# NEW TIMES ENERGY CORPORATION LIMITED
# 新時代能源有限公司*

*(incorporated in Bermuda with limited liability)*

**(Stock code: 00166)**

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The board of directors (the "Board") of New Times Energy Corporation Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 as follows:

### CONSOLIDATED INCOME STATEMENT
*For the year ended 31 December 2011*

| | *Note* | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|---|
| **Turnover** | *4 & 5* | **128,857** | 57,252 |
| **Cost of sales** | | **(127,564)** | (56,751) |
| **Gross profit** | | **1,293** | 501 |
| Other revenue | *6(a)* | **3,553** | 9,908 |
| Other net income | *6(b)* | **1,495** | 5,391 |
| Gain on bargain purchase | | **345** | — |
| Impairment losses on exploration and evaluation assets | *11* | **(34,550)** | — |
| Administrative expenses | | **(73,338)** | (64,429) |
| Other operating expenses | | **(6,875)** | (14,036) |

* *For identification purpose only*

| | Note | **2011** | 2010 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Loss from operations** | | **(108,077)** | (62,665) |
| Finance costs | *7(a)* | **(10,824)** | (8,514) |
| Share of loss of a jointly controlled entity | | **(2,608)** | (2,658) |
| **Loss before taxation** | *7* | **(121,509)** | (73,837) |
| Income tax | *8* | **(577)** | (6,539) |
| **Loss for the year** | | **(122,086)** | (80,376) |
| **Loss for the year attributable to:** | | | |
| Owners of the Company | | **(87,410)** | (66,057) |
| Non-controlling interests | | **(34,676)** | (14,319) |
| | | **(122,086)** | (80,376) |
| **Loss per share** | *10* | | |
| Basic and diluted | | **(HK$0.19)** | (HK$0.16) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2011*

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss for the year** | **(122,086)** | (80,376) |
| **Other comprehensive income/(expense), net of tax HK$Nil (2010: HK$Nil)** | | |
| Exchange difference arising on translation of financial statements of overseas subsidiaries | **2,966** | (622) |
| Net loss arising on revaluation of available-for-sale financial assets | **(1,754)** | — |
| | **1,212** | (622) |
| **Total comprehensive expense for the year** | **(120,874)** | (80,998) |
| **Total comprehensive expense for the year attributable to:** | | |
| Owners of the Company | **(86,218)** | (66,159) |
| Non-controlling interests | **(34,656)** | (14,839) |
| | **(120,874)** | (80,998) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2011*

| | Note | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Exploration and evaluation assets | *11* | **3,639,932** | 3,501,338 |
| Property, plant and equipment | | **18,560** | 5,046 |
| Intangible asset | | **28,621** | 944 |
| Interest in a jointly controlled entity | | **4,340** | 6,948 |
| Deposit paid for a sub-contracting contract | | **80,160** | 79,301 |
| Available-for-sale financial assets | | **37,501** | — |
| Convertible promissory note receivable | | **—** | 8,412 |
| Prepayments and other receivables | *12* | **70,690** | 40,549 |
| | | **3,879,804** | 3,642,538 |
| **CURRENT ASSETS** | | | |
| Inventories | | **2,516** | 349 |
| Trade and other receivables | *12* | **24,438** | 82,983 |
| Deposit paid for potential investment | | **—** | 60,000 |
| Convertible promissory note receivable | | **—** | 9,312 |
| Derivative financial instruments | | **—** | 272 |
| Cash and cash equivalents | | **41,030** | 114,061 |
| | | **67,984** | 266,977 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *13* | **55,366** | 73,816 |
| Bank and other borrowings | | **165,147** | 160,294 |
| Convertible notes payables | | **10,716** | — |
| Obligations under finance leases | | **1** | 12 |
| Current taxation | | **248** | 4,564 |
| | | **(231,478)** | (238,686) |
| **NET CURRENT (LIABILITIES)/ASSETS** | | **(163,494)** | 28,291 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,716,310** | 3,670,829 |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions | | **(2,324)** | — |
| Deferred tax liabilities | | **(3,263)** | — |
| Obligations under finance leases | | **—** | (1) |
| | | **(5,587)** | (1) |
| **NET ASSETS** | | **3,710,723** | 3,670,828 |

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **EQUITY** | | |
| Share capital | **227,231** | 825,518 |
| Share premium and reserves | **3,530,395** | 2,862,513 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | **3,757,626** | 3,688,031 |
| **NON-CONTROLLING INTERESTS** | **(46,903)** | (17,203) |
| **TOTAL EQUITY** | **3,710,723** | 3,670,828 |

*Notes:*

**1. STATEMENT OF COMPLIANCE**

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

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

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a jointly controlled entity.

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

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

— financial instruments classified as available-for-sale financial assets; and

— derivative financial instruments.

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

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

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

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the 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 effect on the Group's financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

## 4. TURNOVER

The principal activities of the Group are (i) general trading; (ii) exploration of natural resources; and (iii) oil exploration and production.

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

| | **2011** | 2010 |
|---|---:|---:|
| | ***HK$'000*** | *HK$'000* |
| Sale of oil products | **107,717** | 40,658 |
| Sale of iron concentrates | **10,501** | 2,408 |
| Sale of non-ferrous metals | **8,456** | 14,186 |
| Sale of oil products under oil exploration and production | **2,183** | — |
| | **128,857** | 57,252 |

## 5. SEGMENT INFORMATION

The Group manages its businesses by divisions which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision-maker i.e. the board of directors of the Company, for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

| | |
|---|---|
| General trading | This segment includes trading of oil products, iron concentrates and non-ferrous metal. Currently, the Group's general trading activities are carried out in Hong Kong and People's Republic of China ("PRC"). |
| Exploration of natural resources | This segment is engaged in the exploration of crude oil in Argentina Republic ("Argentina") and US. The activities carried out in Argentina and United States ("US") are through non-wholly-owned subsidiaries. |
| Oil exploration and production | This segment represents the business of oil exploration and production in US (new business during the year). |

Oil exploration and production segment is a new operating segment in current year through the acquisition of and establishment of subsidiaries in the United States.

