

SARDA ENERGY & MINERALS HONG KONG LIMITED
沙達能源礦物香港有限公司

Reports and Financial Statements

For the year ended 31 March 2010

SARDA ENERGY & MINERALS HONG KONG LIMITED

沙達能源礦物香港有限公司

Reports and Financial Statements
For the year ended 31 March 2010

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Directors' report

The directors have pleasure to present their annual report together with the audited financial statements of the Company for the year ended 31 March 2010.

Principal activities

The Company continue to hold financial instruments for investment purpose during the year.

Results and appropriations

The results of the Company for the period and the state of the Company's affairs as at that date are set out in the financial statements on pages 3 to 20. The directors do not recommend the payment of a dividend.

Equipment and fixtures

The details of movement during the year are set out in note 9 to the financial statements.

Directors

The directors who held office during the year and up to the date of this report were,

Mr. Manish SARDA

Mr. Pankaj SARDA

Pursuant to the Company's Articles of Association, the directors are not subject to rotation or retirement, and therefore the directors shall continue to remain in office.

Directors' interest in contract

The details of directors' interest in contract during the year are set out in note 19 to the financial statements. Apart from the above, no contract of significance to which the Company, any of its fellow subsidiaries or its holding company was a party and in which any director had a material interest, subsisted at the end of the year or at any time during the year.

Arrangement to purchase share or debenture

At no time during the year was the Company, any of its fellow subsidiaries or its holding company, a party to any arrangement to enable the directors of the Company to acquire benefit by means of the acquisition of share in or debenture of the Company or any other body corporate.

Auditor

The financial statements have been audited by Messrs. LKY China who offer themselves for re-appointment.

On behalf of the Board

Chairman

Hong Kong,

Independent Auditor's Report**To the Shareholder of SARDA ENERGY & MINERALS HONG KONG LIMITED**

沙達能源礦物香港有限公司

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of SARDA ENERGY & MINERALS HONG KONG LIMITED set out on pages 3 to 20 which comprise the statement of financial position as at 31 March 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance 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 as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its profits 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 Hong Kong Companies Ordinance.

Hong Kong,

LKY China
Certified Public Accountants (Practising)

SARDA ENERGY & MINERALS HONG KONG LIMITED
沙達能源礦物香港有限公司

Statement of Comprehensive Income
For the year ended 31 March 2010

	<u>Note</u>	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Income	5	165,425,443	22,334,704
Operating expenses		(3,201,765)	(788,188)
Profit from operations		<u>162,223,678</u>	<u>21,546,516</u>
Finance costs	6	(10,680,815)	(13,797,326)
Profit before tax	7	<u>151,542,863</u>	<u>7,749,190</u>
Income tax expense	8	-	-
Profit for the year		<u>151,542,863</u>	<u>7,749,190</u>
Other comprehensive item		-	-
Total comprehensive income		<u><u>151,542,863</u></u>	<u><u>7,749,190</u></u>

SARDA ENERGY & MINERALS HONG KONG LIMITED

沙達能源礦物香港有限公司

**Statement of Financial Position
as at 31 March 2010**

	Note	2010 HK\$	2009 HK\$
Non-current assets			
Equipment and fixtures	9	7,254	13,956
Current assets			
Held-for-trading investments	10	370,867,063	476,253,759
Account receivables	11	19,070,039	7,157,155
Cash and cash equivalents		55,272,003	1,054,651
		<u>445,209,105</u>	<u>484,465,565</u>
Current liabilities			
Held-for-trading investments	10	-	9,344,869
Accrued charges	12	6,247,454	7,052,593
Secured bank loan	13	257,000,588	319,912,833
Loan from ultimate holding company	14	21,876,228	139,620,000
		<u>285,124,270</u>	<u>475,930,295</u>
Net current assets		<u>160,084,835</u>	<u>8,535,270</u>
Net assets		<u>160,092,089</u>	<u>8,549,226</u>
Capital and reserves			
Share capital	15	1,000,000	1,000,000
Accumulated profits		159,092,089	7,549,226
Shareholder's fund		<u>160,092,089</u>	<u>8,549,226</u>

The financial statements on pages 3 to 20 were approved and authorized for issue by the Board of Directors on _____ and are signed on its behalf by:

