Enviro Energy
International Holdings Limited
環能國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1102)

Annual Report 2010

Extending Our Operational Reach

What We Do

EE is in the upstream hydrocarbons business which means we explore for, develop and produce hydrocarbons – the major and essential source of energy for the world today.

Our commodity focus includes:

Natural Gas	this low carbon energy source is widely used in North American and Europe and utilisation is expanding rapidly in Asia. China represents a huge and growing market for natural gas from all sources and domestic supplies are highly prized. New production techniques have expanded the natural gas supply possibilities to include coalbed methane and shale gas.
Petroleum	oil retains its vital role as the key energy source for transportation fuels and other products. The relative scarcity of new, large, high-quality petroleum projects means oil prices will remain high for the foreseeable future.
Coal	the main source of energy to produce electricity in Asia and an essential component of the steel industry, the major markets for coal in Asia include the largest economies: Hong Kong, Taiwan, Japan, Korea and China.

Our current and future projects will take advantage of the outstanding value creation potential of upstream hydrocarbons across the spectrum of commodities.

Contents

Energy From The Source

Hydrocarbons continue to retain the key role in energy supply worldwide and maintenance of the economic supply of hydrocarbons is among the great challenges for the world.

EE is at the centre of activity to find, develop, produce and deliver hydrocarbons to the huge, growing market in the Asia Pacific.

Continued corporate growth will come from the main sources of **Energy** – **Natural Gas, Petroleum, Coal** – including conventional and unconventional resources.

Natural Gas Petroleum Coal

Corporate Information

Executive Directors

Mr. Chan Wing Him Kenny
(Chairman & Chief Executive Officer)
Dr. Arthur Ross Gorrell

Independent Non-Executive Directors

Mr. David Tsoi
Mr. Lo Chi Kit
Mr. Tam Hang Chuen

Company Secretary

Ms. Mok Kam Sheung

Compliance Officer

Mr. Chan Wing Him Kenny

Authorised Representatives

Mr. Chan Wing Him Kenny
Ms. Mok Kam Sheung

Audit Committee Members

Mr. David Tsoi *(Chairman)*
Mr. Lo Chi Kit
Mr. Tam Hang Chuen

Remuneration Committee Members

Mr. Chan Wing Him Kenny *(Chairman)*
Mr. Lo Chi Kit
Mr. Tam Hang Chuen

Registered Office

Cricket Square, Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Unit 806, Level 8
Core D, Cyberport 3
100 Cyberport Road
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Independent Auditor

PricewaterhouseCoopers

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

Investor Relations

Mr. Ming Wong *(Investor Relations Director)*
email: ming.wong@enviro-energy.com.hk

Ms. Sharon Lee *(Corporate Communications Manager)*
email: sharon.lee@enviro-energy.com.hk

Public Relations

Strategic Financial Relations Limited

Company Website

www.enviro-energy.com.hk

Stock Code

1102. HK

Chairman's Statement

The capital expenditures we have made and continue to make are aimed at upstream hydrocarbons development where we see the best possible leverage for shareholders and where we understand the risk profile. The potential value in upstream developments remains very great.

Dear Shareholders,

I take pleasure in presenting the results for Enviro Energy International Holdings Limited ("**EE**" or the "**Company**", and together with its subsidiaries and jointly-controlled entity, the "**Group**") for the year ended 31 December 2010.

The year 2010 was a year that saw the major economies of the world slowly climb out of the recession of the previous period and while overall growth was frustratingly elusive, positive signs abounded including economic growth rates in the Asia Pacific region and in particular in the People's Republic of China ("**China**"). EE continues to focus on projects in China and overall results for the year were positive.

EE has a consistent business model underpinned by strategic principles that guide all our activities with the aim of growing shareholder value:

- **Disciplined Investment — Focus on Upstream Hydrocarbons:** provide the greatest investment leverage through resource discovery and development;
- **Emphasis on Shareholder Value:** drive high leverage capital investments, in both operated and non-operated projects;
- **Portfolio Optimisation:** maintain an active investigation and review of new project opportunities;
- **Resource and Reserve Growth:** create real value through discovery and development; illustrated by coalbed methane ("**CBM**") resource discovery and expansion; and
- **Research and Development:** commit to technology through participation in an appropriate scale of investment and with government support in selected advanced technology pilots.

We consistently applied these strategic principles during the past year and the key segments of our business in conventional petroleum and unconventional natural gas met performance goals for the year. The growth in EE's discovered CBM resources reflects our objective to create value in the upstream, where shareholders traditionally have the greatest leverage and where we best understand the risk profile.

Energy is the life blood of modern economies and we expect world energy demand, including demand in the Asia Pacific to continue to expand, driven by population growth and increasing prosperity across the region especially in areas such as China. Global investments in energy supply and infrastructure are expected to continue at a high pace, constrained only by the number of good opportunities.

We expect to see a strong emphasis on natural gas and view the situation in North America which has seen massive growth in natural gas production as demonstrating the value of upstream investments and the positive impact of new technologies. The North American shale gas developments now seem likely to impact global trade in liquefied natural gas ("**LNG**") as the continent has become not only self-sufficient in gas but looks to become an exporter. Large-scale LNG export project concepts emerging in the United States and Canada, actually reversals of proposed import projects, are being redesigned to export gas to Asia, including China. Such multi-billion dollar project schemes join projects proposed in Australia and elsewhere conceived to deliver gas to rapidly expanding gas market represented by China.

The investment activity provides acknowledgement of the soundness of EE's strategic principles and business model with recent focus on China. Certainly it demonstrates the exceptional value potential of our large-scale natural gas project located within China, on existing, operating infrastructure.

With such strong demand growth and demonstrated investments by the global majors, capital markets are showing intense interest in and support for the types of projects fostered by EE. I foresee great investment opportunities ahead, and over the next five years I expect EE will invest at record levels in order to deliver new projects and profitable growth.

EE's progress was clearly acknowledged during the year as it moved up to a main board listing on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") reflecting continuing corporate maturity and acceptance by the global financial community. The Stock Exchange is assisting Hong Kong's evolution to become the leading resource industry finance market in the world and we are pleased to be a participant.

None of our achievements would be possible without the talented, dedicated team of professionals who drive our success through their ingenuity and high standards. I would also take this opportunity to express my appreciation to our valued partners and business associates as well as you the shareholder for their and your encouraging support.

As the world emerges from the economic downturn and moves forward into an improved business environment, EE continues to look beyond today's circumstances to focus on the long term and opportunities that will ensure exceptional performance and profitable outcomes for shareholders.

CHAN Wing Him Kenny
Chairman and Chief Executive Officer

Hong Kong, 1 April 2011

Milestones

Main Board Listing Ceremony

The Hong Kong Stock Exchange has raised the disclosure-based standards for mineral companies consistent with other international stock exchanges.

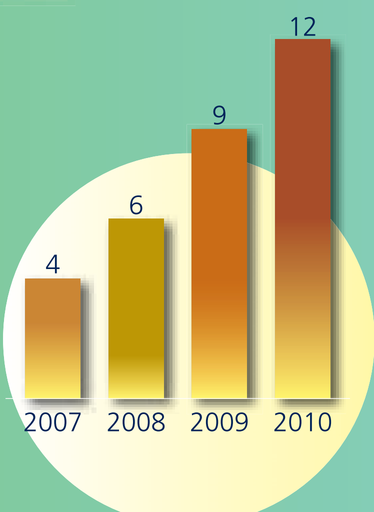
This marks the beginning of the evolution of the Hong Kong Stock Exchange toward being the world's largest mining and resource finance market.

EE is now set to emerge as a major international upstream hydrocarbons producer.

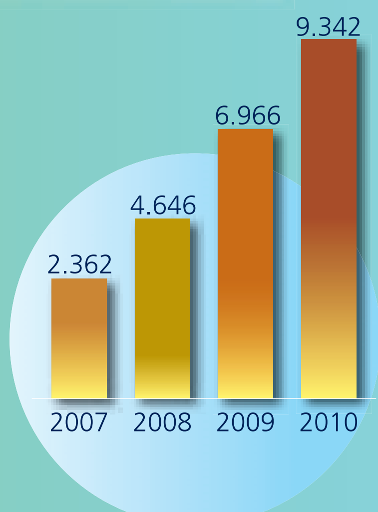
Achievements 2007–2010

CBM Operating Achievements 2007–2010

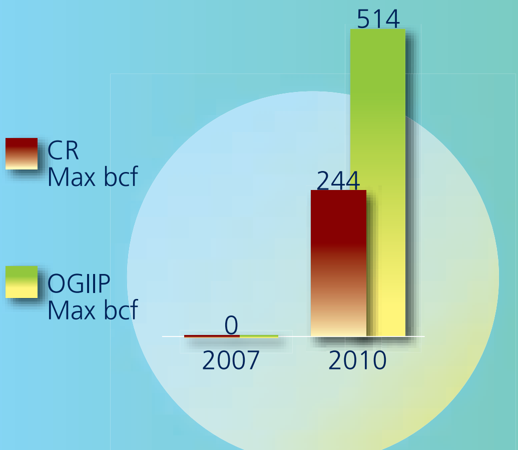
Wells Drilled



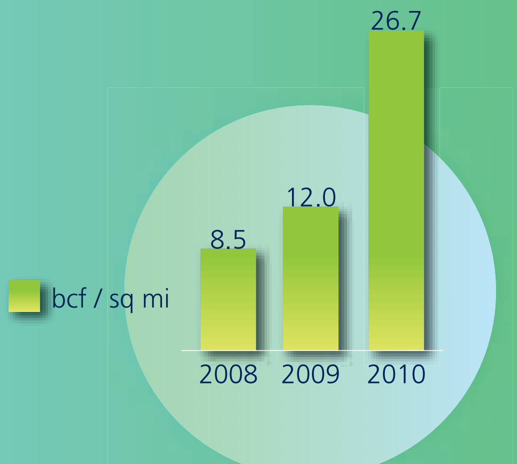
Metres Drilled (Thousands)



Discovered CBM Resources
(Billion Cubic Feet — Gross)



Measured CBM Potential
(Billion Cubic Feet)



BRIGHT FUTURE

Multi-Pronged Upstream Strategy

- Natural Gas
  - – CBM
  - – Shale Gas
- Oil
- Coal

EE is a rapidly growing up-stream petroleum and natural gas development company listed in Hong Kong. With a world-class management team at the helm, we aim to build shareholder value by exploring for, developing and producing energy resources while pioneering innovative high-tech exploration and enhanced-recovery production technologies to reduce greenhouse gas emissions.

Management Discussion and Analysis

Looking ahead, the Group's future business development objective remains unchanged with a focus on revenue generating, advanced yet low-risk energy development investment projects as well as opportunities in natural gas, petroleum and coal in the PRC and overseas.

We are principally engaged in investment holding and development of environmental energy-related projects involving conventional oil, unconventional natural gas and state-of-the-art oil and gas related environmental technologies.

Business review

Conventional crude oil business

EE indirectly owns 50% of Qian An Oil Development Co., Ltd. ("**Qian An**"), an equity joint venture company established in China. The other 50% of the equity interest of Qian An is beneficially owned by PetroChina Company Limited ("**PetroChina**"), whose "H" shares and American depository shares are listed on the Stock Exchange and the New York Stock Exchange, Inc., respectively. Qian An is principally engaged in exploitation of petroleum resources activities and production of petroleum.

During the year ended 31 December 2010, the crude oil price in China continued to maintain at a level ranging between approximately US$79 to US$91 per barrel. PetroChina, being the operator of the two oilfields of Qian An, namely Qian Shen 12 and Qian 209, continued to maintain annual production levels of approximately 114,000 barrels, representing a daily production of approximately 312 barrels.

The oilfield block at Qian An covers an area of approximately 15 square kilometres with an estimated original oil in place of approximately 21.7 million barrels and remaining recoverable reserves amounting to approximately 5 million barrels. Given its expertise in upstream energy business, the management held several meetings with PetroChina during the year ended 31 December 2010 on reviewing methods that could result in increases in proven reserves, oil recovery and production at the Qian An oilfields. Discussions are expected to continue in the year 2011.

Unconventional natural gas business

As at 31 December 2010, EE held approximately 64.98% of the current issued common shares and preferred shares in the capital of TerraWest Energy Corp. ("**TWE**"), or approximately 74.25% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis, respectively. As disclosed in more details in the Company's announcement dated 26 July 2010, the controlling interests of the Company, through its wholly-owned subsidiaries, in TWE will further increase to approximately 82.29% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis, upon completion of the said subscription and assuming all warrants are exercised in full.

TWE holds a 47% interest in a CBM production sharing contract ("**PSC**"), which is located in the southern Junggar Basin of Xinjiang Uygur Autonomous Region ("**Xinjiang**"), China. TWE is the operator of the project which covers approximately 653 square kilometres (255 square miles or 163,200 acres). China United Coalbed Methane Corporation Limited ("**CUCBM**") holds 53% of the PSC which is now administered by PetroChina Coalbed Methane Co. Ltd., an indirect subsidiary of China National Petroleum Corporation ("**CNPC**").

In November 2010, the State Council of China granted CNPC, as one of the pilot corporations, the right to participate in CBM PSC's within the authorised area in China approved to CNPC by the State Council of China in cooperation with foreign entities. Such right was previously held exclusively by CUCBM.

TWE formally reported for the PSC first discovered CBM resources during the year with the issuance of a third party independent assessment of the CBM resources in a certain part of the PSC. The independent third party calculated (gross) discovered gas initially in place ("**Discovered GIIP**") and CBM Contingent Resources according to the Canadian NI51-101 standard of resource reporting. The maximum estimate showed Discovered GIIP of 0.514 trillion cubic feet ("**Tcf**") (approximately 14.3 billion cubic metres) and Contingent Resources of 0.244 Tcf for the evaluation area which covers approximately 30 square kilometres or approximately 5% of the total PSC area. The evaluation included specific coal seams from two target formations but did not include other gas-bearing rocks in the formations. The latest independent third party report was dated 3 November 2010 which was disclosed in the circular of the Company dated 9 December 2010 in relation to the transfer of listing of its shares from the Growth Enterprise Market ("**GEM**") to the Main Board of the Stock Exchange ("**Transfer**"). As at 31 December 2010, TWE was not aware of any material adverse change to such assessment.

During the year ended 31 December 2010, TWE initiated a program of evaluation utilising pilot production wells. The 2010 program involves drilling and production testing of up to ten pilot production wells. The wells are planned to produce CBM from target coal seams as well as natural gas from shale. Drilling was initiated in late September 2010 using three drilling rigs and three wells were drilled to total depth, logged and cased prior to the onset of winter weather. The 2010 program also included further testing of the LHG 08-01 well and the initiation of testing at the LHG 08-03 well. Water and CBM, which was flared, were produced. As wells complete initial testing the data will be compiled by EE's production engineers for reservoir modeling. When a pilot production well completes initial testing, operations are suspended pending decisions on further work which may include fracture stimulation of coal seams.

Cooperative relations

TWE works cooperatively with Xinjiang Oilfield Company ("**XOC**"), the Xinjiang operating affiliate of CNPC and PetroChina. TWE was offered and accepted the opportunity to sample target formation rocks taken from a deep exploration well drilled by XOC which will provide excellent additional data for future work. In January 2011, TWE provided a CBM geology and drilling seminar to personnel of XOC and various contractors in Karamay, Xinjiang.

Advanced production technologies

The Deep Unmineable Coal Carbon Dioxide ("**CO_2**") Sequestration and Enhanced CBM Production Project ("**JV Project**") operated under the cooperative joint venture agreement dated 25 January 2008 ("**JV Agreement**") between EE, CUCBM and Petromin Resources Ltd. ("**Petromin**") continued to move ahead as planned during the year ended 31 December 2010. The JV Project is a single-well pilot project that involves injecting CO_2 into target coal seams to test the CO_2 sequestration and storage capacity of the coal seams and then testing enhanced CBM ("**ECBM**") production. Pursuant to the JV Agreement, CUCBM, as operator, holds 60% participating interest in the JV Project, while EE and Petromin each holds a 20% participating interest.

During the year, the CO_2 injection and ECBM pilot production test was completed as planned with the successful injection of CO_2 followed by ECBM production. Reservoir data collection and analysis followed the testing. Reservoir simulation work and final analysis was ongoing at year-end and full test results and the plan for next steps will follow in the year 2011.

The JV Project is located in CUCBM's Shizhuang North block in the Qinshui Basin of Shanxi Province, China. The Qinshui Basin is one of the more prolific CBM producing regions in China and the coal seams in the basin are prospective for ECBM production. The pilot test area covers 1,152 acres (466 hectares or 5 square kilometres) within an area of 50 square kilometres of the North Shizhuang block where CUCBM exclusively holds 100% of CBM rights and which is a target area for a future multi-well expansion.

The CO_2 injection is the first ever such activity in China to be undertaken under leadership of state-owned and private enterprises while being assisted by support and funding from the Chinese and Canadian governments. As previously reported, the JV Project has received matching funding support from the Canadian government under the auspices of the Asia-Pacific Partnership on Clean Development and Climate and has also received significant support from the Ministry of Science and Technology of China.

Business prospects

Conventional crude oil business

The Company's outlook for the crude oil business is positive for demand and price level.

Crude Oil Price: West Texas Intermediate ("**WTI**") oil prices rose steadily during the closing month of 2010 and closed at US$91 per barrel on 31 December after beginning the year at US$79 per barrel. This range exceeded expectations for the year as political turmoil began to emerge in the Mideast region late in 2010.

The US Energy Information Agency ("**EIA**") expects the price of WTI crude oil to average about US$102 per barrel in 2011 based on an expectation of continuing unrest in Libya and potentially other parts of the region. This forecast represents a US$9 per barrel increase over previous EIA short term estimates and reflects the dynamic situation in Egypt, Tunisia, Libya and elsewhere in the region. EIA's forecast assumes the United States gross domestic product ("**GDP**") grows by 3.3% in 2011, while world oil-consumption-weighted GDP grows by 3.8%.

The global oil market outlook remains largely unchanged from the previous few months in terms of demand and demand growth is based on expectations of continuing emergence of major economies from the recessionary environment of the previous period. Market tightening expectations are based on the potential for supply interruptions from the Mideast which if either eased or worsened will affect short term price levels.

