (note c)	–	49,000
Amount due from a former subsidiary (note d)	–	4,064
Amount due from a former director (note e)	5,091	–
Other receivables and deposits	1,444	917
Total trade and other receivables	186,013	206,032

Notes:

(a) As at 31 December 2011, the prepayments to other suppliers represent the prepayments for purchase of chemical products related to petroleum in the trading of petroleum related products operation (2010: prepayments for purchase of scrap copper in the metals sourcing and trading operation).

(b) As at 31 December 2010, consideration receivable on disposal of the Disposed Subsidiaries was not yet settled by the purchaser.

(c) As at 31 December 2010, consideration receivable on disposal of held-for-trading investments was not settled by the purchaser.

(d) The amount was unsecured, interest-free and repayable on demand.

(e) At 31 December 2011, an other loan of HK$10,000,000 was secured by personal asset of Wong Chi Wing, Joseph. Amount due from a former director represents the advance to Wong Chi Wing, Joseph as securities for his assets pledged. The directors of the Company expect that Wong Chi Wing, Joseph will repay the outstanding balance when the loan owed by the Group to the loan lender is repaid and that charge of personal assets of Wong Chi Wing, Joseph pledged as securities is released (see note 41(c)(iii)). Particulars of the amount due from a former director are as follows:

Former director	Terms of	Balance at 31.12.2011 HK$'000	Balance at 1.1.2011 HK$'000	Maximum amount outstanding during the year HK$'000
Wong Chi Wing, Joseph*	Unsecured, interest-free and repayable on demand	5,091	–	5,091

* Wong Chi Wing, Joseph resigned as an executive director of the Company on 20 December 2011.

The Group allows on average credit period of 30 to 60 days to its trade customers. At the discretion of the directors, several major customers are allowed to settle their balances beyond the normal credit terms up to 180 days. The following is an aged analysis of trade and bills receivables presented based on the invoice date (other than bills receivables which are presented based on the issuance date of relevant bills) at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0-30 days	1,457	104,837
31-60 days	1,341	–
61-90 days	1,541	–
91-120 days	4,077	–
	8,416	104,837

22. TRADE AND OTHER RECEIVABLES – CONTINUED

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit quality attributed to customers are reviewed regularly. As at 31 December 2011, 82% (2010: 100%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

As at 31 December 2011, included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$1,541,000 (31 December 2010: nil) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 60 days.

Aging of trade receivables which are past due but not impaired

	2011 HK$'000	2010 HK$'000
61-90 days	1,541	–

Movement in the allowance for bad and doubtful debts

	HK$'000
At 1 January 2010	–
Impairment losses recognised	13
Derecognised on disposal of a subsidiary	(13)
At 31 December 2010 and 2011	–

Included in the allowance for doubtful debts are individually impaired trade receivables which have either been placed under liquidation or in severe financial difficulties.

23 AVAILABLE-FOR-SALE INVESTMENTS

	2011 HK$'000	2010 HK$'000
Unlisted securities		
– Equity securities at fair value	67,600	67,600

The above unlisted investments represent 40% equity investments in a private entity that was established in the British Virgin Islands and operates in the PRC. The Group has no right to appoint directors in the board and the remaining 60% equity interest is owned by one shareholder. The private entity's major asset is the holding of certain exploration rights of gold mines in the PRC. The entity is in the process of obtaining exploitation permit of the gold mines. The Group signed a sale and purchase agreement to dispose of the available-for-sale investment with an independent third party (the "Purchaser") in November 2010. Due to delay in obtaining the exploitation permit, the Group signed a supplemental agreement with the Purchaser in August 2011 and the completion date of the disposal of the available-for-sale investment is extended to July 2012. The directors of the Company expect that the process will be completed in 2012. The available-for-sale investments are measured at fair value at the end of the reporting period and the fair value was determined to approximate the consideration of HK$67,600,000 as agreed with the Purchaser.

24 HELD-FOR-TRADING INVESTMENTS

	2011 HK$'000	2010 HK$'000
Held-for-trading investments include:		
Listed securities		
– Equity securities listed in Hong Kong	52	4,000

The investments represent investments in listed equity securities in Hong Kong. The fair values of these securities at 31 December 2011 and 2010 are based on bid prices quoted on the Stock Exchange.

25. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

	2011 HK$'000	2010 HK$'000
Cash at banks and in hand	29,509	85,204
Pledged bank deposits	–	26,340
	29,509	111,544

Bank balances carry interest at market rates which range from 0.30% to 1.25% (2010: 0.30% to 0.76%) per annum. The pledged deposits at 31 December 2010 carried fixed interest at rates of 0.17% to 1.85% per annum.

At 31 December 2010, pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$26,340,000 (2011: nil) have been pledged to secure short-term trade financing from banks and were therefore classified as current assets.

In addition, included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2011 HK$'000 Equivalent	2010 HK$'000 Equivalent
HK$	22,975	73,617
Argentina Peso ("ARS")	6,382	2,368
Renminbi ("RMB")	10	11

26. TRADE AND OTHER PAYABLES

	2011 HK$'000	2010 HK$'000
Trade payables	68,004	8,575
Bills payables	–	89,128
	68,004	97,703
Payables for acquisition of available-for-sale investments (note a)	–	10,424
Payables for assignment of oil concession rights (note b)	50,700	50,700
Payables for oil concession rights (note c)	20,248	–
Payables for acquisition of held-for-trading investments as securities to a loan (note d)	16,115	–
Interest payable on borrowings	2,699	–
Interest payable on promissory notes	–	482
Other payables and accruals	12,014	9,063
	169,780	168,372

Notes:

(a) The amount was unsecured and interest-free.

(b) Pursuant to the assignment agreement dated 24 November 2007 as amended/supplemented by the "Amendment to Contract of Assignment of Rights, Investment and Technical Cooperation" dated 19 December 2008 executed by and between Maxipetrol (as defined in note 34) and Have Result, Have Result was obliged to pay Maxipetrol US$20,000,000 (approximately HK$156,000,000) in consideration of Maxipetrol's assignment of 51% rights on the future production as a consequence of new drilling and operation of new wells in the Areas. As at 31 December 2011 and 2010, the balance payable is US$6,500,000 (approximately HK$50,700,000; 2010: HK$50,700,000).

(c) During the year ended 31 December 2011, Chañares obtained an extension of 10 years from the date of expiry of the original terms of the Concessions. Pursuant to the New JV Agreement, the Group is obliged to pay an amount of US$4,000,000 (approximately HK$31,200,000) to Chañares. This amount was not fully paid during the year. At 31 December 2011, the outstanding sum amounted to US$2,596,000 (approximately HK$20,248,000; 2010: nil).

(d) The amount, which are interest-free and repayable on demand, represents the payable which arose from purchases of held-for-trading investment as securities to a loan.

The following is an aged analysis by invoice date (bills issued date for bills payables) of trade and bills payables at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0-30 days	46,160	97,703
31-60 days	17,697	–
61-90 days	1,610	–
91-180 days	2,537	–
	68,004	97,703

The average credit period on purchases of goods is 30 days.

26. TRADE AND OTHER PAYABLES – CONTINUED

All of the other payables are unsecured, interest-free and expected to be settled within one year.

Included in trade and bills payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities.

	2011 HK$'000 Equivalent	2010 HK$'000 Equivalent
ARS	25,114	8,575

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2011 HK$'000	2010 HK$'000
Commodity forward contracts – Copper cathode (note a)	–	(9,769)
Foreign currency swap contracts not under hedge accounting (note b)	–	(601)
Interest rate swap contracts not under hedge accounting (note c)	–	(226)
	–	(10,596)

Notes:

(a) The Group entered into commodity forward contracts to hedge forecasted purchase and sale of copper concentrate and/or related materials. These arrangements are designed to address significant fluctuation in the price of copper concentrate and/or related materials which move in line with the price of copper cathode. However, the Group does not designate these forward contracts as hedging instruments according to HKAS 39 "Financial instruments: Recognition and measurement". Accordingly, they are treated as financial assets or financial liabilities held for trading and included in fair value through profit or loss. The respective unrealised gain/loss is recognised in profit or loss in the consolidated statement of comprehensive income and the respective balance is recognised under current assets and current liabilities.