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

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision-maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interest in a jointly controlled entity, convertible promissory note receivable, deposit paid for potential investment, available-for-sale financial assets and other corporate assets. Segment liabilities include all non-current liabilities and current liabilities with the exception of current taxation, convertible notes payables, deferred tax liabilities and other corporate liabilities.

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

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note to the consolidated financial statements.

Information regarding the Group's reportable segments as provided to the Group's chief operating decision-maker for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below:

| | General trading | | Exploration of natural resources | | Oil exploration and production | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* (Restated) | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* (Restated) |
| **Reportable segment revenue** *(note)* | **126,674** | 57,252 | **—** | — | **2,183** | — | **128,857** | 57,252 |
| **Reportable segment loss** | **(19,689)** | (29,634) | **(57,670)** | (14,295) | **(4,524)** | — | **(81,883)** | (43,929) |
| Depreciation and amortisation | **1,773** | 1,784 | **220** | 227 | **1,895** | — | **3,888** | 2,011 |
| Interest income | **35** | (651) | **115** | (247) | **—** | — | **150** | (898) |
| Interest expenses | **6,970** | 5,736 | **—** | — | **—** | — | **6,970** | 5,736 |
| Impairment loss of | | | | | | | | |
| — intangible assets | **—** | 914 | **—** | — | **—** | — | **—** | 914 |
| — trade and other receivables | **—** | 12,597 | **—** | — | **—** | — | **—** | 12,597 |
| — exploration and evaluation assets | **—** | — | **34,550** | — | **—** | — | **34,550** | — |
| — property, plant and equipment | **—** | — | **—** | — | **2,262** | — | **2,262** | — |
| **Reportable segment assets** | **96,251** | 122,148 | **3,716,669** | 3,584,290 | **43,285** | — | **3,856,205** | 3,706,438 |
| **Additions to non-current segment assets during the year** | **7,685** | 611 | **187,210** | 259,440 | **47,067** | — | **241,962** | 260,051 |
| **Reportable segment liabilities** | **(135,847)** | (129,102) | **(29,170)** | (59,412) | **(11,298)** | — | **(176,315)** | (188,514) |

*Note:* Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2010: HK$nil).

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

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| **Revenue** | | |
| Reportable segment revenue | **128,857** | 57,252 |
| Unallocated revenue | **—** | — |
| Consolidated turnover | **128,857** | 57,252 |
| **Loss** | | |
| Reportable segment loss | **(81,883)** | (43,929) |
| Depreciation and amortisation | **(550)** | (637) |
| Interest income | **2,679** | 478 |
| Interest expenses | **(3,854)** | (1,437) |
| Impairment loss on prepayments | **(3,199)** | — |
| Share of post-tax loss of a jointly controlled entity | **(2,608)** | (2,658) |
| Net fair value (loss)/gain on derivative financial instruments | **(457)** | 78 |
| Unallocated operating income | **—** | 8,982 |
| Unallocated operating expenses | **(31,637)** | (34,714) |
| Consolidated loss before taxation | **(121,509)** | (73,837) |
| **Assets** | | |
| Reportable segment assets | **3,856,205** | 3,708,978 |
| Interest in a jointly controlled entity | **4,340** | 6,948 |
| Deposit paid for potential investment | **—** | 60,000 |
| Available-for-sale financial assets | **37,501** | — |
| Convertible promissory note receivable | **—** | 17,996 |
| Unallocated corporate assets | | |
| — Cash and cash equivalents | **34,291** | 66,187 |
| — Other receivables | **14,928** | 44,607 |
| — Others | **523** | 4,799 |
| Consolidated total assets | **3,947,788** | 3,909,515 |
| **Liabilities** | | |
| Reportable segment liabilities | **(176,315)** | (188,514) |
| Current taxation | **(248)** | (4,564) |
| Deferred tax liabilities | **(3,263)** | — |
| Convertible notes payables | **(10,716)** | — |
| Unallocated corporate liabilities | | |
| — Other borrowing | **(42,849)** | (42,344) |
| — Others | **(3,674)** | (3,265) |
| Consolidated total liabilities | **(237,065)** | (238,687) |

**(c) Geographical information**

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

The following is an analysis of the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than convertible promissory note receivable, and available-for-sale financial assets ("Specified non-current assets"). The geographical location of customers refers to the location at which the goods delivered. The geographical location of the specified non-current assets is based on (i) the physical location of the asset, in the case of property, plant and equipment and exploration and evaluation assets; and (ii) the location of the operation to which they are located. In the case of interests in a jointly controlled entity, it is the location of operation of such jointly controlled entity.

| | **Revenue from external customers** | | **Specified non-current assets** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | | | | (Restated) |
| Hong Kong (place of domicile) | **—** | 40,658 | **6,041** | 949 |
| PRC | **18,957** | 16,594 | **88,420** | 83,275 |
| Argentina | **—** | — | **3,696,508** | 3,542,954 |
| US | **2,183** | — | **46,994** | — |
| Malaysia | **107,717** | — | **—** | — |
| Australia | **—** | — | **4,340** | 6,948 |
| | **128,857** | 57,252 | **3,842,303** | 3,634,126 |