The global economic outlook also remains substantially unchanged, with Asian countries showing positive economic growth and China maintaining its leading growth position. World oil prices had been expected to rise gradually as global economic growth lead to higher global oil demand and supply from non-OPEC oil countries lessened in 2011. The price volatility in 2011 will be greater than previously expected based on the political turmoil in the Mideast and the potential for larger price swings has increased.

Notwithstanding the short terms market fluctuations, EE continues to interpret the basic global and regional situation in petroleum as supporting its continued involvement in the upstream petroleum business in China and EE continually assesses opportunities for increased shareholder value from current operations.

Unconventional natural gas business

Unconventional natural gas is that category of natural gas which requires advanced production technologies when compared to conventional methods including sophisticated well completions and fracture stimulation processes. The category includes CBM and shale gas in addition to other sources. Unconventional natural gas has gained the spotlight internationally as shale gas production ramped up rapidly in North America leading to a balance in continental natural gas supply and demand and a potential oversupply such that price levels decreased and imports of LNG were negatively impacted. Both Canadian and United States suppliers now propose to export natural gas to international markets which represents a reversal of the previous situation.

China is considered one of the world's largest and fastest growing consumer markets for natural gas based on economic growth and government mandates to increase non-coal energy supply. At present China is not self sufficient in natural gas but holds the largest estimated CBM resources (and potentially other unconventional natural gas) in the world. Looking ahead, forecast demand for natural gas outstrips expected domestic supply in China by a wide margin and development of CBM and other unconventional natural gas resources is highly sought after, encouraged and supported by the central government. The demand/supply imbalance, current and future demand growth rates with the resulting need for imports have led to significant upward retail and wellhead natural gas price levels in the country. Domestic wellhead prices were increased 25% across the board during 2010 which will help spur continued domestic gas exploration, including for CBM and other unconventional natural gas sources. Exploration activity in the country has increased with global majors such as Shell and BP Plc undertaking new projects in various parts of the country.

During 2010 the central government of China also introduced new economic development policies for Xinjiang which have resulted in substantial increases in infrastructure construction and other investments accelerating economic development, including energy resource development. A specific target for such an economic policy is unprecedented in China.

TWE holds the first CBM PSC in the Junggar Basin, considered to be among the most prospective regions in China for CBM and other unconventional natural gas. The Junggar Basin is connected to the national natural gas pipeline grid of China via both the national 1st and 2nd West-East pipelines and the outstanding potential of the region is reflected in the fact that other large corporations are being attracted to invest, including BP Plc and Dart Energy Limited (formerly the international operating subsidiary of Arrow Energy Limited) which are beginning to undertake unconventional natural gas exploration there. EE continues to consider that unconventional natural gas exploration and development holds great potential for value creation.

International shale gas and CBM developments

Growth of shale gas production has been most significant in the United States to date, with shale gas production increasing eight times over the past decade. Shale gas production, accounting for approximately 14% of total domestic gas production in the United States and expected to grow to 45% by 2035 now exceeds CBM production which is currently at approximately 8%. The increase in technically recoverable (unproved) shale gas resources is staggering with EIA indicating that the estimate has increased to 827 Tcf from the 480 Tcf estimated in 2009. It is this resource estimate upon which forecast production estimates have been increased including production from the lower 48 states, which hold the major market regions of North America.

Management Discussion and Analysis

These vast resource figures continued to attract large-scale corporate investments in 2010. In early October, CNOOC China's offshore petroleum industry operator, paid US$1.1 billion plus committed to spend another US$1.1 billion for a stake in Chesapeake Energy Corp.'s Eagle Ford shale gas play, paying equivalent to US$10,100 per acre. Subsequently in early November, the global integrated energy corporation Chevron Corp. took an interest in Marcellus Basin shale with the acquisition of Pittsburgh-based Atlas Energy Inc. for US$4.3 billion in cash and debt, equivalent to US$14,360 per acre according to industry analysts.

PetroChina concluded a US$5.3 billion deal with Canada's EnCana Corporation to joint venture shale gas exploration, development and production in Canada. The deal includes current production and facilities and the parties plan to consider export possibilities from Canada's west coast to Asia.

The Liuhuanggou PSC covers an area of 163,200 acres and TWE's net interest of approximately 76,700 net acres in Xinjiang indicates to the board ("**Board**") of directors ("**Directors**") that its prospective shale gas play in China has significant potential value.

Financial review

Oil and gas segment

Conventional crude oil business

During the year ended 31 December 2010, the crude oil price in China continued to maintain at a level ranging between approximately US$79 to US$91 per barrel. PetroChina, being the operator of the two oilfields of Qian An, namely Qian Shen 12 and Qian 209, produced an aggregate of approximately 114,000 barrels (for the year ended 31 December 2009: 113,000 barrels), representing a daily production of approximately 312 barrels (for the year ended 31 December 2009: 308 barrels). As EE indirectly owns 50% of Qian An, the Group recorded an overall share of profit of Qian An for the year ended 31 December 2010, after taking into account depreciation and tax considerations, amounting to approximately HK$1.0 million (for the year ended 31 December 2009: loss of HK$3.3 million).

As at 31 December 2010, the management carried out a review of the recoverable amount of its interests in Qian An and did not consider an impairment loss to be necessary (for the year ended 31 December 2009: impairment loss of HK$59.7 million).

Unconventional natural gas business

During the year ended 31 December 2010, EE's unconventional natural gas businesses were still in exploration and evaluation phases.

For the year ended 31 December 2010, the capital expenditure incurred for EE's unconventional natural gas businesses amounted to approximately HK$29.7 million. TWE initiated the 2010 program in September 2010, which involves drilling and production testing of up to ten pilot production wells. Once the results of the pilot production are available, which are expected to be in the first half of 2011, TWE will start finalising off-take arrangements with local gas suppliers and/or owners of the national pipelines. TWE also expects to initiate the regulatory approval process of the overall development plan once preliminary transportation and sales arrangements are in place, which is expected to be in the second half of 2011. TWE's plan is to follow the pilot CBM production with the development of a 30 wells CBM production project beginning in the first quarter of 2012. The project would represent the initial stage of a larger commercial development.

Information technology ("IT") and network infrastructure segment

During the year ended 31 December 2010, EE continued focusing its resources on energy-related business. The Group's revenue generated from its IT related businesses for the year ended 31 December 2010 amounted to approximately HK$0.4 million (for the year ended 31 December 2009: HK$0.3 million).

Administrative and operating expenses

For the year ended 31 December 2010, administrative and operating expenses amounted to approximately HK$101.8 million (for the year ended 31 December 2009: HK$44.1 million), representing an increase of approximately 131%. The significant increase was mainly due to (i) the increase in consultancy fees paid to consultants who have sourced and introduced professional investors to the Company and who have built and maintained good relationships with these investors; (ii) the increase in staff costs and bonuses, including Directors' emoluments; (iii) the impairment loss of available-for-sale investment of approximately HK$2.6 million; (iv) the provision for the amount due from Qian An of approximately HK$20.4 million; and (v) the increase in share-based payment expenses.

As at 31 December 2010, amount due from Qian An amounted to approximately HK$20.4 million. The management carried out an assessment on the recoverability of such amount. Since the amount has been outstanding for a prolonged period and the timing of the repayment remains uncertain, the management has decided to make a full provision for such amount in its consolidated income statement for the year ended 31 December 2010.

During the year ended 31 December 2010, share-based payment expenses amounting to HK$5.8 million in relation to share options granted to employees of the Group was charged to the consolidated income statement (2009: HK$2.0 million). The share-based payment expenses in relation to share options granted to non-employees amounted to HK$18.3 million, of which HK$15.0 million (2009: HK$2.5 million) was recorded as investor relations expenses and HK$3.3 million (2009: Nil) was recorded as technical consultancy expenses in the consolidated income statement. These non-employees mainly comprise (i) independent consultants who will assist in the marketing and promotion of EE in terms of investors' relations; and (ii) independent expert industry consultants who will provide advices in relation to the technical aspects of EE's energy-related businesses.

Other comprehensive income

During the year ended 31 December 2010, exchange differences mainly arising on translation of the Canadian operation amounted to approximately HK$42.9 million (2009: HK$109.0 million) because the Canadian dollar ("**C$**") increased by approximately 5.3% against the Hong Kong dollar ("**HK$**"), when translating the carrying value of EE's Canadian subsidiary, namely TWE.

Loss attributable to equity holders of the Company

As a result of the above-mentioned factors, loss attributable to equity holders of the Company for the year ended 31 December 2010 amounted to approximately HK$97.1 million (for the year ended 31 December 2009: HK$106.6 million).

Liquidity and financial resources

For the year ended 31 December 2010, EE mainly financed its operations with funds raised from previous share placements, including the top-up placement in October 2010 which EE raised net proceeds of approximately HK$154.0 million. As at 31 December 2010, the Group had bank balances and cash of approximately HK$155.8 million (as at 31 December 2009: HK$79.5 million). The Group's current ratio stood at approximately 3.4 as at 31 December 2010 (as at 31 December 2009: 2.5).

EE adopts conservative treasury policies in managing its cash and financial matters, with the treasury activities mainly carried out in Hong Kong. Currently, bank balances and cash are placed in interest-bearing bank accounts denominated in HK$, United States dollars ("**US$**") and C$. EE's financial risk management objectives and policies are reviewed regularly by the Board.

As at 31 December 2010, the Group had net assets of approximately HK$981.6 million (as at 31 December 2009: HK$854.7 million). The increase was mainly due to the increase in oil and gas properties for the unconventional natural gas business under TWE.

As at 31 December 2010, the Group continued to maintain a debt-free capital structure.

As at 31 December 2010, the Group had no payables incurred which were not in the ordinary course of business and accordingly its gearing ratio was nil (as at 31 December 2009: Nil).

Charge on group assets

As at 31 December 2010, the Group did not have any charge on its assets (as at 31 December 2009: Nil).

Foreign exchange exposure

EE mainly earned revenue and incurred costs in HK$, Renminbi, C$ and US$. Risk exposure to fluctuation in exchange rates was insignificant to the Group despite there was fluctuation in the exchange rate between US$ and C$. The Directors and senior management will continue to monitor closely the exchange risk by entering into forward contracts and utilising applicable derivatives to hedge out the exchange risk when necessary.

Significant investments and future plans for material investments

During the year ended 31 December 2010, EE did not make any significant investments or future plans for material investments. EE will continue to explore new opportunities in energy-related projects and to look for potential investments in China and overseas.

Material acquisitions and disposals of subsidiaries and affiliated companies

On 25 July 2010, Aces Diamond International Limited ("**Aces Diamond**") entered into a subscription agreement with TWE pursuant to which Aces Diamond has agreed to subscribe for 90 million units of TWE ("**Subscription**") at a subscription price of C$4.5 million (equivalent to approximately HK$33.3 million). As at 31 December 2010, Aces Diamond has completed part of the Subscription and the Group's controlling interests in TWE represent approximately 64.98% of the then issued common shares and preferred shares in the capital of TWE or approximately 74.25% of the then issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis, respectively.

TWE has remained a subsidiary of EE after the above transaction. Therefore, the difference between the consideration paid and the share of the carrying value of the net assets of TWE acquired of approximately HK$27.3 million has been recorded in equity.

Save as disclosed above, there were no other material acquisitions and/or disposals which would have been required to be disclosed under the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

Capital commitments

As at 31 December 2010, the Group had capital commitments amounting to approximately HK$9.2 million (as at 31 December 2009: HK$11.5 million).

Contingent liabilities

As at 31 December 2010, the Group had no contingent liabilities (as at 31 December 2009: Nil).

Employees' information

As at 31 December 2010, the Group had 21 full-time employees (as at 31 December 2009: 22) working in Hong Kong, China and Canada. EE remunerates its employees based on their performance, experience and the prevailing industry practice.

In addition to regular remuneration, share options may be granted to selected staff with reference to EE's performance as well as the individual's performance. Other benefits, such as medical and retirement benefits and training programs, are also provided.

Corporate Governance Report

The Company is committed to attaining and maintaining a high standard of corporate governance, the principles of which are to uphold integrity, transparency and accountability in all aspects of business and to ensure that affairs are conducted in accordance with applicable laws and regulations. It believes that good corporate governance is fundamental to the success of the Company and to the enhancement of shareholders' value. The Company applied the principles of, and complied with, the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("**CG Code**") set out in Appendix 15 to the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rules**") and Appendix 14 to the Listing Rules throughout the year ended 31 December 2010, except for certain deviations as explained below. The Board will review the current practices at least annually, and make appropriate changes if considered necessary.

Directors' securities transactions

On 23 March 2009, the Company adopted a revised code of conduct regarding directors' securities transactions ("**2009 Code**") on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. On 17 December 2010, the Company transferred the listing of its shares from GEM to the Main Board of the Stock Exchange. On the same day, the 2009 Code was revoked and a new code of conduct regarding directors' securities transactions based on the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules was adopted as the model code of the Company ("**2010 Model Code**") in replacement of the 2009 Code. Having made specific enquiry with all Directors, the Directors have complied with the 2009 Code and the 2010 Model Code throughout the year ended 31 December 2010.

Board of directors

As at the date of this report, the Board comprised five Directors, including two executive Directors, namely Mr. Chan Wing Him Kenny, the Chairman and Chief Executive Officer ("**CEO**") of the Company, and Dr. Arthur Ross Gorrell, and three independent non-executive Directors ("**INEDs**"), namely Mr. David Tsoi, Mr. Lo Chi Kit and Mr. Tam Hang Chuen. Biographical details of the Directors are set out in the Directors, International Advisory Board and Senior Management Profile section on pages 24 to 27 of this report.

After the Transfer, the Board meets regularly and at least twice a year. The Board held eight meetings during the year ended 31 December 2010. The attendance of individual Directors at Board and Board committee meetings during 2010 is set out in the following table:

	Meetings attended/eligible to attend (Note)		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Chan Wing Him Kenny	8/8	—	2/2
Arthur Ross Gorrell	8/8	—	—
Independent Non-executive Directors			
David Tsoi	8/8	5/5	—
Lo Chi Kit	8/8	5/5	2/2
Tam Hang Chuen	8/8	5/5	2/2

Note: Directors may attend meetings in person, by phone or through other means of electronic communication in accordance with the Company's articles of association ("**Articles of Association**").

During the year ended 31 December 2010, the Directors also participated in the approval of routine and operational matters of the Company by way of written resolutions circulated to them together with supporting documents and briefings from the Chief Financial Officer or the Company Secretary of the Company ("**Company Secretary**"). The Directors receive at least 14 days' prior written notice of a regular meeting and may propose matters for discussion to be included in the agenda. The agenda together with board papers are sent to the Directors at least three days prior to a regular meeting.

Board of directors *(Continued)*

The Board, led by the Chairman and CEO, is collectively responsible for overseeing the management of the business and affairs of the Group with the objective of enhancing shareholders' value. The Board approves and monitors the Group's business strategies and policies. The Board is also responsible to the shareholders for overseeing the Group's overall business, strategic decisions and directions, annual budget, and other major corporate matters. Besides, the Board delegated the management team with the authority and responsibility for the daily operations and administration of the Group.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed. The Board is briefed on all legislative, regulatory and corporate governance developments and the Board has regard to them when making decisions. The Company Secretary, together with the Board, are also directly responsible for the Group's compliance with the continuing obligations of listed issuers under the Listing Rules, the Codes on Takeovers and Merges and Share Repurchases, the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("**SFO**") and other applicable laws, rules and regulations.

Throughout the year ended 31 December 2010, the Board at all times met the requirements of the GEM Listing Rules and the Listing Rules relating to the appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise. In addition, more than one-third of the composition of the Board consisted of INEDs, so there is strong element of independence in the Board to exercise independent judgment. The Company has received from each INED an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the INEDs met the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with terms of the guidelines. To the knowledge of the Directors, the Board members have no financial, business, family or other relationships with each other.

Chairman and chief executive officer

The Board is led by the Chairman and CEO, Mr. Chan Wing Him Kenny, who is responsible for corporate planning, business development strategy and overall direction of the Group. Mr. Chan is also responsible for management of the Board and the day-to-day management of the Group's business. Mr. Chan is assisted by the Senior Vice President of the Company in strategic planning and business development in relation to all coalbed methane and related activities. Mr. Chan is also assisted by the Chief Financial Officer in financial management, internal control, financial reporting, financing and investor relations and the General Counsel in legal and regulatory compliance.

Under Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chan Wing Him Kenny, an executive Director, has served both roles as the Chairman of the Board and the CEO of the Company since May 2008. The Board is of the view that this has not compromised accountability and independent decision-making for the following reasons:

- the INEDs form the majority of the Board;
- the audit committee of the Company composed exclusively of INEDs; and
- the INEDs have free and direct access to the Company's external auditors and independent professional advisers when considered necessary.

Appointment and re-election of directors

All Directors, including the INEDs are appointed for a specific term of three years for executive Directors and two years for INEDs. All Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Articles of Association and the CG Code.

Nomination of directors

As the Board as a whole is responsible for reviewing the Board composition, selection and approval of candidates for appointment as directors to the Board, the Company has not set up a nomination committee in accordance with recommended best practices under the CG Code. In considering the nomination of a new director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates. Any newly appointed director to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. The Board will review its composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Independent auditors' remuneration

During the year ended 31 December 2010, the independent auditors provided the following audit and permissible non-audit services to the Company:

	2010 **HK$'000**	2009 HK$'000
Audit for current year	**1,580**	1,500
Under-provision in prior year	**798**	—
Audit-related services	**281**	—

Board committees

The Board has established several committees. The authority and duties of the audit committee of the Company ("**Audit Committee**") and remuneration committee of the Company ("**Remuneration Committee**") are set out in written terms of reference which are of no less exacting terms than those set out in the CG Code and are posted on the Company's website. All committees are provided with sufficient resources to discharge their duties. On 17 December 2010, the terms of reference of the Audit Committee were revoked and new terms of reference based on the CG Code of the Listing Rules were adopted in replacement of the former terms of reference. The terms of reference of the Remuneration Committee are still in compliance with the Listing Rules and therefore it was not necessary to adopt new terms of reference of the Remuneration Committee.

Management committee

The management committee of the Board ("**Management Committee**"), which comprises two executive Directors, namely Mr. Chan Wing Him Kenny and Dr. Arthur Ross Gorrell, operates as a general management committee with overall delegated authority from the Board. The Management Committee manages the daily operation of the Company and reports through the Chairman to the Board. The Management Committee meets regularly to review operational matters across the Group and to set overall objectives and policies.