Fair values of commodity forward contracts were determined with reference to the market forward price of related metals quoted from the London Metal Exchange and the Shanghai Futures Exchange as at the end of the reporting period.

Major terms of the commodity forward contract (with net settlement option) at 31 December 2010 are as follows:

	2010
Position: Sell forward contracts quantities (in tonnes)	1,000
Price per tonne (HK$)	64,740
Delivery period	Feb 2011
Position: Buy forward contracts quantities (in tonnes)	1,000
Price per tonne (HK$)	74,513
Delivery period	Feb 2011

27. DERIVATIVE FINANCIAL INSTRUMENTS – CONTINUED

Notes: – continued

(b) Major terms of the foreign currency swap contract (with net settlement option) at 31 December 2010 are as follows:

2010

Notional amount	Maturity date	Swaps
US$2,800,000	June 2011	The Group will receive US$2,800,000 while paying RMB at a forward rate of 6.700.

(c) Major terms of the interest rate swap contract (with net settlement option) at 31 December 2010 are as follows:

2010

Notional amount	Maturity date	Swaps
HK$20,000,000	June 2011	1.5% for Hong Kong Interbank Offer Rate ("HIBOR") plus 0.5%

As at 31 December 2010, the fair value of the foreign currency swap and interest rate swap contracts, which are estimated using valuation provided by the counterparty banks, was insignificant.

28. BORROWINGS

	2011 HK$'000	2010 HK$'000
Bank loans	312,000	23,392
Trust receipts loans	–	112,285
Other loans (note)	40,728	–
	352,728	135,677
Analysed as:		
Secured	312,000	112,285
Unsecured	40,728	23,392
	352,728	135,677
Carrying amount repayable:		
Within one year	56,328	135,677
In more than one year, but not more than two years	23,400	–
In more than two years, but not more than five years	163,800	–
In more than five years	109,200	–
	352,728	135,677
Less: Amounts due within one year shown under current liabilities	(56,328)	(135,677)
	296,400	–

Note: Other loans represent short-term loans from independent third parties.

28. BORROWINGS – CONTINUED

During the year ended 31 December 2011, the Company entered into a loan agreement (the "Term Loan Agreement") with a bank for a term loan facility of US$40,000,000 (approximately HK$312,000,000) (the "Term Loan") for the purpose of funding the project in connection with the petroleum exploration and production in the Areas or to refinance any debt incurred by the Group for the purpose of this project. The Term Loan shall be repayable in seven annual instalments as follows:

	US$'000	Equivalent to HK$'000
Repayable in:		
November 2012	2,000	15,600
November 2013	3,000	23,400
November 2014	7,000	54,600
November 2015	7,000	54,600
November 2016	7,000	54,600
November 2017	7,000	54,600
November 2018	7,000	54,600
	40,000	312,000

Interest rate of the Term Loan is based on the aggregate of the London interbank borrowing rate ("LIBOR") plus 4% per annum. Interest is payable every six months from the drawdown date of 10 November 2011. Interest rates of the fixed-rate other loans amounting to HK$40,728,000 as at 31 December 2011 range from 24% to 31% per annum. Interest rates of the variable-rate bank loans outstanding as at 31 December 2010 were based on bank's standard bills finance rate plus 1.5% per annum which will mature in March or April 2011. The trust receipt loans carried interest at prevailing market rates.

The ranges of effective interest rate (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	Effective interest rate		Carrying amount	
	2011	2010	**2011 HK$'000**	2010 HK$'000
Fixed-rate borrowings	**24% to 31%**	–	**40,728**	–
Variable-rate borrowings	**4.64%**	2.27% to 4.12%	**312,000**	135,677
			352,728	135,677

The Term Loan is secured by the following:

(a) Pledge of the entire stock capital of EP Energy (as defined in note 34). Details about EP Energy and the jointly controlled operation EP Energy is involved are set out in note 34.

(b) Mortgage of the entire issued share capital of Have Result.

(c) Mortgage of the entire issued share capital of two wholly-owned subsidiaries of the Company which together hold the entire stock capital of EP Energy.

28. BORROWINGS – CONTINUED

The Term Loan is also guaranteed/secured by the following:

(d) Guarantee executed by Ample Talent Development Group Limited ("Ample Talent") which is incorporated in Hong Kong and is owned as to 100% by Rakarta Limited ("Rakarta"). Details about Rakarta are set out in (h) below.

(e) Security assignment in relation to the shareholder loan due to Ample Talent by a sino-foreign cooperative joint venture established in the PRC (the "Project Company") in favour of the bank.

(f) Mortgage of the entire issued share capital of Ample Talent (the "Ample Talent Share Mortgage").

(g) Pledge of 54% of the registered capital in the Project Company.

(h) Security assignment in relation to the shareholder loan due to Rakarta by Ample Talent in favour of the bank. Rakarta is a company incorporated in the British Virgin Islands and is owned as to 72% by Mr. Wu Shaozhang ("Mr. Wu").

Mr. Wu is interested in approximately 18.87% of the issued shares of the Company at the date of the Term Loan Agreement and approximately 18.86% at 31 December 2011. He is a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on the Stock Exchange. The Term Loan Agreement contains a condition that if Mr. Wu ceases to be a substantial shareholder of the Company, the bank may, by not less than 60 days' notice to the Company, cancel the Term Loan and, among other things, all outstanding loans together with accrued interest will become immediately due and payable.

Mr. Wu has provided a written confirmation to the Company confirming that he will not dispose of his existing interest in the Company for at least a period of twelve months from the date of issuance of the Company's consolidated financial statements. As such, the portion of the Term Loan that is repayable after one year from the end of the reporting period in accordance with the repayment schedule above is shown under non-current liabilities.

Included in bank borrowings are the following amounts denominated in currency other than the functional currency of the relevant group entities:

	2011 HK$'000 Equivalent	2010 HK$'000 Equivalent
HK$	**40,728**	23,392

29. CONVERTIBLE NOTES

(a) On 19 August 2011, the Company entered into a placing agreement, with a supplemental placing agreement entered into on 26 August 2011 (collectively the "CN Placing Agreement"), with a placing agent pursuant to which the Company agreed to issue through the placing agent to not less than six independent placees zero coupon convertible notes in an aggregate principal amount of HK$62,100,000 (the "CN") which can be converted into ordinary shares of HK$0.10 each of the Company at an initial conversion price of HK$0.15 per share (subject to anti-dilutive adjustments).

The CN are denominated in Hong Kong dollars, maturing on the second anniversary of the issue date of 2 September 2011 (the "Maturity Date"). The Company shall redeem all the CN on the Maturity Date at 130% of the principal amount outstanding. With the holder's agreement, the Company may at any time and from time to time purchase the outstanding CN at such price as may be agreed between the Company and the holders thereof. No interest is payable by the Company unless the Company defaults in payment of any amount due under the CN in which event default interest at the rate of 5% per annum is payable on the amount in default.

The holders of the CN shall have the right at any time during the conversion period commencing from the day after the issue date of the CN up to and including the date which is 7 days prior to the Maturity Date to convert the whole or part of the principal amount outstanding (in minimum amount of HK$150,000 or whole multiple thereof) under the CN at an initial conversion price of HK$0.15 per share (subject to anti-dilutive adjustments) into ordinary shares of the Company. The holders of the CN shall not exercise any conversion rights to such an extent that results or will result in (i) the holder(s) and person(s) acting in concert with it (within the meaning of the Code on Takeovers and Mergers and Share Repurchases (the "Takeovers Code")) holding or having more than 29% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the then issued ordinary share capital of the Company or otherwise being obliged to make a general offer for the shares of the Company in accordance the Takeovers Code; or (ii) the Company in breach of any provision of the Rules Governing the Listing of Securities on the Stock Exchange, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public.