**(d) Information about major customers**

Revenue from sales of goods to customers contributing 10% or more of the Group are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **107,717** | — |
| Customer B | **—** | 40,658 |
| Customer C | **—** | 14,186 |

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

**(e) Information about products and services**

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

## 6. OTHER REVENUE AND NET INCOME

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(a) Other revenue** | | |
| Bank interest income | **797** | 1,337 |
| Other interest income | **1,293** | 4 |
| Effective interest income on convertible promissory note receivable | **739** | 35 |
| Total interest income on financial assets not at fair value through profit or loss | **2,829** | 1,376 |
| Commission income | **—** | 1,456 |
| Recovery of insurance premium | **—** | 6,650 |
| Sundry income | **724** | 426 |
| | **3,553** | 9,908 |
| **(b) Other net income** | | |
| Net realised gain on trading securities | **—** | 5,117 |
| Net gain on sale of crude oil under trial production | **234** | 196 |
| Net fair value (loss)/gain on derivative financial instruments | **(457)** | 78 |
| Net gain on disposal of subsidiaries | **1,718** | — |
| | **1,495** | 5,391 |

## 7. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **(a) Finance costs** | | |
| Interest on bank and other borrowings wholly repayable within five years | **9,233** | 7,172 |
| Effective interest expenses on convertible notes | **1,591** | — |
| Finance charges on obligations under finance leases | **—** | 1 |
| Total interest expenses on financial liabilities not at fair value through profit or loss | **10,824** | 7,173 |
| Loan guarantee charge | **—** | 1,341 |
| | **10,824** | 8,514 |
| **(b) Staff costs (including directors' emoluments)** | | |
| Salaries, wages and benefits in kind | **12,242** | 12,520 |
| Contributions to defined contribution retirement plans | **208** | 519 |
| Share-based payment expenses | **4,631** | — |
| | **17,081** | 13,039 |
| **(c) Other items** | | |
| Auditor's remuneration | **1,490** | 1,070 |
| Amortisation of intangible assets | **1,610** | 1,472 |
| Bad debts written off on other receivables | **—** | 335 |
| Consultancy fees *(note (ii))* | **12,747** | 10,354 |
| Cost of inventories *(note (i))* | **127,564** | 56,751 |
| Depreciation for property, plant and equipment | **2,828** | 1,176 |
| Impairment loss on intangible assets | **—** | 914 |
| Impairment loss on trade and other receivables | **—** | 12,597 |
| Impairment loss on prepayments | **3,199** | — |
| Impairment loss on exploration and evaluation assets | **34,550** | — |
| Impairment loss on property, plant and equipment | **2,262** | — |
| Loss on disposal of intangible assets | **324** | — |
| Minimum lease payments under operating leases on leasehold land and buildings | **2,173** | 2,279 |
| Net foreign exchange loss | **3,688** | 3,415 |
| Preliminary expenses written off | **—** | 21 |

*Notes:*

(i) Cost of inventories includes HK$626,000 (2010: HK$35,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

(ii) Consultancy fees include HK$112,000 (2010: HK$Nil) share-based payment expenses on options granted to the consultant during the year.

## 8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| — Hong Kong Profits Tax | **210** | — |
| — PRC Enterprise Income Tax | **367** | 118 |
| — Argentina minimum presumed income tax | **—** | 6,421 |
| | **577** | 6,539 |
| Deferred income tax | **—** | — |
| Total | **577** | 6,539 |

Pursuant to the rules and regulations of the Bermuda and the British Virgin Islands ("BVI"), the Group and its subsidiaries incorporated in Bermuda and BVI are not subject to any income tax in the Bermuda and the BVI during the year (2010: HK$nil).

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% of estimated assessable profits for the year (2010: No Hong Kong Profits Tax has been provided for in the financial statements as the Company and its subsidiaries incorporated or operating in Hong Kong have accumulated tax losses brought forward which exceed the estimated assessable profits for the year.)

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

Argentina subsidiaries of the Group are subject to Argentina Corporate Income Tax ("CIT") at 35% and minimum presumed income tax ("MPIT"). MPIT is supplementary to CIT and is chargeable at the applicable tax rate of 1% on the tax basis of certain assets. The tax liabilities of Argentina subsidiaries of the Group are the higher of CIT and MPIT. No provision is recognised as the subsidiaries has no assessable profits during the year and in prior year.

US subsidiaries of the Group operating in Texas and Louisana are subject to Texas franchise tax equal to 1% of the taxable margin (which approximates gross profits), subject to a threshold of gross receipts of US$1,030,000. No provision for franchise tax is made as the gross receipts is less than the threshold for the year. The subsidiaries are not subject to federal or Louisana income taxes and no provision is required to be made in the financial statements.

## 9. DIVIDENDS

The Directors do not recommend the payment of any dividends in respect of the year ended 31 December 2011 (2010: Nil).

## 10. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$87,410,000 (2010: HK$66,057,000) and the weighted average number of 449,879,000 ordinary shares (2010: 407,535,000 ordinary shares) in issue during the year calculated as follows:

Weighted average number of ordinary shares

| | **2011** | 2010 |
|---|---|---|
| | ***'000*** | *'000* |
| | | *(Note)* |
| Weighted average number of ordinary shares at 31 December | **449,879** | 407,535 |

*Note:* For the year ended 31 December 2010, the weighted average number of ordinary shares has been adjusted for the effect of share consolidation which occurred during the year ended 31 December 2011.