International advisory board

The Company established an international advisory board ("**International Advisory Board**") on 1 September 2009. Its purpose and functions are to provide expert advice to the Board and senior management of the Company in specific areas including, among others, the following:

- sustainable energy development and related technologies;
- new business development;
- specialised expertise in science, economics and engineering;
- diplomacy and international affairs;
- international law; and
- global finance.

International advisory board *(Continued)*

The Board anticipates that the International Advisory Board will contribute to the enhancement of the Company's growth and the creation of shareholders' value through the provision of expert advice in specific areas.

The International Advisory Board currently comprises one member, namely Dr. William D. Gunter who meets regularly with the Board and the senior management of the Company to discuss and advise on the above areas. The Company continues to identify candidates to be appointed as additional members to the International Advisory Board and will publish an announcement in respect of any new appointment in due course.

Audit committee

The Audit Committee comprises three INEDs, namely, Mr. David Tsoi, Mr. Lo Chi Kit and Mr. Tam Hang Chuen, with Mr. Tsoi as the chairman.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and the effectiveness of the Group's internal controls and risk management. The Audit Committee meets at least twice a year in reviewing the interim and annual reports of the Company before submission to the Board for approval. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with the accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The Audit Committee meets regularly with management and external auditors and reviews their reports. During the year ended 31 December 2010, the Audit Committee met five times in reviewing the quarterly, interim and annual reports of the Company before submission to the Board for approval. The record of attendance of each member at the committee meetings is set out on page 19 of this report.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the committee for their comments and records, in both cases within a reasonable time after the meetings.

Remuneration committee

The Remuneration Committee currently comprises one executive Director, namely Mr. Chan Wing Him Kenny as the chairman and two INEDs, namely Mr. Lo Chi Kit and Mr. Tam Hang Chuen, as members. The principal responsibilities of the Remuneration Committee include the formulation of the Group's remuneration policy, the approval and recommendation to the Board of remuneration packages for the Directors and senior management, and the review and approval of remuneration by reference to the performance of individuals and the Group as well as prevailing market practice and conditions.

Two meetings of the Remuneration Committee had been held during the year ended 31 December 2010 for reviewing and approving the year-end bonus for 2009 and 2010 and the remuneration package for certain Directors and senior management. During the process, no individual Director was involved in decisions relating to his own remuneration. The record of attendance of each member at the committee meetings is set out on page 19 of this report.

Certain Directors and employees were granted bonus and share options under the Share Option Scheme (hereinafter defined) determined in accordance with the performance of the Group and the grantees.

Accountability and audit

The Board acknowledges its responsibility for preparing the consolidated financial statements of the Group and ensures that the consolidated financial statements have adopted the accounting principles generally accepted in Hong Kong and complied with the requirements of the Hong Kong Financial Reporting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Companies Ordinance and the Listing Rules.

The statement of the auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report section of this report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Internal controls

The Board has overall responsibilities for maintaining an adequate and effective internal control system and for reviewing its effectiveness to safeguard the Group's assets against unauthorised use or disposition, and to protect the interests of shareholders. The Board through the Audit Committee had conducted an annual review on the system of internal control and risk management in respect of the year ended 31 December 2010. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group. The results of the review for the year ended 31 December 2010 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. No material deficiencies have been identified so far and there were no significant areas of concern which may affect the shareholders.

The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the code provisions in respect of internal control under the CG Code for the year ended 31 December 2010.

Shareholders' rights

The Board recognises the importance of good communication with shareholders. Information in relation to the Group which includes interim and annual reports, announcements and circulars, is disseminated to shareholders in a timely manner through the websites of the Stock Exchange and the Company, respectively.

The Company also acknowledges that general meetings are valuable forums for the Board to communicate directly with the shareholders and members of the Board and committees are encouraged to attend and answer questions at the general meetings.

Notice of general meetings and related circular are circulated to shareholders prior to the general meetings. Details of each resolution proposed and voting procedures (including procedures for demanding a poll) and other relevant information are clearly set out in the circular. During the year ended 31 December 2010, an annual general meeting and an extraordinary general meeting were held on 12 April 2010 and 13 December 2010, respectively. All resolutions put to shareholders at those meetings were passed. The results of the voting by poll were published on the websites of the Stock Exchange and the Company, respectively.

Investor relations

The Company strives to maintain a close relationship with investors and potential investors. The management meets regularly with analysts and participates in investor conferences and gives appropriate presentations during the conferences.

As a channel to further enhance communications, the Company disseminates corporate information, including announcements, corporate notices, and other financial and non-financial information through the Company's website in a timely manner.

Directors, International Advisory Board and Senior Management Profile

Executive directors

Mr. CHAN Wing Him Kenny, aged 60, is an executive Director, and the Chairman and CEO of the Company since 29 November 2006 and a member of the Management Committee as well as the chairman and member of the Remuneration Committee.

As the CEO, Mr. Chan is responsible for the Company's overall strategy and execution of business plans. Mr. Chan has over 30 years of experience in the international natural resources industry through his participation in the business and financial communities in the minerals and energy sectors in North America and Asia. He is in the vanguard of North American natural resource sector financiers who have pioneered new technologies in mining and metal recovery through his promotion and funding of a host of private and public companies. One of North America's best-known financiers associated with resource development and technology ventures, Mr. Chan has extended his interest and influence internationally through his work in establishing and financing companies around the world including central Asia, the Middle East and Asia-Pacific, including China. Mr. Chan has been a dynamic force for a quarter-century in the minerals and energy industries through his activities and has raised hundreds of millions of dollars on international capital markets since the mid-1980's.

As the founder of the Company with North American financing and natural resources experience and track records, Mr. Chan is able to capitalise on world markets to pursue his vision of assembling a portfolio of natural resources-based interests at critical points of development prior to market takeoff. With an extensive knowledge of industry needs and market demands, Mr. Chan has directed the organisation of a management team capable of creating and growing value in the target sectors.

Mr. Chan is a director and co-chairman of Petromin, a connected person of the Company and which shares are listed on the Toronto Stock Exchange Venture Board ("**TSX**"). Mr. Chan is a member of The Hong Kong Institute of Directors.

Dr. Arthur Ross GORRELL, aged 65, was appointed as a non-executive Director on 1 December 2007 and has been re-designated as an executive Director since June 2008. Dr. Gorrell is a member of the Management Committee. He is responsible for business expansion and development of the Group.

Dr. Gorrell has over 40 years of experience in the management and business development for resources and energy related industries and has served as director, officer and controlling principal of many successful mining and oil and gas ventures listed on the TSX. Dr. Gorrell is highly respected by his peers and is a reputed oil man well recognised in Canada for his extensive knowledge in the oil and gas industry. He has worked with and developed numerous contacts in various financial and resource-related fields.

Dr. Gorrell has joined Petromin since 1990 as one of the founders. He is currently a director, co-chairman, president and the chief executive officer of Petromin.

Independent non-executive directors

Mr. David TSOI, aged 63, has joined the Company as an independent non-executive Director since 8 July 2008. Mr. Tsoi is also the chairman and a member of the Audit Committee. In addition, he is the managing director of Alliott, Tsoi CPA Limited and an independent non-executive director of MelcoLot Limited (which shares are listed on GEM) and CSR Corporation Limited (which shares are listed on the Main Board). Mr. Tsoi obtained a master's degree in business administration from the University of East Asia, Macau (currently known as University of Macau) in 1986. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a member of the Institute of Chartered Accountants of England and Wales, the Society of Chinese Accountants and Auditors, the Certified General Accountants Association of Canada and Macau Society of Certified Practising Accountants.

Mr. LO Chi Kit, aged 50, has joined the Company as an independent non-executive Director since 20 December 2006. Mr. Lo is also a member of the Audit Committee and Remuneration Committee, respectively. He is a businessman who has extensive experience in senior management and business operations, in particular, in the waste chemical treatment and the import and export of fruits and vegetables business. He has extensive connection throughout the Pacific Rim and Asian region.

Mr. TAM Hang Chuen, aged 55, has joined the Company as an independent non-executive Director since 20 December 2006. Mr. Tam is also a member of the Audit Committee and Remuneration Committee, respectively. He is a businessman with more than 23 years of experience in senior management and business operations, in particular, in the printing industry. Mr. Tam has broad connection with commercial groups in Asian region.

Directors, International Advisory Board and Senior Management Profile

International advisory board

Dr. William D. GUNTER, aged 68, was appointed as a member of the International Advisory Board in September 2009. Dr. Gunter is responsible for providing expert advice to the Board in the areas of sustainable energy development and related technologies related to enhanced oil and unconventional gas production and CO_2 storage, new business development in Asia related to carbon capture and sequestration ("**CCS**"), and specialised expertise in science, economics and engineering as related to CCS. Dr. Gunter is an internationally eminent scientist and an acknowledged leader in the field of CCS. He has a wealth of experience in the CCS industry, an important and rapidly growing business for the Company. His expertise is in geochemical processes (stressing use of field data, experiments and modelling) as they impact on the environment, and on the oil and gas industry. Dr. Gunter brings a unique combination of skills, experience and independent thinking that is invaluable as the Company further develops its global capabilities.

Over the past 15 years, Dr. Gunter has been leading combined industry-government funded projects for geological storage of CO_2 and hydrogen sulfide (H_2S) in aquifers, oil reservoirs and coal beds. Additionally, Dr. Gunter has contributed to more than 80 publications on CCS and green house gas ("**GHG**") emissions. He served as member of Canada's Technology Issues Table on GHG emissions and co-chaired the Canadian Capture and Geological Storage Roadmapping consultations which led to the production of two key reports which contained the elements of a plan for commercialisation of CCS in Canada and formed part of the basis for the Canadian Roadmap for CCS. Dr. Gunter was a lead author on the Intergovernmental Panel on Climate Change ("**IPCC**") special report on CCS, released in December 2005 and he subsequently received recognition from the IPCC for contributing to the award of the Nobel Peace Prize for 2007 to the IPCC.

During 2007, he was a member of the Technology Working Group of the Canadian Federal-Provincial ecoENERGY Task Force and in 2008 served as a member of the Government of Alberta Working Group on Capture & Geological Storage of GHG Emissions as well as the Alberta Energy Strategy Advisory Committee. Dr. Gunter is currently registered as a professional geologist with APEGGA (an association which registers, sets practice standards and determines disciplinary actions for Professional Engineers, Geologists, and Geophysicists in Alberta), Society of Petroleum Engineer (a professional organisation which provides a worldwide forum of oil and natural gas exploration and production professionals for the exchange of technical knowledge) and the International Association of GeoChemistry (an organisation which promotes the application of chemistry to geology through sponsoring scientific conferences and educational activities, establishing internal specialty-area working groups, and disseminating new geochemical knowledge through scientific publishing).

Dr. Gunter has received awards from:

(i) the Carbon Sequestration Leadership Forum in recognition of his CO_2-ECBM Micro-Pilot field tests in Canada and China;

(ii) the Alberta Emerald Foundation for research and innovation in CCS;

(iii) the Seniors Association of Greater Edmonton for science and technology; and

(iv) the International Energy Agency GHG Research and Development Programme in recognition of his lifetime work on GHG mitigation in the oil and gas industry.

In 2008 he was identified as one of Alberta's 50 Most Influential People by Alberta Venture Magazine.

Dr. Gunter holds a Bachelor of Science degree and a Master of Science degree in Geology from the University of New Brunswick and a Doctor of Philosophy degree in Geochemistry from Johns Hopkins University, respectively. He previously taught at the University of Wyoming; was a Research Fellow at Eidgenössische Technische Hochschule, Switzerland and a Distinguished Scientist at the Alberta Research Council, Canada, and served terms as Adjunct Professor at both the University of Alberta and the University of Calgary and is active as an international consultant on CCS projects across Canada and the United States as well as continents around the world, including Europe, Asia and Australia.

Directors, International Advisory Board and Senior Management Profile

Senior management

Mr. Donald O. DOWNING, aged 63, joined the Group as vice president on 13 May 2008 and has been re-designated as senior vice president since 1 April 2010. Mr. Downing is responsible for strategic planning, business development and operations in all hydrocarbons related activities of the Group including CBM. Mr. Downing has 40 years of experience in geology, executive management, international commodity marketing and consulting for the global energy industry.

Previously he was head of the Coal Division of Esso Resources Canada Ltd., and president and chief executive officer of Byron Creek Collieries, a unit of Esso Resources Canada Ltd. He also served as president of the Coal Association of Canada for six years beginning 1993 and was subsequently vice president and director of Norwest Corporation, a global energy/mining consulting company, where he led the firm's management consulting practice. With expert colleagues, Mr. Downing has founded successful CBM and natural gas exploration companies in Canada and was a founding director, president and managing director of TWE, where he remains a director and head of operations.

He holds a Master of Science degree from the Graziadio School of Business & Management at Pepperdine University, a Master of Science degree in Mineral Economics from McGill University, a Bachelor of Arts degree in Economics and a Bachelor of Science degree in Geology from University of New Brunswick. He is a fellow of the Canadian Institute of Mining and Metallurgy (FCIM).

Mr. CHAN Wan Tsun Adrian Alan, aged 32, was appointed as Chief Financial Officer of the Group in November 2009. Mr. Chan is mainly responsible for the overall financial management, internal control function and accounting function of the Group. He has also been assisting in corporate finance and investors' relation matters of the Group. He has over 10 years of experience in corporate finance. Prior to joining the Group, he was associate director of UOB Asia (Hong Kong) Limited, mainly responsible for the execution of financial advisory, initial public offering, merger and acquisitions, privatisation and other equity capital market transactions in the Greater China Region and Southeast Asia. He has also previously worked for the equity capital markets department of DBS Asia Capital Limited, the corporate finance department of Vickers Ballas Capital Limited, and as auditor for a top-tier international accounting firm.

Mr. Chan holds a Bachelor of Commerce degree in Accounting and Finance from the University of New South Wales, Australia. He is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants, respectively.

Ms. MOK Kam Sheung, aged 51, has joined the Company since 18 August 2008, and is the Group's General Counsel and the Company Secretary of the Company. Ms. Mok is mainly responsible for the Company's legal and regulatory compliance matters as well as the general secretarial and corporate affairs of the Group. Ms. Mok has over 14 years of experience, specialising in corporate finance, secondary market fund raisings, and public company compliance and related transactions. Prior to joining the Group, she was a senior associate at DLA Piper Hong Kong, a world-renowned international legal services organisation.

Ms. Mok is a member of the Law society of Hong Kong and the Law Society of England and Wales. She graduated from the College of Law, Chester, England, in 1993 and holds a bachelor's degree from the University of Plymouth, England. Ms. Mok was admitted as a solicitor to the High Court of Hong Kong and in England and Wales in 1997 and 1998, respectively.

Mr. LI Yutang, aged 69, joined the Group as a chief engineer in August 2008. Mr. Li has been appointed as a director of Qian An since September 2009. Mr. Li is responsible for providing technical advice on oilfield development, in particular, to the Qian An Oilfields and the Group's future expansion in the oil and gas industry in China. Over the past four decades, Mr. Li spent most of his time in the development and production areas of the oil and gas sector, which earned him a wealth of solid experiences in the gas and oil industry in China and overseas.

Mr. Li had worked in Shengli Oilfield and Zhongyuan Oilfield of CNPC from 1968 to 1980 in various progressive capacities as trainee, technician, engineer, senior engineer, group leader, tackling team leader and office director, respectively. Mr. Li was the vice director and senior engineer of Zhongyuan Oilfield Oil Extraction Technology Research Institute from 1981 to 1996. From 1996 to 1998, Mr. Li was a chief technical supervisor of Talara Oilfield in VI, VII Region, Peru. Mr. Li was also the adviser to president to CNPC America Ltd. in Venezuela from 1998 to 2005.

Mr. Li was a member of the editorial committee for "Drilling and Completion Fluids", a technological journal of ministry rank and a member of the Oil Extraction Technology Specialist Group of the Development and Production Department of CNPC in 1990. Mr. Li was named as one of the specialists with outstanding contribution to CNPC in 1993 and acted as a member of the Oil-Gas Production Standard Committee, Downhole Tools Sub-commission of CNPC in 1994. Mr. Li had received numerous awards ranging from bureau to state levels for his scientific achievements in the oil and gas industry in China, in particular, Mr. Li was awarded the National Convention on Science Award in 1978, National Invention Award in 1980, National Scientific Progress Award in 1992 and National Scientific Achievement Award in 1995. Mr. Li has been appointed by the State Council as an expert in recognition of his outstanding contributions, entitling him to receive Special Government Allowance since 1994 and Mr. Li was promoted to a senior engineer at professor-level in 1999.

Mr. Li graduated from Beijing Institute of Petrochemical Technology in 1968, majoring in oil and gas field development.

Report of the Directors

The Directors have pleasure in presenting to shareholders their report and the audited consolidated financial statements for the year ended 31 December 2010.

Principal activities

The principal activity of the Company is investment holding and the activities of its principal subsidiaries and jointly-controlled entity are set out in notes 19 and 21 to the consolidated financial statements.

Results and appropriations

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2010.

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement section of this report.

Plant and equipment

Details of movements in the plant and equipment of the Group during the year ended 31 December 2010 are set out in note 17 to the consolidated financial statements.

Share capital

Details of movements in the share capital of the Company during the year ended 31 December 2010 are set out in note 30 to the consolidated financial statements.

Reserves

As at 31 December 2010, the Company had no reserves available for distribution, except that under the provisions of the Companies Law of the Cayman Islands, the Company's share premium and capital reserve less accumulated losses, of approximately HK$152.5 million in aggregate as at 31 December 2010, may be distributed provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Details of movements in the reserves of the Group during the year ended 31 December 2010 are set out in the consolidated statement of changes in equity section of this report.

Major customers and suppliers

During the year ended 31 December 2010, sales to the Group's five largest customers accounted for approximately 98.0% of the Group's total sales and sales to the largest customer included therein accounted for approximately 45.2%.

During the year ended 31 December 2010, purchases from the Group's five largest suppliers accounted for approximately 100% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 80.3%.

Save as disclosed above, during the year ended 31 December 2010, none of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the issued share capital of the Company) had any beneficial interest in the Group's five largest customers or suppliers.