The CN contain two components, the liability component and the conversion option. The conversion option gives the holder's right at any time to convert the CN into ordinary shares of the Company. However, since the conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is accounted for as a derivative liability and it is measured at fair value with subsequent changes in fair value recognised in profit or loss.

The fair value of the liability component upon the issuance of the CN was calculated at the present value of the redeemable amount, at 130% of the principal amount. The effective interest rate of the liability component is 23.41%.

29. CONVERTIBLE NOTES – CONTINUED

(a) – continued

The fair value of the conversion option was determined using binomial option pricing model, and the inputs into the model at the relevant dates were as follows:

	02.09.2011	31.12.2011
Conversion price	HK$0.150	HK$0.150
Share price	HK$0.119	HK$0.166
Expected volatility	41.868%	41.868%
Remaining life	2 years	1.64 years
Risk-free rate	0.2190%	0.3332%

The total fair value of the CN at 2 September 2011 is HK$62,100,000. As at 31 December 2011, a fair value loss of HK$10,106,000 in relation to the conversion option was recognised in profit or loss.

The movement of the components of the CN during the year is set out below:

	Liability component HK$'000	**Conversion component** HK$'000	**Total** HK$'000
At issue date of 2 September 2011	54,542	7,558	62,100
Transaction costs	(2,044)	–	(2,044)
Change in fair value	–	10,106	10,106
Interest charge	4,499	–	4,499
At 31 December 2011	56,997	17,664	74,661

Analysed for reporting purpose as:

	2011 HK$'000	2010 HK$'000
Current liabilities	–	–
Non-current liabilities	74,661	–
	74,661	–

29. CONVERTIBLE NOTES – CONTINUED

(b) During the year ended 31 December 2009, the Company issued unsecured zero coupon convertible notes (the "CN-2009") of an aggregate par value of HK$2,311,520,000 to the vendors at an initial conversion price of HK$0.205 per share (subject to anti-dilutive adjustments) as part of the consideration for the acquisition of the entire issued share capital of Have Result. The CN-2009 have a maturity of twenty years from the issue date.

The holders of the CN-2009 have the right to convert the whole or any part of the outstanding principal amount of the CN-2009 into shares of HK$0.01 each in the share capital of the Company at any time during the period commencing from the day immediately following the date of issue of the CN-2009 up to the day immediately prior to and exclusive of the maturity date at the conversion price of HK$0.205 per share. The CN-2009 may not be converted to the extent that, following such conversion, the CN-2009 holder(s) would directly or indirectly control or be interested in an aggregate of 30% or more of the issued shares of the Company as enlarged by the issue of the conversion shares (or such other amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer).

The CN-2009 are denominated in Hong Kong dollars. The Company has no obligation to repay any outstanding principal amount of the CN-2009 but has the right at its discretion to redeem any principal amount of the CN-2009 at its face value. The CN-2009 may be assigned or transferred to any third party, but may not be assigned or transferred to any company or other person which is a connected person of the Company without the prior written consent of the Company. The CN-2009 meet the definition of equity under HKAS 32 "Financial instruments: Presentation" and therefore are accounted for as equity of the Company (convertible notes reserve).

The fair value of the conversion shares as at the date of issue of the CN-2009 is HK$0.244 per conversion share which represents the fair value of the ordinary shares as at 3 November 2009.

During the year ended 31 December 2010, the CN-2009 with an aggregate carrying amount of HK$2,326,356,000 (2011: nil) were converted into 9,534,243,901 ordinary shares of HK$0.01 each of the Company (2011: nil) as follows:

	2010	
Date of conversion	Carrying amount of CN HK$'000	Number of ordinary shares of HK$0.01 each
17 February 2010	59,512	243,902,439
19 April 2010	59,512	243,902,439
21 April 2010	357,074	1,463,414,634
5 August 2010	1,012,600	4,150,000,000
30 September 2010	34,508	141,426,341
28 October 2010	803,150	3,291,598,048
	2,326,356	9,534,243,901

There were no outstanding CN-2009 at 31 December 2010 and 2011.

30. PROMISSORY NOTES

The promissory notes with an aggregate principal amount of HK$840,000,000 were issued during the year ended 31 December 2009 as part of the consideration for the acquisition of the entire issued share capital of Have Result. The promissory notes are unsecured and bear interest at 1% plus 6-month HIBOR or the prime rate for Hong Kong dollars from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited, whichever is the lower. The promissory notes can be repaid at par before maturity at the discretion of the Company.

The promissory notes are denominated in Hong Kong dollars and shall be repaid in full on maturity on 2 November 2012. Repayment of HK$1,899,000 (2010: HK$250,381,000) was made during the year ended 31 December 2011. There were no outstanding promissory notes at 31 December 2011.

31. ASSETS RETIREMENT OBLIGATION

	HK$'000
At 1 January 2010	3,150
Adjustments	(13)
At 31 December 2010	3,137
Adjustments	(1,407)
At 31 December 2011	1,730

In accordance with the relevant rules and regulations in Argentina, the Group is obliged to accrue the cost for land reclamation and site closures for the Group's existing developed oil and gas fields. The provision for asset retirement obligation has been determined by the directors based on their best estimates in accordance with the relevant rules and regulations.

32. SHARE CAPITAL

	Nominal value per share	**Number of shares**	**Amount** HK$'000
Authorised:			
At 1 January 2010 and 31 December 2010	0.01	100,000,000,000	1,000,000
Consolidation of shares (note a)		(90,000,000,000)	–
At 31 December 2011	0.10	10,000,000,000	1,000,000
Issued and fully paid:			
At 1 January 2010	0.01	7,693,611,984	76,936
Issue of new shares (note b)	0.01	1,390,000,000	13,900
Shares repurchased (note c)	0.01	(109,080,000)	(1,090)
Conversion of convertible notes (note d)	0.01	9,534,243,901	95,342
At 31 December 2010	0.01	18,508,775,885	185,088
Issue of new shares (note e)	0.01	2,200,000,000	22,000
Consolidation of shares (note a)		(18,637,898,297)	–
Issue of new shares (note f)	0.10	80,000,000	8,000
At 31 December 2011	0.10	2,150,877,588	215,088

32. SHARE CAPITAL – CONTINUED

Notes:

(a) As announced by the Company on 16 May 2011, the Company proposed to effect a share consolidation and every ten issued and unissued shares of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.10 each. Details of the share consolidation are set out, among others, in the circular of the Company dated 7 June 2011. An ordinary resolution approving the share consolidation was passed at the special general meeting of the Company held on 22 June 2011 and the share consolidation became effective on 23 June 2011.

(b) On 15 April 2010, the Company entered into a top-up placing and subscription agreement with two shareholders of the Company, Climax Associates Limited ("CA Ltd") and City Smart, and a placing agent, among others, to allot and issue 1,390,000,000 ordinary shares of HK$0.01 each of the Company (the "First Subscription Shares") at a subscription price of HK$0.183 per share. The subscription agreement is conditional upon completion of the placing of 1,390,000,000 ordinary shares of HK$0.01 each of the Company made by the placing agent on behalf of CA Ltd and City Smart. On 27 April 2010, following completion of the placing, the First Subscription Shares were issued under the refreshed general mandate granted to the directors of the Company on 3 December 2009. The net proceeds of approximately HK$243.9 million shall be used as general working capital including financing the Group's operations in Mendoza, Argentina.

Wong Chi Wing, Joseph and Chu Kwok Chi, Robert, directors and shareholders of the Company, had beneficial interests in CA Ltd when the above transactions took place.