Director_____
Director

SARDA ENERGY & MINERALS HONG KONG LIMITED

沙達能源礦物香港有限公司

**Statement of Changes in Equity
For the year ended 31 March 2010**

	Share capital HK\$	Accumulated profits/(losses) HK\$	Total HK\$
Balance as at 1 April 2008	1,000,000	(199,964)	800,036
Profit for the year	-	7,749,190	7,749,190
Balance as at 1 April 2009	<u>1,000,000</u>	<u>7,549,226</u>	<u>8,549,226</u>
Profit for the year	-	151,542,863	151,542,863
Balance as at 31 March 2010	<u>1,000,000</u>	<u>159,092,089</u>	<u>160,092,089</u>

SARDA ENERGY & MINERALS HONG KONG LIMITED

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Statement of Cash Flows
For the year ended 31 March 2010

	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Cash flows from operating activities		
Profit before tax	151,542,863	7,749,190
Adjustments for		
Depreciation	6,702	6,702
Finance cost	10,680,815	13,797,326
Interest income from held-for-trading investments	(33,020,083)	(16,929,497)
Revaluation surplus on held-for-trading investments	(23,176,146)	(5,598,748)
Revaluation loss on held-for-trading investments	-	9,344,869
Operating cash flows before movements in working capital	<u>106,034,151</u>	<u>8,369,842</u>
Increase in account receivables	(11,912,884)	(6,356,015)
(Decrease)/increase in accrued charges	(805,139)	7,017,736
Cash generated from operations	<u>93,316,128</u>	<u>9,031,563</u>
Finance cost paid	(10,680,815)	(13,797,326)
Net cash generated from /(used in) operating activities	<u>82,635,313</u>	<u>(4,765,763)</u>
Cash flows from investing activities		
Acquisition of equipment and fixtures	-	(6,183)
Disposal/(acquisition) of held-for-trading investments	119,217,973	(470,655,011)
Interest received from investments held for trading	33,020,083	16,929,497
Net cash generated from/(used in) investing activities	<u>152,238,056</u>	<u>(453,731,697)</u>
Cash flows from financing activities		
Net (repayment to)/proceeds from loan from holding company	(117,743,772)	139,620,000
Net (repayment to)/proceeds from secured bank loan	(62,912,245)	319,912,833
Net cash (used in)/generated from financing activities	<u>(180,656,017)</u>	<u>459,532,833</u>
Net increase in cash and cash equivalent and at 31 March	54,217,352	1,035,373
Cash and cash equivalents at		
At the beginning of the year	1,054,651	19,278
At the end of the year	<u>55,272,003</u>	<u>1,054,651</u>

SARDA ENERGY & MINERALS HONG KONG LIMITED

沙達能源礦物香港有限公司

Notes to the financial statements
For the year ended 31 March 2010

1. General information

The Company is a private company domiciled and incorporated in Hong Kong with limited liability. Its immediate and ultimate holding company is Sarda Energy & Minerals Limited incorporated in India and their financial statements are available for public use. The addresses of the registered office and principal place of business of the Company are 5/F., Dah Sing Life Building, 99-105 Des Voeux Road Central, Hong Kong. The principal activities of the Company are financial instruments holding for investment purpose. The functional currency of the Company is United State dollars, but its financial statements are presented in Hong Kong dollars as the Company is registered in Hong Kong.

2. Statement of compliance with Hong Kong Financial Reporting Standards

The Company's financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which 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 requirements of the Hong Kong Companies Ordinance. A summary of significant accounting policies is set out in note 3.

In 2010, the Company has initially applied the following new standards and amendments to standards are first effective for accounting periods beginning on or after 1 January 2009, including:

HKAS 1 (revised)	Presentation of financial statements
HKFRS 7 (amendment)	Financial instruments: disclosures

The application of the above revised HKFRSs has no material effects on the Company's financial performance and positions.

3. Summary of significant accounting policies

The financial statements have been prepared on the historical cost basis and in accordance with HKFRS issued by the HKICPA, including applicable disclosures required by the Hong Kong Companies Ordinance.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the respective notes, if appropriate.

The followings are the specific accounting policies that are necessary for a proper understanding of the financial statements,

a. Equipment and fixtures

Plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses, if any.

Notes to the financial statements
For the year ended 31 March 2010

3. Summary of significant accounting policies (cont'd)

a. Equipment and fixtures (cont'd)

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

Furniture and fixtures	4 years
Office equipment	4 years

The residual value and the useful life of an asset are reviewed at least at each financial year-end.