Report of the Directors

Directors

The Directors during the year ended 31 December 2010 and up to the date of this report were:

Executive Directors:

Chan Wing Him Kenny
Arthur Ross Gorrell

Independent Non-executive Directors:

David Tsoi
Lo Chi Kit
Tam Hang Chuen

In accordance with article 108 of the Articles of Association, Mr. David Tsoi and Mr. Lo Chi Kit will retire from their offices at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company received from each of the INEDs an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all of the INEDs as independent.

Directors, international advisory board and senior management profile

Biographical details of the Directors, International Advisory Board and senior management of the Group are set out on pages 24 to 27 of this report.

Directors' service contracts

Each of Mr. Chan Wing Him Kenny and Dr. Arthur Ross Gorrell entered into a service contract with the Company on 28 December 2009 and 3 June 2008 for an initial fixed term of three years commencing from 30 November 2009 and 2 June 2008, respectively, which shall continue thereafter, subject to termination by either party with not less than three months' notice served in writing to the other.

Each of Mr. David Tsoi, Mr. Lo Chi Kit and Mr. Tam Hang Chuen had entered into a 2-year service contract with the Company and they are subject to retirement by rotation and re-election pursuant to the Articles of Association.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

Save as disclosed in note 34 to the consolidated financial statements, no Director had a significant beneficial interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year ended 31 December 2010.

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 December 2010, the interests and short positions of each Director and chief executive of the Company, if any, in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions of Directors in ordinary shares and underlying shares of the Company

Name	Capacity	Nature of interests	Number of shares held	Number of underlying shares held	Total	Approximate % of shareholding
Chan Wing Him Kenny	Interest of a controlled corporation	Corporate interest	1,185,680,000 (Note i)	—	1,185,680,000	
	Beneficial owner	Personal interest	8,834,000	28,847,200 (Note ii)	37,681,200	
			1,194,514,000	28,847,200	1,223,361,200	44.05%
Arthur Ross Gorrell	Beneficial owner	Personal interest	2,625,000	5,200,000 (Note ii)	7,825,000	0.28%
David Tsoi	Beneficial owner	Personal interest	—	1,000,000 (Note ii)	1,000,000	0.04%
Lo Chi Kit	Beneficial owner	Personal interest	—	700,000 (Note ii)	700,000	0.03%
Tam Hang Chuen	Beneficial owner	Personal interest	1,000,000	200,000 (Note ii)	1,200,000	0.04%

Notes:

(i) These shares are held by Colpo Mercantile Inc. ("**Colpo**"). The entire issued share capital of Colpo is beneficially owned by Mr. Chan Wing Him Kenny, the Chairman and CEO of the Company and an executive Director, who is therefore deemed to be interested in 1,185,680,000 shares held by Colpo.

Pursuant to an exchangeable note instrument dated 12 April 2010 ("**Note Instrument**") executed between Colpo and Green Island Cement Company, Limited ("**Green Island**"), Green Island is entitled to exchange for up to 200,000,000 shares held by Colpo at an exercise price of HK$0.88 per share, subject to adjustment, within an exercise period of three years commencing from 12 April 2010 to 12 April 2013. As the entire issued share capital of Colpo is beneficially owned by Mr. Chan Wing Him Kenny, he is therefore deemed to have a short position in such 200,000,000 shares held by Colpo.

(ii) Total number of shares to be allotted and issued upon exercise in full of share options granted under the Share Option Scheme (hereinafter defined).

Long positions of Director in common shares and underlying shares of TWE

Name	Capacity	Nature of interests	Number of common shares held	Number of underlying shares held	Total	Approximate % of shareholding
Arthur Ross Gorrell	Beneficial owner	Personal interest	—	3,000,000 (Note)	3,000,000	1.15%

Note: Total number of TWE common shares to be allotted and issued upon exercise in full of stock options granted under the articles of TWE.

In addition to the above, Mr. Chan Wing Him Kenny has non-beneficial personal equity interests in certain subsidiaries of the Company held solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2010, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation that (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial shareholder's interests and short positions in shares and underlying shares

As at 31 December 2010, the interests and short positions of 10% or more of the issued share capital of the Company held by the following party (other than a Director or chief executive of the Company) recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Interests or short positions in ordinary shares of the Company

Name	Long/Short positions	Capacity	Number of shares held	Approximate % of shareholding
Colpo	Long positions	Beneficially owned	1,185,680,000 (Note i)	42.69%
	Short positions	Beneficially owned	200,000,000 (Note ii)	7.2%

Notes:

(i) The entire issued share capital of Colpo is solely and beneficially owned by Mr. Chan Wing Him Kenny, the Chairman and CEO of the Company and an executive Director, who is therefore deemed to be interested in 1,185,680,000 shares held by Colpo. Mr. Chan Wing Him Kenny's indirect interests in 1,185,680,000 shares held through Colpo have also been set out in the above section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures".

(ii) Pursuant to the Note Instrument, Green Island is entitled to exchange for up to 200,000,000 shares held by Colpo at an exercise price of HK$0.88 per share, subject to adjustment, within an exercise period of three years commencing from 12 April 2010 to 12 April 2013. As the entire issued share capital of Colpo is solely and beneficially owned by Mr. Chan Wing Him Kenny, he is therefore deemed to have a short position in such 200,000,000 shares held by Colpo.

Save as disclosed above, as at 31 December 2010, no person (other than the Directors whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Group's emolument policy

The Group adopted the following philosophies in determining its emolument policy:

- The Group adopts a performance driven policy so that each individual is motivated to perform to the best he can;
- Individual competence, contribution and responsibility are taken into account when considering the remuneration level for each employee;
- The Company offers mandatory provident fund, medical insurance and leave benefits to provide basic coverage to staff for retirement, sickness, rest and relaxation reasons, respectively;
- Share option grants are made from time to time to better link the corporate performance as reflected in the share price performance and the contributions made by the staff in the intermediate to longer time frame; and
- The economic factors and the affordability of the Group are taken into account in coming up with the overall remuneration budget for the Group.

The Group has also adopted a discretionary bonus scheme. Factors, such as overall financial performance, the affordability of the Company and individual performance, have been taken into account before determining the entitlement of each qualified employee.

Directors' fees are subject to shareholders' approval at general meetings and monitored by the Remuneration Committee on a continuous basis. Other emoluments are determined by the Remuneration Committee with reference to Directors' duties and responsibilities. Details of Directors' remuneration are set out in note 12 to the consolidated financial statements.

Share option schemes

The purpose of the Share Option Scheme and the TWE Scheme (hereinafter defined) is to enable the Group to recognise the contribution of the participants to the Group and to motivate the participants to continuously work to the benefit of the Group by offering the participants an opportunity to have personal interest in the share capital of the Company and TWE.

(1) Share option scheme of the Company ("Share Option Scheme")

On 25 January 2003, the Share Option Scheme was approved pursuant to written resolutions of the Company. Details of movement of the options granted under the Share Option Scheme for the year ended 31 December 2010 were as follows:

Movement in the Share Option Scheme

Name or category of participants	Date of grant	Exercise period	Exercise price per share (HK$)	As at 1 January 2010	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2010
Executive Directors								
Chan Wing Him Kenny	29/12/2006	29/12/2006 to 24/01/2013	0.0635[1]	15,847,200[1]	—	—	—	15,847,200[1]
	22/06/2007	22/06/2007 to 24/01/2013	1.365[2]	2,000,000[2]	—	—	—	2,000,000[2]
	19/06/2008	19/06/2010 to 19/06/2018	0.2316	500,000[3]	—	—	—	500,000[3]
	15/06/2009	15/06/2011 to 15/06/2019	0.73	2,000,000[3]	—	—	—	2,000,000[3]
	09/07/2010	09/07/2012 to 08/07/2020	0.56	—	8,500,000[4]	—	—	8,500,000[4]
Arthur Ross Gorrell	22/06/2007	22/06/2007 to 24/01/2013	1.365[2]	1,500,000[2]	—	—	—	1,500,000[2]
	29/10/2007	29/10/2007 to 24/01/2013	2.44	700,000	—	—	—	700,000
	19/06/2008	19/06/2010 to 19/06/2018	0.2316	500,000[3]	—	—	—	500,000[3]
	15/06/2009	15/06/2011 to 15/06/2019	0.73	2,000,000[3]	—	—	—	2,000,000[3]
	09/07/2010	09/07/2012 to 08/07/2020	0.56	—	500,000[4]	—	—	500,000[4]
Independent non-executive Directors								
David Tsoi	15/06/2009	15/06/2011 to 15/06/2019	0.73	750,000[3]	—	—	—	750,000[3]
	09/07/2010	09/07/2012 to 08/07/2020	0.56	—	250,000[4]	—	—	250,000[4]
Lo Chi Kit	15/06/2009	15/06/2011 to 15/06/2019	0.73	600,000[3]	—	—	—	600,000[3]
	09/07/2010	09/07/2012 to 08/07/2020	0.56	—	100,000[4]	—	—	100,000[4]
Tam Hang Chuen	15/06/2009	15/06/2011 to 15/06/2019	0.73	100,000[3]	—	—	—	100,000[3]
	09/07/2010	09/07/2012 to 08/07/2020	0.56	—	100,000[4]	—	—	100,000[4]
				26,497,200	9,450,000	—	—	35,947,200
Other employees								
In aggregate	26/04/2007	26/04/2007 to 24/01/2013	0.579[2]	40,000[2]	—	(40,000)[2]	—	—
	19/06/2008	19/06/2010 to 19/06/2018	0.2316	9,450,000[3]	—	(600,000)[3]	—	8,850,000[3]
	15/06/2009	15/06/2011 to 15/06/2019	0.73	7,265,000[3]	—	(1,225,000)[3]	—	6,040,000[3]
	06/10/2009	06/10/2011 to 06/10/2019	0.75	60,000[3]	—	—	—	60,000[3]
	04/02/2010	04/02/2012 to 04/02/2020	0.514	—	13,380,000[3]	(120,000)[3]	—	13,260,000[3]
	09/07/2010	09/07/2012 to 08/07/2020	0.56	—	8,700,000[4]	—	—	8,700,000[4]
				16,815,000	22,080,000	(1,985,000)	—	36,910,000
Others								
In aggregate	20/03/2007	20/03/2007 to 24/01/2013	0.1125[1]	15,840,000[1]	—	—	—	15,840,000[1]
	26/04/2007	26/04/2007 to 24/01/2013	0.579[2]	1,000,000[2]	—	—	—	1,000,000[2]
	22/06/2007	22/06/2007 to 24/01/2013	1.365[2]	13,000,000[2]	—	—	—	13,000,000[2]
	29/10/2007	29/10/2007 to 24/01/2013	2.44	23,500,000	—	—	—	23,500,000
	19/06/2008	19/06/2010 to 19/06/2018	0.2316	500,000[3]	—	—	—	500,000[3]
	15/06/2009	15/06/2011 to 15/06/2019	0.73	20,000,000[3]	—	—	—	20,000,000[3]
	06/10/2009	06/10/2011 to 06/10/2019	0.75	350,000[3]	—	—	—	350,000[3]
	04/02/2010	04/02/2012 to 04/02/2020	0.514	—	50,250,000[3]	—	—	50,250,000[3]
	09/07/2010	09/07/2012 to 08/07/2020	0.56	—	61,850,000[4]	—	—	61,850,000[4]
				74,190,000	112,100,000	—	—	186,290,000
			Total:	117,502,200	143,630,000	(1,985,000)	—	259,147,200[5]
Weighted average exercise price per share (HK$)				0.95	0.38	0.56	—	0.73

Notes:

(1) The exercise price and number of share options were adjusted upon the first and second subdivisions of shares of the Company which came to effect on 18 April 2007 and 29 August 2007, respectively.

(2) The exercise price and number of share options were adjusted upon the second subdivision of shares of the Company which came to effect on 29 August 2007.

(3) 50% of the share options are exercisable in a period commencing two years from the date of grant and expiring on the tenth anniversary from the date of grant. The balance of 50% of the share options are exercisable in a period commencing three years from the date of grant and expiring on the tenth anniversary from the date of grant.

(4) 50% of the share options are exercisable in a period commencing two years from the date of grant and expiring on the day falling one day preceding the tenth anniversary from the date of grant. The balance of 50% of the share options are exercisable in a period commencing three years from the date of grant and expiring on the day falling one day preceding the tenth anniversary from the date of grant.

(5) As at 31 December 2010, the Company had 259,147,200 (31 December 2009: 117,502,200) share options outstanding under the Share Option Scheme, which represented approximately 9.33% (31 December 2009: 4.83%) of the Company's shares in issue on that date.

(6) During the year ended 31 December 2010, 63,630,000 share options and 80,000,000 share options were granted on 4 February 2010 and 9 July 2010, respectively. The closing prices of the Company's shares at the date of which the aforesaid share options were granted were HK$0.51 and HK$0.56, respectively.

(2) Share option scheme of TWE

On 8 April 2009, TWE adopted a share option scheme ("**TWE Scheme**") which was approved by shareholders in the Company's annual general meeting held on 20 April 2009. As at 31 December 2010, no share options were granted under the TWE Scheme.

Prior to the adoption of the TWE Scheme, pursuant to the articles of TWE, a total of 12,850,000 incentive stock options ("**TWE Options**") were granted by TWE to certain of its directors and consultants to subscribe for common shares of TWE on 27 August 2008.

Details of movement of the TWE Options for the year ended 31 December 2010 were as follows:

Movement in the TWE Options

Name or category of participants	Date of grant	Exercise period	Exercise price per share (C$)	As at 1 January 2010	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2010
Director								
Arthur Ross Gorrell	27/08/2008	27/08/2008 to 27/08/2011	0.03	3,000,000	—	—	—	3,000,000
Others								
In aggregate	27/08/2008	27/08/2008 to 27/08/2011	0.03	9,850,000	—	500,000	—	9,350,000
			Total:	12,850,000	—	500,000	—	12,350,000

Details of the valuation of the share options granted during the year ended 31 December 2010 under the Share Option Scheme is set out in note 32 to the consolidated financial statements.

Competing business and conflicts of interest

During the year ended 31 December 2010, Mr. Chan Wing Him Kenny, an executive Director of the Company, is a director and co-chairman of Petromin whilst Dr. Arthur Ross Gorrell, an executive Director of the Company, is a director, co-chairman, president and chief executive officer of Petromin. As at 31 December 2010, Mr. Chan Wing Him Kenny directly and indirectly held 1,221,867 stock options entitling him to subscribe for 1,221,867 common shares (representing approximately 2.1% of the issued common share capital) in Petromin. Dr. Arthur Ross Gorrell held 2,230,193 common shares (representing approximately 3.8% of the issued common share capital) and 478,000 stock options entitling him to subscribe for 478,000 common shares (representing approximately 0.8% of the issued common share capital) in Petromin.

Petromin is engaged in the business of acquisition and development of oil and gas properties. As of 31 December 2010, Petromin had oil and gas properties in the province of Alberta, Canada. Taking into account (i) the operation of Petromin's business in Canada which is geographically different from the Company's current project operation in China; (ii) the Company and Petromin have different target customers; and (iii) Mr. Chan Wing Him Kenny and Colpo, being the Company's controlling shareholders ("**Controlling Shareholders**"), had entered into a deed of non-competition undertakings dated 7 December 2010 in favour of the Company ("**Deed**"), the Board considers that the business of Petromin does not and will not have any direct competition with the Group's business. The term of the Deed commenced from 17 December 2010 and shall end on the occurrence of the earliest of (i) the day on which the shares of the Company ceased to be listed on the Main Board of the Stock Exchange or any stock exchange (except the delisting from GEM pursuant to the Transfer); (ii) the day on which the Controlling Shareholders cease to be interested in at least 30% of the entire issued share capital of the Company; or (iii) the day on which the Controlling Shareholders beneficially own or are interested in the entire issued share capital of the Company.

The INEDs had reviewed the compliance with the provisions of the Deed by the Controlling Shareholders and confirmed that there was no matter to be disclosed under the requirements of the Deed for the year ended 31 December 2010.

The Directors received from each Controlling Shareholders an annual confirmation on their compliance with the terms of the Deed, and hence the Directors confirm that the parties to the Deed, including the Company, were in compliance with the terms of the Deed, during the year ended 31 December 2010.

Save as disclosed above, none of the executive Directors of the Company or any of their respective associates had been interested in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the Group's business.

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 listed securities of the Company during the year ended 31 December 2010.

Public float

As at the date of this report, based on the information available to the Company and within the knowledge of the Directors, at least 25% of the issued share capital of the Company was held by the public.

Auditors

PricewaterhouseCoopers will retire and a resolution for its re-appointment as an independent auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

CHAN Wing Him Kenny
Chairman

Hong Kong, 1 April 2011

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ENVIRO ENERGY INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Enviro Energy International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 89, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 April 2011

Consolidated Balance Sheet

	Note	As at 31 December 2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	17	**2,235**	3,531
Oil and gas properties	18	**1,107,078**	1,022,216
Interest in a jointly-controlled entity	21	**3,299**	2,710
Available-for-sale investment	23	**1,013**	1,411
Club memberships		**2,700**	2,370
		1,116,325	1,032,238
Current assets			
Trade receivables	24	**112**	14
Deposits, prepayments and other receivables	25	**2,394**	1,385
Amount due from a jointly-controlled entity	22	**—**	19,401
Financial asset at fair value through profit or loss	26	**3,130**	3,934
Bank balances and cash	27	**155,800**	79,513
		161,436	104,247
Total assets		**1,277,761**	1,136,485
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	30	**6,944**	6,080
Share premium and reserves		**687,095**	549,456
		694,039	555,536
Non-controlling interests		**287,547**	299,118
Total equity		**981,586**	854,654
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	29	**249,083**	240,941
Current liabilities			
Trade and other payables	28	**47,092**	40,890
Total liabilities		**296,175**	281,831
Total equity and liabilities		**1,277,761**	1,136,485
Net current assets		**114,344**	63,357
Total assets less current liabilities		**1,230,669**	1,095,595

Chan Wing Him Kenny
Director

Arthur Ross Gorrell
Director

The notes on pages 44 to 89 are an integral part of these financial statements.