Further details of the above are set out in the Company's announcements dated 15 April 2010 and 27 April 2010.

The First Subscription Shares of HK$0.01 each were issued to CA Ltd and City Smart pursuant to the top-up placing and subscription agreement.

(c) During the year ended 31 December 2010, the Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK$0.01 each	Highest HK$	Lowest HK$	Aggregate consideration paid HK$
May 2010	20,980,000	0.121	0.100	2,306,143
June 2010	9,140,000	0.109	0.101	953,430
July 2010	55,840,000	0.103	0.079	5,120,896
November 2010	23,120,000	0.077	0.071	1,700,583
	109,080,000			10,081,052

(d) During the year ended 31 December 2010, 9,534,243,901 shares of HK$0.01 each of the Company were issued upon conversion of convertible notes with an aggregate principal amount of HK$2,326,356,000.

(e) During the year ended 31 December 2011 and prior to the share consolidation set out in (a) above, the following subscription arrangements took place:

(i) On 22 December 2010, the Company entered into a subscription agreement with Rich Concept Worldwide Limited ("Rich Concept"), a shareholder of the Company, to allot and issue 920,000,000 ordinary shares of HK$0.01 each (the "Second Subscription Shares") at a subscription price of HK$0.0675 per share. The subscription agreement is conditional upon completion of the placing of 920,000,000 ordinary shares of HK$0.01 each of the Company made by the placing agent on behalf of Rich Concept. The placing of issued shares then held by Rich Concept was completed on 22 December 2010 with net proceeds amounting to HK$61,721,000 being remitted to the Company which shall be applied as part settlement as subscription money for the new shares to be issued to Rich Concept. On 3 January 2011, the Second Subscription Shares were issued under the general mandate granted to the directors of the Company on 9 June 2010. The net proceeds of approximately HK$61.7 million shall be used as general working capital and to finance the Group's operations in Mendoza, Argentina. At 31 December 2010 when the subscription was not yet completed, the proceeds received was recorded in capital reserve which were credited to share capital and share premium, as appropriate, upon completion of the subscription on 3 January 2011.

Wong Chi Wing, Joseph, a director and shareholder of the Company, wholly owns the beneficial interests in Rich Concept when the above transaction took place. Wong Chi Wing, Joseph resigned as director on 20 December 2011.

Further details of the above are set out in the Company's announcements dated 22 December 2010 and 3 January 2011.

The Second Subscription Shares of HK$0.01 each were issued to Rich Concept pursuant to the subscription agreement.

(ii) On 9 May 2011, the Company entered into a subscription agreement with City Wise Investment Limited ("City Wise"), a substantial shareholder of the Company, to allot and issue 1,280,000,000 ordinary shares of HK$0.01 each (the "Third Subscription Shares") at a subscription price of HK$0.05 per share. The subscription agreement is conditional upon completion of the placing of 1,280,000,000 ordinary shares of HK$0.01 each of the Company made by the placing agent on behalf of City Wise. On 23 May 2011, following the completion of the placing, the Third Subscription Shares were issued under the general mandate granted to the directors of the Company on 9 June 2010. The net proceeds of approximately HK$63.6 million shall be used as general working capital and to finance the Group's operations in Mendoza, Argentina.

Mr. Wu, a shareholder of the Company, wholly owned the beneficial interests in City Wise when the above transaction took place.

Further details of the above are set out in the Company's announcements dated 9 May 2011 and 23 May 2011.

The Third Subscription Shares of HK$0.01 each were issued to City Wise pursuant to the subscription agreement.

32. SHARE CAPITAL – CONTINUED

Notes: – continued

(f) During the year ended 31 December 2011 and after the share consolidation set out in (a) above becoming effective, the following subscription arrangement took place:

On 14 October 2011, the Company entered into a subscription agreement with City Wise to allot and issue 80,000,000 ordinary shares of HK$0.10 each (the "Fourth Subscription Shares") at a subscription price of HK$0.182 per share. The subscription agreement is conditional upon completion of the placing of 80,000,000 ordinary shares of HK$0.10 each of the Company made by City Wise to an individual who is an independent third party. On 28 October 2011, following completion of the placing, the Fourth Subscription Shares were issued under the refreshed general mandate granted to the directors of the Company on 29 September 2011. The net proceeds of approximately HK$13.6 million shall be used as general working capital and to finance the Group's operations in Mendoza, Argentina.

Mr. Wu, a shareholder of the Company, had beneficial interests in City Wise when the above transaction took place.

Further details of the above are set out in the Company's announcements dated 14 October 2011 and 28 October 2011.

The Fourth Subscription Shares of HK$0.10 each were issued to City Wise pursuant to the subscription agreement.

The shares repurchased by the Company during the year ended 31 December 2010 were cancelled. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during both years.

All shares issued by the Company during both years rank pari passu with the then existing ordinary shares in all respects.

33. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted for a period of 10 years commencing 6 November 2006 pursuant to an ordinary resolution passed at the special general meeting of the shareholders held on 6 November 2006 for the purpose of providing incentives or rewards to selected employees and directors for their contribution to the Group.

Under the Scheme, the Company may grant options to selected employees and directors of the Company and its subsidiaries to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible suppliers, customers, advisors and consultants to the Company and its subsidiaries at the discretion of the board of directors of the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include substantial shareholders, independent non-executive directors, or any of their respective associates) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be also approved by the Company's shareholders.

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

As at 31 December 2011, options to subscribe for an aggregate of 152,380,000 shares (2010: 1,098,200,000 shares) of the Company granted to the directors, certain employees and suppliers pursuant to the Scheme remained outstanding.

33. SHARE OPTIONS – CONTINUED

Details of the movements in the number of share options during both years under the Scheme are as follows:

Option type	Date of grant	Exercisable period (both dates inclusive)	Exercise price	Outstanding at 1.1.2010	Granted during the year	Lapsed during the year	Outstanding at 1.1.2011	Adjustments*	Lapsed cancelled during the year	Granted during the year	Outstanding at 31.12.2011
			HK$								
Directors:											
M	19 March 2010	19 March 2010 – 9 February 2013	1.610*	–	5,900,000	–	5,900,000	(5,310,000)	(500,000)	–	90,000
N	19 March 2010	10 November 2010 – 9 February 2013	1.610*	–	5,900,000	–	5,900,000	(5,310,000)	(500,000)	–	90,000
O	19 March 2010	10 August 2011 – 9 February 2013	1.610*	–	5,900,000	–	5,900,000	(5,310,000)	(500,000)	–	90,000
				–	17,700,000	–	17,700,000	(15,930,000)	(1,500,000)	–	270,000
Employees:											
G	15 August 2007	15 August 2008 – 15 August 2011	6.420*	1,000,000	–	–	1,000,000	(900,000)	(100,000)	–	–
H	15 August 2007	15 August 2009 – 15 August 2011	6.420*	1,000,000	–	–	1,000,000	(900,000)	(100,000)	–	–
I	15 August 2007	15 August 2010 – 15 August 2011	6.420*	1,000,000	–	–	1,000,000	(900,000)	(100,000)	–	–
J	10 February 2010	10 February 2010 – 9 February 2013	1.564*	–	44,099,994	(1,599,999)	42,499,995	(38,249,996)	(213,333)	–	4,036,666
K	10 February 2010	10 November 2010 – 9 February 2013	1.564*	–	44,099,994	(1,599,999)	42,499,995	(38,249,996)	(213,333)	–	4,036,666
L	10 February 2010	10 August 2011 – 9 February 2013	1.564*	–	44,100,012	(1,600,002)	42,500,010	(38,250,009)	(213,334)	–	4,036,667
P (Note)	10 November 2010	1 January 2011 – 31 December 2012	0.816*	–	475,000,000	–	475,000,000	(427,500,000)	(47,500,000)	–	–
Q (Note)	10 November 2010	1 January 2012 – 31 December 2012	0.816*	–	475,000,000	–	475,000,000	(427,500,000)	(47,500,000)	–	–
				3,000,000	1,082,300,000	(4,800,000)	1,080,500,000	(972,450,001)	(95,940,000)	–	12,109,999
Suppliers:											
R	11 October 2011	11 October 2011 – 10 October 2013	0.141	–	–	–	–	–	–	140,000,000	140,000,000
				3,000,000	1,100,000,000	(4,800,000)	1,098,200,000	(988,380,001)	(97,440,000)	140,000,000	152,379,999

The vesting period ends on the date when the exercisable period of the share options begin.