The Company assesses at each reporting date whether there is any indication that any items of plant and equipment may be impaired and that an impairment loss recognised in prior periods for an item may have decreased. If any such indication exists, the company estimates the recoverable amount of the item. An impairment loss, being the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, or a reversal of impairment loss is recognised immediately in profit or loss.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

b. Financial instruments

Financial assets and financial liabilities are recognised when the Company 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.

(i) Financial assets

The Company's financial assets are classified as financial assets at fair value through profit or loss. All regular way purchases or sales of financial assets are recognised and derecognized on a trade date basis. Regular way 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 debt instrument 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

**Notes to the financial statements
For the year ended 31 March 2010**

3. Summary of significant accounting policies (cont'd)

b. Financial instruments (cont'd)

(i) Financial assets

Income is recognised on an effective interest basis for debt instruments other than financial assets classified as at fair value through profit or loss, of which interest income is included in net gains and losses.

Financial assets at fair value through profit or loss.

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company 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.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss 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 Company'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 or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated 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 incorporates any dividend or interest earned on the financial asset.

(ii) Financial liabilities and equity

Debt and equity instruments issued by a company entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Notes to the financial statements
For the year ended 31 March 2010

3. Summary of significant accounting policies (cont'd)

b. Financial instruments (cont'd)

(ii) Financial liabilities and equity (cont'd)

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Company's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value through profit or loss, of which interest expense is included in net gains and losses.

Financial liabilities at fair value through profit or loss.

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company 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.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability 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 Company'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 fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated 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 includes any interest paid on the financial liabilities.

Notes to the financial statements
For the year ended 31 March 2010

3. Summary of significant accounting policies (cont'd)

b. Financial instruments (cont'd)

(ii) Financial liabilities and equity (cont'd)

Other financial liabilities

Other financial liabilities (including borrowings, a loan from government, trade and other payables) are subsequently measured at amortised cost using the effective interest method.

- (iii) Accounts receivables are initially measured at fair value and, after initial recognition, at amortised cost less impairment losses for bad and doubtful debts, if any, except for the following receivables:

Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less impairment losses for bad and doubtful debt, if any; and

Short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount less impairment losses for bad and doubtful debt, if any.

At each balance sheet date, the Company assesses whether there is any objective evidence that a receivable or group of receivables is impaired. Impairment losses on trade and other receivables are recognised in profit or loss when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate, i.e. the effective interest rate computed at initial recognition. The impairment loss is reversed if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised.

- (iv) Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

For the purpose of cash flow statement, bank overdrafts which are repayable on demand form an integral part of the company's cash management are included as a component of cash and cash equivalents.

- (v) Accounts payables are initially measured at fair value and, after initial recognition, at amortised cost, except for short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount.

c. Provisions and contingent liabilities

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

Notes to the financial statements
For the year ended 31 March 2010

3. Summary of significant accounting policies (cont'd)

c. Provisions and contingent liabilities (cont'd)

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

d. Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases of assets are classified as finance leases when the leases transfer substantially all risks and rewards incidental to ownership of the assets to the company. All other leases are classified as operating leases.

e. Revenue recognition

- (i) Commission income arising from sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- (ii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.
- (iii) Revenue arising from disposal of investments available held for sale is recognised upon the signing of the sale and purchase agreement or the transaction has been completed, whichever is the later.

f. Income tax

Income tax for the year includes current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss, except to the extent that the tax arises from a transaction or event which is recognised directly in equity. In the case if the tax relates to items that are recognised directly to equity, current tax and deferred tax are also recognised directly to equity.

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or loss for a period.

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

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Notes to the financial statements
For the year ended 31 March 2010

3. Summary of significant accounting policies (cont'd)

f. Income tax (cont'd)

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

At each balance sheet date, the Company reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

g. Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of the Company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

h. Foreign currencies translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. At each balance sheet date, monetary assets and liabilities in foreign currencies are translated at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated at the foreign exchange rates ruling at the date when the fair value was determined. Exchange gains and losses are recognised in profit or loss.

4. Critical accounting estimates and judgement

The Company's management makes assumptions, estimates and judgements in the process of applying the Company's accounting policies that affect the assets, liabilities, income and expenses in the financial statements prepared in accordance with HKFRSs. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

Certain key assumptions and risk factors in respect of the financial risk management are set out in note 18. In the opinion of directors, there are no other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year.