Balance Sheet

	Note	As at 31 December 2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	17	**386**	920
Investments in subsidiaries	19	**—**	—
Available-for-sale investment	23	**1,013**	1,411
		1,399	2,331
Current assets			
Amounts due from subsidiaries	20	**110,833**	80,007
Deposits, prepayments and other receivables	25	**944**	2,093
Bank balances and cash	27	**137,107**	67,405
		248,884	149,505
Total assets		**250,283**	151,836
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	30	**6,944**	6,080
Share premium and reserves	31	**239,464**	139,810
Total equity		**246,408**	145,890
LIABILITIES			
Current liabilities			
Trade and other payables		**3,875**	5,946
Total liabilities		**3,875**	5,946
Total equity and liabilities		**250,283**	151,836
Net current assets		**245,009**	143,559
Total assets less current liabilities		**246,408**	145,890

Chan Wing Him Kenny
Director

Arthur Ross Gorrell
Director

The notes on pages 44 to 89 are an integral part of these financial statements.

Consolidated Income Statement

	Note	Year ended 31 December 2010 HK$'000	2009 HK$'000
Revenue	8	**379**	310
Cost of sales	10	**(297)**	(246)
Gross profit		**82**	64
Other loss, net	9	**(609)**	(509)
Administrative and operating expenses		**(101,802)**	(44,095)
Finance income	11	**512**	42
Share of profits less losses of:			
— jointly-controlled entity before impairment loss	21	**964**	(3,279)
— jointly-controlled entity's impairment loss	21	**—**	(59,748)
Loss before taxation	10	**(100,853)**	(107,525)
Income tax	13	**4,618**	—
Loss for the year		**(96,235)**	(107,525)
Attributable to:			
Equity holders of the Company		**(97,144)**	(106,595)
Non-controlling interests		**909**	(930)
		(96,235)	(107,525)
Loss per share attributable to equity holders of the Company (expressed in HK cents per share)	16		
Basic and diluted		**(3.86)**	(4.56)
Dividend	14	**—**	—

The notes on pages 44 to 89 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Loss for the year	**(96,235)**	(107,525)
Other comprehensive income		
Gain on change in fair value of available-for-sale investment	**—**	752
Reclassification adjustment for amount transferred to income statement due to impairment of available-for-sale investment	**2,170**	—
Exchange differences arising from translation of foreign operations	**42,933**	109,033
Other comprehensive income for the year, net of tax	**45,103**	109,785
Total comprehensive (loss)/income for the year	**(51,132)**	2,260
Attributable to:		
Equity holders of the Company	**(66,893)**	(40,946)
Non-controlling interests	**15,761**	43,206
Total comprehensive (loss)/income for the year	**(51,132)**	2,260

The notes on pages 44 to 89 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000	**Available-for-sale investment reserve** HK$'000	**Share options reserve** HK$'000	**Translation reserve** HK$'000	**Other reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
As at 1 January 2009	5,842	654,527	19,980	(2,922)	58,551	(16,884)	—	(109,373)	609,721	231,302	841,023
Comprehensive income/(loss)											
Loss for the year	—	—	—	—	—	—	—	(106,595)	(106,595)	(930)	(107,525)
Other comprehensive income											
Gain on change in fair value of available-for-sale investment	—	—	—	752	—	—	—	—	752	—	752
Exchange differences arising from translation of foreign operations	—	—	—	—	—	64,897	—	—	64,897	44,136	109,033
Total other comprehensive income	—	—	—	752	—	64,897	—	—	65,649	44,136	109,785
Total comprehensive income/(loss) for the year	—	—	—	752	—	64,897	—	(106,595)	(40,946)	43,206	2,260
Transactions with shareholders											
Recognition of equity-settled share-based payments	—	—	—	—	4,479	—	—	—	4,479	—	4,479
Exercise of share options	4	296	—	—	(145)	—	—	—	155	—	155
Forfeiture of share options	—	—	—	—	(25)	—	—	25	—	—	—
Deemed disposal of non-controlling interests (Note 34(a)(v) & Note 34(a)(vi))	—	—	—	—	—	—	(66,586)	—	(66,586)	73,323	6,737
Purchase of non-controlling interests (Note 34(b)(i))	—	—	—	—	—	—	48,713	—	48,713	(48,713)	—
Issuance of deferred share consideration (Note 30(ii))	234	(234)	—	—	—	—	—	—	—	—	—
Total transactions with shareholders	238	62	—	—	4,309	—	(17,873)	25	(13,239)	24,610	11,371
As at 31 December 2009	6,080	654,589	19,980	(2,170)	62,860	48,013	(17,873)	(215,943)	555,536	299,118	854,654

The notes on pages 44 to 89 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Available-for-sale investment reserve HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 January 2010	6,080	654,589	19,980	(2,170)	62,860	48,013	(17,873)	(215,943)	555,536	299,118	854,654
Comprehensive income/(loss)											
(Loss)/income for the year	—	—	—	—	—	—	—	(97,144)	(97,144)	909	(96,235)
Other comprehensive income											
Reclassification adjustment for amount transferred to income statement due to impairment of available-for-sale investment	—	—	—	2,170	—	—	—	—	2,170	—	2,170
Exchange differences arising from translation of foreign operations	—	—	—	—	—	28,081	—	—	28,081	14,852	42,933
Total other comprehensive income	—	—	—	2,170	—	28,081	—	—	30,251	14,852	45,103
Total comprehensive income/(loss) for the year	—	—	—	2,170	—	28,081	—	(97,144)	(66,893)	15,761	(51,132)
Transactions with shareholders											
Recognition of equity-settled share-based payments	—	—	—	—	24,092	—	—	—	24,092	—	24,092
Purchase of non-controlling interests (Note 34(b)(ii))	—	—	—	—	—	—	27,332	—	27,332	(27,332)	—
Issue of new shares, net of issuance costs (Note 30(iii))	864	153,108	—	—	—	—	—	—	153,972	—	153,972
Total transactions with shareholders	864	153,108	—	—	24,092	—	27,332	—	205,396	(27,332)	178,064
As at 31 December 2010	6,944	807,697	19,980	—	86,952	76,094	9,459	(313,087)	694,039	287,547	981,586

The notes on pages 44 to 89 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Operating activities		
Loss before taxation	**(100,853)**	(107,525)
Adjustments for:		
Finance income	**(512)**	(42)
Depreciation of plant and equipment	**1,576**	1,452
Loss on disposal of plant and equipment	**125**	—
Provision for amount due from a jointly-controlled entity	**20,359**	—
Share of profits less losses of:		
— jointly-controlled entity before impairment loss	**(964)**	3,279
— jointly-controlled entity's impairment loss	**—**	59,748
Share-based payments	**24,092**	4,479
Fair value changes on financial asset at fair value through profit or loss	**804**	509
Impairment loss of available-for-sale investment	**2,568**	—
Operating cash flow before movements in working capital	**(52,805)**	(38,100)
(Increase)/decrease in trade receivables	**(98)**	72
(Increase)/decrease in deposits, prepayments and other receivables	**(507)**	3,370
Increase/(decrease) in trade and other payables	**169**	(5,038)
Net cash used in operating activities	**(53,241)**	(39,696)
Investing activities		
Addition to oil and gas properties	**(23,620)**	(15,693)
Purchase of plant and equipment	**(564)**	(785)
Proceeds from disposal of plant and equipment	**160**	—
Purchase of financial asset at fair value through profit or loss	**—**	(4,443)
Purchase of club memberships	**(330)**	—
Bank interest received	**10**	42
Dividend received	**231**	—
Net cash used in investing activities	**(24,113)**	(20,879)
Financing activities		
Proceeds from issue of ordinary shares, net of issuance costs	**153,972**	—
Issue of shares by subsidiary to non-controlling shareholder	**—**	6,737
Proceeds from exercise of share options	**—**	155
Decrease in amount due to a director	**—**	(80)
Net cash generated from financing activities	**153,972**	6,812
Net increase/(decrease) in bank balances and cash	**76,618**	(53,763)
Bank balances and cash at beginning of year	**79,513**	133,740
Exchange losses on bank balances and cash	**(331)**	(464)
Bank balances and cash at end of year	**155,800**	79,513

The notes on pages 44 to 89 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1 General information

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (Revised) of the Cayman Islands on 3 July 2002. The shares of the Company had been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 18 February 2003. Pursuant to a successful application for a transfer of listing from GEM to the Main Board of the Stock Exchange ("Main Board"), the shares of the Company commenced trading on the Main Board on 17 December 2010. The address of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in this report.

The Company is an investment holding company and the principal activities of its subsidiaries are set out in Note 19. The Company and its subsidiaries are collectively referred to as the "Group".

As at 31 December 2010, the Directors consider Colpo Mercantile Inc. ("Colpo"), a company incorporated in the British Virgin Islands, as the immediate and ultimate holding company of the Group.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 1 April 2011.

2 Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investment and financial assets at fair value through profit or loss. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Companies Ordinance, Chapter 32 of the Laws of Hong Kong.

The preparation of 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

3 Summary of significant accounting policies

(a) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

3 Summary of significant accounting policies *(Continued)*

(a) Consolidation *(Continued)*

(i) Subsidiaries (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Jointly-controlled entity

A jointly-controlled entity is a joint venture whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The results and assets and liabilities of jointly-controlled entity are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interest in a jointly-controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net asset of the jointly-controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly-controlled entity equals or exceeds its interest in that jointly-controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly-controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly-controlled entity.

Any goodwill arising from the acquisition of jointly-controlled entity is included in the carrying amount of interests in jointly-controlled entity.

When a group entity transacts with a jointly-controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in a jointly-controlled entity.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive Officer (the "CEO") that makes strategic decisions.

3 Summary of significant accounting policies *(Continued)*

(c) Plant and equipment

Plant and equipment are stated at historical cost less depreciation.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives, as follows:

— Leasehold improvements	3 years or over the lease term, whichever is shorter
— Computer equipment and software	2–3 years
— Furniture and fixtures	5 years
— Office equipment	5 years
— Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain and loss on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other loss, net" in the consolidated income statement.

(d) Oil and gas properties

Oil and gas exploration and evaluation expenditures are accounted for using the 'full costs' method of accounting. All costs of acquisition, exploration for and development of oil and gas reserves are capitalised and accumulated on a field-by-field basis. Such costs include licence and land acquisitions, geological and geophysical activity and drilling of productive and non-productive wells.

No depreciation is charged during the exploration and evaluation phase.

Expenditures on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells, is capitalised within oil and gas properties.

Oil and gas properties are depreciated or amortised using the unit-of-production method and depreciation starts once oil and gas production commences. Unit-of-production rates are based on proved developed reserves, which are oil and gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

Oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(e) Club memberships

Club memberships with indefinite useful life are stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club memberships have suffered an impairment loss.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3 Summary of significant accounting policies *(Continued)*

(f) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

(g) Financial assets

The Group's financial assets are mainly loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months from the end of the reporting period.

(iii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(iv) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "Other loss, net" in the period in which they arise.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

3 Summary of significant accounting policies *(Continued)*

(g) Financial assets *(Continued)*

(iv) Recognition and measurement (Continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the gain and loss from disposal of investment.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

(h) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- A breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investment will not be reversed in the consolidated income statement in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

(i) Bank balances and cash

Bank balances and cash include cash in hand and deposits held at call with banks.

(j) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, from the proceeds.

3 Summary of significant accounting policies *(Continued)*

(k) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer).

(l) Current and deferred tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interest in jointly-controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(m) Employee benefits

(i) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following period. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

3 Summary of significant accounting policies *(Continued)*

(m) Employee benefits *(Continued)*

(ii) Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the People's Republic of China ("PRC") are required to participate in a central pension scheme operated by the local municipal government (the "PRC Scheme"). These subsidiaries are required to make contributions for its employees who are registered as permanent residents in the PRC. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the PRC Scheme.

(iii) Share-based payments — share options granted to employees

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received in exchange for the grant of the options is recognised as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognised in the consolidated income statement with a corresponding adjustment to equity.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to the consolidated income statement.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

(iv) Share-based payments — share options granted to non-employees

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses with a corresponding increase in equity (share options reserve) when the counterparties render services or over the period when the non-employees render services, unless the services qualify for recognition as assets.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that created a constructive obligation.

3 Summary of significant accounting policies *(Continued)*

(n) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(o) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(p) Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currencies at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at balance sheet date;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and;

(iii) all resulting exchange differences are recognised in other comprehensive income.

3 Summary of significant accounting policies *(Continued)*

(p) Foreign currencies *(Continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Fair value adjustments arising on an acquisition of a foreign entity are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods sold and services provided in the normal course of business, net of sales related taxes, if any.

Revenue from the sale of computer hardware is recognised when the customer has accepted the goods together with significant risks and rewards of ownership.

Revenue from the sale of computer software and the rendering of network maintenance services are recognised on a time proportion basis over the period of the licence or contract, or when the related services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

(r) Application of new and revised HKFRSs

(i) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as of 1 January 2010:

HKFRS 3 (Revised) "Business Combinations", and consequential amendments to HKAS 27, 'Consolidated and separate financial statements' ("HKAS 27 (Revised)"), are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

HKFRS 3 (Revised) continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

HKAS 27 (Revised) requires the effects of all transactions with non-controlling interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The existing Group accounting policy for transactions with non-controlling interest, when there is no change in control, has already complied with HKAS 27 (Revised).

3 Summary of significant accounting policies *(Continued)*

(r) Application of new and revised HKFRSs *(Continued)*

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The Group has not early applied the following new and revised standards, amendments and interpretations that are relevant to the Group and have been issued but are not yet effective:

HKAS 24 (Revised) [(1)]	Related Party Disclosures
HKFRS 9 [(2)]	Financial Instruments

1 Effective for annual periods beginning on or after 1 January 2011

2 Effective for annual periods beginning on or after 1 January 2013

Management is in the process of making an assessment of the impact of these new standards, new interpretation, amendments and revision to standards and interpretation and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

4 Significant accounting estimates and judgements

In the application of the Group's accounting policies, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimation of oil and gas reserves

Oil and gas reserves are a key factor in the Group's investment decision-making process. Estimates of oil and gas reserves are an important element in determining their economic value. Proved plus probable reserves and unrisked prospective resources estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product oil and gas prices, contract terms and development plans. In general, changes in the technical maturity of oil and gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of revisions.

Furthermore, the estimation of oil and gas reserves would also impact the depreciation expense of the oil and gas properties as the Group depreciates oil and gas properties using unit-of-production method during the production phase.

4 Significant accounting estimates and judgements *(Continued)*

(b) Estimated impairment of assets

At each balance sheet date, the Group reviews internal and external sources of information to identify indications that the Group's interests in a jointly-controlled entity and oil and gas properties may be impaired, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount. The sources utilised to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group would perform such assessment utilising internal resources and engage external advisors to counsel the Group in making this assessment. Regardless of the resources utilised, the Group is required to make many assumptions to make this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

For the Oil and Gas Properties of TerraWest Energy Corp. ("TWE"), the Group has considered the following indicators to determine if it was required to assess the impairment of the recoverable value of the properties at 31 December 2009 and 31 December 2010:

(i) There was no significant change that had taken place since the acquisition or is expected to take place in the near future, that would create an adverse effect in the technological market, economic or legal environments in which TWE operates;

(ii) There was no significant increase in market interest rates which are likely to affect the discount rate used in calculating an asset's value in use and would decrease the asset's recoverable amount materially;

(iii) The carrying amount of the net assets of the Group is not more than the Group's market capitalisation;

(iv) Exploration activities have been conducted as planned and there was no significant obsolescence or physical damage to the oil and gas properties; and

(v) There was no evidence from internal reports which indicates that the economic performance of the oil and gas properties is, or will be, worse than expected.

Based on the consideration of the indicators above, management concludes that an impairment test on the TWE Oil and Gas Properties is not necessary.

(c) Valuation of share options granted

The fair value of share options granted was priced using a binomial option pricing model which requires the management's estimates and assumptions on significant calculation inputs, including the estimated life of share options granted, the volatility of share price and expected dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate, which would in turn affect the share-based payment expense recognised for the period and its corresponding impact on the share option reserve.

(d) Funding availability

In order to fund the development of the Group's TWE project, significant amounts of capital in the form of borrowing or equity, or a combination of both, is considered to be necessary in the future. The Directors consider such funding for the future development of TWE will be available as and when required.

5 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves. Capital as at 31 December 2010 amounted to HK$694,039,000 (2009: HK$555,536,000).

The Directors review the cost of capital and the associated risks on a regular basis, and take appropriate actions to adjust the Group's capital structure in a timely manner.

6 Financial instruments

(a) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, trade receivables, other receivables, deposits, bank balances and cash, trade and other payables. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risk (currency risk, interest rate risk, other price risk, oil and gas price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Currency risk

The Directors monitor the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Financial assets		
Bank balances and cash	**851**	5,848
Financial asset at fair value through profit or loss	**3,130**	3,934
Deposits and other receivables	**514**	—
	4,495	9,782
Financial liabilities		
Trade and other payables	**25,781**	18,909

The assets and liabilities above are primarily denominated in Renminbi ("RMB") and Canadian dollars ("CAD").

At 31 December 2010, if the Hong Kong dollar had weakened/strengthened by 10% against the RMB and CAD with all other variables held constant, post-tax loss for the year would have been HK$2,571,000 (2009: HK$1,936,000) higher/lower and HK$442,000 (2009: HK$974,000) lower/higher respectively.

6 Financial instruments *(Continued)*

(a) Financial risk management objectives and policies *(Continued)*

(ii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets, mainly the interest bearing bank balances at prevailing market interest rates. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances at the balance sheet date. The analysis is prepared assuming the relevant assets outstanding at the balance sheet date were outstanding for that whole year. If interest rates had been 1% higher/lower and all other variables were held constant, the loss for the year ended 31 December 2010 would decrease/increase by approximately HK$1,516,000 (2009: approximately HK$784,000).

(iii) Other price risk

The Group and the Company is exposed to equity price risk through its investment in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on its investment in the equity securities of Petromin, a company operating in resources sector and whose shares are quoted in the Toronto Stock Exchange ("TSX") Venture Exchange. The Group considers its exposure to equity price risk is minimal.

(iv) Oil and gas price risk

Apart from the financial risk relating to financial instruments disclosed above, the Group's activities expose it to oil and gas price risk.

The Group is engaged in petroleum related activities. The global oil and gas market is affected by international political, economic and military developments and global demand for and supply of oil and gas. A decrease in the world prices of crude oil and gas could adversely affect the fair values of the Group's investment in a jointly-controlled entity; and impairment of oil and gas properties of the Group. The Group has not used any derivative instruments to hedge against potential price fluctuations of oil and gas products. The management will consider hedging oil exposure should the need arise.