No share options were exercised during both years.

33. SHARE OPTIONS – CONTINUED

The Company used the Binomial model (the "Model") with the consideration of vesting period and possible exercise pattern to value the share options granted. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Share options were granted on 15 August 2007, 10 February 2010, 19 March 2010, 10 November 2010 and 11 October 2011. The estimated fair value of the options granted on those dates, as adjusted for the effect of the share consolidation in June 2011, was as follows:

Option type	**Grant date**	**Fair value**
		HK$
G	15 August 2007	2.123*
H	15 August 2007	2.346*
I	15 August 2007	2.522*
J	10 February 2010	0.372*
K	10 February 2010	0.417*
L	10 February 2010	0.459*
M	19 March 2010	0.384*
N	19 March 2010	0.425*
O	19 March 2010	0.469*
P (Note)	10 November 2010	0.209*
Q (Note)	10 November 2010	0.250*
R	11 October 2011	0.0469

The inputs into the Model in respect of the share options granted during the year ended 31 December 2011 and 2010, as adjusted for the effect of the share consolidation in June 2011, were as follows:

	Option type								
	J	**K**	**L**	**M**	**N**	**O**	**P**	**Q**	**R**
							(Note)	(Note)	
Share price on grant date (HK$)	1.530*	1.530*	1.530*	1.610*	1.610*	1.610*	0.810*	0.810*	0.141
Exercise price (HK$)	1.564*	1.564*	1.564*	1.610*	1.610*	1.610*	0.816*	0.816*	0.141
Expected volatility	51.84%	51.84%	51.84%	50.12%	50.12%	50.12%	61.14%	61.14%	66.27%
Expected life (years)	1.50	1.87	2.25	1.44	1.77	2.14	1.14	1.64	2.00
Risk-free rate	0.376%	0.485%	0.629%	0.394%	0.524%	0.663%	0.308%	0.371%	0.244%

The Group recognised an expense in profit or loss in the consolidated statement of comprehensive income of HK$7,480,000 (2010: HK$16,749,000) for the year ended 31 December 2011 in relation to share options granted by the Company.

Note: On 15 February 2011, the directors of the Company, after obtaining written consent from all grantees, cancelled option types P and Q as the market price of the Company's shares has been substantially below the respective exercise prices and the options granted did not serve the incentive purpose as originally planned.

* This reflect the adjusted share price on grant date, exercise prices and number of share options which have been granted and are outstanding after the completion of the consolidation of shares during the year ended 31 December 2011.

34. JOINT VENTURE

Jointly controlled operation

Chañares entered into a joint venture agreement ("JV Agreement") with Maxipetrol – Petroleros de Occidente S.A. (formerly known as Oxipetrol – Petroleros de Occidente S.A., ("Maxipetrol")) on 14 November 2007 in connection with the development of incremental hydrocarbons production in the "Puesto Pozo Cercado" area and "Chañares Herrados" area ("Areas"), through the investments to be made by Maxipetrol. Under the JV Agreement, it was established that the hydrocarbons obtained from the wells drilled within the scope of the JV Agreement, as well as any other benefit obtained from the exploration and production of the works performed thereunder, shall be distributed in the following proportion: 28% for Chañares and 72% for Maxipetrol.

Have Result entered into an agreement for the Assignment of Rights, Investment and Technical Cooperation with Maxipetrol dated 24 November 2007, as amended and/or supplemented by (i) a deed of undertaking executed by Maxipetrol on 12 December 2007; (ii) a supplementary deed of undertaking executed by Maxipetrol on 28 December 2007; and (iii) a document entitled "Amendment to Contract of Assignment of Rights, Investment and Technical Cooperation" executed by and between Maxipetrol and Have Result, dated 19 December 2008 (the "Assignment Agreement"). Under the Assignment Agreement, Maxipetrol assigned in favour of Have Result 51% of its rights on the future production as a consequence of new drillings and the operation of new wells in the Areas. The profit derived from the incremental hydrocarbon production in the Areas will first cover the operating costs and thereafter is shared by the proportion of 51% to Have Result, 21% to Maxipetrol and 28% to Chañares. As from the date the wells drilled under the terms of the Assignment Agreement go into production, Maxipetrol shall also reimburse Have Result for 21% of the aggregate investments made by Have Result in the Areas.

On 6 August 2009, a temporary union of enterprise was organised in which Have Result has a 70.83% interest and Maxipetrol has a 29.17% interest for carrying out the operation of petroleum production in the Areas with Chañares.

On 2 December 2010, Have Result sent a letter to Maxipetrol stating and confirming that the termination of the JV Agreement ("Termination"). As advised by the Argentina legal advisers of the Company, notwithstanding the Termination, Have Result remains entitled to a 51% right in the production from the five existing wells drilled by Have Result in the Areas ("Existing Wells"), provided that Have Result continues to pay the relevant operating costs as required by the production allocated to it.

Also on 2 December 2010, Southstart and Chañares entered into the New JV Agreement. Pursuant to the New JV Agreement, EP Energy S.A. ("EP Energy"), a wholly-owned subsidiary of Southstart which is organised and existing under the laws of Argentina, and Chañares formed a new joint venture company which is owned as to 72% by the Group (through EP Energy) and as to 28% by Chañares. EP Energy is entitled to share a proportion of 72% of hydrocarbon production from the wells drilled by EP Energy in the current and future years until the end of the Concessions period. The Group agreed to pay US$6,000,000 (equivalent to approximately HK$46,800,000) to Chañares in consideration for the oil exploration and production right in the Areas during the current term of the Concessions. This amount was paid during the year ended 31 December 2011. The business of the new joint venture company is the exploration, exploitation and development of hydrocarbons in the Areas under the terms of the New JV Agreement.

34. JOINT VENTURE – CONTINUED

Jointly controlled operation – continued

Pursuant to the New JV Agreement, the total consideration for the oil exploration and production right is subject to adjustment with reference to whether or not Chañares can obtain the extension of the term of Concessions (the "Extension") by 31 December 2011. If Chañares obtains the Extension by 31 December 2011, the Group shall further pay an amount of US$800,000 (equivalent to approximately HK$6,240,000) for each year of extension of the term of the Concessions in excess of five years. In the event that Chañares obtains an extension of 10 years from the date of expiry of the existing term of Concessions, the Group shall further pay an aggregate amount of US$4,000,000 (equivalent to approximately HK$31,200,000) to Chañares. On 14 July 2011, the Company has been informed by Chañares that the Executive of the Province of Mendoza issued a Decree pursuant to which Chañares obtained an extension of 10 years from the date of expiry of the original term of the Concessions until 2027. Details of this are set out in the Company's announcement dated 15 July 2011. The Group shall pay an aggregate amount of US$4,000,000 (equivalent to approximately HK$31,200,000) to Chañares in consideration for the oil exploration and production right in the Areas during the extended term of the Concessions. This amount was not fully paid during the year. At 31 December 2011, the outstanding sum amounting to US$2,596,000 (approximately HK$20,248,000) is included in trade and other payables (see note 26(c)).