SARDA ENERGY & MINERALS HONG KONG LIMITED

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**Notes to the financial statements
For the year ended 31 March 2010****4. Critical accounting estimates and judgement (cont'd)**

b. Critical judgements in applying the Company's accounting policies

In opinion of directors, there are no critical judgements in applying the Company's accounting policies.

5. Income

	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Held-for-trading investment (note 10)		
- interest income	33,020,083	16,929,497
- profit on disposals	109,226,811	7,553,792
- revaluation surplus	23,176,146	5,598,748
- revaluation loss	-	(9,344,869)
	<u>165,423,040</u>	<u>20,737,168</u>
Commission income	-	1,558,536
Call deposit interest income	2,403	-
Other income	-	39,000
	<u>165,425,443</u>	<u>22,334,704</u>

6. Finance costs

	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Loan interest paid for		
- secured bank loans (note 13)	7,174,978	10,456,886
- loan from ultimate holding company (note 14)	3,213,988	3,312,416
Bank charges	291,849	28,024
	<u>10,680,815</u>	<u>13,797,326</u>

7. Profit before tax

The profit before tax is arrived at after charging the following items,

	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Directors' remuneration		
- as directors	-	-
- salaries and allowance	-	-
	<u>-</u>	<u>-</u>
Staff cost		
- salaries and allowances	266,384	499,242
Auditor's remuneration	18,000	10,000
Depreciation	6,702	6,702
Hire of premises under operating leases	76,682	101,610
Exchange difference	<u>2,717,818</u>	<u>8,664</u>

SARDA ENERGY & MINERALS HONG KONG LIMITED

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**Notes to the financial statements
For the year ended 31 March 2010****8. Income tax expense**

The Company performed all its operations outside Hong Kong, therefore, in the opinion of directors, all profits or loss resulted from the operations of the Company should therefore not subject to Hong Kong profits tax by virtue of the Inland Revenue Ordinance. The directors are also of the opinion that the Company's activities outside Hong Kong and would not expose the Company to under tax imposed by any oversea tax authority. Consequently, no provision for Hong Kong profits tax to be carried forward, and also no deferred taxation is provided in the financial statements accordingly.

9. Equipment and fixtures

	<u>Office equipment</u> HK\$	<u>Furniture and fixture</u> HK\$	<u>Total</u> HK\$
Cost			
As at 1.4.2008	13,190	6,110	19,300
Addition during the year	6,183	-	6,183
As at 1.4.2009 and 31.3.2010	<u>19,373</u>	<u>6,110</u>	<u>25,483</u>
Aggregate depreciation			
As at 1.4.2008	3,297	1,528	4,825
Charge for the year	5,070	1,632	6,702
As at 1.4.2009	8,367	3,160	11,527
Charge for the year	5,070	1,632	6,702
As at 31.3.2010	<u>13,437</u>	<u>4,792</u>	<u>18,229</u>
Carrying value			
As at 31.3.2010	<u>5,936</u>	<u>1,318</u>	<u>7,254</u>
As at 31.3.2009	<u>11,006</u>	<u>2,950</u>	<u>13,956</u>

Depreciation is calculated on the straight line basis at the annual rate of 25%.

10. Held-for-trading investment

	<u>2010</u> HK\$	<u>2009</u> HK\$
Financial assets - straight and convertible bonds		
Acquisition at cost	926,549,009	706,199,133
Disposal during the year	(578,858,092)	(235,544,122)
Increase in revaluation (note 5)	23,176,146	5,598,748
Total fair value as at 31 March	<u>370,867,063</u>	<u>476,253,759</u>
Financial liabilities - loss on forward foreign exchange instruments valued at fair value (note 5)	<u>-</u>	<u>(9,344,869)</u>

Fair value are determined with reference to quoted market bid price.