(v) Credit risk

At the balance sheet date, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit standing. Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

6 Financial instruments *(Continued)*

(a) Financial risk management objectives and policies *(Continued)*

(vi) Liquidity risk

The Directors have built a liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The maturity dates of all financial liabilities are within one year as at the respective balance sheet dates, and the balances on the consolidated balance sheet equal their carrying balances, as the impact of discounting is not significant.

In order to fund the development of the Group's TWE project, significant amount of capital in the form of borrowing or equity, or a combination of both, is considered to be necessary in the future. The Directors consider such capital will be available as and when required.

(b) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

— Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

— Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

— Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value:

As at 31 December 2010

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Financial asset at fair value through profit or loss	**—**	**3,130**	**—**	**3,130**
Available-for-sale investment	**1,013**	**—**	**—**	**1,013**

As at 31 December 2009

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Assets				
Financial asset at fair value through profit or loss	—	3,934	—	3,934
Available-for-sale investment	1,411	—	—	1,411

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investment classified as available-for-sale investment denominated in CAD.

6 Financial instruments *(Continued)*

(b) Fair value estimation *(Continued)*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(c) Categories of financial instruments

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Financial assets		
Loans and receivables		
Trade receivables	**112**	14
Deposits and other receivables	**1,773**	796
Amount due from a jointly-controlled entity	**—**	19,401
Bank balances and cash	**155,800**	79,513
Financial assets at fair value through profit or loss	**3,130**	3,934
Available-for-sale investment	**1,013**	1,411
	161,828	105,069
Financial liabilities		
Trade and other payables	**46,772**	40,720

Except for financial assets at fair value through profit or loss and available-for-sale investment which are carried at fair value, all financial assets and liabilities are carried at amortised cost.

7 Segment information

In a manner consistent with the way in which information is reported internally to the Company's Chief Executive Officer ("CEO"), the Group has presented the following reportable segments:

(i) TWE — Exploration, development and production of CBM and natural gas in China

(ii) Qian An — Exploration, development and production of petroleum in China

(iii) Information technology related services in Hong Kong

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

(a) Segment assets include all tangible and intangible assets and current assets with the exception of available-for-sale investment, club memberships, financial assets at fair value through profit or loss and other unallocated corporate assets.

(b) Segment liabilities include all liabilities except for unallocated corporate liabilities.

(c) Segment results are allocated to reportable segments with reference to sales generated and expenses incurred by those segments, the Group's share of profits less losses of a jointly-controlled entity, administrative and operating expenses and finance income. There is no transaction between segments. The measure used for reporting revenue and expenses of reportable segments is loss before taxation.

7 Segment information *(Continued)*

An analysis of the Group's revenue and loss and certain assets, liabilities and expenditure information for the Group's reportable segments is as follows:

	Information technology related services in Hong Kong HK$'000	Oil and gas exploration in China Qian An HK$'000	TWE HK$'000	Consolidated HK$'000
For the year ended 31 December 2010				
Segment revenue	379	—	—	379
Gross profit	82	—	—	82
Administrative and operating expenses	(1,437)	—	(1,713)	(3,150)
Share of profits less losses of:				
— jointly-controlled entity before impairment loss	—	964	—	964
Income tax	—	—	4,618	4,618
Segment results	(1,355)	964	2,905	2,514
Unallocated:				
Other loss, net				(609)
Administrative and operating expenses				(98,652)
Finance income				512
Loss before taxation				(96,235)
Income tax				—
Loss for the year				(96,235)
As at 31 December 2010				
Segment assets	2,934	3,299	1,118,643	1,124,876
Unallocated assets				152,885
Total assets				1,277,761
Segment liabilities	498	—	270,690	271,188
Unallocated liabilities				24,987
Total liabilities				296,175

	Information technology related services in Hong Kong HK$'000	Oil and gas exploration in China Qian An HK$'000	TWE HK$'000	Unallocated HK$'000	Consolidated HK$'000
For the year ended 31 December 2010					
Capital additions	49	—	29,662	506	30,217

7 Segment information *(Continued)*

	Information technology related services in Hong Kong	Oil and gas exploration in China		
		Qian An	TWE	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December 2009				
Segment revenue	310	—	—	310
Gross profit	64	—	—	64
Administrative and operating expenses	(1,797)	—	(3,948)	(5,745)
Share of profits less losses of:				
— jointly-controlled entity before impairment loss	—	(3,279)	—	(3,279)
— jointly-controlled entity's impairment loss	—	(59,748)	—	(59,748)
Segment results	(1,733)	(63,027)	(3,948)	(68,708)
Unallocated:				
Other loss, net				(509)
Administrative and operating expenses				(38,350)
Finance income				42
Loss before taxation				(107,525)
Income tax				—
Loss for the year				(107,525)
As at 31 December 2009				
Segment assets	599	22,111	1,029,133	1,051,843
Unallocated assets				84,642
Total assets				1,136,485
Segment liabilities	79	—	256,539	256,618
Unallocated liabilities				25,213
Total liabilities				281,831

	Information technology related services in Hong Kong	Oil and gas exploration in China			
		Qian An	TWE	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December 2009					
Capital additions	56	—	15,693	729	16,478

The Group's revenue for both the year ended 31 December 2010 and 2009 is solely derived from its information technology related services segment in Hong Kong.

7 Segment information *(Continued)*

The Group's non-current assets other than available-for-sale investment, as at 31 December 2010 and 2009 are further analysed as follows:

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Hong Kong (place of domicile)	**4,915**	5,882
China	**1,110,397**	1,024,945
	1,115,312	1,030,827

8 Revenue

Revenue represents amount receivable for goods sold and services provided in the normal course of business.

An analysis of the Group's revenue is as follows:

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Sale of computer software	**284**	279
Network infrastructure maintenance and sale of computer hardware	**95**	31
	379	310

9 Other loss, net

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Financial asset at fair value through profit or loss (Note 26)		
— Fair value loss	**(804)**	(509)
Loss on disposal of plant and equipment	**(125)**	—
Others	**320**	—
	(609)	(509)

10 Loss before taxation

The Group's loss before taxation is arrived at after charging/(crediting) the following:

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Cost of inventories sold	**232**	242
Cost of services provided (Note)	**65**	4
Depreciation of plant and equipment	**1,576**	1,452
Auditor's remuneration		
— Current year	**1,580**	1,500
— Under-provision in prior year	**798**	—
— Audit-related services	**281**	—
Operating lease payments	**3,729**	2,810
Legal and professional fees	**2,124**	2,370
Investor relations expenses		
— Cash payments	**8,135**	3,930
— Share-based payments	**15,037**	2,500
Technical consultancy expenses		
— Share-based payments	**3,287**	—
Staff costs, including Directors' emoluments		
— Salaries, allowances and other benefits	**19,893**	18,929
— Retirement benefit scheme contributions	**152**	151
— Share-based payments	**5,768**	1,979
— Discretionary and performance related incentive payments	**6,586**	2,989
Impairment loss of available-for-sale investment	**2,568**	—
Provision for impairment of amount due from a jointly-controlled entity	**20,359**	—
Exchange loss/(gain), net	**99**	(2,065)

Note: The cost of services provided includes approximately HK$6,000 (2009: HK$4,000) relating to staff costs, which are also included in the total amounts of staff costs disclosed separately above.

11 Finance income

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Interest income from financial asset at fair value through profit or loss	**502**	—
Bank interest income	**10**	42
	512	42

12 Directors' and senior management's emoluments

Directors' emoluments for the year ended 31 December 2010 and 2009, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

For the year ended 31 December 2010	Directors' fees HK$'000	Salaries, allowance and other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Share-based payments HK$'000	Discretionary bonuses (Note) HK$'000	Total HK$'000
Name of Directors						
Executive Directors						
Mr. Chan Wing Him Kenny	—	9,048	12	935	5,500	15,495
Dr. Arthur Ross Gorrell	—	192	—	407	35	634
Independent non-executive Directors						
Mr. David Tsoi	120	—	—	149	30	299
Mr. Lo Chi Kit	120	—	—	113	25	258
Mr. Tam Hang Chuen	120	—	—	24	25	169
Total	360	9,240	12	1,628	5,615	16,855

For the year ended 31 December 2009	Directors' fees HK$'000	Salaries, allowance and other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Share-based payments HK$'000	Discretionary bonuses (Note) HK$'000	Total HK$'000
Name of Directors						
Executive Directors						
Mr. Chan Wing Him Kenny	—	8,421	12	224	1,810	10,467
Dr. Arthur Ross Gorrell	—	192	—	224	95	511
Independent non-executive Directors						
Mr. David Tsoi	120	—	—	73	30	223
Mr. Lo Chi Kit	115	—	—	58	25	198
Mr. Tam Hang Chuen	115	—	—	10	25	150
Total	350	8,613	12	589	1,985	11,549

Note: The discretionary and performance related incentive payments are determined by reference to the individual performance of the Directors and approved by the Remuneration Committee.

For the year ended 31 December 2010, no emolument or incentive payments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

For the year ended 31 December 2010, there was no arrangement under which the Directors waived or agreed to waive any emoluments (2009: Nil).

12 Directors' and senior management's emoluments *(Continued)*

During the year ended 31 December 2010, one (2009: one) of the five individuals with the highest emoluments in the Group was Director whose emoluments are disclosed in the table above. Details of the emoluments of the remaining four (2009: four) individuals are as follows:

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and other benefits	**6,726**	6,181
Retirement benefit scheme contributions	**37**	35
Share-based payments	**4,089**	1,357
Discretionary and performance related incentive payments	**700**	571
	11,552	8,144

The emoluments were within the following bands:

	Number of employees Year ended 31 December	
	2010	2009
Nil to HK$1,000,000	**—**	1
HK$1,000,001 to HK$1,500,000	**—**	—
HK$1,500,001 to HK$2,000,000	**—**	2
HK$2,000,001 to HK$2,500,000	**1**	—
HK$2,500,001 to HK$3,000,000	**2**	—
HK$3,000,001 to HK$3,500,000	**—**	—
HK$3,500,001 to HK$4,000,000	**1**	1
	4	4

During the year ended 31 December 2010, no emolument was paid to the five highest paid individuals (including both the Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

13 Income tax

The Company was incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2021. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of the British Virgin Islands income taxes.

No Hong Kong profits tax had been provided as the Group did not have any assessable profits in Hong Kong for the year ended 31 December 2010 (2009: Nil).

China Enterprise Income Tax has not been provided for the subsidiaries in China as they did not generate any assessable profits during the year ended 31 December 2010 (2009: Nil).

13 Income tax *(Continued)*

The Company's non wholly-owned subsidiary, TWE, incorporated under the laws of British Columbia, Canada, has been reporting tax loss since its incorporation. For the year ended 31 December 2010, the Group has recognised deferred tax asset in respect of the tax losses accumulated at TWE, to offset against the deferred tax liability arising from the same entity, under the Income Tax Act (Canada).

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Deferred income tax	**4,618**	—

The tax for the year can be reconciled to the loss in the consolidated income statement as follows:

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Loss for the year	**(100,853)**	(107,525)
Tax at the domestic income tax rate of 16.5% (2009: 16.5%)	**16,641**	17,742
Effect of different tax rates of subsidiaries operating in other jurisdictions	**353**	618
Tax effect of:		
— income not subject to tax	**1**	7
— expenses not deductible for tax	**(15,716)**	(16,499)
— tax losses for which no deferred income tax asset was recognised	**(615)**	(1,868)
— recognition of previously unrecognised tax losses	**3,954**	—
Tax credit	**4,618**	—

The Group has unrecognised deferred tax assets from estimated tax losses of approximately HK$4,385,000 (2009: HK$8,014,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Included in unrecognised tax losses are losses arising from the subsidiaries in the PRC of approximately HK$719,000 (2009: HK$345,000) that will expire in five years from the respective year of loss. Also included in unrecognised tax losses are losses relating to Hong Kong operations of approximately HK$3,700,000 (2009: HK$3,425,000) that has no expiry date.

There is no tax impact relating to components of other comprehensive loss for the year ended 31 December 2010 (2009: Nil).

14 Dividend

No dividend was paid or proposed for the year ended 31 December 2010 (2009: Nil).

15 Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$79,716,000 (2009: HK$368,625,000).

Notes to the Consolidated Financial Statements

16 Loss per share

(a) Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during year ended 31 December 2010 and 2009.

The calculation of the basic loss per share attributable to the equity holders of the Company is based on the following data:

	Year ended 31 December 2010	2009
Loss attributable to equity holders of the Company for the purposes of basic loss per share (HK$'000)	**(97,144)**	(106,595)
Weighted average number of ordinary shares for the purpose of basic loss per share ('000)	**2,516,206**	2,337,737
Basic loss per share (in HK cents)	**(3.86)**	(4.56)

(b) The Group had share options and warrants (issued by TWE) outstanding as at 31 December 2009 and 31 December 2010. The share options and warrants did not have a dilutive effect on loss per share (2009: anti-dilutive).

17 Plant and equipment

Group	**Leasehold improvements** HK$'000	**Computer equipment and software** HK$'000	**Furniture and fixtures** HK$'000	**Office equipment** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
Cost						
At 1 January 2009	1,020	863	525	172	3,023	5,603
Additions	140	101	—	11	533	785
Disposals	—	(12)	—	—	—	(12)
At 31 December 2009	1,160	952	525	183	3,556	6,376
Exchange differences	—	3	—	—	—	3
Additions	—	100	—	—	464	564
Disposals	—	(38)	—	—	(435)	(473)
At 31 December 2010	**1,160**	**1,017**	**525**	**183**	**3,585**	**6,470**
Accumulated depreciation						
At 1 January 2009	304	582	92	74	353	1,405
Depreciation for the period	404	128	100	30	790	1,452
Disposals	—	(12)	—	—	—	(12)
At 31 December 2009	708	698	192	104	1,143	2,845
Exchange differences	—	2	—	—	—	2
Depreciation for the year	418	144	99	29	886	1,576
Disposals	—	(38)	—	—	(150)	(188)
At 31 December 2010	**1,126**	**806**	**291**	**133**	**1,879**	**4,235**
Carrying values						
At 31 December 2010	**34**	**211**	**234**	**50**	**1,706**	**2,235**
At 31 December 2009	452	254	333	79	2,413	3,531

17 Plant and equipment *(Continued)*

Company	Leasehold improvements HK$'000	Computer equipment and software HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2009	1,020	110	423	33	462	2,048
Additions	—	20	—	7	—	27
At 31 December 2009	1,020	130	423	40	462	2,075
Additions	—	42	—	—	—	42
At 31 December 2010	**1,020**	**172**	**423**	**40**	**462**	**2,117**
Accumulated depreciation						
At 1 January 2009	305	45	60	25	144	579
Depreciation for the year	340	37	80	4	115	576
At 31 December 2009	645	82	140	29	259	1,155
Depreciation for the year	341	33	83	3	116	576
At 31 December 2010	**986**	**115**	**223**	**32**	**375**	**1,731**
Carrying values						
At 31 December 2010	**34**	**57**	**200**	**8**	**87**	**386**
At 31 December 2009	375	48	283	11	203	920

18 Oil and gas properties — Group

	Year ended 31 December 2010 HK$'000	2009 HK$'000
At cost		
At beginning of the year	**1,022,216**	860,734
Additions	**29,653**	15,693
Exchange differences	**55,209**	145,789
At end of the year	**1,107,078**	1,022,216

At the balance sheet date, oil and gas properties represented exploration expenditures, including licence acquisition costs, incurred for the Group's coalbed methane ("CBM") project.

TWE and China United Coalbed Methane Corporation Limited ("CUCBM") entered into a coalbed methane production sharing contract ("PSC") on 30 December 2005. The administration of the PSC was transferred to PetroChina Coalbed Methane Company Ltd. during 2009.

18 Oil and gas properties — Group *(Continued)*

Pursuant to the PSC, TWE, as operator, is allowed to explore, develop, produce and sell CBM in a block covering approximately 653 square kilometers in the Junggar Basin of Xinjiang Province in the northwest of the PRC ("Contract Area"). Further, TWE is not required to separately apply for an exploration licence and/or production licence for its operation under the PSC.

According to the terms of the PSC, all the costs incurred at the exploration stage shall be borne by TWE. Upon submission of the overall development programme and approval by the relevant PRC government authorities, the operation shall enter into the stage of development and then CBM production. All the development and operating costs shall be borne in the proportion of 47% by TWE and 53% by CUCBM. During the production stage, 70% of the annual gross CBM production will be deemed as cost recovery production, where firstly, operating costs, secondly, the exploration costs incurred but not yet recovered by TWE and thirdly, development costs incurred but not yet recovered by TWE or CUCBM would be reimbursed therefrom. The remainder of production would be shared based upon the terms in the PSC, broadly in the proportion of 47% by TWE and 53% by CUCBM, which will be adjusted according to their respective actual participating interests in the CBM fields.

The PSC provides a term of thirty consecutive years, with production period not more than twenty consecutive years commencing on a date determined by the joint management committee which was set up by TWE and CUCBM, pursuant to the PSC, to oversee the operations in the Contract Area. As at 31 December 2010, the block covered by the PSC is at the five-year exploration stage, which requires extension after 28 February 2011. The Company has been advised by its PRC legal advisers that there is no material legal impediment in extending the exploration period of the PSC.