### (b) Diluted loss per share

Diluted loss per share for both the years ended 31 December 2010 and 2011 were the same as the basic loss per share as the assumed conversion of convertible notes and the assumed exercise of bonus warrants outstanding during the years had an anti-dilutive effect on the basic loss per share for both years. The computation of diluted loss per share did not assume the exercise of the Company's outstanding share options as the exercise prices of the options were higher than the average market price of shares.

## 11. EXPLORATION AND EVALUATION ASSETS

### The Group

| | Exploration rights | Exploratory drilling | Geological studies | Oil exploration assets | Others | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* *(note (e))* | *HK$'000* | *HK$'000* |
| At 1 January 2010 | 3,216,985 | 21,530 | — | — | 9,313 | 3,247,828 |
| Additions | 8,455 | 6,259 | 214,585 | — | 28,957 | 258,256 |
| Exchange adjustments | (268) | (137) | (3,906) | — | (435) | (4,746) |
| At 31 December 2010 and 1 January 2011 | 3,225,172 | 27,652 | 210,679 | — | 37,835 | 3,501,338 |
| Acquired through business combination | — | — | — | 3,447 | — | 3,447 |
| Additions | 13,667 | 54,785 | 112,048 | 1,660 | 6,735 | 188,895 |
| Impairment loss *(note (c))* | — | (34,550) | — | — | — | (34,550) |
| Exchange adjustments | (924) | (1,310) | (16,042) | — | (922) | (19,198) |
| At 31 December 2011 | 3,237,915 | 46,577 | 306,685 | 5,107 | 43,648 | 3,639,932 |

(a) In 2006, JHP International Petroleum Engineering Limited ("JHP") and Maxipetrol — Petroleros de Occidente S.A. (formerly known as "Oxipetrol — Petroleros de Occidente S.A.") ("Maxipetrol") (collectively the "Consortium") were granted the Tartagal Concession and the Morillo Concession under the Provincial Government Decree Nº 3391/2006 and Decree Nº 3388/2006 dated 29 December 2006 respectively. The Tartagal Concession and Morillo Concession (collectively the "Concessions") are the concessions of the exploration permits and potential exploitation permits for oil and developments of hydrocarbons in the province of Salta in northern Argentina covering a total surface area of approximately 7,065 and 3,518 square kilometers respectively. The exploration permits granted are valid for an initial period of four years starting from 29 December 2006 and additional extensions up to an aggregate of nine years may be obtained. The holder for an exploration permit has the right to obtain an exploitation permit.

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

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

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

(b) As mentioned in note (a), the exploration permits granted are valid for an initial period of four years starting from 29 December 2006 (i.e. expired on 29 December 2010). On 22 April 2010, the Group submitted an application to the Secretary of Energy of Province of Salta, Argentina for an extension of the exploration permits. The application was approved on 2 July 2010 and the initial exploration permits to the Concessions were extended to 29 February 2012. On 18 July 2011, a further extension was granted and the exploration permits were extended to 28 February 2014.

(c) During the year, an impairment loss of approximately HK$34,550,000 was recognized for all direct costs related to one exploratory well abandoned in the Tartagal concession. The surface area covered by this well is approximately 0.0144 square kilometers (120m x 120m). The exploratory drilling work on this well was to test a large stratigraphic trap in sandstones of Lower Carboniferous age, identified by a 500 square kilometer 3-D seismic survey shot performed by an independent geologist in 2010. The sandstones were found present and there were traces of oil, but not enough to warrant further testing. The Group therefore considered the well was not successful and recognize all the direct costs of this unsuccessful well in the income statement for the year.

As advised by the Group's technical experts, the drilling of exploratory wells typically involves a considerable amount of inherent risks, and even if an exploratory well could not be converted into a production well eventually, it still provides valuable drilling information to the technical team, which would be beneficial to future exploration activities in the drilling area. In terms of service area, this 3-D seismic program only covers about 7% of the total service area of the Tartagal concession and that unsuccessful well only representing about 0.0002% of the total service area of the Tartagal concession. Therefore, the directors of the Company are of the view that the abandonment of this unsuccessful well is an isolated event and alone by itself, does not lead to the conclusion that the discovery of commercially viable quantities of natural resources would not be found for the Concessions. No further impairment was recognized during the year.

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

At the date of acquisition, the estimated reserves are classified as prospective resources by reference to a technical report prepared by an international independent technical advisor. Having considered the technical report and the fact that the Concessions are still at the exploration stage, the directors of the Company do not expect that the proven reserves in the areas will exceed 100 million tons of oil at the end of the reporting period.

(e) Oil exploration assets arose from (i) acquisition of a non-wholly owned subsidiary ET-LA, LLC set out in the Notes to the consolidated financial statements and (ii) subsidiary established during the year in the United States.

## 12. TRADE AND OTHER RECEIVABLES

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | *(Restated)* |
| Trade receivables *(note (a))* | **657** | 5,909 |
| Less: Allowance for impairment loss *(note (b))* | **—** | (5,909) |
| | **657** | — |
| Other receivables *(note (d))* | **8,479** | 57,320 |
| Less: Allowance for impairment loss *(note (b))* | **(7,157)** | (6,935) |
| | **1,322** | 50,385 |
| Loan to a non-controlling shareholder *(note (e)* | **1,134** | 2,999 |
| Amount due from a non-controlling shareholder *(note (f))* | **3,335** | 2 |
| Amount due from an operator *(note (g))* | **199** | — |
| Loans and receivables | **6,647** | 53,386 |
| VAT recoverable *(note h)* | **60,834** | 39,415 |
| Other tax recoverable | **2,466** | 162 |
| Prepayments and deposits | **25,181** | 30,569 |
| | **95,128** | 123,532 |
| Analysed as: | | |
| Non-current *(note (i))* | **70,690** | 40,549 |
| Current | **24,438** | 82,983 |
| | **95,128** | 123,532 |

*Notes:*

**(a) Ageing analysis**

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

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0–14 days | **—** | — |
| 15–60 days | **558** | — |
| 61–90 days | **—** | — |
| Over 90 days | **99** | 5,909 |
| | **657** | 5,909 |

Trade receivables are due within 45 days (2010: 14 days) from the date of billing. Further details on the Group's credit policy are set out in the Notes to the Consolidated Financial Statements.