As advised by the Argentina legal advisers of the Company, the New JV Agreement constitutes valid and binding obligations of Chañares. Based on the aforesaid legal opinion, the directors of the Company consider that (i) there will not be any material adverse effects on the ownership of the rights of Have Result regarding the production of the Existing Wells notwithstanding the Termination; and (ii) the entering into of the New JV Agreement and the formation of the new joint venture company enables the Group to continue its expansion plan in the Areas.

The aggregate amount of assets and liabilities, income and expenses recognised in the consolidated financial statements in relation to the Group's interest in the jointly controlled operation is as follows:

	2011 HK$'000	2010 HK$'000
Assets	**654,219**	211,270
Liabilities	**147,530**	235,273
Income	**45,654**	35,694
Expenses	**120,256**	248,335

35. DISPOSAL OF SUBSIDIARIES

As set out in note 13, on 31 December 2010, the Group discontinued its trading of consumer electronics operation through disposal of the Disposed Subsidiaries to independent third parties for a cash consideration of HK$1,000,000. The gain on disposal of the Disposed Subsidiaries is HK$7,744,000.

The net assets of the Disposed Subsidiaries at the date of the disposal were as follows:

	2010 HK$'000
Net assets disposed of:	
Property, plant and equipment	1,848
Financial asset at fair value though profit and loss	2,947
Trade and other receivables	14,773
Bank balances and cash	14,422
Trade and other payables	(40,854)
	(6,864)
Transfer from translation reserve	120
	(6,744)
Gain on disposal (see note 13)	7,744
Total consideration	1,000
Satisfied by:	
Cash	–
Deferred consideration (note)	1,000
	1,000
Net cash outflow arising on disposal:	
Cash consideration	–
Bank balances and cash disposed of	(14,422)
	(14,422)

Note: The consideration was not yet settled by the purchaser as at 31 December 2010. The amount was unsecured, interest-free and repayable on demand. The amount which was received in 2011 was included in trade and other receivables (see note 22) at 31 December 2010.

The financial impact of the Disposed Subsidiaries on the Group's results and cash flows for the year ended 31 December 2010 are disclosed in note 13.

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2011, the Group had the following major non-cash transactions:

(a) As detailed in note 26, consideration of HK$20,248,000 for the acquisition of oil concession rights was not yet settled as at 31 December 2011.

(b) As detailed in note 26, consideration of HK$16,115,000 for the acquisition of held-for-trading investments as securities to a loan was not yet settled as at 31 December 2011.

During the year ended 31 December 2010, the Group had the following major non-cash transactions:

(a) As detailed in note 22, consideration of HK$49,000,000 for the disposal of held-for-trading investments was not yet settled by the purchaser as at 31 December 2010. The amount was received in 2011.

(b) As detailed in notes 22 and 35, consideration of HK$1,000,000 for the disposal of the Disposed Subsidiaries was not yet settled by the purchaser as at 31 December 2010. The amount was received in 2011.

(c) As detailed in note 26, consideration of HK$10,424,000 for the acquisition of available-for-sale investments was not yet settled as at 31 December 2010. The amount was paid in 2011.

37. PLEDGE OF ASSETS

At 31 December 2011, the following assets were pledged to secure the Group's bank borrowings and banking facilities:

(a) The entire stock capital of EP Energy whose principal asset is the 72% equity interest in the joint venture company formed under the New JV Agreement. Details of the Group's interest in the jointly controlled operations are set out in note 34.

(b) The entire issued share capital of Have Result. Details of the Group's interest in the jointly controlled operations are set out in note 34.

(c) The entire issued share capital of two wholly-owned subsidiaries of the Company which together hold the entire stock capital of EP Energy.

At 31 December 2010, pledged bank deposits amounting to HK$26,340,000 (2011: nil) were pledged to secure the Group's bank borrowings and banking facilities.

38. OPERATING LEASE COMMITMENTS

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 HK$'000	2010 HK$'000
Within one year	1,765	2,814
In the second to fifth year, inclusive	154	1,673
	1,919	4,487

The Group leases certain of its office properties and buildings under operating lease arrangements. Leases for properties are negotiated for terms of three years.

39. COMMITMENTS

At the end of the reporting period, the Group had the following commitments:

	2011 HK$'000	2010 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements for acquisition of the oil exploration and production right under the New JV Agreement (see note 34)	–	46,680

In addition, according to the New JV Agreement, EP Energy is obliged to drill a minimum of five production wells per year during the five consecutive years from 2012, and two production wells per year for the following years until the expiration of the term of the Concessions. Failure to meet the minimum drilling requirements may render the New JV Agreement to be terminated and the Group will be forfeited its rights to continue drilling but it will not be forfeited any right in respect of the wells already drilled. As at 31 December 2011, the Group estimated that the investment cost in respect of the obligation of EP Energy for drilling the five production wells (which is the minimum number) in year 2012 pursuant to the New JV Agreement is approximately HK$210.6 million.

40. RETIREMENT BENEFITS SCHEMES

The Group contributes to MPF Schemes for all qualifying employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions to the MPF Schemes by the Group and the employees are calculated as a percentage of employee's relevant income. The retirement benefit scheme costs charged to profit or loss represent contributions payable by the Group to the funds. The assets of the MPF Schemes are held separately from those of the Group in independently administered funds.

The Group also participates in the employees' pension schemes of the respective municipal governments in various places (including Argentina) where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly basic salary and the relevant municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group.

The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above contributions payments.

41. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following significant transaction with related parties:

Name of related party	Nature of transaction	2011 HK$'000	2010 HK$'000
City Wise (note)	Interest paid	416	–

Note: City Wise is a substantial shareholder of the Company.

(b) During the year ended 31 December 2011, the Group had drawn the following borrowings which were guaranteed/secured by related parties:

(i) A loan of HK$10,000,000 (2010: nil) was guaranteed by Wong Chi Wing, Joseph. It was settled during the year and the guarantee was released.

(ii) Loans of HK$28,000,000 (2010: nil) was guaranteed by Rich Concept, a shareholder of the Company. The loans were also guaranteed by issued shares of the Company registered in the name of Rich Concept. The loans were settled during the year and the guarantee was released.

(iii) A loan of HK$2,000,000 (2010: nil) was guaranteed by Chu Kwok Chi, Robert. It was settled during the year and the guarantee was released.

(iv) A loan of HK$20,000,000 (2010: nil) was guaranteed by Mr. Wu, Chu Kwok Chi, Robert and Hong Kin Choy. It was settled during the year and the guarantee was released.

(c) As at 31 December 2011, the Group's borrowings are guaranteed/secured by the following related parties:

(i) A bank loan of US$40,000,000 (approximately HK$312,000,000) (2010: nil) is guaranteed by Ample Talent, which is indirectly owned as to 72% by Mr. Wu (see note 28).

(ii) A loan of HK$7,728,000 (2010: nil) is guaranteed by Mr. Wu.

(iii) A loan of HK$10,000,000 (2010: nil) is guaranteed by Rich Concept, a shareholder of the Company. The loan is also secured by issued shares of the Company registered in the name of Rich Concept.