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**Notes to the financial statements
For the year ended 31 March 2010****11. Account receivables**

	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Interest receivables	13,278,020	5,853,151
Commission receivables	167,957	323,784
Utility deposits and prepayment	210,501	41,228
Amount due from ultimate holding company	733,561	938,992
Amount due from a fellow subsidiary	<u>4,680,000</u>	<u>-</u>
	<u>19,070,039</u>	<u>7,157,155</u>

The amounts due from related companies are unsecured, interest free and repayable on demand. In the opinion of directors, no provision for recoverability is required for non-repayment of the amounts due. The information disclosed pursuant to section 161B of the Company are as follows,

Relationship	Sarda Energy & Minerals Ltd.	Sarda Global Venture Pte. Ltd.
	Ultimate holding company	Fellow subsidiary
	<u>HK\$</u>	<u>HK\$</u>
Balance at the beginning of the year	<u>938,992</u>	<u>-</u>
Balance at the end of the year	<u>733,561</u>	<u>4,680,000</u>
Maximum outstanding balance during the year	<u>938,992</u>	<u>4,680,000</u>

12. Accrued charges

	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Accrued expenses	282,880	317,356
Accrued interest for secured bank loan	2,750,586	3,422,521
Accrued interest for loan from ultimate holding company	<u>3,213,988</u>	<u>3,312,416</u>
	<u>6,247,454</u>	<u>7,052,593</u>

13. Secured bank loans

At 31 March 2010, all secured bank loans were repayable within one year and were secured by the held-for-trading investment (note 10) by the Company. In the opinion of directors, the Company should be able to obtain refinancing of the respective loans.

The banking facilities are subject to common lending arrangements with the banks. In case the Company contravened any condition of the arrangement or associated covenant, the outstanding balances of the facilities would become payable on demand.

14. Loan from ultimate holding company

The loan advanced is unsecured, interest bearing and repayable on demand.

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**Notes to the financial statements
For the year ended 31 March 2010****15. Share capital**

	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Authorized, issued and fully paid, 1,000,000 ordinary shares of HK\$1 each	<u>1,000,000</u>	<u>1,000,000</u>

16. Capital disclosure

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholder, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the year of 2008 and 2009.

The Company monitors capital using a gearing ratio, which is the Company's total liabilities over its total assets. The Company's policy is to keep the gearing ratio at a reasonable level. The Company's gearing ratio as at 31 March 2010 was 64.0% (2009: 98.2%).

17. Operating lease commitment

At 31 March 2010, the Company's total future minimum leases payment under non-cancellable operating leases of premises are payable as follows,

	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Within one year	<u>-</u>	<u>72,504</u>

18. Financial instruments

The Company has classified its financial assets in the following categories:

	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Loans and receivables:		
Account receivables (note 11)	19,070,039	7,157,155
Cash and cash equivalents	<u>55,272,003</u>	<u>1,054,651</u>
	74,342,042	8,211,806
Financial assets at fair value through profit or loss:		
Held-for-trading investment (note 10)	<u>370,867,063</u>	<u>476,253,759</u>
	445,209,105	484,465,565

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**Notes to the financial statements
For the year ended 31 March 2010****18. Financial instruments (cont'd)**

The Company has classified its financial liabilities in the following categories:

	<u>2010</u>	<u>2009</u>
	<u>HK\$</u>	<u>HK\$</u>
Financial liabilities at amortized cost:		
Accrued charges (note 12)	6,247,454	7,052,593
Secured bank loan (note 13)	257,000,588	319,912,833
Loan from ultimate holding company (note 14)	<u>21,876,228</u>	<u>139,620,000</u>
	285,124,270	466,585,426
Financial liabilities at fair value through profit or loss:		
Held-for-trading investment (note 10)	-	9,344,869
	<u>285,124,270</u>	<u>475,930,295</u>

The Company is exposed to credit risk, liquidity risk and market risk arising in the normal course of its business and financial instruments. The Company's risk management objectives, policies and processes mainly focus on minimizing the potential adverse effects of these risks on its financial performance and position by closely monitoring the individual exposure.

a. Credit risk

The Company is exposed to credit risk on financial assets, mainly attributable to investments available for sale and trade and other receivables. It sets limit on each investment portfolio and prior approval is required for any transaction exceeding that limit.

	<u>2010</u>	<u>2009</u>
	<u>HK\$</u>	<u>HK\$</u>
Summary quantitative data:		
Account and other receivables (note 11)	19,070,039	7,157,155
Cash and cash equivalents	<u>55,272,003</u>	<u>1,054,407</u>
	74,342,042	8,211,562

At 31 March 2010, the Company has no concentration of risk and the maximum exposure to credit risk is represented by the carrying amount of each financial assets. The age analysis of financial assets that are past due over during as at the reporting date but not impaired.

b. Liquidity risk

The Company is exposed to liquidity risk on financial liabilities. It manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Various banking facilities and credit lines have also been arranged with different banks in order to fund any emergency liquidity requirements. They all are past due later than 3 month and not later than 1 year.