19 Investments in subsidiaries — Company

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**372,680**	372,680
Less: Provision for impairment loss	**(372,680)**	(372,680)
	—	—

19 Investments in subsidiaries — Company *(Continued)*

Details of the subsidiaries held by the Company as at 31 December 2010 are as follows:

Name	Place of incorporation and kind of legal entity	Nominal value of issued shares/ paid-up capital	Percentage of equity attributable to the Company		Principal activities and place of operation
			Direct	Indirect	
Sys Solutions (BVI) Limited	British Virgin Islands ("BVI"), limited liability company	US$10,000 ordinary	100	—	Investment holding in Hong Kong
Allied Resources Limited	Hong Kong, limited liability company	HK$1 ordinary	100	—	Investment holding in Hong Kong
Rich Concept Technology Limited	BVI, limited liability company	US$10,000 ordinary	100	—	Investment holding in Hong Kong
[1] Fine Sources Limited	Hong Kong, limited liability company	HK$1 ordinary	—	100	Membership holding in Hong Kong
[#] Jilin Hengli Industries Liability Co., Ltd.	PRC, limited liability company	Renminbi ("RMB") 12,155,800	—	100	Investment holding in the PRC
Chavis International Limited	BVI, limited liability company	1 ordinary with no par value	—	100	Investment holding in Hong Kong
TerraWest Energy Corp.	British Columbia, Canada, limited liability company	CAD 7,317,000 common stock with no par value CAD 3,771,603 preferred stock with no par value	—	64.98	CBM and natural gas exploration and development in the PRC
Sys Solutions Limited	Hong Kong, limited liability company	HK$1,000,000 ordinary	—	100	Provision of network infrastructure solutions and services in Hong Kong
China Enviro Energy Holdings Limited	Hong Kong, limited liability company	HK$1 ordinary	—	100	Inactive in Hong Kong
Basic Corporation Limited	Hong Kong, limited liability company	HK$1 ordinary	—	100	Membership holding in Hong Kong
Sun Ray (China) Limited	Hong Kong, limited liability company	HK$1 ordinary	—	100	Vehicle holding in Hong Kong
Dragon Bounty Company Limited	BVI, limited liability company	US$1 ordinary	—	100	Investment holding in Hong Kong
Aces Diamond Holdings Limited	BVI, limited liability company	US$1 ordinary	100	—	Investment holding in Hong Kong
CCST Singapore Pte. Ltd.	Singapore, limited liability company	S$10,000 ordinary	—	100	Environmental projects in South East Asia
Aces Diamond International Limited	BVI, limited liability company	US$1 ordinary	—	100	Investment holding in Hong Kong

[1] Incorporated on 7 April 2010.

[#] Wholly-owned foreign enterprise established in the PRC.

19 Investments in subsidiaries — Company *(Continued)*

Common shares, preferred shares and warrants in TWE

TWE has 134 million outstanding warrants as at 31 December 2010 (2009: 93 million warrants) and 8 million preferred shares (2009: 8 million preferred shares). Assuming the full conversion of all outstanding warrants of TWE and preferred shares, the Group would hold approximately 74.25% controlling interest of the enlarged capital. TWE will remain a subsidiary of the Group after the full conversion of all outstanding warrants and preferred shares.

	Number of common shares with no par value		Number of preferred shares with no par value		Number of warrants	
	As at 31 December 2010 '000	As at 31 December 2009 '000	**As at 31 December 2010 '000**	As at 31 December 2009 '000	**As at 31 December 2010 '000**	As at 31 December 2009 '000
Authorised:						
At the beginning and end of year	**100,000**	100,000	**100,000**	100,000		
Issued and outstanding:						
At the beginning of year						
Common shares and preferred shares of no par value	**234,334**	161,000	**8,000**	8,000	**93,000**	53,000
Issue of new shares upon exercise of warrants on 11 February 2009 (i)	**—**	16,667	**—**	—	**—**	(16,667)
Issue of new shares and warrants (ii), (iv)	**27,000**	40,000	**—**	—	**54,000**	80,000
Issue of new shares upon exercise of warrants on 1 November 2009 (iii)	**—**	16,667	**—**	—	**—**	(16,667)
Lapse of warrants (v)	**—**	—	**—**	—	**(13,000)**	(6,666)
As at end of year	**261,334**	234,334	**8,000**	8,000	**134,000**	93,000
Number of common shares, preferred shares and warrants owned by the Group as at end of year	**175,000**	148,000	**—**	—	**134,000**	80,000

Notes:

(i) On 11 February 2009, Petromin Resources Limited ("Petromin"), a related company, exercised 16,666,667 warrants at an exercise price of CAD0.03 per warrant to subscribe for 16,666,667 common shares of TWE (Note 34(a)(v)).

(ii) On 17 August 2009, the Company, through a wholly-owned subsidiary, subscribed for 40,000,000 common shares of TWE, 40,000,000 A warrants at an exercise price of CAD0.10 per common share of TWE and 40,000,000 B warrants at an exercise price of CAD0.15 per common share of TWE, for an aggregate subscription price of CAD2,000,000. Each A warrant and B warrant entitles the holder to purchase one common share of TWE within two to three years, respectively, following the date of issuance of such warrants (Note 34(b)(i)).

(iii) On 1 November 2009, Petromin exercised 16,666,667 warrants at an exercise price of CAD0.03 per warrant to subscribe for 16,666,667 common shares of TWE (Note 34(a)(vi)).

(iv) On 25 July 2010, the Company, through a wholly-owned subsidiary, subscribed for 27,000,000 common shares of TWE, 27,000,000 C warrants at an exercise price of CAD0.07 per common share of TWE and 27,000,000 D warrants at an exercise price of CAD0.10 per common share of TWE, for an aggregate subscription price of CAD1,350,000. Each C warrant and D warrant entitles the holder to purchase one common share of TWE within two to three years, respectively, following the date of issuance of such warrants (Note 34(b)(ii)).

(v) On 8 July 2010, 18 February 2010 and 5 November 2009, 12,000,000, 1,000,000 and 6,666,666 warrants with an exercise price of CAD0.03 expired respectively.

19 Investments in subsidiaries — Company *(Continued)*

Common shares, preferred shares and warrants in TWE *(Continued)*

Details of outstanding warrants of TWE and their respective exercise price are detailed as follows:

	Outstanding ('000) at 31 December		**Exercise price (CAD per share) at 31 December**	
	2010	2009	**2010**	2009
A Warrant	**40,000**	40,000	**0.10**	0.10
B Warrant	**40,000**	40,000	**0.15**	0.15
C Warrant	**27,000**	—	**0.07**	—
D Warrant	**27,000**	—	**0.10**	—
Other warrants	**—**	13,000	**—**	0.03
	134,000	93,000		

The key terms of the preferred shares of TWE are that the holders thereof are entitled to one vote each and will provide the holders with a preference on winding up to the extent of the paid up capital or the cost of their shares. The preferred shares of TWE will have a preference as to dividends or any other distributions by TWE to its shareholders. Each preferred share is convertible into one common share of TWE at the option of the holder. In all other aspects, the terms of the preferred shares and common shares of TWE are equal.

None of the subsidiaries had issued any debt securities during the year ended 31 December 2010 and at the end of the year.

20 Amounts due from subsidiaries — Company

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Cost	**181,572**	119,984
Less: Provision for impairment	**(70,739)**	(39,977)
	110,833	80,007

The amounts due are unsecured, interest-free and repayable on demand.

21 Interest in a jointly-controlled entity — Group

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**298,401**	298,401
Share of post-acquisition losses and other comprehensive losses, net of dividends declared	**(7,552)**	(8,141)
Less: Impairment losses recognised	**(287,550)**	(287,550)
	3,299	2,710

Included in the cost of the interest in a jointly-controlled entity was goodwill amounting to HK$196,119,000 arising from the acquisition of Qian An, which was fully impaired as at both 31 December 2010 and 2009.

Particulars of the jointly-controlled entity are summarised as follows:

Name	**Place of incorporation**	**Principal activities**	**Interest indirectly held**
Qian An Oil Development Co., Ltd. ("Qian An")	PRC	Exploitation of petroleum resources activities and production of petroleum	50%

The Group holds 50% equity interests in Qian An, an equity joint venture company established under the laws of the PRC. The other 50% of the equity interests of Qian An is beneficially owned by PetroChina Company Limited. Qian An is principally engaged in the exploitation of petroleum resources activities and production of petroleum. The major assets of Qian An include two producing oilfields, which cover a total area of approximately 15 square kilometres and have over 60 producing and suspended wells and related facilities in the Jilin Qian An area of the PRC. Pursuant to the joint venture agreement, the rights for Qian An to exploit and produce petroleum expires on 19 December 2016.

21 Interest in a jointly-controlled entity — Group *(Continued)*

The Group's share of the assets, liabilities and results of its jointly-controlled entity, and their aggregate assets and liabilities, are as follows:

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Assets		
Non-current assets	**31,565**	34,752
Current assets	**6,966**	6,993
	38,531	41,745
Liabilities		
Current liabilities	**(34,133)**	(37,223)
Non-current liabilities	**(1,099)**	(1,812)
	(35,232)	(39,035)
Net assets	**3,299**	2,710

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Income	**35,549**	25,388
Expenses before impairment loss	**(34,585)**	(28,667)
Impairment loss	**—**	(59,748)
Net income/(loss)	**964**	(63,027)

As at 31 December 2010, there are no contingent liabilities related to the Group's interest in a jointly-controlled entity and no contingent liabilities of the jointly-controlled entity itself (2009: Nil).

22 Amount due from a jointly-controlled entity

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Amount due from a jointly-controlled entity	**20,359**	19,401
Less: Provision for impairment	**(20,359)**	—
	—	19,401

As at 31 December 2010, amount due and dividend receivable from Qian An amounted to approximately HK$20,359,000. The Group carried out an assessment on the recoverability of such amount at year end. In view of the fact that the amount has been outstanding for a prolonged period and the timing of the repayment remains uncertain, the Group has decided to make a full provision for such amount.

23 Available-for-sale investment — Group and Company

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**1,411**	659
Fair value change	**(398)**	752
At end of the year	**1,013**	1,411

Available-for-sale investment comprises:

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Listed securities, reporting as non-current assets:		
— Equity securities — listed overseas	**1,013**	1,411
Market value of listed securities	**1,013**	1,411

The equity securities represented approximately 3% (2009: 3%) equity interests in Petromin Resources Ltd ("Petromin"), a related company of the Group (note 34(a)).

As at the balance sheet date, the available-for-sale investment was measured at fair value. The equity securities are denominated in CAD.

24 Trade receivables — Group

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Trade receivables	**112**	14

The Group's trading terms with its customers are mainly on credit for which the credit period is generally for a period of 30 to 60 days.

An ageing analysis of the trade receivables of the Group as at the balance sheet date, based on invoice date, is as follows:

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**70**	14
Between 31 – 60 days	**3**	—
Over 60 days	**39**	—
	112	14

24 Trade receivables — Group *(Continued)*

As at 31 December 2010, trade receivables of HK$42,000 (2009: Nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**—**	—
Between 31 – 60 days	**3**	—
Over 60 days	**39**	—
	42	—

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
HK dollar	**96**	14
US dollar	**16**	—
	112	14

25 Deposits, prepayments and other receivables

	Group		Company	
	As at 31 December		As at 31 December	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits	**609**	654	**414**	411
Prepayments	**621**	589	**243**	299
Other receivables	**1,164**	142	**287**	1,383
	2,394	1,385	**944**	2,093

26 Financial asset at fair value through profit or loss — Group

Financial asset at fair value through profit or loss represents investment in a convertible debenture issued by Petromin. The debenture bears interest at 9% per annum and will mature on 11 August 2014 ("Debenture Maturity Date"). The debenture is convertible into the ordinary shares of Petromin at the option of the Group before 11 August 2014 at CAD0.2 per share. Any remaining debenture will be automatically converted into the ordinary shares of Petromin at CAD0.2 per share at the maturity date.

If converted, the debenture represents approximately 5.4% (2009: 5.4%) of the outstanding ordinary shares of Petromin.

Change in fair value of financial asset through profit or loss amounted to HK$804,000 (2009: HK$509,000) was recorded in "Other loss, net" in the income statement.

27 Bank balances and cash

	Group As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**155,800**	19,426	**137,107**	7,318
Short-term bank deposits	**—**	60,087	**—**	60,087
	155,800	79,513	**137,107**	67,405

At 31 December 2010, the bank balances and cash of the Group denominated in RMB amounted to approximately HK$276,000 (2009: HK$101,000). The RMB is not freely convertible into other currencies. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

28 Trade and other payables — Group

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Trade payables	**17**	—
Other payables	**40,741**	34,339
Accrued liabilities	**6,334**	6,551
	47,092	40,890

At 31 December 2010, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**12**	—
Between 31 – 60 days	**5**	—
	17	—

29 Deferred tax liabilities

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same taxation jurisdiction, is as follows:

Deferred tax liabilities

	Oil and gas properties Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**240,941**	206,578
Exchange differences	**12,760**	34,363
At end of the year	**253,701**	240,941

Deferred tax assets

	Tax losses Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**—**	—
Credited to consolidated income statement (Note 13)	**4,618**	—
At end of the year	**4,618**	—

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Deferred tax liabilities	**253,701**	240,941
Deferred tax assets	**(4,618)**	—
	249,083	240,941

30 Share capital

	Number of ordinary shares Year ended 31 December		Nominal value Year ended 31 December	
	2010	2009	**2010**	2009
	'000	'000	**HK$'000**	HK$'000
Authorised				
At the beginning and end of year				
Ordinary shares of HK$0.0025 each	**20,000,000**	20,000,000	**50,000**	50,000
Issued and fully paid				
At the beginning of year				
Ordinary shares of HK$0.0025 each	**2,431,961**	2,336,881	**6,080**	5,842
Issue of new shares upon exercise of share options on 20 July 2009 (i)	**—**	80	**—**	—
Issue of new shares upon exercise of share options on 7 August 2009 (i)	**—**	1,400	**—**	4
Issue of shares for acquisition of a subsidiary (ii)	**—**	93,600	**—**	234
Issue of new shares (iii)	**345,498**	—	**864**	—
As at end of year Ordinary share of HK$0.0025	**2,777,459**	2,431,961	**6,944**	6,080

Notes:

(i) During the year ended 31 December 2009, the Company allotted and issued 80,000, 1,000,000 and 400,000 shares of HK$0.0025 each in the share capital of the Company for cash at exercise prices of HK$0.579, HK$0.0635 and HK$0.1125 per share, respectively, as a result of the exercise of share options.

(ii) The Company issued 93,600,000 ordinary shares on 31 December 2009 as part of the purchase consideration for the acquisition of Chavis. The Chavis Consideration Shares rank pari passu with the existing shares in all respects. The fair value of the Chavis Consideration Shares at the date of acquisition amounted to approximately HK$8,424,000 at HK$0.09 per share.

(iii) On 4 October 2010, the Company has completed a share placement to raise HK$160,657,000 by issuing 345,498,000 ordinary shares at a price of HK$0.465 per share. After deducting the costs and expenses in connection with the placing amounting to HK$6,685,000, the net proceeds from issue of ordinary shares is HK$153,972,000.

All the above shares rank pari passu in all respects with other shares in issue.

31 Share premium and reserves — Company

	Share premium HK$'000	Capital reserve HK$'000	Available-for-sale investment reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2009	654,527	871	(2,922)	58,551	(207,740)	503,287
Comprehensive loss						
Loss for the year	—	—	—	—	(368,625)	(368,625)
Other comprehensive income						
Gain on change in fair value of available-for-sale investment	—	—	752	—	—	752
Total comprehensive income/(loss)	—	—	752	—	(368,625)	(367,873)
Transactions with shareholders						
Recognition of equity settled share-based payments	—	—	—	4,479	—	4,479
Exercise of share options	296	—	—	(145)	—	151
Forfeiture of share options	—	—	—	(25)	25	—
Issuance of deferred share consideration	(234)	—	—	—	—	(234)
Total transactions with shareholders	62	—	—	4,309	25	4,396
As at 31 December 2009	654,589	871	(2,170)	62,860	(576,340)	139,810

31 Share premium and reserves — Company *(Continued)*

	Share premium HK$'000	Capital reserve HK$'000	Available-for-sale investment reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2010	654,589	871	(2,170)	62,860	(576,340)	139,810
Comprehensive loss						
Loss for the year	—	—	—	—	(79,716)	(79,716)
Other comprehensive income						
Reclassification adjustment for amount transferred to income statement due to impairment of available-for-sale investment	—	—	2,170	—	—	2,170
Total comprehensive income/(loss)	—	—	2,170	—	(79,716)	(77,546)
Transactions with shareholders						
Recognition of equity settled share-based payments	—	—	—	24,092	—	24,092
Issue of new shares upon subscription, net of issuance costs	153,108	—	—	—	—	153,108
Total transactions with shareholders	153,108	—	—	24,092	—	177,200
As at 31 December 2010	807,697	871	—	86,952	(656,056)	239,464

32 Share option schemes

(a) On 25 January 2003, a share option scheme ("Share Option Scheme") was approved and adopted pursuant to a written resolution of the Company. The purpose of the Share Option Scheme is to enable the Group to recognise the contribution of the participants to the Group and to motivate the participants to continue working for the benefit of the Group by offering the participants an opportunity to have personal interest in the share capital of the Company. The board of Directors may, at its discretion, grant share options to any employees, consultants and advisers of the Company or its subsidiaries, including executive, non-executive and independent non-executive Directors, to subscribe for shares of the Company. The Share Option Scheme remains in force for a period of ten years with effect from 25 January 2003.

The maximum number of shares in respect of which share options may be granted under the Share Option Scheme and any other share option scheme of the Company may not exceed 10% of the issued share capital of the Company, or may not exceed a maximum of 30% should the shareholders of the Company renew the 10% limit, from time to time which have been duly allotted and issued.

The exercise price for shares under the Share Option Scheme may be determined by the board of Directors at its absolute discretion but in any event will be at least the highest of: (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of the shares on the date of grant of the option.

Any share options granted to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates, representing in aggregate over 0.1% of the shares of the Company in issue on the date of such grant and an aggregate value, based on the closing price of the shares of the Company at the date of grant in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in advance in a general meeting. In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time, in any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The share options granted may be exercised at any time or times during a period to be determined and notified by the board of Directors which period of time shall commence after the date of grant of the share options and expire on such date as determined by the board of Directors in any event no later than 10 years from the date of the grant of such share options. A nominal consideration of HK$1 is payable on acceptance of the grant of a share option under the Share Option Scheme.