(iv) A loan of HK$20,000,000 (2010: nil) is guaranteed by Chu Kwok Chi, Robert and Hong Kin Choy.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2011 HK$'000	2010 HK$'000
Short-term employee benefits	8,153	7,224
Post-employment benefits	50	60
	8,203	7,284

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

42. FINANCIAL INSTRUMENTS

Financial risk management objectives

The financial instruments are fundamental to the Group's daily operations. The Group's major financial instruments include trade and other receivables, derivative financial instruments, available-for-sale investments, held-for-trading investments, pledged bank deposits, bank balances and cash, trade and other payables, convertible notes, promissory notes and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with the financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	43,157	270,477
Held-for-trading investments	52	4,000
Available-for-sale investments	67,600	67,600
	110,809	342,077
Financial liabilities		
Amortised cost	567,792	297,186
Derivative financial instruments	17,664	10,596

Interest rate risk

The cash flow interest rate risk relates primarily to the Group's borrowings and in relation to short-term deposits placed in banks that are interest-bearing at market interest rates, convertible notes and promissory notes. The fair value interest rate risk relates primarily to the variable-rate borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's sensitivity to interest rate risk has been determined based on the exposure to interest rates for bank balances, borrowings and promissory notes at the end of the reporting period and the reasonably possible change taking place at the beginning of each year and held constant throughout the year. If interest rates on bank balances, borrowings and promissory notes had been 50 basis points higher/lower and all other variables were held constant, the potential effect on loss for the year is as follows:

	2011 HK$'000	2010 HK$'000
Assets	(148)	(426)
Liabilities	1,660	688
Increase in loss for the year	1,512	262

The management considers that the fair value interest rate risk is insignificant as the Group had no fixed rate borrowings due more than one year.

42. FINANCIAL INSTRUMENTS – CONTINUED

Foreign currency risk management

Several subsidiaries of the Company have certain assets and liabilities (details are disclosed in respective notes) denominated in foreign currencies which expose the Group to foreign currency risk. The Group currently does not have a formal foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. During the years ended 31 December 2011 and 2010, the Group entered into US$/RMB (2010: US$/RMB) swap forward contracts as part of the foreign currency risk management.

The carrying amounts of the group entities' foreign currency denominated monetary assets and monetary liabilities, at the reporting date are as follows:

	Liabilities		Assets	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
HK$	**40,728**	23,392	**22,975**	73,617
RMB	**–**	–	**10**	11
ARS	**19,673**	8,575	**6,382**	2,368

Foreign currency sensitivity

The following table details the Group's sensitivity to a 1% and 10% increase and decrease in US$ against the relevant foreign currencies. Sensitivity rate of 1% was used for HK$ and RMB while 10% was used for ARS when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the year end for a 1%/10% change in foreign currency rates. The sensitivity analysis represents the trade and bills receivables, trade and bills payables, borrowings and bank balances where the denomination are in HK$ or ARS, the major foreign currency risk. A negative number indicates increase in loss for the year where US$ strengthens against HK$, RMB or ARS. For a 1%/10% weakening of US$ against HK$ or RMB/ARS, there would be an equal and opposite impact on the loss for the year below:

	Impact of HK$		Impact of RMB		Impact of ARS	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Decrease (increase) in loss for the year	**(178)**	502	**104**	1	**(1,329)**	(621)

In management's opinion, the sensitivity analysis is unpresentative of the inherent foreign exchange risk at the year end and the sensitivity analysis does not reflect the exposure during the year.

42. FINANCIAL INSTRUMENTS – CONTINUED

Other price risk

The Group is exposed to equity price risk from investment in listed equity securities, available-for-sale investments and conversion option of convertible notes. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 20% higher/lower, loss for the year ended 31 December 2011 would decrease/increase by HK$13,530,000 (2010:HK$14,320,000) as a result of the change in fair value of held-for-trading investments and available-for-sale investments.

If the input of share price to the valuation model of the derivative components of the convertible notes had been 5% higher/lower while all other variables were held constant, the loss for the year ended 31 December 2011 would increase/decrease by HK$883,000 (2010: nil).

Commodity price risk on commodity forward contracts

The Group's normal policy is to sell its products in metals sourcing and trading operation with reference to the prevailing market prices such as the London Metal Exchange and the Shanghai Futures Exchange. Exceptions to this rule are subject to strict limits laid down by the board of directors and to rigid internal controls. The Group is exposed to commodity prices risk of copper as the Group's metals sourcing and trading operation is primarily related to copper concentrate and/or related materials. The Group may hedge certain commitments with some of its purchases and sales using commodity forward contracts. Details of commodity derivatives held at 31 December 2010 are set out in note 27.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to commodity price risk of outstanding commodity forward contracts at the reporting date.

If prices of copper had been 10% higher/lower, loss for the year ended 31 December 2011 would decrease/increase by nil (2010: HK$1,059,600). The sensitivities are based on the assumption that the market commodity price increases/decreases by 10% with all other variables being held constant. These sensitivities should be used with care. The relationship between currencies and commodity prices is a complex one and changes in exchange rates can influence commodity prices and vice versa. For the purpose of the above sensitivity analysis, exchange fluctuation is excluded.

42. FINANCIAL INSTRUMENTS – CONTINUED

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from:

– the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

– the amount of contingent liabilities in relation of financial guarantees issued by the Group as disclosed in note 44.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group's concentration of credit risk by geographical locations is mainly in Argentina (2010: Argentina), which accounted for 100% (2010: 97%) of the total trade receivables as at 31 December 2011.

With respect to credit risk arising from other receivables and margin deposits to financial institutions, the Group's exposure to credit risk from default of counterparties are limited as the counterparties have good credit standing and the Group does not expect any significant loss for uncollected advances from these entities.

The Group had concentration of credit risk. The five largest customers represented approximately 82% (2010: 74%) of the revenue of the Group for the year ended 31 December 2011. The Group had concentration of credit risk as nil (2010: 87%) of the total trade receivables was due from the Group's five largest customers as at 31 December 2011. Trade receivables attributable to the Group's largest debtor represented approximately 100% (2010: 87%) of the total receivables as at 31 December 2011. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In determining whether allowance for bad and doubtful debts is required, the Group has taken into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the directors discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade and other receivables that is unlikely to be collected. In this regard, the management considers that the Group's credit risk is significantly reduced.

42. FINANCIAL INSTRUMENTS – CONTINUED

Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. In managing liquidity risk, the Group monitors and maintains sufficient funds to meet all its potential liabilities as they fall due, including shareholder distributions. It is applicable to normal market conditions as well as negative projections against expected outcomes, so as to avoid any risk of incurring contractual penalties or damaging the Group's reputation.

Liquidity forecasts are produced on a monthly basis, to ensure that utilisation of current facilities is optimised; on a quarterly basis to ensure that covenant compliance targets and medium-term liquidity is maintained; and on a long-term projection basis, for the purpose of identifying long-term strategic funding requirements. The board of directors also continuously assess the balance of capital and debt funding of the Group.

The board of directors continuously manage liquidity risk on a regular basis and will increase the frequencies of such assessment should need arise. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves of cash and banking facilities and by continuously monitoring the utilisation of bank borrowings and ensuring compliance with loan covenants.

The Group's holdings of cash and short-term deposits, together with net cash flows from operations, are expected to be sufficient to cover the operating cost of the Group in the next financial year. The management considers that the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments settled on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

42. FINANCIAL INSTRUMENTS – CONTINUED

Liquidity risk – continued

Liquidity tables

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1 - 6 months HK$'000	7 months to 1 year HK$'000	1 - 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011								
Non-derivative financial liabilities								
Trade payables	N/A	68,004	–	–	–	–	68,004	68,004
Other payables	N/A	90,063	–	–	–	–	90,063	90,063
Borrowings								
– variable-rate	4.64%	–	–	31,239	243,170	136,362	410,771	312,000
– fixed-rate	24%	31,125	11,260	–	–	–	42,385	40,728
Convertible notes	N/A	–	–	–	62,100	–	62,100	56,997
		189,192	11,260	31,239	305,270	136,362	673,323	567,792
Derivative settled								
Convertible notes	N/A	17,664	–	–	–	–	17,664	17,664

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1 - 6 months HK$'000	7 months to 1 year HK$'000	1 - 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2010 HK$'000
2010								
Non-derivative financial liabilities								
Trade payables	N/A	–	8,575	–	–	–	8,575	8,575
Bills payables	N/A	–	89,128	–	–	–	89,128	89,128
Other payables	N/A	11,207	–	50,700	–	–	61,907	61,907
Bank borrowings								
– variable-rate	2.87	14	136,698	894	–	–	137,606	135,677
Promissory notes	0.29	–	3	3	1,903	–	1,909	1,899
		11,221	234,404	51,597	1,903	–	299,125	297,186
Derivative settled								
Derivative financial liabilities	N/A	–	10,596	–	–	–	10,596	10,596

As at 31 December 2010, the Group issued financial guarantees to banks in respect of banking facilities granted to a former subsidiary of the Group. The aggregate amounts that could be required to be paid if the guarantees were called upon in entirety amounted to HK$40,000,000, of which HK$3,050,000 has been utilised by that former subsidiary. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amounts will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

42. FINANCIAL INSTRUMENTS – CONTINUED

Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices.