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

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

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

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **12,844** | — |
| Impairment loss recognised | **—** | 12,597 |
| Exchange adjustment | **222** | 247 |
| Less: amount written off | **(5,909)** | — |
| At 31 December | **7,157** | 12,844 |

At 31 December 2011, the Group's trade and other receivables of HK$7,157,000 (2010: HK$12,844,000), including HK$Nil (2010: HK$5,909,000) from trade receivables and HK$7,157,000 (2010: HK$6,935,000) from other receivables, were individually determined to be impaired. These individually impaired receivables were related to a customer and a debtor that were engaged in a lawsuit with the Group in respect of the outstanding debts. The management assessed that the recovery of the receivables are with uncertainty and may not be recovered. Consequently, specific allowances for impairment loss of HK$Nil (2010: HK$12,597,000) was recognised. No further impairment was recognised during the year. The Group does not hold any collateral over these balances.

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

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

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **558** | — |
| Past due but not impaired | | |
| — Less than 1 month past due | **—** | — |
| — 1 to 3 months past due | **—** | — |
| — 3 to 6 months past due | **99** | — |
| | **657** | — |

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

Receivable that was past due but not impaired relate to a customer that have a good track record with the Group. Management believes that no impairment allowance is necessary in this balance as it is considered fully recoverable.

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

**(e)** The loan to a non-controlling shareholder is unsecured, interest free and repayable by monthly installment of US$20,000 (equivalent to approximately HK$156,000) until in full settlement. The amount is neither past due nor impaired. The balance is expected to be recovered within one year. During the year ended 31 December 2010, an amount of approximately HK$1,134,000, which was expected to be recovered after one year and was classified as non-current asset in the consolidated statement of financial position.

**(f)** The amount due from a non-controlling shareholder is unsecured, interest free and repayable on demand.

**(g)** The amount is due from an operator for oil exploration and production. The balance is unsecured, interest being charged at a monthly rate of 6% and repayable on demand.

**(h)** The amount represents value-added tax recoverable arising from the drilling costs incurred and purchase of property, plant and equipment relating to the petroleum exploration and production operation in Argentina. Utilisation of the tax recoverable depends on the future revenue generated from sales of oil and gas. By reference to the current exploration and evaluation stages of the oil field, the directors of the Company considered that the amount of HK$60,834,000 (2010: HK$39,415,000) is expected to 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.

**(i)** The balance represented (i) Argentina VAT recoverable of HK$60,834,000 (2010: HK$39,415,000 as disclosed in note (h) above; (ii) prepayments of approximately HK$4,276,000 (2010: HK$Nil) for the purchase of oil production assets and rights to share in oil production activities and (iii) prepayments of approximately HK$5,580,000 (2010: HK$Nil) for the construction work to be carried out. The amounts are expected to be recovered after one year and was classified as non-current assets in the consolidated statement of financial position.

Also included in the balance for 2010 was the loan to a non-controlling shareholder as disclosed in note (e) above. An amount of approximately HK$1,134,000, which was expected to be recovered after one year and was classified as non-current asset in the consolidated statement of financial position.

## 13. TRADE AND OTHER PAYABLES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Trade payables *(note (a))* | **5,407** | 4,831 |
| Other payables and accruals *(note (b))* | **49,959** | 68,985 |
| Financial liabilities measured at amortised cost | **55,366** | 73,816 |

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

*Notes:*

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

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| 0–30 days | **237** | 116 |
| 31–60 days | **—** | 71 |
| 61–90 days | **—** | — |
| Over 90 days | **5,170** | 4,644 |
| | **5,407** | 4,831 |

(b) The balance mainly represented unsettled billings related to the exploration work and environmental restoration services performed in Argentina.

## EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

In the independent auditor's report, the auditor has included the following paragraph in the auditor's opinion to draw the Shareholders' attention:

### Opinion

"Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a loss of HK$122,086,000 for the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets by HK$163,494,000. These conditions, along with other matters as set forth in Note 2(b) indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. As explained in Note 2 to the consolidated financial statements, these consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the Group's ability to extend its short-term bank and other borrowings upon their maturities, raise capital from existing and new investors, and derive adequate operating cash flows from its operations to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future. These consolidated financial statements do not include any adjustments that would result from the failure of the measures."

## MANAGEMENT DISCUSSION AND ANALYSIS

### General Review

Consolidated turnover of the Group for the year ended 31 December 2011 was about HK$128.86 million (31 December 2010: HK$57.25 million), representing an increase of 125.07%. However, the Group recorded a loss attributable to shareholders of approximately HK$87.41 million (31 December 2010: HK$66.06 million). Impairment losses on exploration and evaluation assets and administrative expenses are the main causes of the increase in loss. Exchange losses arose from changes in foreign exchange rates also contributed to the loss, as a portion of the Group's assets are denominated in Argentine peso, the value of which has went down over the past year.