32 Share option schemes *(Continued)*

(a) *(Continued)*

Movements in the number of share options outstanding and their weighted average exercise prices for the year ended 31 December 2010 are as follows:

	Weighted average exercise price (per share) HK$	Outstanding Options
As at 1 January 2009	**1.02**	85,907,200
Granted	**0.73**	33,155,000
Exercised	**0.10**	(1,480,000)
Lapsed/cancelled	**0.42**	(80,000)
As at 31 December 2009	**0.95**	117,502,200
Exercisable as at 31 December 2009	**1.16**	73,427,200
As at 1 January 2010	**0.95**	117,502,200
Granted	**0.54**	143,630,000
Exercised	**—**	—
Lapsed/cancelled	**0.56**	(1,985,000)
As at 31 December 2010	**0.73**	259,147,200
Exercisable as at 31 December 2010	**1.10**	78,562,200

Share options outstanding as at 31 December 2010 and 2009 have the following expiry dates and exercise prices:

Expiry date	Exercise price (per share) HK$	**Outstanding options as at 31 December 2010**
24 January 2013 (Note 1)	0.11	**15,840,000**
24 January 2013 (Note 1)	1.37	**16,500,000**
24 January 2013 (Note 1)	0.58	**1,000,000**
24 January 2013 (Note 1)	2.44	**24,200,000**
24 January 2013 (Note 1)	0.06	**15,847,200**
19 June 2018 (Note 2)	0.23	**10,350,000**
14 June 2019 (Note 2)	0.73	**31,490,000**
5 October 2019 (Note 2)	0.75	**410,000**
3 February 2020 (Note 2)	0.51	**63,510,000**
8 July 2020 (Note 2)	0.56	**80,000,000**
		259,147,200

32 Share option schemes *(Continued)*

(a) *(Continued)*

Expiry date	Exercise price (per share) HK$	Outstanding options as at 31 December 2009
24 January 2013 (Note 1)	0.11	**15,840,000**
24 January 2013 (Note 1)	1.37	**16,500,000**
24 January 2013 (Note 1)	0.58	**1,040,000**
24 January 2013 (Note 1)	2.44	**24,200,000**
24 January 2013 (Note 1)	0.06	**15,847,200**
19 June 2018 (Note 2)	0.23	**10,950,000**
14 June 2019 (Note 2)	0.73	**32,715,000**
5 October 2019 (Note 2)	0.75	**410,000**
		117,502,200

Notes:

(1) The exercise price of share options was adjusted upon the subdivision of shares of the Company which came to effect on 29 August 2007.

(2) Regarding the share options granted on 19 June 2008, 15 June 2009, 6 October 2009, 4 February 2010 and 9 July 2010, 50% of which shall be exercised in a period commencing two years from the date of grant and expiring on the tenth anniversary from the date of grant. The balance of 50% of the share options shall be exercised in a period commencing three years from the date of grant and expiring on the tenth anniversary from the date of grant.

During the year ended 31 December 2010, share options for subscribing 143,630,000 shares of the Company were granted for a total consideration of HK$32. The aggregate share-based payment expense of HK$5,768,000 in relation to stock options granted to employees of the Group, was charged to the consolidated income statement (2009: HK$1,979,000). The share-based payment expense in relation to stock options granted to non-employees amounted to HK$18,324,000, of which HK$15,037,000 (2009: HK$2,500,000) was recorded as investor relations expenses and HK$3,287,000 (2009: Nil) was recorded as technical consultancy expenses, in the consolidated income statement.

No options were exercised during the year ended 31 December 2010. Options exercised in 2009 resulted in 1,480,000 shares being issued at a weighted average price of HK$0.10 each. The related weighted average share price at the time of exercise was HK$1.13 per share.

(b) The fair values of the share options granted during the year ended 31 December 2010 were derived from Binomial option pricing model by applying the following bases and assumptions:

Date of grant	**Dividend yield**	**Expected volatility (i)**	**Risk-free rate (ii)**	**Price of the Company's shares at grant date of options (iii) HK$ per share**
4 February 2010	Nil	62.3%	2.90%	HK$0.51
9 July 2010	Nil	62.0%	2.40%	HK$0.56

32 Share option schemes *(Continued)*

(b) *(Continued)*

(i) The expected volatilities of the options were calculated based on the historical stock price of the Company and comparable companies. It is assumed that the volatility is constant throughout the option life;

(ii) The risk-free rate was determined with reference to the yield of the Hong Kong Exchange Fund Notes ("EFN") as at the grant date. In this valuation, the yield of 10-year EFN has been adopted in the estimation of risk-free rate for the share options; and

(iii) The price of the Company's shares disclosed as at the date of grant of the share options was the closing price on the trading day immediately prior to the date of grant of the options.

The fair value of the share options during the year ended 31 December 2010 has been arrived at on the basis of a valuation carried out on date of grant by Vigers Appraisal and Consulting Limited. The values of the options are subject to the limitations of the Binomial option pricing model and a number of assumptions which are subjective and difficult to ascertain. Changes in the subjective input assumptions could materially affect the fair value estimate.

The outstanding share options as at 31 December 2010 had a weighted average remaining contractual life of 7.10 years (2009: 5.37 years). The weighted average fair value of options granted during the period determined using the Binomial valuation model was HK$0.38 per option (2009: HK$0.45 per option).

If options are forfeited before expiration or lapsed, the related share option reserve will be transferred directly to accumulated losses.

At 31 December 2010, the Company had 259,147,200 (2009: 117,502,200) share options outstanding under the Share Option Scheme, which represented approximately 9.33% (2009: 4.83%) of the Company's shares in issue at that date.

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

(c) On 8 April 2009, TWE adopted a share option scheme ("TWE Scheme") which was approved by the Company's shareholders in its annual general meeting held on 20 April 2009. As at 31 December 2010, no share options were granted under the TWE Scheme (2009: Nil).

Prior to the adoption of the TWE Scheme, pursuant to the articles of TWE, a total of 12,850,000 incentive stock options ("TWE Options") were granted by TWE to certain of its directors and consultants to subscribe for common shares of TWE on 27 August 2008, prior to the acquisition of TWE by the Company. Details of the TWE Options as at 31 December 2010 were as follows:

	Exercise price (per share) CAD	**Outstanding options**
As at 1 January 2010	0.03	12,850,000
Lapse of options	0.03	(500,000)
As at 31 December 2010	0.03	12,350,000

The TWE Options vested immediately at the date of issuance and are exercisable from 27 August 2008 to 27 August 2011.

33 Employee retirement benefit

The Group enrolled all Hong Kong employees in a Mandatory Provident Fund ("MPF") Scheme. The assets of the MPF Scheme are held separately from those of the Group under the control of trustees. The retirement benefit cost for the MPF charged to the consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All the PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 12% to 25% of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made.

The total cost charged to consolidated income statement of approximately HK$152,000 represents contributions payable to these schemes by the Group during the year ended 31 December 2010 (2009: HK$151,000).

34 Related party transactions

(a) Transactions with Petromin

Petromin Resources Limited ("Petromin") is a related company of the Group in which Mr. Chan Wing Him Kenny and Dr. Arthur Ross Gorrell, both being executive Directors of the Company, have a beneficial interest and take up key management positions. As at 31 December 2010: (i) Mr. Chan Wing Him Kenny, an executive Director, directly and indirectly held 1,221,867 stock options entitling him to subscribe for 1,221,867 common shares in Petromin (representing 2.1% of the outstanding shares of Petromin when the options are exercised); (ii) Dr. Arthur Ross Gorrell, an executive Director, held 2,230,193 common shares and 478,000 stock options entitling him to subscribe for 478,000 common shares in Petromin (representing 4.6% of the outstanding shares of Petromin when the options are exercised); and (iii) Mr. Lo Chi Kit, an independent non-executive Director, held 262,500 common shares in Petromin (representing 0.5% of the outstanding shares of Petromin). Mr. Chan Wing Him Kenny is also the Co-Chairman and the Chief Executive Officer of Petromin, while Dr. Arthur Ross Gorrell is the other Co-Chairman and the President of Petromin.

As at 31 December 2010, the Group held approximately 3% equity interests in Petromin, and certain convertible debentures issued by Petromin. The debenture is convertible into 3,150,000 common shares of Petromin (approximately 5.4% of the outstanding common shares of Petromin as of 31 December 2010).

The Group entered into the following material related party transactions with Petromin during the year ended 31 December 2010 and 2009.

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Contribution made to the Co-operation (as defined below) (Note (ii))	**—**	75
(Reversal of)/provision of consultancy fees paid/payable to Petromin (Note (iii))	**(354)**	247
Reimbursement of expenses paid by Petromin on behalf of the Group	**238**	131
Professional services income paid/payable by Petromin	**(151)**	—

34 Related party transactions *(Continued)*

(a) Transactions with Petromin *(Continued)*

(i) *Master technical service agreement with Petromin*

The Company has signed a master technical services agreement ("Master Agreement") with Petromin on 10 October 2007 for a term of two years commencing from the date of the Master Agreement. The Master Agreement expired on 9 October 2009.

Pursuant to the Master Agreement, Petromin has agreed to provide services to the Company through the provision of its personnel, expertise, experience, contracts, technology and research activities towards the development of the oil and gas business ("Project Services").

Pursuant to the Master Agreement, the Company may retain Petromin to perform Project Services by entering into a work order which is a form included in the Master Agreement. In consideration for the Project Services, the Company would pay a gross overriding royalty (exclusive of tax) up to 10% of the Company interest in the underlying project undertaken by the Company and would be agreed on a project by project basis.

During the year ended 31 December 2010, there were no technical services provided by Petromin (December 2009: Nil).

(ii) *Co-operative agreement with Petromin and CUCBM*

On 25 January 2008, the Company has entered into a co-operative agreement ("Co-operative Agreement") with Petromin and CUCBM (collectively "All Parties"). Pursuant to the Co-operative Agreement, All Parties entered into a co-operation ("Co-operation") in accordance with the legislation of the PRC. The purpose for the Co-operation would be to jointly evaluate and implement deep un-mineable coal carbon dioxide sequestration and enhanced CBM production project in the PRC.

Pursuant to the Co-operative Agreement, (a) the Co-operation commenced on 1 January 2008 and would be effective for five years or until terminated as provided therein; and (b) the first phase would last for two years and the second phase would last for three years or longer as required to demonstrate of the project. On 10 March 2010, All Parties have entered into a first supplemental agreement to the Co-operative Agreement, pursuant to which All Parties have agreed to extend the Co-operation to five and a half years, as to two and a half years for the first phase and as to three years for the second phase, or until terminated as provided therein. On 30 November 2010, All Parties have further entered into a second supplemental agreement to the Co-operative Agreement and first supplemental agreement, pursuant to which All Parties have agreed to extend the Co-operation to six years, as to three years each for the first and second phases, or until terminated as provided therein.

CUCBM, Petromin and the Company would be entitled to 60%, 20% and 20% of the income, intellectual property and/or benefits derived from the Co-operation respectively. Each party would contribute to the capital of the Co-operation, in cash or property in agreed upon value. As at 31 December 2010, no legal entity has been formed pursuant to this Co-operation.

34 Related party transactions *(Continued)*

(a) Transactions with Petromin *(Continued)*

(iii) Professional services and management agreement with Petromin

On 1 January 2008, TWE has entered into a professional services and management agreement ("Professional Service Agreement") with Petromin. Pursuant to the Professional Service Agreement, Petromin would provide accounting, promotional, geological, technical, general and executive management services to TWE on an as-required basis ("Professional Services").

TWE should pay Petromin a fee for services rendered plus any associated disbursements on a monthly basis since the acquisition of TWE in October 2008. The initial fee for services is approximately HK$64,000 per month. The fee would be adjusted by mutual consent from time to time. Since 1 January 2009, the fee has been reduced to approximately HK$21,000 per month.

On 9 February 2011, TWE and Petromin have entered into a termination of service agreement and agreed to terminate the Professional Service Agreement and that the fees incurred since October 2008 amounting to HK$354,000 to the termination date have been waived by Petromin.

(iv) From time to time, the Group reimburses Petromin for miscellaneous expenses such as travelling and accommodation costs paid on the Group's behalf at cost.

(v) On 11 February 2009, Petromin exercised 16,666,667 warrants of TWE at an aggregate exercise price of approximately CAD500,000 (equivalent to HK$3,162,000) to subscribe for 16,666,667 new common shares in the capital of TWE. After the exercise, Petromin holds 56,666,667 common shares and 700,000 preferred shares of TWE, representing approximately 30.90% of the then issued common shares and preferred shares in the capital of TWE, and 23,333,333 warrants of TWE. The shareholding held by the Company, through Chavis, in TWE was then diluted the exercise of the warrants from approximately 63.91% to approximately 58.17%.

TWE has remained a subsidiary of the Group after the transaction mentioned immediately above, therefore, the difference between the consideration paid by Petromin and the relevant share of the carrying value of the net assets of TWE deemed disposed by the Group of HK$35,140,000 is recorded in equity in the year ended 31 December 2009.

(vi) On 1 November 2009, Petromin exercised 16,666,667 warrants of TWE, at an aggregate exercise price of approximately CAD500,000 (equivalent to HK$3,575,000) to subscribe for 16,666,667 new common shares in the capital of TWE. After the exercise, Petromin holds 73,333,334 common shares and 700,000 preferred shares of TWE, representing approximately 30.55% of the then total issued common shares and preferred shares in the capital of TWE. After the transaction, the Group's shareholding represents approximately 61.07% of the then issued common shares and preferred shares in the capital of TWE, or approximately 65.48% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis.

TWE has remained a subsidiary of the Group after the transaction mentioned immediately above, therefore, the difference between the consideration paid by Petromin and the relevant share of the carrying value of the net assets of TWE deemed disposed by the Group of HK$31,446,000 is recorded in equity in the year ended 31 December 2009.

34 Related party transactions *(Continued)*

(b) Transactions with TWE, a non-wholly owned subsidiary

(i) On 17 August 2009, Aces Diamond, a wholly owned subsidiary of the Company, completed the subcription for 40,000,000 ordinary shares, 40,000,000 A Warrants and 40,000,000 B Warrants of TWE for a consideration of CAD2,000,000 (equivalent to HK$14,124,000). After this subscription, the Group's controlling interests in TWE has increased from 58.17% to 65.58%. Assuming immediately after this subscription and all A Warrants and B Warrants are exercised in full, the Group's effective controlling interests of TWE will increase from 58.17% to 74.59%.

TWE has remained a subsidiary of the Group after this transaction mentioned immediately above, therefore, the difference between the consideration paid and the share of the carrying value of the net assets of TWE acquired of HK$48,713,000 is recorded in equity in the year ended 31 December 2009.

(ii) On 25 July 2010, Aces Diamond, entered into a subscription agreement pursuant to which Aces Diamond has agreed to subscribe for 90,000,000 ordinary shares, 90,000,000 C Warrants of TWE and 90,000,000 D Warrants of TWE at the subscription price of CAD4,500,000 (equivalent to HK$33,300,000). Assuming immediately after completion of the subscription and all C Warrants and D Warrants are exercised in full, the controlling interests of the Company, through Aces Diamond and Chavis, in TWE will increase from approximately 68.02% to 82.29% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis.

On 25 July 2010, Aces Diamond completed the subcription for 27,000,000 ordinary shares, 27,000,000 C Warrants and 27,000,000 D Warrants of TWE for a consideration of CAD1,350,000 (equivalent to HK$10,141,000) pursuant to the above agreement. After this subscription, the Group's controlling interests in TWE has increased from 61.07% to 64.98%. Assuming immediately after this subscription and all C Warrants and D Warrants are exercised in full, the controlling interests of the Company, through Aces Diamond and Chavis, in TWE will increase from approximately 68.02% to 74.25% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis.

TWE has remained a subsidiary of the Group after this transaction mentioned immediately above, therefore, the difference between the consideration paid and the share of the carrying value of the net assets of TWE acquired of HK$27,332,000 is recorded in equity in the year ended 31 December 2010.

(c) Key management personnel compensation

Key management includes executive directors of the Company and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and other benefits	**15,966**	14,923
Retirement benefit scheme contributions	**49**	47
Share-based payments	**5,431**	1,804
Discretionary and performance related incentive payments	**6,235**	2,726
	27,681	19,500

35 Operating leases commitment

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Within one year	**2,123**	3,192
After one year but within five years	**814**	2,553
	2,937	5,745

Operating lease payments represent rentals payable by the Group for certain of its office properties.

36 Capital commitment

	As at 31 December	
	2010	2009
	HK$'000	HK$'000
Other commitments contracted for but not provided in the consolidated financial statements in respect of:		
— PSC (Note (i))	**8,105**	10,140
— Co-operative Agreement (Note (ii))	**1,089**	1,325
	9,194	11,465

Notes:

(i) As at 31 December 2010, the amount represents contracted projects costs relating to the PSC, but not provided in the consolidated financial statements.

As at 31 December 2009, the amount of approximately US$1,300,000 (equivalent to HK$10,140,000) represents the minimum work obligations as required by the PSC of TWE to be incurred before the end of February 2011.

(ii) Pursuant to the Co-operation Agreement, the Company would contribute RMB3,460,000 (approximately HK$4,083,000) jointly with Petromin for the engineering design and study, simulation technology and analysis, materials and salaries etc in the first phase. An additional RMB15,000,000 (approximately HK$17,700,000) or more would be funded in the second phase, commencing on 1 January 2010. The capital contribution of each party in the second phase would be further determined.

37 Contingent liabilities

As at 31 December 2010, the Group did not have any contingent liabilities (2009: Nil).

Five Years Financial Statement Summary

Consolidated Income Statement

	Year ended 31 December		Period from 1 August 2007 to 31 December 2008	Year ended 31 July	
	2010	2009		2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**379**	310	2,213	3,374	6,988
Cost of Sales	**(297)**	(246)	(1,818)	(2,865)	(6,600)
Gross profit	**82**	64	395	509	388
Other operating income	**—**	—	—	6,151	74
Discount on acquisition	**—**	—	367,973	—	—
Administrative and operating expenses	**(101,802)**	(44,095)	(163,936)	(52,634)	(8,248)
Share of profits less losses of:					
— Jointly-controlled entity before impairment loss	**964**	(3,279)	3,198	—	—
— Jointly-controlled entity's impairment loss	**—**	(59,748)	(227,802)	—	—
Other loss, net	**(609)**	(509)	—	—	—
Operating loss	**(101,365)**	(107,567)	(20,172)	(45,974)	(7,786)
Finance income	**512**	42	6,833	—	—
Loss before taxation	**(100,853)**	(107,525)	(13,339)	(45,974)	(7,786)
Income tax	**4,618**	—	—	—	—
Loss for the year/period	**(96,235)**	(107,525)	(13,339)	(45,974)	(7,786)
Non-controlling interests	**909**	(930)	(2,193)	—	—
Loss attributable to equity holders of the Company	**(97,144)**	(106,595)	(11,146)	(45,974)	(7,786)

Consolidated Balance Sheet

	As at 31 December			As at 31 July	
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,116,325**	1,032,238	938,251	524	685
Current assets	**161,436**	104,247	153,415	489,859	2,363
Current liabilities	**(47,092)**	(40,890)	(44,065)	(7,237)	(7,212)
Non-current liabilities	**(249,083)**	(240,941)	(206,578)	—	—
Net assets	**981,586**	854,654	841,023	483,146	(4,164)