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, fair value determined based on the discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

42. FINANCIAL INSTRUMENTS – CONTINUED

Fair value of financial instruments – continued

	31.12.2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Held-for-trading				
– listed equity securities	52	–	–	52
Available-for-sale				
– equity securities	–	–	67,600	67,600
	52	–	67,600	67,652
Financial liabilities				
Conversion option of convertible notes	–	17,664	–	17,664

	31.12.2010			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Held-for-trading				
– listed equity securities	4,000	–	–	4,000
Available-for-sale				
– equity securities	–	–	67,600	67,600
	4,000	–	67,600	71,600
Financial liabilities				
Derivative financial instruments	10,596	–	–	10,596

There were no transfers between Level 1, 2 and 3 in the current and prior years.

43. CAPITAL RISK MANAGEMENT

The Group's over-riding objectives when managing capital are to safeguard the business as a going concern, to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to provide a high degree of financial flexibility at the lowest cost of capital.

The capital structure of the Group consists of debt, which includes borrowings and equity attributable to owners of the Company, comprising issued capital, reserves and retained profits. The Group does not have a target debt/equity ratio, but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise.

The Company's board of directors reviews the capital structure on a continuous basis. As part of this review, the board of directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from prior years.

44. CONTINGENT LIABILITIES

As at 31 December 2011, the Company gave an indemnity to two non-controlling shareholders of Rakarta, owning the remaining 28% equity interest in Rakata, indemnifying them against any loss they sustain as a result of any action or claim against Rakata pursuant to the Ample Talent Shares Mortgage provided that the total amount payable will not exceed for an aggregate amount of up to US$13,000,000 (approximately HK$101,140,000). In respect of the arrangement, the Company paid an arrangement fee of US$300,000 (approximately HK$2,340,000) to the two non-controlling shareholders of Rakata. Further details are set out in the Company's announcement dated 3 November 2011.

As at 31 December 2010, the Group issued financial guarantees to banks in respect of banking facilities granted to a former subsidiary of the Group. The aggregate amounts that could be required to be paid if the guarantees were called upon in entirety amounted to HK$40,000,000, of which HK$3,050,000 has been utilised by that former subsidiary. There was no financial guarantee granted to third party as at 31 December 2011.

The following contingent liabilities arise from the Group's interests in the third party:

	2010 HK$'000
Guarantees given to banks, in respect of banking facilities to a third party entity	
– amount granted	40,000
– amount utilised	3,050

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies, at 31 December 2011 and 2010 are as follows:

Name of subsidiaries	Place of incorporation/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Attributable proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
EPI Metals Limited	Hong Kong	HK$1	–	100% (2010: 100%)	Metals sourcing and trading and trading of petroleum related products
Have Result Investments Limited	British Virgin Islands/ Argentina	US$10,000	–	100% (2010: 100%)	Petroleum exploration and production
EP Energy S.A.	Argentina	ARS258,910	–	100% (2010: 100%)	Petroleum exploration and production

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

46. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2011 HK$'000	2010 HK$'000
ASSETS		
Property, plant and equipment	379	566
Interests in subsidiaries	8	1
Other receivables, prepayment and deposits	5,862	496
Amounts due from subsidiaries	4,406,248	4,049,436
Amounts due from a former subsidiary	–	4,064
Bank balances and cash	3,006	46,850
	4,415,503	4,101,413
LIABILITIES		
Other payables	25,812	5,840
Interest payable on promissory notes	–	482
Amounts due to subsidiaries	90,452	90,100
Borrowings	332,728	–
Convertible notes	74,661	–
Promissory notes	–	1,899
	523,653	98,321
NET ASSETS	3,891,850	4,003,092
CAPITAL AND RESERVES		
Share capital	215,088	185,088
Reserves	3,676,762	3,818,004
TOTAL EQUITY	3,891,850	4,003,092

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**619,800**	937,258	945,929	1,285,960	1,188,934
Cost of sales	**(617,661)**	(926,619)	(943,832)	(1,200,317)	(1,083,800)
Gross profit	**2,139**	10,639	2,097	85,643	105,134
Other gain and losses	**(12,965)**	17,685	74,358	62,323	48,996
Distribution and selling expenses	**(10,531)**	(11,799)	(9,664)	(29,747)	(39,950)
Administrative expenses	**(73,511)**	(89,162)	(47,355)	(63,575)	(39,734)
Other expenses	**(96,132)**	(214,496)	(38,633)	(6,136)	(10,546)
Finance costs	**(34,679)**	(2,385)	(2,419)	107	(29)
(Loss) profit before taxation	**(225,679)**	(289,518)	(21,616)	48,615	63,871
Taxation credit (charge)	**7,942**	–	291	(8,581)	(14,211)
(Loss) profit for the year from continuing operations	**(217,737)**	(289,518)	(21,325)	40,034	49,660
Profit (loss) for the year from discontinued operations	**–**	890	41,639	(47,867)	13,851
(Loss) profit for the year	**(217,737)**	(288,628)	20,314	(7,833)	63,511

	At 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**4,525,191**	4,377,434	4,565,772	1,286,483	1,119,587
Total liabilities	**(606,250)**	(325,399)	(588,887)	(472,116)	(337,735)
	3,918,941	4,052,035	3,976,885	814,367	781,852
Equity attributable to owners of the Company	**3,918,941**	4,052,035	3,976,885	772,375	781,852
Share options reserve of a subsidiary	**–**	–	–	2,238	–
Non-controlling interests	**–**	–	–	39,754	–
	3,918,941	4,052,035	3,976,885	814,367	781,852

Note: During the year ended 31 December 2010, the Group discontinued the consumer electronics operations.

During the year ended 31 December 2009, the Group discontinued the production of copper anode operations. The results for the years ended 31 December 2007 to 2009 as presented in the above table have been re-presented to include the results of such discontinued operations under "profit (loss) for the year from discontinued operations".

Corporate Information

EXECUTIVE DIRECTORS

Mr. Chu Kwok Chi Robert (Chief Executive Officer)
Mr. Hong Kin Choy (Chief Financial Officer)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Yuk Ming
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Hong Kin Choy

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08 Bermuda

BRANCH SHARE REGISTRAR

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

AUDIT COMMITTEE

Mr. Cheung Yuk Ming (Chairman)
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

REMUNERATION COMMITTEE

Mr. Qian Zhi Hui (Chairman)
Mr. Chu Kwok Chi Robert
Mr. Zhu Tiansheng

NOMINATION COMMITTEE

Mr. Qian Zhi Hui (Chairman)
Mr. Chu Kwok Chi Robert
Mr. Zhu Tiansheng

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SOLICITORS

Vincent T.K. Cheung, Yap & Co.

AUDITOR

Deloitte Touche Tohmatsu

SHARE INFORMATION

Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 0689
Board lot: 10,000 shares
Financial year end: 31 December
Number of Shares at 31 December 2011: 2,150,877,588
Share price at 31 December 2011: HK$0.166
Market capitalization at 31 December 2011: HK$357 million

WEBSITE ADDRESS

www.epiholdings.com

EPI (Holdings) Limited
長盈集團(控股)有限公司

HKSE:0689