As at 31 December 2011, impairment losses on the Group's exploration and evaluation assets of approximately HK$34.55 million were recognized (31 December 2010: nil), due to the drilling of an unsuccessful exploratory well in the Tartagal concession. Administrative expenses of the Group for the year amounted to approximately HK$73.34 million (31 December 2010: HK$64.43 million), representing an increase of approximately HK$8.91 million from the previous year. Administrative expenses mainly consist of legal and professional expenses, staff costs and exchange losses resulted from changes in foreign exchange rates.

Loss per share for the year was HK$0.19 (31 December 2010: HK$0.16). The Board does not recommend any final dividend for this financial year (31 December 2010: Nil).

### Review of Business Operations

#### *Oilfield Exploration and Exploitation Business*

The Tartagal concession and Morillo concession (collectively the "Concessions") are the concessions of the exploration permits and potential exploitation permits for oil and developments of hydrocarbons in the province of Salta in northern Argentina, covering a total surface area of approximately 7,065 and 3,518 square kilometers respectively. It is one of the largest oil exploration land parcels open for tender in Argentina. The Company holds 60% interests in the Concessions through an indirect wholly-owned subsidiary, and is responsible for carrying out the duties in regard to all legal acts, contracts, and operations of the exploration works in the Concessions.

#### *Exploration, Development and Production in the Tartagal and Morillo Concessions*

*Exploration*

In 2011, the Group proceeded with its exploration plan in the Concessions. In 2010, the Group has completed 3D seismic data acquisition covering a total surface area of 500 square kilometers at the Tartagal concession and 2D seismic data acquisition covering lines of 997 kilometers at the Morillo concession. During the year of 2011, the Group's internal geoscientists and external technical consultants have completed the processing and interpretation of the seismic data acquired, followed by the drilling of an exploratory well, the

ER x-1 well, at the Tartagal concession. The drilling of the ER x-1 well, reaching a depth of approximately 2,500 meters, was completed in November 2011. Unfortunately, the ER x-1 well was eventually abandoned due to failure in producing oil. The Group recognized impairment losses of approximately HK$34.55 million on its exploration and evaluation assets, being the costs directly resulted from the drilling of this unsuccessful exploratory well. While the outcome of the ER x-1 well was a disappointment, the Group remains optimistic about the business prospects and development potential of the Concessions, as the management fully acknowledges the high-risk nature of its exploration business.

Meanwhile, at the Morillo concession, the interpretation of the 2D seismic data has resulted in the identification of a number of structures, which are prospective as oil and gas reservoirs. These structures are also along trend from a recent exploration well which may be a significant oil discovery, drilled by Petrobras, the biggest company in Brazil and a major oil and gas producer in the world, in the adjacent block to the east, less than two kilometers from the Morillo concession boundary. Discussions with local geologists indicated that the Petrobras discovery may be in excess of 200 million barrels of oil, with the oil being light, sweet oil of Cretaceous age. This could be very positive if similar structures which extend into Morillo are also oil bearing.

In order to acquire further seismic data for subsequent exploration works and drilling in its Morillo concession, the Group carried out further exploration activities for crude oil and natural gas at the Concessions. In 2011, the Group, through its contractor in Argentina, commenced a 3D seismic data acquisition program covering a total surface area of 274 square kilometers at the Morillo concession. This new 3D survey has been completed in January 2012, and the processing and interpretation of the new seismic data is now underway. During the year, the Group continued to improve and develop its production facilities in the CA x-1002 well and CA x-1 well located at the Tartagal concession. These wells were in a trial stage of production, and the income generated from the sales of crude oil was recognized as other net income in the consolidated income statement. For the year ended 31 December 2011, the Group generated an income of approximately HK$234,000 (31 December 2010: HK$196,000) on the sales of crude oil under trial production in these wells. Commercial production will commence once the installations of the production facilities are fully completed.

A summary of expenditure incurred from these activities for the year ended 31 December 2011 is as follows:

*Summary of expenditure incurred*

| **Nature of expenditure** | **Amount** |
|---|---|
| | *HK$'000* |
| Exploration rights | 13,667 |
| Geological studies | 112,048 |
| Exploratory drilling | 54,785 |
| Others | 6,735 |
| Total | 187,235 |

*Development and Production*

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

*Update of Resources*

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

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

*Notes:*

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

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

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

*Investment in Oil and Gas Properties in Texas and Louisiana, the United States*

In 2011, the Group entered into agreements with TXX Energy Corporation ("TXX"), an oil and gas company based in Texas, to establish two joint venture companies named ET-LA LLC and ET-LA (2) LLC for the purpose of locating, evaluating, acquiring and developing potential oil and gas properties in the United States. The Group has funded approximately HK$19.5 million and HK$7.8 million to ET-LA LLC and ET-LA (2) LLC respectively, and holds 80% equity interests in each of the corporations, with TXX owning the remaining 20% equity interests in each of the companies. The primary focus of ET-LA LLC and ET-LA (2) LLC is in shallow and onshore oil in East Texas and Northwest Louisiana.

During the year ended 31 December 2011, the Group recorded a gross income of approximately HK$2.18 million in its oil business in ET-LA LLC and ET-LA (2) LLC. The Group will seek to expand its production volume and improve the profit margin of the business by improving operational efficiency and installing modern equipment to the oil properties when appropriate.