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For the year ended 31 March 2010

18. Financial instruments (cont'd)

c. Market risk

i. Interest risk

The Company mainly holds fixed deposits with banks with maturity within 3 months and the exposure is considered not significant. It also invests in fixed rate debt securities. In consequence, no material exposure on fair value interest rate risk is expected. Even that, the Company closely monitors the fair value fluctuation of the investments and disposes of them in case of significant increase in interest rate is foreseen.

In order to manage the cash flow interest rate risk, the Company will repay the corresponding borrowings when it has surplus funds.

Summary quantitative data:	<u>2010</u>	<u>2009</u>
	<u>HK\$</u>	<u>HK\$</u>
Floating-rate financial assets		
Cash at bank	<u>55,272,003</u>	<u>1,054,651</u>

Sensitivity analysis:

At 31 March 2010, if interest rates at that date had been 100 basis points lower with all other variables held constant, the Company's profit for the year and retained earnings would have been HK\$552,720 (2009: HK\$5,370) lower, and other components of equity would have been HK\$552,720 (2009: HK\$5,370) lower.

At 31 March 2010, if interest rates had been 100 basis points higher, with all other variables held constant, the company's profit after taxation and retained profits would have been HK\$552,720 (2009: HK\$5,370) higher, and other components of equity would have been HK\$552,720 (2009: HK\$5,370) higher.

The sensitivity analysis has been prepared with the assumption that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the relevant financial instruments in existence at that date. The changes in interest rate represents management's assessment of a reasonably possible change in interest rates at that date over the period until the next annual balance sheet date.

ii. Currency risk

The Company conducted its business transactions mainly in US dollars, that exposes it to currency risk arising from such transactions and the resulting receivables and the payables.

The Company closely and continuously monitors the exposure on currency risk. Since HK dollars is pegged to US dollars, there is no significant exposure expected on US dollars transactions and balances.

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**Notes to the financial statements
For the year ended 31 March 2010****18. Financial instruments (cont'd)**

ii. Currency risk (cont'd)

c. Market risk (cont'd)

Summary quantitative data:	Others HK\$	US\$ HK\$	HK\$ HK\$	Total HK\$
<u>2010</u>				
Held-for-trading investment (note 10)	93,893,553	276,973,510	-	370,867,063
Account receivables (note 11)	5,219,533	13,116,945	733,561	19,070,039
Cash and cash equivalents	20,509,804	34,373,957	388,242	55,272,003
	<u>119,622,890</u>	<u>324,464,412</u>	<u>1,121,803</u>	<u>445,209,105</u>
Accrued charges (note 12)	34,714	5,941,435	271,305	6,247,454
Secured bank loan (note 13)	2,767,792	254,232,796	-	257,000,588
Loan from ultimate holding company (note 14)	-	21,876,228	-	21,876,228
	<u>2,802,506</u>	<u>282,050,459</u>	<u>271,305</u>	<u>285,124,270</u>
	<u>116,820,384</u>	<u>42,413,953</u>	<u>850,498</u>	<u>160,084,835</u>
<u>2009</u>				
Held-for-trading investments (note 10)	-	476,253,759	-	476,253,759
Account receivables (note 11)	32,892	6,185,272	938,991	7,157,155
Cash and cash equivalents	-	487,636	567,015	1,054,651
	<u>32,892</u>	<u>482,926,667</u>	<u>1,506,006</u>	<u>484,465,565</u>
Held-for-trading investment (note 10)	-	9,344,869	-	9,344,869
Accrued charges (note 12)	56,051	6,735,237	261,305	7,052,593
Secured bank loan (note 13)	-	319,912,833	-	319,912,833
Loan from ultimate holding company (note 14)	-	139,620,000	-	139,620,000
	<u>56,051</u>	<u>475,612,939</u>	<u>261,305</u>	<u>475,930,295</u>
	<u>(23,159)</u>	<u>7,313,728</u>	<u>1,244,701</u>	<u>8,535,270</u>

19. Capital commitment

As at 31 March 2010, the Company was committed to capital expenditure of HK\$23,400,000 (US\$ 3,000,000) for further investment in SSG Capital Partners I Feeder, L.P.

20. Material related party transactions

All the details of transactions and balances between the Company and related parties are disclosed elsewhere in the financial statements.