*Investment in Oil and Gas Properties in Alaska, the United States*

On top of our involvement in the oilfield region of the United States, in December 2010 the Group entered into a loan agreement with Nordaq Energy Inc. ("Nordaq"), an oil and gas company based in Alaska, to provide a maximum line of credit of approximately HK$39 million for Nordaq's exploration activities in relation to its oil and gas leases in Alaska. In 2011, the aforementioned line of credit has already been fully utilized by Nordaq, and the loan has been converted into shares of Nordaq, representing about 7% of Nordaq's equity interest as at 31 December 2011.

Meanwhile, Nordaq has drilled an exploration well to an approximate depth of 14,000 feet to confirm the presence of condensate and thermogenic gas in a target zone located at one of its four oil and gas leases. Preliminary results of the drilling program indicate that the minimum reserves of natural gas volumes in this target zone are estimated at 100 billion cubic feet (bcf). The Group will closely monitor the progress of Nordaq's exploration activities in Alaska in order to deliver maximum returns to the Group's investment.

*Trading Business*

In 2011, the Group continued to operate in its resources-related trading business. While the Group sought to provide steady income inflow through its trading operations, the changing environment in the global market remained a challenge for the Group.

During the year, the Group recorded sales of approximately HK$126.67 million (31 December 2010: HK$57.25 million). Increase in sales was due to the transformation and expansion of the resources-related trading operations, having sought to broaden the earnings base and growth potential of the business.

*Termination of Acquisition*

In January 2011, the Group terminated its agreement with Dencorn International Limited ("Dencorn") to acquire three gold mines in Qinglong Manchu Autonomous County, Hebei, the PRC, as certain conditions stated in the terms of the agreement had not been satisfied. During the period under review, the Group has fully recovered the advance deposit of HK$60 million together with the relevant accrued interest from Dencorn, bringing the termination of the acquisition to a close. It will thus enable the Group to devote its resources to the development of its existing business operations.

## PROSPECTS

As a consolidated natural resources company, we remain focused on establishing and developing our existing operations and at the same time, looking for valuable business opportunities around the globe, particularly in Argentina and in the US. In 2011, in order to realize our strategy to expand our quality natural resources portfolio, we have been actively looking for new projects in geologically favorable regions, and evaluating potential business opportunities in a detailed and professional manner, seeking to bring positive cash inflow to the Group to offset a portion of the exploration expenses incurred in the Tartagal and Morillo oilfield projects in the coming years.

At the Tartagal concession, the Group has recently located a number of shut-in wells in the southwestern part of the block. Based on our preliminary assessment, these wells were produced from the tertiary sandstone layers, with depths of around 400 meters. The Group is currently gathering the old data of these shallow wells, and will continue to assess the commercial viability of re-working these shallow wells and some of the remaining 21 shut-in wells in Tartagal to generate near-term cash flow to the Group. At the Morillo concession, the processing and interpretation of the 3D seismic data acquired in 2011 are now in progress. The Group is confident that this new 3D seismic program will provide detailed information over an area of interest in the southeastern part of the Morillo concession identified by the Group's 2D seismic program shot in 2010, which would be significant to the outcome of future drilling programs in Morillo.

While the Group's exploration plan in the Concessions is still in a relatively early stage, the Group will continue to give its full support to its core business in Argentina. Working closely with its business partners, technical advisors and contractors, the Group will bolster its exploration activities at the Tartagal and Morillo concessions, with the aim to turn prospective oil and gas reserves into proved reserves with substantial potential for commercial production.

In December 2011, the Group entered into a letter of intent (the "LOI") with an independent third party (the "Vendor") in relation to a possible acquisition of approximately 9.25% interests in the Tartagal concession and the Morillo concession (collectively the "Concessions"). The Group currently holds 60% interests in the Concessions. Pursuant to the terms of the LOI, the Vendor agrees to negotiate exclusively with the Group for a period of 9 months for the possible acquisition, and a refundable deposit of HK$5 million has been paid to the Vendor. In 2012, the Group will continue to negotiate with the Vendor on the possible acquisition, aiming to increase its investment in the Concessions with a view to enhance its future profitability.

In order to broaden its business horizon and capture potential growth in its strategic investments, the Group will continue to diversify its investment portfolio. In February 2012, the Group entered into a Memorandum of Understanding (the "MOU") in relation to the possible acquisition of several oil and gas concessions in the Provinces of Jujuy, Formosa, and Salta in Argentina from Principle Petroleum Limited ("Principle Petroleum"). Principle Petroleum is principally engaged in investment in hydrocarbons business in South America. Under the MOU, New Times Energy is entitled to an exclusivity period of 9 months to reach a formal sales and purchase agreement for the possible acquisition, and a refundable deposit of HK$15 million has been paid to Principle Petroleum.

The management sees the above transactions as attractive opportunities to capitalize on the rising demand for energy, and to diversify the Group's involvement in the natural resources sector. The Group remains focused on developing its existing operations while concurrently pursuing potentially lucrative business opportunities around the globe. This approach is motivated by the Group's dedication to delivering maximum returns to its shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

### Capital structure, liquidity and financial resources

On 25 June 2010, a total of 1,152,521,860 bonus warrants were issued by the Company on the basis of one bonus warrant for every seven existing shares of the Company held by the shareholders registered on the register of members of the Company on 18 June 2010. The holders of these bonus warrants are entitled to subscribe in cash for 1,152,521,860 new shares at an initial exercise price of HK$0.27 per share at any time from 25 June 2010 to 24 June 2011 (both days inclusive). During the year up to 24 June 2011, being the last day of exercising of the bonus warrants, 723,413 units of bonus warrants were subscribed in cash for the same number of new shares of the Company.

On 8 February 2011, the Company issued convertible notes for an aggregate principal amount of HK$160 million at a conversion price of HK$0.18 or HK$0.20 per share, as the case may be, pursuant to the placing agreement to place the said convertible notes to independent third parties. As at 31 December 2011, HK$150 million convertible notes were converted into 833,333,327 shares of the Company. The remaining principal amount of the said convertible notes was HK$10 million, which has been settled in February 2012.

On 21 November 2011, the Company implemented the share consolidation of every twenty (20) issued and unissued existing shares of HK$0.10 each in the share capital of the Company into one (1) consolidated share of HK$2.00, and the capital reduction involving the cancellation of the fractional consolidated share in the issued share capital of the Company arising from the share consolidation and reduction of the existing share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK$1.50 on each of the issued consolidated shares, so that the nominal value of each consolidated share will be reduced from HK$2.00 to HK$0.50.

As at 31 December 2011, the total equity of the Group was HK$3,710.72 million (31 December 2010: HK$3,670.83 million) and the net asset value per share was HK$8.17 (31 December 2010: HK$8.80 (adjusted for the effect of share consolidation effective on 21 November 2011)). The debt ratio, calculated by total liabilities divided by total assets, was 6.01% as at 31 December 2011 (As at 31 December 2010: 6.11%).

As at 31 December 2011, the total asset value of the Group was approximately HK$3,947.79 million (31 December 2010: HK$3,909.52 million) and total cash and bank balances were approximately HK$41.03 million (31 December 2010: HK$114.06 million).

As at 31 December 2011, net current liabilities of the Group was approximately HK$163.49 million (31 December 2010: net current assets of HK$28.13 million).

The Group's borrowings as at 31 December 2011 comprised an other borrowing of HK$42.85 million, bearing interest at 4% per annum, bank borrowings totaling approximately HK$121.72 million, denominated in Renminbi, bearing interest at 7.54% per annum, and a bank borrowing of approximately HK$582,000, denominated in United States dollar, bearing interest at 6% per annum. As at 31 December 2011, the gearing ratio, calculated on the basis of interest bearing borrowings divided by total equity, was 4.45% (31 December 2010: 4.34%).

**Capital expenditure**

The Group's capital expenditure during the year amounted to approximately HK$241.96 million (31 December 2010: HK$262.58 million).

**Charge on assets**

As at 31 December 2011, a bank borrowing of approximately HK582,000 (31 December 2010: Nil) was secured by the assets of a subsidiary and guaranteed by the manager of the subsidiary, bearing interest fixed at 6% per annum.

**Contingent liability**

The Group had no contingent liability as at 31 December 2011 (31 December 2010: Nil).

**Capital commitments**

Capital commitments outstanding at 31 December 2011 not provided for in the consolidated financial statement were as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised and contracted for | | |
| — Activities of exploration | **81,280** | 6,649 |

### Foreign exchange exposure

Assets and liabilities of the Group are mainly denominated in Hong Kong dollar, Renminbi, United States dollar, and Argentine peso. The Group currently does not have a foreign currency hedging policy. However, the management will monitor the Group's foreign exchange exposure on an ongoing basis and will consider hedging significant foreign currency exposure should the need arise.

### Employees

As at 31 December 2011, the Group employed a total of 24 employees (31 December 2010: 56) in Hong Kong, the PRC, and Argentina. Total employee remuneration (including directors' emoluments and benefits) amounted to HK$17.08 million (2010: HK$13.04 million). The Group provides its employees with competitive remuneration packages which are determined based on personal performance, qualifications, experience, and relevant market conditions with respect to geographical location and type of business that the Group operates.

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

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

## CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company had complied with the Code Provisions on Corporate Governance (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2011, except for the following deviations:

### Code Provision A.2.1

Pursuant to code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. During the year ended 31 December 2011, the Company did not have any officer with the title of "CEO". Mr. Cheng Kam Chiu, Stewart, being the Chairman and an executive director of the Company, was assuming the role of the CEO of the Company and was responsible for the strategic planning and day-to-day management of the Group.

To promote high standards of corporate governance in the management structure and to maximize effectiveness of the Group, Mr. Cheng Ming Kit, an executive director of the Company, has been appointed as the CEO of the Company with effect from 6 March 2012. The division of responsibilities between the Chairman and the CEO is clearly established and set out in writing. Starting from this date, the Company has complied with this code provision.

**Code Provision A.4.1**

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

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

## AUDIT COMMITTEE

The Company has an audit committee which was established pursuant to the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company, namely Mr. Chiu Wai On, Mr. Fung Chi Kin and Mr. Fung Siu To, Clement. The annual results of the Group for the year ended 31 December 2011 has been reviewed by the Audit Committee.

## MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

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

## PUBLICATION OF RESULT ANNOUNCEMENT AND ANNUAL REPORT

The Company's 2011 annual report, as well as the announcement of annual results, containing the relevant information required by the Listing Rules will be published on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website (http://www.166hk.com) in due course.

## ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on Monday, 14 May 2012. Notice of the Annual General Meeting will be published and issued to shareholders in due course.

By Order of the Board
**New Times Energy Corporation Limited**
**Cheng Kam Chiu, Stewart**
*Chairman*

Hong Kong, 30 March 2012

*As at the date of this announcement, the Board comprises eight directors, of which three are executive directors, namely Mr. Cheng Kam Chiu, Stewart, Mr. Cheng Ming Kit and Mr. Sun Jiang Tian; two are non-executive directors, namely Mr. Wong Man Kong, Peter and Mr. Chan Chi Yuen; and three are independent non-executive directors, namely Mr. Fung Chi Kin, Mr. Fung Siu To, Clement and Mr. Chiu Wai On.*